

Marketing key to return on corporate social responsibility investment, study shows

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The decision to give to charity or develop a more sustainable product should not depend solely on a corporation's bottom line, but it is certainly a factor. That can complicate the situation for managers who must balance between doing good and keeping shareholders happy, said Sachin Modi, an associate professor in Iowa State University's College of Business.

"A lot of firms question the benefit of [corporate social responsibility](#) (CSR) activities, because they are often viewed as more of a cost. Firms may not always see the benefit because they have to make an investment," Modi said. "What we want to show is that if a firm is good and has some complimentary capabilities, it can gain a lot from CSR activities."

According to a new study by Modi and Saurabh Mishra, an associate professor at McGill University, a strong marketing department is crucial to helping a firm leverage its efforts to be [socially responsible](#). The study, published in the *Journal of Marketing*, analyzed six different types of CSR - environment, products, diversity, corporate governance, employees and community - to determine whether marketing of these efforts increased long-term firm value and stock price. Researchers defined CSR as discretionary firm activities aimed at enhancing societal well-being.

Study results show the combination of marketing and CSR can provide shareholders with a 3.5 percent gain in stock returns. In the paper,

researchers explain that this translates to a \$242.34 million gain in stock value, based on the average market capitalization of firms in their sample. However, Modi says the return is dependent upon the type of activity. Firms benefited from five of the six types of CSR efforts studied, with the exception of [charitable giving](#) and philanthropy, he added.

There are a couple of reasons as to why this may be the case. Often managers pick charitable initiatives based on their personal interests, without considering the broader impact for all stakeholders in the firm, such as consumers, employees and suppliers, Modi said. Charitable giving is also harder for the consumer to verify independently, and doesn't always motivate them to buy the product.

"As firms pick what initiatives to get involved with for the community and for charitable giving, they might want to focus on those which are more easily verifiable by consumers. So they don't necessarily have to advertise it, consumers just come to know this firm does a lot for a particular charity.

"It is very important to give from a community and charity standpoint. And it may be a more true form of giving, because it doesn't always give the firm value in return. We're not saying firms shouldn't give to charity, because it is a very important component, all we're saying is we don't see a financial return," Modi said.

Would you buy a recycled toothbrush?

The biggest payoff comes from letting shareholders know about a firm's efforts to improve products, be environmentally friendly, create a diverse workplace and use sustainable resources. But Modi says it's important to note this return is not a guarantee for all firms. It depends on effectively communicating and executing a strong marketing strategy.

A weak [marketing department](#) generally translates to weaker returns or payoff.

Firms must also recognize that some efforts to be more socially responsible can backfire. As an example, Modi asks the question, "Would you buy a recycled toothbrush?" While most consumers are supportive of and applaud recycling efforts, this is a product few would likely buy.

Fans of Sun Chips may also remember when the company created a biodegradable bag for its chips. It was a good move for the environment, but Modi says the bag made a loud crinkling sound at the slightest touch and consumers complained about the noise. Not all efforts will be a win-win, but that should not be a deterrent for firms, he said.

"Our hope is that firms see it is important to be socially responsible. It's not a choice of one versus the other. Firms have to do multiple aspects of being socially responsible," Modi said. "Different types of CSR will have different benefits for firms. Some will be more critical and some will give [firms](#) more bang for their buck compared to other types of CSR."

Provided by Iowa State University

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