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The Secret to Linking CSR to Financial Profitability

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In today's socially conscious environment, social responsibility is an increasingly important strategy for business. With the rise in social media and prioritization of socially accountable organizations, we continue to see companies engage in corporate social responsibility (CSR). CSR is the idea that a corporation or small business is accountable for having a positive impact on social, economic, and/or environmental factors. This social responsibility, whether it's attempting to diminish poverty, championing women's rights, or embracing social equality, can lead to a firm's superior reputation since the public image is critical to its success.

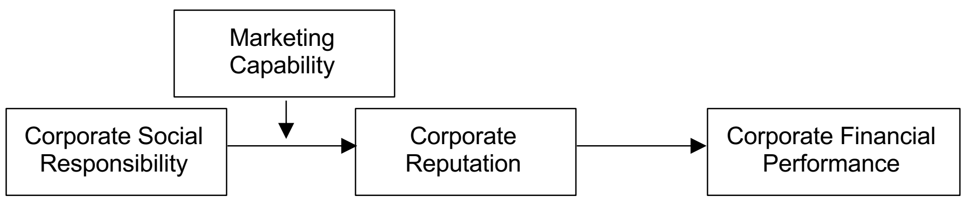
Our study answers the question of how corporate social responsibility (applied in many businesses today) can lead to financial profitability. The purpose of this research is, using signaling theory, such as attempting to signal information to customers and a wide range of stakeholders, to investigate the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). We examine corporate reputation and the role of marketing capability—the ability to plan/execute marketing programs that drive market competitiveness on the prior relationship. Though CSR focuses on big business environment (our study focuses on large US public firms), its concept can be applied in small business as well. Marketing capability in the corporate environment is usually budgeted and involves large amounts of capital. A smaller business owner can design an appropriate level of marketing capability (e.g., advertising and promotion through social media platforms, customer relationship management, sales management).

Establishing the Path from CSR to Financial Performance

Due to incorrect implementation, not all corporate social responsibility programs have resulted in favorable financial results. The assumption that corporate social responsibility directly impacts corporate financial performance, or that implementing CSR alone will lead to profitability is inadequate. Research has shown that the relationship between corporate social responsibility and corporate financial profitability is indecisive (positive, negative, or insignificant) and likely mediated by other factors, such as customer satisfaction or corporate reputation. Because previous research cannot provide evidence on how either the positive or negative effects of corporate social responsibility occur, we examined these two factors (CSR and CFP) and whether a firm's CSR initiatives may positively affect its financial performance through an improved corporate reputation that is enhanced by marketing capability.

Hypotheses

We tested three hypotheses regarding the relationships between our key variables: Corporate Social Responsibility (CSR); Marketing Capability (MC) as a moderator of CSR and CR; Corporate Reputation (CR) as a mediator of CSR and CFP; and Corporate Financial Performance (CFP) as the desirable result of this hypothesized process. First, we posit a positive indirect CSR effect on CFP through the mediator CR. Next, we hypothesized that the positive CSR and CR association will be stronger when a company maintains strong MC. Finally, we investigate whether the indirect CSR effect on CFP through CR can be altered conditioned upon the level of the company's MC.



We found that when a firm has a higher level of MC, the effect on the CSR—CFP relationship via CR is enhanced. In other words, the synergies between marketing capability and social responsibility as two congruent signals lead to higher corporate reputation (high-quality signals to consumers), and this earned reputation then delivers high-quality signals to shareholders, resulting in positive financial outcomes. Furthermore, the indirect association will be stronger when the firm possesses a higher level of marketing capability, versus a lower level. However, our alternative model testing revealed that the marketing capability does not amplify the relationship between CR and CFP. In other words, when a company maintains an established reputation, the excessive marketing spending can be seen as unnecessary resource overspending in shareholders' perspectives.

Application

Our findings show that firms should develop a consolidated CSR marketing program, which simultaneously satisfies the various stakeholders' needs for both socially desirable business practices and value-creating marketing programs that increase corporate reputation.

The results have strong managerial implications for real estate. The commercial real estate industry is taking on social responsibility by going green, talking about diversity, and community development. Companies that are involved or will be involved in corporate social responsibility should effectively communicate these programs to a great extent through marketing programs to their constituencies. Without a high level of marketing capability, corporate reputation will not be evident to shareholders or investors, so consider branding and advertising your business's social responsibility initiatives.

A small business owner or an individual real estate agent may not need large amounts of marketing capital in order to portray their CSR to their customers. As an example, one could use social media to emphasize those contributions. Advertising could also include your company's dedication to community service. Overall, a firm's CSR missions should build upon a higher level of marketing capability to ultimately gain a competitive advantage.

Recommended Reading

Yim, Sean, Young Han Bae, Hyunwee Lim, and JaeHwan Kwon (2019), "The Role of Marketing Capability in Linking CSR to Corporate Financial Performance," *European Journal of Marketing*, 53(7), 1333-1354.

About the Authors

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Dr. Sean Yim's (PhD – Washington State University) research interests are centered on interfirm marketing strategies and the financial implications, with special emphasis on the topics of innovation/new product development, sustainability/CSR, and marketing metrics. He has taught marketing courses, such as innovation and product management, , international marketing, business-to-business marketing, and marketing strategy. He had over eight years of industry experiences at multinational corporations such as General Electric and LG Electronics. His primary expertise in the industries lies on quality management systems, regulatory affairs, and strategic planning & management.

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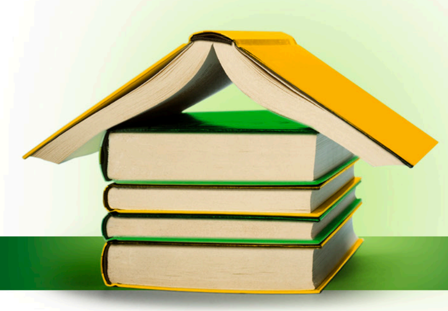
Dr. JaeHwan Kwon (PhD – University of Iowa) has received a variety of awards, most recently given the Young Researcher Award from the Hankamer School of Business. He has two years of strategic consulting experience with over seven such international firms as LG electronics, GM Korea, and SK Telecom. His research interests include human evaluative judgment and decision making, new-tech products, visual information processing, and consumer mindset. His research has been published in highly respected marketing and business journals such as the *Journal of Consumer Research.*



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