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The impact of corporate social responsibility on brand equity

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Abstract

Purpose – Despite the significant investment in research on corporate social responsibility (CSR), there still exists a lack of clarity in terms of how different types of CSR activities lead to the outcomes a firm desires with their investment in CSR. The purpose of this paper is to provide greater insight on the relationship between types of CSR activities and brand equity (BE). The authors develop and test a conceptual framework, which examines the unique relationship between each CSR dimension and BE, as well as the interaction of product-related CSR activities and employee-related CSR activities with CSR activities across the other dimensions.

Design/methodology/approach – The authors collected data from multiple secondary sources, including Kinder, Lydenberg and Domini (KLD) Research and Analytics Inc., Interbrand, Compustat and CMR. The authors used random-effect estimations to estimate panel regressions of BE as a function of the different dimensions of a firm's CSR, interaction terms between CSR dimensions and product quality and interaction terms between employee relations and other CSR dimensions, as well as a set of control variables and Year dummy variables.

Findings – Based upon a large-scale panel data set including 78 firms for the period of 2000–2014, the results show that diversity- and governance-related CSR have a positive effect on BE, employee-related CSR has a negative effect on BE and both product and employee dimensions play important roles in the relationships between other CSR dimensions and BE. These results have important implications for both theory and practice.

Originality/value – This study makes several contributions to extant literature on CSR and brand strength. First, this study examines the impact of CSR on BE vs alternative measures of brand-related outcomes. This study uses the KLD database to determine scores for firm CSR activity. It is the first to use the extensive KLD database to examine the relationship between types of CSR activities and BE. Last, this study seeks to better understand some of the organizational factors which influence the success of CSR outcomes. Specifically, the research will examine the interaction of product-related and employee-related CSR activities with CSR activities across the other dimensions.

Keywords Brand equity, Corporate social responsibility, Stakeholders

Paper type Research paper

While corporate social responsibility (CSR) is an extensively studied phenomenon across management, marketing and business ethics literature, there still exists a lack of clarity in terms of the outcomes associated with investment in CSR. From a marketing perspective, brand equity (BE) represents the power and reputation that an organization has in the marketplace and ultimately, due to its influence on consumer perceptions and behaviors, will influence a firm's financial performance (Kim *et al.*, 2003; Rao *et al.*, 2004). This study seeks to provide greater insight on the relationship between CSR and BE. Specifically, this research will examine how CSR is related to BE, whether certain types of CSR initiatives have a more positive impact on BE than others and why certain types of CSR initiatives result in higher BE for some firms but lower BE for others.

CSR has become an imperative for companies vs an optional activity. A McKinsey study of global brands in 2009 found that up to 90 percent of Fortune 500 companies participate in CSR initiatives (Luo and Bhattacharya, 2009; McKinsey and Company, 2009). CSR is particularly important for large brands as it represents a source of competitive advantage (Luo and Bhattacharya, 2006). In addition, large companies are more visible to consumers and therefore more susceptible to criticism for poor business practices. However, under

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certain conditions, CSR can also lead to negative outcomes for organizations. For example, the CSR practices of brands are often perceived as being self-interested, which may reduce their effects on BE (e.g. Arora and Dharwadkar, 2011). In addition, there is a lack of clarity in terms of the business case for CSR. A survey conducted by McKinsey and Company (2009) indicated that close to half of the CFOs surveyed expressed skepticism about the financial value of CSR.

Research has attempted to identify the outcomes of organizational investment in CSR. However, the empirical evidence collected to date has been mixed (Brammer and Pavelin, 2006; Luo and Bhattacharya, 2006; Orlitzky *et al.*, 2003). For example, while Torres *et al.* (2012) found a positive association between CSR and global BE, Brammer and Pavelin (2006) found that social performance was negatively related to financial performance (stock returns). Luo and Bhattacharya (2006) found that the relationship between CSR and firm performance was dependent on customer satisfaction, innovation capability and product quality; while each factor positively influenced the relationship between CSR and firm performance, the study also found that when innovation capability was low, CSR activities decreased customer satisfaction, leading to lower levels of firm performance.

This study makes several contributions to extant literature on CSR and brand strength. First, this study examines the impact of CSR on BE vs alternative measures of brand-related outcomes. While other research has examined outcomes such as the financial performance of brands (e.g. Orlitzky *et al.*, 2003), brand loyalty (e.g. Lai *et al.*, 2010) or corporate reputation (e.g. Brammer and Pavelin, 2006), this study seeks to better understand the relationship between dimensions of CSR and BE. BE, a multi-dimensional construct which incorporates elements of both brand knowledge and brand image, serves as a measure for the value associated with a product's brand name in terms of its likelihood to influence a purchase decision (Yoo *et al.*, 2000). This study uses the Kinder, Lydenberg and Domini (KLD) Research and Analytics Inc. database to determine scores for firm CSR activity. This database is one of the most comprehensive sources for firm CSR activities (Servaes and Tamayo, 2013) and, importantly, provides information on firm involvement in six types of CSR activities. This study is the first to use the extensive KLD database to examine the relationship between types of CSR activities and BE. Other research has either utilized differing measures of CSR (e.g. Torres *et al.* (2012) uses the SGP database) or used an aggregate measure for CSR (e.g. Ramchander *et al.*, 2012). Given that different stakeholders seek different behaviors from firms, the use of an aggregate measure detracts from the ability to identify why certain types of CSR activities lead to better outcomes than others. Understanding the impact of different forms of CSR activities better informs organizations in terms of the outcomes they can expect from engaging in different types of CSR. Therefore, this study examines the specific impact of different types of CSR activities on BE. In addition, organizations often invest in multiple forms of CSR simultaneously. Therefore, this study will also examine the interaction of product-related and employee-related CSR activities with CSR activities across the other dimensions. The results of this analysis help to provide a better understanding of the interaction effects of multi-dimensional CSR activities.

Literature review and hypothesis development

Ultimately, CSR activities seek to address the needs of the firm's stakeholders. Stakeholder theory (Freeman, 1984) suggests that the managers of a firm have a duty to act in accordance with the interests and values of organizational stakeholders. Firms have both primary and secondary stakeholders (Clarkson, 1995). Primary stakeholders are parties that are essential to the operation of the business, such as employees and customers (Metcalfe, 1998; Sweeney and Coughlan, 2008). Secondary stakeholders are parties that have the ability to influence the primary stakeholders in terms of business operations, such as shareholders or community groups (Metcalfe, 1998; Sweeney and Coughlan, 2008). CSR activities, when properly aligned with these interests and values, can meet stakeholder expectations and generate positive associations for the firm (Brammer and Pavelin, 2006; Fombrun and Shanley, 1990, Menon and Kahn, 2003; Sen *et al.*, 2006). However, one of the challenges for firms in aligning with stakeholder interests is the diversity of stakeholders that can have an interest in specific aspects of firm performance (Tschopp and Nastanski, 2014). For example, employees have a significant impact on firm performance through their productivity, quality of work, customer relations and other activities; therefore, it may be in the best interest of the firm to engage in CSR activities that improve the quality of life for employees by paying higher wages, offering additional benefits or giving more paid time off (Lee *et al.*, 2013; Orlitzky *et al.*, 2003). However, shareholders, whose interests in the firm are primarily financial, may perceive employee-related CSR activities as self-serving and negatively impacting bottom-line profits (Arora and Dharwadkar, 2011). This prior research suggests that CSR requires careful planning and an understanding of stakeholder interests in order to add value to the firm. In particular, CSR activities that focus on multiple stakeholders, including customers, employees, shareholders and community, can lead to complex outcomes; therefore, firms need to carefully consider whether and how their multi-faceted CSR efforts will impact BE (Torres *et al.*, 2012).

Literature identifies three core arguments for why specific dimensions of CSR may have differential impacts on stakeholder perceptions: the credibility of the CSR activities, the visibility of the CSR activities to different groups of stakeholders and the "fit" of CSR initiatives with corporate strategy and the needs/values of stakeholder groups (Menon and Kahn, 2003). Credibility arguments suggest that when stakeholders perceive that the firm is engaging in CSR for reasons other than self-interest, they are more likely to trust the firm, increasing positive brand associations (Vlachos *et al.*, 2009). The visibility argument suggests that CSR activities may not be easily observable by all stakeholders. For example, a firm's performance on employee relations or corporate governance may be less visible to external stakeholders such as consumers (Brammer and Pavelin, 2006) or less "top-of-mind" when making a product purchase (Page and Fearn, 2005) than community-based initiatives. Last, CSR research has demonstrated the importance of "fit" in terms of a firms' CSR activities and the interests of stakeholders (Brammer and Pavelin, 2006; Fombrun and Shanley, 1990; Menon and Kahn, 2003). Given that different stakeholders have different interests and relationships to a firm, activities that "fit" the needs of one stakeholder group may not "fit" the needs and interests of another (Fombrun and Shanley, 1990).

CSR dimensions and brand equity

The KLD database identifies six dimensions of CSR activity: environmental, product-related, diversity, corporate governance, employee-related and community. Environmental CSR activities are likely to be both visible, given that they take place outside of the firm, and have good fit with stakeholder values. In fact, environment-based efforts have been shown to elicit positive consumer brand attitudes (Olsen *et al.*, 2014) and lead to positive associations for firms among channel partners (Schoenherr *et al.*, 2014). Environmentally based CSR activities can be reflected in all aspects of the marketing mix; from ensuring that products are environmentally safe through the development of environmentally sound systems for distribution and disposal of products (Menon *et al.*, 1999). Given that BE is largely a measure that is evaluated by consumers and other stakeholders that are external to the organization, we hypothesize that:

H1a. Environmental CSR activities will have a positive relationship with BE.

CSR efforts relating to product quality, research and innovation are likely to resonate with external stakeholders, in particular with consumers. CSR efforts to improve the quality of the product delivered are likely to be visible to those making purchase decisions and aligned with what they seek from the organization. In addition, product quality and innovation may signal the credibility of the organization to consumers (Servaes and Tamayo, 2013). This CSR visibility and credibility is positively related to brand associations, attitudes and identification (Sen *et al.*, 2006, Bhattacharya and Sen, 2004), which, in turn, enhances BE. Firms with high product quality may be perceived to have strong governance procedures (Arora and Dharwadkar, 2011) and/or good working relationships with employees (Vomberg *et al.*, 2015). Therefore:

H1b. Product-based CSR activities will have a positive relationship with BE.

Diversity-related CSR activities have also been found to be positively associated with firm performance (Bear *et al.*, 2010; Harjoto *et al.*, 2015). Diversity among top management, board members and employees is a highly visible form of CSR and, particularly when diversity reaches the highest organizational levels, demonstrates the credibility of the organization's commitment to those values. Bear *et al.* (2010) found that the presence of women on corporate boards strengthened brand reputation and, further, as the number women increased, so did positive perceptions of CSR activities. In addition, activities that promote diversity may increase the ability of a firm to engage in activities that "fit" the needs of diverse stakeholders. Harjoto *et al.* (2015) suggest that the more diverse the board of an organization is, the better able that organization is to recognize and align themselves with the interests of multiple stakeholders. Therefore:

H1c. Diversity-related CSR activities are positively related to BE.

Prior research on the relationship between corporate-governance-based CSR activities and outcomes is mixed in terms of effects on firm performance. While scholars suggest that strong corporate governance may reduce negative CSR activities overall, the impact of positive CSR is more complex due to the differing perspectives of corporate stakeholders in terms of how governance may yield value for their interests (Arora and Dharwadkar, 2011). For example, while shareholders may have negative perceptions of certain governance actions if they are seen to impede short-term profits, other stakeholders may feel that these actions enhance the organization's long-term reputation (Arora and Dharwadkar, 2011; Johnson and Greening, 1999).

In terms of credibility, corporate governance mechanisms may only be perceived as credible if consumers believe that they have been put in place for the greater good, rather than simply to meet the institutional guidelines set forth for a particular industry or geography (Ioannou *et al.*, 2014). If stakeholders attribute the adoption of governance structures to genuine organizational concern for the greater good, they may be more likely to see the organization in a positive light vs if they attribute governance actions to meeting institutional requirements (Sen *et al.*, 2006).

Given that BE is primarily evaluated by consumers as stakeholders, this study anticipates that corporate governance will be highly aligned with the interests of consumers as a whole; consumers may associate the outcomes of corporate governance as resulting in safer or more ethically produced products (Jamali *et al.*, 2008). In addition, consumers are likely to be further removed from the interface between institutional frameworks and governance actions, again leading to a positive impact of this type of CSR activity. Therefore:

H1d. Corporate-governance-based CSR activities are positively related to BE.

Community-based CSR, reflected in charitable giving, supports for housing and education and volunteer programs, and creates a favorable image in the broader community. Community-based CSR is often very visible to organizational stakeholders. In a study examining the impact of disclosing CSR activities, Malik and Kanwal (2016) found that firms were more likely to disclose CSR activities relating to community involvement than those focused on environmental, employee or consumer-related causes. Furthermore, community-based CSR may be perceived as being credible because the beneficiaries of the firm's efforts are external to the firm. Pai *et al.* (2015) found that when industrial buyers perceived that suppliers were engaging in CSR activities for intrinsic (altruistic), rather than extrinsic (self-interested) motives, they were more likely to have positive evaluations of BE. Du *et al.* (2007) also found that CSR toward community builds credibility and customer loyalty, which, in turn, enhances BE. Therefore:

H1e. Community-based CSR activities are positively related to BE.

Building on the ideas set forth earlier suggesting that CSR initiatives must involve activities that are both desired and recognized by key stakeholders (Brammer and Pavelin, 2006; Ellen *et al.*, 2006), the employee dimension of CSR presents greater complexity in terms of understanding its impact on BE. Employees are "primary" stakeholders in firms, meaning that they have the ability to directly impact firm performance (Godfrey *et al.*, 2009). Increased investment in activities that provide resources and support to employees can increase employee engagement, effort and goodwill, leading to improved performance (Orlitzky *et al.*, 2003). In addition, by engaging in activities that strengthen employee relations, organizations can enhance consumer perceptions of the organization as being trustworthy and may also prevent organizations from engaging in irresponsible labor practices (Minor and Morgan, 2011). Despite these compelling arguments, several studies have reported inconsistent findings for the relationship between the employee-related CSR and performance (Torres *et al.*, 2012). For example, Brammer and Pavelin (2006) found a negative relationship between the employee-related CSR and corporate reputation. When considering CSR activities aimed at employees, stakeholders may perceive that firm investment in this dimension is motivated by the desire to comply with legal frameworks (Brammer and Pavelin, 2006) or increase employee productivity, ultimately making the firm more profitable. This may reduce consumer attributions that the firm is acting without self-interest and therefore the credibility of CSR activities. Employee-based CSR activities may also not be easily observable by stakeholders. A firm's treatment of employees and/or union activity may not be information that is readily accessed by consumers (Brammer and Pavelin, 2006) or the type of information that is considered when making a purchase decision (Page and Fearn, 2005). Last, given that different stakeholders have different interests and relationships to a firm, employee-based CSR activities may not "fit" the interests of external stakeholders such as consumers who influence BE (Fombrun and Shanley, 1990). Therefore, given the mixed motivations for employee-based CSR, we propose that there is no significant relationship between employee-based CSR activities and BE.

The moderating effect of product-based CSR activity

The relationship between CSR and product-related initiatives is complex and often stakeholder perceptions of one can influence perceptions of the other. For example, Servaes and Tamayo (2013) suggest that CSR can be a proxy for customer perceptions of product quality; when consumers see that firms are willing to spend on CSR activities, they associate that with concern for external stakeholders and a greater likelihood to spend more to develop a high-quality product. The reverse may also be true; if a low-product-quality firm engages in CSR, customers may perceive these activities as less than credible, resulting in a poor brand image and thus weaker BE (Luo and Bhattacharya, 2006). Therefore, we hypothesize that product-related CSR will have a positive effect on the relationship between the more highly visible forms of CSR activity to consumers, environmental and community-based CSR, and BE:

H2a. Product-related CSR moderates the relationship between environmental CSR and BE such that at higher levels of product-related CSR, the positive association between environmental CSR and BE is stronger than at lower levels of product-related CSR.

H2b. Product-related CSR moderates the relationship between community-based CSR and BE such that at higher levels of product-related CSR, the positive association between community-based CSR and BE is stronger than at lower levels of product-related CSR.

The relationship between product-quality-based CSR activities and corporate governance is also complex. In a study examining the differences in CSR behaviors among investment managers vs public pension fund managers, Johnson and Greening (1999) suggested that different types of institutional stakeholders have different objectives for organizations. While investment managers, who can easily buy or sell ownership interest in a firm, tend to focus on activities relating to short-term profit maximization, pension fund investors, who are tied to an investment for a longer term, look for strategies that generate long-term potential for returns, such as investments in R&D, which may lead to higher quality product offerings. This suggests that there is a relationship between ownership, the governance structure and product quality. Arora and Dharwadkar (2011) found that strong corporate governance reduced both positive (such as strong sustainability practices) and negative (such as disregard for the environment) activities associated with CSR, in a sense accounting for both the short- and long-term interests described above. Therefore, if product quality can be a proxy for effective governance, firms that have high product quality may be less likely to engage in governance-related CSR activities; however, firms that are struggling with product quality may find value in engaging in governance-related CSR activities to improve their BE. Therefore, the last hypothesis of this section is as follows:

H2c. Product-related CSR moderates the relationship between governance-related CSR and BE, such that high levels of product-related CSR will have a negative impact on the association between corporate governance and BE; however, low levels of product quality will strengthen the positive relationship between corporate governance and BE.

The moderating effect of employee-based CSR activities

As noted above, the study hypothesizes that employee-based CSR will have no direct relationship with BE due to the lack of visibility, credibility and fit with the interests of external stakeholders. However, the interaction between employee-based CSR and other CSR dimensions may yield positive effects on BE if there are high levels of alignment between stakeholders in both dimensions (Brammer and Pavelin, 2006; Fombrun and Shanley, 1990, Menon and Kahn, 2003). Considering the interaction between community and employee-based CSR, positive employee relations may actually strengthen the relationship between community initiatives and BE because employees who are treated well by their employer may be more likely to identify with the values of the organization and/or be more likely to engage in activities that formally or informally promote these values (Lee *et al.*, 2013). In addition, many community-based CSR activities are performed by employees of the organization. Therefore, employee engagement in community-based CSR activities may improve both the visibility and credibility of community-based CSR, which, in turn, enhances BE (Sen *et al.*, 2006; Du *et al.*, 2010). However, poor employee relations may have the opposite effect. Disgruntled or unhappy workers may fail to promote or even sabotage CSR efforts. Therefore, the next hypothesis is:

H3a. Employee-based CSR moderates the relationship between community-related CSR and BE, such that high levels of employee-related CSR activity will strengthen the positive association between community-related CSR and BE; however, low levels of employee-related CSR activity will weaken the relationship between community-related CSR and BE.

In addition, the relationship between employee-related CSR and corporate governance is also more complex. Young and Thyill (2009) reviewed the inconsistent relationship between organizational treatment of employees as stakeholders and corporate governance. They argue that employees are stakeholders who contribute to and benefit from organizational success; therefore, when employee relations are not integrated within the corporate governance structure, employees are devalued in their position as key stakeholders (Young and Thyill, 2009). Therefore, strong employee relations will positively interact with corporate governance, improving BE, while poor employee relations will have a negative impact. The final hypothesis is as follows:

H3b. Employee-based CSR moderates the relationship between governance-related CSR and BE, such that high levels of employee-related CSR will strengthen the positive association between governance-related CSR and BE; however, low levels of employee-related CSR will weaken the relationship between governance-related CSR and BE.

Method

We collected data from multiple secondary sources. First, we accessed the database provided by KLD Research and Analytics Inc. to obtain information on firm CSR activities. This database is recognized as a leading authority in social research, providing one of the most comprehensive databases for CSR ratings (e.g. Servaes and Tamayo, 2013). The second database we used was Interbrand, which provides information on the global BE of the most valuable companies (see www.interbrand.com). Third, we obtained data on firm financial performance data as well as organizational information for our control variables using the Compustat and CMR databases. Combining the four databases leave us with a sample of 78 firms for the period 2000–2014. They are all US firms, since the KLD database only contains the information for US firms. One year's data are lost for each firm since we used the lagging process for independent variables to reduce the endogeneity bias and reverse-causality concerns. Because information is not available for all brands across the databases for all years, we have an unbalanced panel of 696 observations. This data set includes individual firms in 20 different industries.

We measured BE with the Interbrand score. Interbrand examines three key aspects that contribute to a brand's value: the financial performance of the branded product and service, the role the brand plays in influencing customer choice and the strength the brand has to command a premium price or secure earnings for the company (www.interbrand.com). The Interbrand measure of BE is widely used and influential (e.g. Torres *et al.*, 2012). We measured BE at a firm level. If a firm has multiple brands (e.g. Procter & Gamble), we aggregated the BE for all the brands owned by a firm to calculate an overall BE for the firm.

The KLD database was created by KLD Research and Analytics Inc. The company collects data from various sources: macro data from academic, government, NGO data sets, company disclosure (10-K, sustainability report, proxy report, AGM results, etc.), government databases, 1,600+ media, NGO and other stakeholder sources. It includes ratings on six main criteria that reflect a firm's overall CSR activities: community, employee, environment, diversity, product and governance (MSCI ESG Research, 2016). These ratings are widely used in academic research. For each CSR category, the KLD database contains data on the number of strengths and concerns. Each performance indicator is scored by a simple binary scoring model: "1" indicates that a company meets the assessment criteria established for an indicator; "0" indicates that a company does not meet the assessment criteria; "NR" indicates that a company has not been researched for an indicator (MSCI ESG Research, 2016). Following the previous research (e.g. Servaes and Tamayo, 2013), we divided the number of strengths (concerns) for each firm year within each CSR category by the maximum possible number of strengths (concerns) in each category year, and then subtracted the concerns index from the strengths index to obtain a net CSR score in each category that ranges from −1 to +1 for each year.

We computed advertising intensity as advertising expenditures divided by sales. Because Compustat has many missing data points for firm advertising expenditure, we used the CMR database (Luo and Bhattacharya, 2006; Rao *et al.*, 2004) and collected the information from the companies' annual reports. If it was missing, we set it to zero. We computed R&D intensity as R&D expenditures divided by sales. Consistent with the previous literature (e.g. Servaes and Tamayo, 2013; Torres *et al.*, 2012), we included ROA, advertising intensity, R&D intensity and size as control variables.

Table I presents the summary statistics for all of the study variables. The mean for brand value is 15,926.21 ($m). The lowest score in the sample is 1,235($m) (Hilton in 2001), and the highest score is 118,863 ($m) (Apple in 2014). Among the six dimensions of CSR, Product and Governance have negative scores, on average, while the other four dimensions have positive average scores. Following the previous research (e.g. Mishra and Modi, 2013; Servaes and Tamayo, 2013), we developed an aggregate index of the averages across the six CSR categories as an indicator of the firm's overall CSR. When all CSR dimensions are combined, the lowest score in the sample is −1.16 (Morgan Stanley in 2009), and the highest score is 1.73 (Intel in 2012). The average firm in our sample has book assets of $158.90bn, sales of $38.30bn and spends $1.10bn on advertising. Table I also presents the correlations of the dependent and explanatory variables. It shows that BE is positively correlated with Environment, Community and Diversity. Among the control variables, size and R&D intensity are positively correlated with BE. All correlations between variables are below 0.70. The variance inflation factors range from 1.12 to 2.44, which are acceptable (Cohen *et al.*, 2003), and suggests that multicollinearity among the variables is not a concern.

Results

We estimate panel regressions of BE as a function of the different dimensions of a firm's CSR, interaction terms between CSR dimensions and product quality, and interaction terms between employee relations and other CSR dimensions, as well as a set of control variables and Year dummy variables. Specifically, we considered the following estimation for BE:

$$\begin{aligned}\text{Brand equity}_{it} = {} & \beta + \alpha_0\text{Community}_{it-1} + \alpha_1\text{Environment}_{it-1} + \alpha_2\text{Employee}_{it-1} \\ & + \alpha_3\text{Diversity}_{it-1} + \alpha_4\text{Product}_{it-1} + \alpha_5\text{Governance}_{it-1} \\ & + \alpha_6\text{Advertising intensity}_{it} + \alpha_7\text{ROA}_{it} + \alpha_8\text{Size}_{it} + \alpha_9\text{R\&D intensity}_{it} \\ & + \alpha_{10}\text{Product} \times \text{Community}_{it-1} + \alpha_{11}\text{Product} \times \text{Environment}_{it-1} \\ & + \alpha_{12}\text{Product} \times \text{Governance}_{it-1} + \alpha_{13}\text{Employee} \times \text{Community}_{it-1} \\ & + \alpha_{14}\text{Employee} \times \text{Governance}_{it-1} + \text{Year dummy varaibles} + \gamma_i + \varepsilon_{it}\end{aligned}$$

where i and t indicate firm and year, respectively; γ_i is the firm-related error term; ε_{it} is the error term for firm i in year t. All the independent variables were centered before being entered into the regression to eliminate nonessential multicollinearity between predictors and the interactions (Cohen *et al.*, 2003).

We use random-effect estimations instead of fixed-effect estimations for several reasons. First, for all firms there is little variation related to CSR activities across different years. In this case, random-effect estimations are more efficient than fix-effect estimations. Second, we assume that other variables contributing to BE are uncorrelated with the variables included in our model. Third, our data are highly unbalanced. According to Laird and Ware (1982), two-stage random-effects models can be used better for highly unbalanced data

Table I. Descriptive statistics

	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11
1. Brand value (log)	4.00	0.40	3.09	5.08	1.00										
2. Environment	0.07	0.14	−0.42	0.50	0.11**	1.00									
3. Community	0.07	0.15	−0.25	0.50	0.08*	0.22**	1.00								
4. Diversity	0.26	0.21	−0.40	0.78	0.27**	0.18**	0.18**	1.00							
5. Employee	0.03	0.17	−0.49	0.61	0.03	0.16**	0.16**	0.00	1						
6. Product	−0.12	0.24	−0.80	0.60	−0.19	0.14**	−0.05	−0.01	0.05	1					
7. Governance	−0.04	0.11	−0.30	0.28	0.02	0.34**	0.15**	0.13**	0.12**	0.27**	1				
8. Advertising intensity	0.04	0.04	0.00	0.54	−0.05	−0.04	0.00	−0.04	−0.07	0.05	0.05	1			
9. Return on asset	0.13	0.08	−0.09	0.37	0.01	−0.08*	−0.04	0.04	−0.04	0.11**	0.17**	0.17**	1		
10. Size	4.56	0.70	3.08	6.41	0.49**	0.08*	0.12**	0.23**	0.06	−0.47**	−0.21**	−0.27**	−0.51**	1	
11. R&D intensity	0.01	0.03	0.00	0.21	0.14**	0.32**	0.16**	−0.05	0.34**	0.04	0.13**	−0.06	−0.04	0.07	1

Notes: No. of Obs. = 696. *$p < 0.05$; **$p < 0.01$

compared to multivariate models with general covariance structure. To be more precise on the specific direction of causality and to reduce the possibility of endogeneity bias, the predicting variables of CSR dimensions are all lagged by one year, consistent with previous studies (e.g. Luo and Bhattacharya, 2006; Rust *et al.*, 2002).

Table II presents the hypothesis testing results. The first column includes the six CSR dimensions as predictors. The results show that Diversity ($\alpha_3 = 0.24$, $p < 0.01$) and Governance ($\alpha_5 = 0.32$, $p < 0.05$) have a positive effect on BE and Employee has a negative effect ($\alpha_2 = -0.21$, $p < 0.05$) on BE, which supports *H1c* and *H1d*. To explore the reason for the negative relationship between Employee and BE, we conducted a correlation analysis on the individual items comprising the employee measure and BE. The results show that among the positive Employee performance indicators only the Union relations item has a negative correlation with BE, and the negative performance indicator for Union relations concern has a positive correlation with BE. In addition, the Union relations item negatively correlates with other positive Employee performance indicators such as Employee involvement and Retirement benefits strength. This suggests that Union relations might be the reason for the negative relationship between Employee and BE in the hypothesis testing results.

All four control variables have significant positive effects on BE. Advertising expenditures improve consumer knowledge and attitudes of the brand which enhances BE ($\alpha_6 = 0.71$, $p < 0.05$). Larger firms ($\alpha_8 = 0.41$, $p < 0.01$) and those with high ROA ($\alpha_7 = 1.82$, $p < 0.01$) tend to be more visible and profitable. R&D intensity also has a positive effect on BE ($\alpha_9 = 1.40$, $p < 0.01$).

To assess the contribution of the interaction effects to the overall regression, over and above the main effects of the individual predictors, we used a hierarchical approach suggested by Cohen *et al.* (2003). First the model with only the main effects is estimated. Then, the model including the interaction effects is estimated. *F*-tests are conducted to compare the model fit between the main effect model and interaction effect models. If the

Table II. Hypothesis testing results

	Model 1 Brand Equity (*t*) random effects	Model 2 Brand Equity (*t*) random effects	Model 3 Brand Equity (*t*) random effects
Intercept	1.84***	1.87***	1.88***
Environment	0.13	0.19	0.17
Community	−0.10	−0.03	−0.02
Diversity	0.24***	0.22***	0.25***
Employee	−0.21**	−0.19**	−0.18**
Product	0.09	0.07	0.07
Governance	0.32**	0.13	0.17
Advertising intensity	0.71**	0.79***	0.74***
Return on asset	1.82***	1.74***	1.74***
Size	0.41***	0.42***	0.41***
R&D intensity	1.40***	1.18**	0.92**
Product × Environment		0.77**	0.75**
Product × Community		1.49***	1.49***
Product × Governance		−3.09***	−2.84***
Employee × Community			1.01**
Employee × Governance			1.90***
Year dummies	Yes	Yes	Yes
Adjusted R^2	0.37	0.42	0.43
n	695	695	695

Notes: CSR variables are t−1 lagged. Interaction variables are all mean centered. *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$

model fit for the interaction effect model is significantly better than the model fit for the main effect model, the interaction effect model is preferred. Otherwise, the main effect model is preferable based on the parsimony rule.

The second column of Table II adds three interaction terms (Product × Environment, Product × Community, Product × Governance). The *F*-test indicates that the model fit for Model 2 is significantly better than the model fit for Model 1. The results show that there are positive interactions between Product and Environment ($\alpha_{11} = 0.77$, $p < 0.05$), Community ($\alpha_{10} = 1.49$, $p < 0.01$), while there is negative interaction between Product and Governance ($\alpha_{13} = -3.09$, $p < 0.01$). Following the steps that Aiken and West (1991) recommend, we illustrate the interaction effects. We find that Product strengthens the positive effect of Environment and Community on BE[1]. In other words, when a firm's product quality is high, its Environment- and Community-related CSR efforts have a bigger positive impact on BE than when a firm's product quality is low. Therefore, *H2a* and *H2b* are supported. Next we analyzed the interaction effect between Product and Governance on BE. For a firm with low Product value (10th and 25th percentile levels), its Governance-related CSR activities have a positive effect on BE. But for a firm with a high Product value (90th percentile), it has a negative effect on BE. Between them at the 75th percentile level, there is no significant relationship between Governance and BE[2].

The third column of Table II adds two additional interaction terms (Employee × Community, Employee × Governance). The *F*-test indicates that the model fit for Model 3 is significantly better than the model fit for Model 2. The result shows that there are positive interactions between Employee and Community ($\alpha_{14} = 1.01$, $p < 0.05$) and between Employee and Governance ($\alpha_{16} = 1.90$, $p < 0.01$) on BE. We analyzed these interaction effects at the 10th, 25th, 75th and 90th percentile ranges of Employee. For both Community and Governance, the effect on BE is different, depending on the value of Employee. For a firm with good employee relations, its community and governance-related CSR activities have a positive effect on BE, but for a firm with bad employee relations, Community and Governance have a negative effect on BE. Specifically, Community has a negative effect on BE at the 10th percentile level of Employee. However, at the 25th, 75th and 90th percentile levels, community has a positive effect on BE[3]. The better the employee relations, the larger the positive effect Community has on BE. Therefore, *H3a* is supported. Governance has a negative effect on BE at the 10th and 25th percentile levels of Employee. But it has a positive effect at the 75th and 90th levels. The higher the Employee level, the stronger positive effect Governance has on BE. *H3b* is supported.

Discussion

The results of this study show that different CSR dimensions have different effects on BE, and Product- and Employee-based CSR initiatives play an important role in the relationships between other CSR dimensions and BE. These results explain how CSR is related to BE and why CSR initiatives result in higher BE for some firms but lower for others. They have important implications for both theory and practice.

Theoretical implications

Although prior research has studied the relationship between a firm's overall CSR and its BE (e.g. Lai *et al.*, 2010), a more limited amount of research has looked at the impact of specific CSR dimensions on BE. This study extends the literature by examining the different effects of specific CSR dimensions on BE. The results show that diversity- and governance-related CSR have a positive effect on BE, which confirms prior studies showing that these two CSR dimensions affect firm performance (e.g. Bear *et al.*, 2010; Harjoto *et al.*, 2015). Diversity among top management, board members and employees is a highly visible form of CSR and, particularly when diversity reaches the highest levels of a firm, demonstrates the credibility of the organization's commitment to those values. Consumers may associate the outcomes of corporate governance as resulting in safer or more ethically produced products on the market (Jamali *et al.*, 2008), again leading to a positive impact of this type of CSR activity on BE.

In addition, our results show that employee-based CSR has a negative effect on BE. Previous literature has reported inconsistent findings on the relationship between the employee dimension of CSR and performance metrics (e.g. Torres *et al.*, 2012; Brammer and Pavelin, 2006). The way the employee dimension of CSR activities is measured may account for this inconsistency. For example, Barnett (2007) suggests that good treatment of employees may reduce union activity; however, "high union density" is one of the positive indicators for employee relations measured by the KLD. Similarly, de Bussy and Suprrawan (2012) argue that the way that the "employee orientation" is often measured, specifically its inclusion of HR and Industrial Relations constructs, loses sight of the employee as a stakeholder and is too focused on management practices. Good management practices, while helpful toward employee relations, are not necessarily driven by the more altruistic values of other CSR activities, potentially conflating the relationship between CSR activities and performance (de Bussy and Suprrawan, 2012). Last, the employee dimension of CSR may impact firm performance in a way that is not represented by BE. While BE is largely based on the perceptions of consumers and, ultimately, investors, the employee relations dimension may resonate more strongly with current or future employees of the organization (Sen *et al.*, 2006).

This research did not find support for the relationship between environment-based CSR, community-based CSR and product-related CSR and BE. A possible explanation for this lack of support related to environment-based and product-based CSR may be that being an environmentally conscious organization or one that pays attention to product quality and safety is no longer seen as an altruistic effort on the part of organization, rather it is now a legal imperative and organizations engaging in these efforts are merely seen as complying with institutional requirements (Brammer and Pavelin, 2006; Vlachos *et al.*, 2009). In terms of community-focused CSR, one of the challenges experienced by these large brands may be to get large-scale recognition or "visibility" for local-community-related efforts. Reduced visibility may diminish the impact these efforts have on brand performance (Luo *et al.*, 2015).

Furthermore, this research examines the interaction effects of Product, Employee and other CSR dimensions on BE. Our findings suggest that the relationships between CSR dimensions and BE are different across firms with different working protocols such as product quality and employee relations. In particular, the positive effects of environment-, community- and employee-based CSR on BE are amplified in firms with higher product quality. High levels of employee-related CSR strengthen the positive association between community- and governance-related CSR and BE. These results indicate that properly combining external CSR initiatives and internal resources and capabilities will generate BE for the firm, in the forms of consumer-based outcomes, product-market outcomes and financial-market outcomes.

Finally, although much of the previous research has found that CSR leads to positive outcomes, this study indicates that CSR has some potential negative outcomes. Specifically, our results show that low levels of product quality weaken the relationship between employee-based CSR and BE. Firms who promote employee-related CSR, while at the same time having poor product quality, may harm their brand perceptions, if investment in employee-based CSR seems disingenuous to those evaluating BE if product quality is low (Luo and Bhattacharya, 2006). The results also show that low levels of employee-based CSR will weaken the relationship between governance-related CSR and BE. This result confirms claims made by Young and Thyill (2009) that when employee initiatives are not integrated within the corporate governance structure, employees are devalued in their position as key stakeholders. Moreover, high levels of product-related initiatives will have a negative impact on the association between corporate governance and BE; however, low levels of product-related initiatives will strengthen the positive relationship between corporate governance and BE, which suggests that firms that have strong product-related initiatives may be less likely to engage in governance-related CSR activities; however, firms that are struggling with product-related initiatives may find value in engaging in governance-related CSR activities to improve their corporate reputation.

Practical implications

We propose that managers must consider the following implications of the organization's engagement in CSR activity. First, managers need to clearly identify the outcomes they are seeking from their involvement in CSR activities. By identifying the outcomes, managers may be able to identify which stakeholders are more invested in these outcomes and better formulate CSR activities to address the needs of these key stakeholders. This sense of "fit" between CSR initiatives and stakeholder needs and values has been widely supported by prior research (Brammer and Pavelin, 2006; Fombrun and Shanley, 1990, Menon and Kahn, 2003).

Furthermore, managers must consider the organizational context in which their CSR activities occur. Contextual factors identified by prior research as influencing the relationship between CSR and performance outcomes include ownership structure and interest (Johnson and Greening, 1999), relative skills and budget for marketing as compared to the competition (Servaes and Tamayo, 2013) and other organizational resources such as organizational culture or human capital (Surroca *et al.*, 2010). This study drew attention to the importance of considering the interaction between product-quality and employee relations-based CSR activities on CSR activities in other dimensions.

In terms of product quality, managers must consider their existing brand image prior to launching CSR campaigns. With consumers as the primary evaluators of product quality and the high visibility of environmental and community-based CSR campaigns, companies that engage in CSR may be more likely to be perceived as credible when their product quality is high. Companies engaging in highly visible environmental or community-based campaigns with poor product quality may be perceived as trying to make up for a poor product. Customer attribution of these activities is likely to be the self-interest of the organization vs the interests of the community or larger society (Ellen *et al.*, 2006). Companies who demonstrate poor product quality may find greater benefit from engaging in more internally focused CSR activities, such as strengthening corporate governance or employee relations, which may ultimately improve performance in the product dimension.

Organizations must also consider their internal efforts at employee relations when launching externally focused CSR activities such as community support. As the data suggest, under strong employee relations conditions, employee support for community initiatives is likely to strengthen brand image; however, organizations might want to reconsider community-based initiatives under poor employee relations conditions or, at a minimum, ensure that employees are not the face of these activities. Similar to firms with poor product scores, firms with weaker employee relations might want to focus on internal CSR agendas, such as corporate governance in the short term, which, again, may improve employee relations in the long term.

Limitations and future research

This study has several limitations associated with the interpretation of the empirical results. First, community-based CSR is measured with the items such as charitable giving, innovative giving, support for housing, etc., in the KLD database. The results indicate that this dimension does not have a significant effect on BE. However, previous studies (e.g. Torres *et al.*, 2012) have measured other aspects of community support, such as involvement in local community programs and affairs, the existence of formal volunteer programs and consultation programs with local communities, in addition to donations to communities. Local community involvement related CSR activities may be perceived more credible by consumers, and more likely to be reported by media to enhance its visibility, comparing with the charitable giving activities. Future studies may further examine the different effects of these two types of community-based CSR activities on BE. Second, this study draws on samples from the Interbrand best brand list, which includes strong (global) brands. Future research needs to replicate this study and examine if our results can be generalized to small (local) brands. Third, due to data limitations, we focus on brands owned by US firms. It is possible that stakeholders in the USA are more sensitive to social responsibility issues. Future studies can extend to other countries, especially developing countries and emerging economies, to see if the results are different.

Notes

1. We conducted a simple slope analysis for Community on brand equity at the Product 10th percentile level, following Aiken and West (1991). The *t*-test shows that the slope differs from zero ($\beta = 0.214$, $t = 2.151$, $p = 0.032$).
2. We conduct a simple slope analysis for Governance on brand equity at the Product 75th percentile level, following Aiken and West (1991). The *t*-test shows that the slope does not differ from zero ($\beta = 0.196$, $t = 1.341$, $p = 0.180$).
3. We conducted a simple slope analysis for Community on brand equity at the Employee 25th percentile level, following Aiken and West (1991). The *t*-test shows that the slope differs from zero ($\beta = 0.199$, $t = 1.957$, $p = 0.051$).

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