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Generating Brand Equity through Corporate Social Responsibility to Key Stakeholders

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Abstract

In this paper we argue that socially responsible policies have a positive impact on a firm's brand equity in the short-term as well as in the long-term. Moreover, once we distinguish between different stakeholders, we posit that secondary stakeholders such as community are even more important than primary stakeholders (customers, shareholders, workers and suppliers) in generating brand equity. Policies aimed at satisfied community interests act as a mechanism to reinforce trust that gives further credibility to social responsible polices with other stakeholders. The result is a decrease in conflicts among stakeholders and greater stakeholder willingness to provide intangible resources that enhance brand equity. We provide support of our theoretical contentions making use of a panel data composed of 57 firms from 10 countries (the US, Japan, South Korea, France, the UK, Italy, Germany, Finland, Switzerland and the Netherlands) for the period 2002 to 2007. We use detailed information on brand equity obtained from Interbrand and on corporate social responsibility (CSR) provided by the SiRi Global Profile database, as compiled by the Sustainable Investment Research International Company (SiRi).

Keywords: Brand Equity, Corporate Social Responsibility, Stakeholders.

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I Introduction

The instrumental perspective of corporate social responsibility (CSR) states that each stakeholder provides material or immaterial resources that are more or less critical to the firm's long-term success (Hill and Jones 1992, cf. p. 133; Maignan and Ferrell 2004). This integrative view of stakeholders has been applied later on in relational marketing studies (Coviello, Brodie, Danaher, and Johnston 2002; Handfield and Bechtel 2002; Blois 1999; Doney, Barry, and Abratt 2007; Wang and Huff 2007). A consequence of a sustained and trusting relationship with different stakeholders is the commitment of these stakeholders to the organization, such as customer loyalty (Garbarino and Johnson 1999), stockholder capital investments, and supplier investments (Maignan and Ferrell 2004; Sen, Bhattacharya and Korschun 2006).

Extant literature has connected CSR to various stakeholders, to financial and market performance measures such as market share, ROI, sales growth of new product success or market value measured with Tobin's q (e.g. Greenley and Foxall 1998; Srivastava, Shervani and Fahey 1998; Berman et al. 1999; Orlitzky, Schmidt and Reynes 2003; Fry and Polonsky 2004; Greenley et al. 2005; Luo and Bhattacharya 2006). In addition, from a marketing perspective, CSR might have an impact on brand evaluations, brand choice, and brand recommendations (Klein and Dawar 2004). Maignan and Ferrell (2004) established the theoretical link between stakeholder resources (organizational citizenship; reputation) and customer outputs such as loyalty, positive word of mouth and brand equity measures. In a similar vein, Gardberg and Fombrun (2006) stated that investments in corporate citizenship, like investments in

R&D and advertising, can contribute to a differentiation strategy by helping companies to build brand equity. However, the effect of CSR aimed at different stakeholders on brand equity has not yet been assessed empirically.

In this paper, we contribute to the extant literature by studying the effect of CSR on brand equity. In particular, we examine the role of management of the following stakeholder relationships: community, suppliers, employees, shareholders, and customers. We posit that the satisfaction of secondary stakeholders such as community play a pivotal role in enhancing brand equity. We argue that firms that are able to behave in a responsible way with secondary stakeholders gain a reputation of trustworthy organizations among primary stakeholders. Under these conditions, these group of stakeholders will have fewer conflicts among them and there will be more willingness to provide intangible resources that will generate brand equity value.

Our empirical analysis relies on a panel data analysis of 57 firms from 10 different countries, as included in the 2002-2007 SiRi Global Profile database. This database is compiled by the Sustainable Investment Research International Company (SiRi), a large company specialized in the analysis of socially responsible investments. The CSR profile of each firm contains over 200 items that cover major stakeholder issues such as community involvement, customer policies, employment relations, human rights issues, activities in controversial areas, and supplier relations. The data come from interviews with a wide range of stakeholders, not only customers or managers. Additionally, we complement the database with brand equity information obtained from Interbrand. When assessing the effects of CSR, we control for potential endogeneity problems as well as confounding factors such as sector, country, firm size, and R&D expenditures (McWilliams and Siegel 2000). Hence, we arrive at

generalizable conclusions as to the effect of CSR on brand equity because the findings are based on a longitudinal study of a broad range of firms, sectors, and countries.

II Theoretical Underpinnings

Early research papers studying the instrumental use of CSR practices over a wide range of stakeholders appear in management literature (Harrison and Freeman 1999) and are adopted later in other research areas such as marketing (Maignan and Ferrell 2004). One theme of discussion in this literature is the effect of a firm's CSR practices on the generation of value, in general, and brand value, in particular. Some recent theoretical papers focus on the connection between CSR and a firm's performance. However, such studies do not provide a clear-cut relationship between CSR and firm financial performance (Mcwilliams and Siegel 2000). Moreover, such empirical studies mainly rely on UK and USA data (McGuire, Sundgren and Schneeweis 1988; Waddock and Graves 1997; Greenley and Foxall 1998; McWilliams and Siegel 2000; Orlitzky, Schmidt and Rynes 2003; Godfrey, Merrill and Hansen 2009). Also, some authors like Gardberg and Fombrun (2006) criticize the use of standard measures of financial performance, such as return on assets, as they bias the short-term excessively. Such a bias is a problem given that the main benefits of CSR investments, as a set of intangible resources that creates value, are shown in the long term (Hillman and Keim 2001). Therefore, it is not surprising that authors like Luo and Bhattacharya (2006) emphasize that more research in this line is required in order to understand the real benefits of CSR in generating value for the firm.

Corporate social responsibility literature considers different criteria in order to group CSR practices. Garriga and Melé (2004) provide some clues as to how to classify CSR practices under an instrumental approach according to the objectives to be

pursued. Such classification facilitates the analysis of the connection between CSR and the generation of value. These authors distinguish three broad objectives: (1) CSR practices aimed at maximizing shareholder value (related to short-term performance); (2) CSR practices aimed at achieving a competitive advantage (related to long-term performance) and (3) CSR marketing-related practices aimed at satisfying customers (positioning objectives).

In order to conduct our analysis on the connection between CSR and the generation of value, we make use of the concept of brand equity, which combines aspects of financial, market, and customer-related performance in the short as well as in the long run (Ailawadi, Lehmann, and Neslin 2003). Rego, Billett and Morgan (2009) emphasize the relevance of this measure because it also incorporates aspects related to firm risk that go beyond what is explained by existing finance models (i.e., it has "risk relevance"). In particular, our intention in this paper is to conduct a fine-grained analysis of the specific stakeholders targeted in a CSR policy that have a larger effect on a firm's brand equity value. Also, we investigate how these stakeholders interact in order to enhance the generation of brand value.

Godfrey, Merrill and Hansen (2009) differentiate between two leagues of stakeholders: Primary stakeholders, who are essential to the operation of the business, and secondary stakeholders, who can influence the firm's primary stakeholders. In particular, customers, employees, suppliers, and shareholders are classified as primary stakeholders, whereas broader groups like community are secondary (Greenley, Hooley and Rudd 2005; Clarkson 1995; Mitchell, Agle and Wood 1997). We will make use of this distinction in order to state our hypotheses on the connection between CSR and brand equity. The articulation of our conjecture will follow Garriga and Melé (2004)'s

classification on the instrumental use of CSR practices according to the objectives to be achieved.

2.1 Relationship between instrumental objectives and the addressed stakeholders

A/ Maximizing shareholder value through stakeholder satisfaction.

We connect this economic objective to short-term profit orientation. The basic idea is that the satisfaction of different stakeholders' interests, whether primary or secondary, reduces conflicts within the organization which, in turn, enhances short-term profits. For example, the establishment of a well-developed after-sales service will satisfy customers' interests and will reduce conflicts between customers and the firm. Hence, the potential conflict between customers and shareholders is reduced.

Moreover, among the different CSR practices, those targeted at the most salient stakeholders (Mitchell, Agle and Wood 1997) will generate the steepest cost reductions related to conflict reduction given the pivotal role of these stakeholders in the generation of value. Conversely, if the interest of the most salient stakeholders were not satisfied, the signal sent to the less powerful stakeholders is that the firm is not interested in preventing conflicts among them. The outcome is an increase in conflicts among stakeholders that will erode short-term results. Also, conflict among stakeholders damages the brand image of a firm that will reinforce the negative effect in the short run. Hence, a CSR policy devoted to increasing financial performance through the reduction of conflicts among stakeholders will have a positive short-term impact on brand value.

B/ Competitive advantage through primary and secondary stakeholders

Relying on instrumental stakeholder theory, we claim that by developing close relationships with primary and secondary stakeholders, a firm can develop certain intangible resources – technology, human resources, reputation, and culture – which enable the most efficient and competitive use of the firm's assets and help it to acquire a competitive advantage over its rivals (e.g., Orlitzky, Schmidt and Rynes 2003; Sharma and Vredenburg 1998).

Similarly, the resource-dependence theory (Pfeffer and Salancik 1978) claims that "an organization must attend to the demands of those in its environment that provide resources necessary and important for its continued survival." Each stakeholder group provides material or immaterial resources that are more or less critical to the firm's long-term success (Hill and Jones 1992: 133). Hillman and Keim (2001) found empirical evidence supporting the idea that competitive advantage may be built with tacit assets derived from developing relationships with primary stakeholders.

Such a "long-term relationship perspective" also appears in marketing literature: Relational marketing theory (Morgan and Hunt 1994) relies on the idea of seeking competitive advantages through relationship commitment and trust. This literature is mainly focused on a primary set of stakeholders (e.g. Morgan and Hunt 1994; Berry 1995). Nevertheless, other authors such as Hess, Rogovsky and Dunfee (2002) and Garriga and Melé (2004) also contemplate the use of CSR practices towards secondary stakeholders as a channel to achieve a competitive advantage. Firms can increase their competitive advantage with the use of philanthropic activities close to the company's mission. For example, a telecommunications company teaching computer network administration to students of a local community can gain their loyalty as potential new customers.

Drawing from instrumental stakeholder theory, resource-dependence theory, and relation marketing theory, we can state that the satisfaction of primary and secondary stakeholders' interests is a source of competitive advantage that leads to improvements in long-term brand equity.

C/ Cause-related marketing-secondary stakeholders.

This practice corresponds to positioning strategies focused on improving customer relationships by enhancing brand value through the social responsibility dimension towards secondary stakeholders such as community (Varadarajan and Menon 1988; Garriga and Melé 2004). Hoeffler and Keller (2002) and Keller (2003) described how corporate social marketing can build customer-based brand equity through constructing brand awareness, enhancing brand image, establishing brand credibility, evoking brand feelings, creating a sense of brand community, and eliciting brand engagement.

Hence, instrumental theory based on positioning strategies suggests that secondary stakeholders are important in order to achieve improvements in brand equity.

Such a role of secondary stakeholders is reinforced if we consider arguments supporting political theories (Garriga and Melé 2004). Investments in corporate citizenship such as CSR towards the local community can be a major contribution to building brand equity (Gardberg and Fombrun 2006). The objective is to generate perceptions of the company as legitimate, innovative and unique.

In summary, once we take into consideration the three different objectives connecting CSR practices, which involve primary as well as secondary stakeholders, to the generation of value, we can state the following hypothesis:

H1: Brand equity is positively affected by corporate social responsibility to the primary stakeholders (customers, suppliers, employees, shareholders), as well as the secondary ones (community).

2.2 Relative importance of each interest group in the generation of BE

Extant theoretical and empirical management literature gives inconclusive results about the relative importance of stakeholder groups in creating value for a firm (i.e. Harrison and Freeman 1999).

In the short-term, we rely on the shareholder maximization view (Garriga and Melé 2004) that short-term value is generated through the reduction of conflicting costs among stakeholders. Under such a scheme, the larger advantages will be achieved from the reduction of conflicts among the most salient stakeholders (Mitchell, Agle and Wood 1997). Managers recognize customers as the most salient stakeholder in order to create brand equity value (Keller 1993). Additionally, since brand equity is a performance measure based on market, financial and customer information, the second most salient stakeholder will be shareholders. Torres & Tribó (2010) show the relevance of both stakeholders in order to improve a firm's brand equity value. Hence, one might expect that a reduction in the conflict involving these two stakeholders as a result of implementing a social responsibility policy that involves these stakeholders will generate short-term effects on a firm's brand equity value.

Apart from the most salient (primary) stakeholders, the aforementioned marketing-related CSR view shows that the satisfaction of secondary stakeholders such as community allows firms to display a strong reputation of their ethical behavior. This reputation is translated into a type of insurance-like effect that hinders possible conflicts

among stakeholders (Godfrey, Merrill and Hansen 2009). These arguments lead to our Hypothesis 2a:

H2a. CSR practices devoted to satisfying the interests of customers and shareholders as primary stakeholders and community as secondary stakeholders will have a short-term impact on BE.

In the long-term, we rely on the comparative advantage view of Garriga and Melé (2004) as well as the recent literature considering brands as complex social phenomena (Mühlbacher, Hemetsberger, Thelen, Vallaster, Massimo, Fuller, Pirker, Schorn, and Kittinger 2006). Among the different stakeholders that may create a comparative advantage, those that provide firm-specific capital -whether physical or human- will be the most salient to achieve long-term success (Mitchell, Agle, and Wood 1997). These stakeholders (workers and suppliers) will have to devote some efforts to acquire firm-specific necessities (firm-specific technology or firm-specific human capital), which will provide an advantage over their competitors. For example, suppliers can give access to material resources or immaterial firm-specific knowledge that will enhance a firm's efficiency (Maignan and Ferrell 2004). For employees, Luo and Bhattacharya (2006) point out that "firms invest in a host of employee-related initiatives such as education and safety, than engender identification and instill pride among employees, all of which influence customer satisfaction and market value" (p.16).

Apart from competitive advantage CSR reasons, which involve two primary stakeholders (workers and employees), the aforementioned cause-related marketing practices suggest that addressing secondary stakeholders' interests, mainly those of the community, cause stakeholders to perceive CSR practices as having ethical purposes (Garriga and Melé 2004). In turn, such ethical stance facilitates stakeholders'

continuous provision of intangible resources, such as loyalty, that will end up generating brand equity in the long-term.

An interesting case in point is customer satisfaction. On the one hand, above a certain threshold, this satisfaction may lead to customer loyalty, which will have long-term effects (Keller 1993). On the other hand, an excessive focus on customer satisfaction may damage the interests of other stakeholder, as Torres and Tribó (2010) have found. Hence, we expect a neutral, long-term effect of customer satisfaction on brand equity. Similar arguments apply to the other salient stakeholder, the shareholders. An excessive focus on shareholder value creation may also damage the interests of other stakeholders, whose involvement is critical for a firm's long-term success. Hence, we also expect a neutral long-term effect of shareholder satisfaction on a firm's brand equity.

Summarizing the previous arguments, our Hypotheses 2a and 2b read as follows

H2b. CSR practices towards suppliers and employees as primary stakeholders and community as secondary stakeholders have a positive impact on long-term BE. However, we do not expect such a long-term effect due to customer or shareholder satisfaction (good corporate governance).

2.3 The interaction between primary and secondary stakeholders in generating BE

As a key element behind the instrumental use of CSR practices, authors like Maignan and Ralston (2002) and Maignan and Ferrell (2004) point out the development of an effective *communication* of such practices towards primary stakeholders. The objective is to maximize *visibility* and then the impact of such instrumental practice. If, public opinion is skeptical about the true motivations behind the involvement by business in social affairs, firms may hesitate to publicize their social responsibility

efforts for fear of public criticism. Then, firms have all the incentives in designing mechanisms to prove the fairness of their ethical stance to primary stakeholders, particularly those that generate value in the short-term (customers and shareholders according to Hypothesis 1). The strategic and opportunistic use of CSR practices aimed at these latter stakeholders will be particularly high and the need for mechanisms to show the credibility and sustainability of responsible practices will be particularly relevant. One of these mechanisms is to enhance a firm's *visibility* at all levels, that is, to implement CSR initiative recognized by internal (primary) as well as external (secondary) stakeholders (Burke & Logsdon 1996). Such a strategy will reinforce legitimacy and the firm's reputation as an ethical entity (Lewellyn 2002; Logsdon and Wood 2002; Mahon 2002). Furthermore, these authors add that the credibility of the source for the visibility of the CSR initiative is a key factor in attracting stakeholder attention. Examples of CSR practices satisfying the visibility condition that improves a firm's credibility are those that are displayed by firms towards community. According to Hess, Rogovsky and Dunfee (2002), these practices are triggered after shocks such as terrorist attacks or natural disasters, and, when sustained over time, they have a large impact on firm reputation to different stakeholders, which will enhance brand equity. For example, Goddard (2005) indicated that community relationship programs lead to corporate benefits such as a high percentage of consumers displaying a positive image of the company that will enhance a firm's short-term brand-equity value. Sen, Bhattacharya and Korschun (2006) test empirically the transmission of companies' CSR awareness into perceptions by stakeholders like customers of being responsible firms. They find a clear-cut positive relationship.

The previous argument suggests that the mechanism of CSR visibility involving secondary stakeholders (*i.e.* community) works to enhance a firm's credibility towards

CSR policies targeted to salient primary stakeholders that have a positive impact on firm's short-term brand-equity. The result is a reinforcement (positive moderation) of the positive effect of CSR on customers and shareholders on a firm's brand equity value when a firm also follows responsible policies towards the community. This is our last hypothesis:

H3 Corporate social responsibility towards community positively moderates the impact of customer satisfaction and shareholder value on short-term brand equity

III Data set

Our sample is an incomplete panel data that is the result of crossing two databases. First, the SiRi Global Profile databases, compiled by the Sustainable Investment Research International Company (SiRi), the world's largest company specializing in the analysis of socially responsible investments in Europe, North America, and Australia. The SiRi database provides information on over 200 items in each firm that cover major stakeholder issues such as community involvement, customer policies, employment relations, corporate governance, supplier relations, human rights issues and activities in controversial areas. The data come from interviews by SiRi specialists[1]. The second database is Interbrand, which provides information about the brand equity of the most valuable companies (http://www.interbrand.com/surveys.asp). After crossing both databases we are left with an incomplete panel data of 57 industrial firms from 10 different countries for the period 2002 to 2007. This sample contains 294 observations that are reduced to 194 once we include the variable of a firm's R&D intensity in the specifications.

[1] Visit www.centreinfo.ch/doc/doc_site/SP-Novartis-06.pdf for an example of a detailed profile, and visit www.ais.com.es/ingles/productos/derivados.htm#1 for further information on SiRi PRO™.

The distribution of observations among countries is as follows: US 58.50%; Germany 12.2%; Japan 10.2%; France 5.1%; UK 3.74%; Switzerland 3.4%; Finland 1.7%, Korea 1.7%; Italy 1.7% and Netherland 1.7%. In terms of the distribution among sectors (1-digit SIC), the table of frequencies is as follows: SIC=1, 1.7%; SIC=2, 27.89%; SIC=3, 45.58%; SIC=4, 7.14%; SIC=5 6.8%; SIC=7, 9.18%; SIC=8, 1.7%. Hence, there is enough variability among countries and sectors[2].

3.1 Variables

The dependent variable, *Brand_Equity* (BE), is measured with the Interbrand score. Interbrand's method for valuing brands consists of three analyses: financial, role of brand, and brand strength. The financial analysis forecasts current and future revenues attributed to the branded products, subtracting the costs of doing business (e.g., operating costs, taxes) and intangibles, such as patents and management strength, to assess the portion of earnings due to the brand. The role of the brand constitutes a measure of how the brand influences customer demand at the point of purchase. Finally, brand strength provides a benchmark of the brand's ability to secure ongoing customer demand (loyalty, repurchase, and retention) and sustain future earnings, which translates branded earnings into net present value. This assessment provides a structured way to determine specific risks to the strength of the brands. Keller and Lehmann (2001; 2006) divide existing measures of BE into three categories: customer mind-set, product market and financial market outcomes. The measure for this study integrates product market and financial market outcomes, which makes it, according to Ailawadi et al. (2003), more "complete" than a single-category measure. Also, the Interbrand measure

[2] The correspondence between 1-digit SIC codes and sectors is as follows: Agriculture, Forestry, & Fishing (1-d SIC=0); Mining & Construction (1-d SIC=1); Transportation, Communications (1-d SIC=2), Public Utilities (Electric, Gas, and Sanitary Services) (1-d SIC=3); Manufacturing (1-d SIC=4); Wholesale Trade & Retail Trade (1-d SIC=5); Finance, Insurance, & Real Estate (1-d SIC=6); Services (1-d SIC=7); Public Administration (1-d SIC=8); Non-classifiable Establishments (1-d SIC=9)

addresses criticisms about the lack of objectivity in BE measures based exclusively on customer mind-set, such as the one used by Millward Brown (Ailawadi, Lehmann, and Neslin 2003). Madden, Fehle, and Fournier (2006) defend the use of Interbrand data as the most well-known and widely used brand valuation method (Haigh and Perrier 1997).

The independent variables collect CSR practices versus a range of stakeholders: community, customers, employees, suppliers, and shareholders. Basically the information relies on the degree of disclosure of the firm's commitment to good practices with these stakeholders, the importance and the specifics of the policy as well as the management of the policy that characterize the relationship of the firm with these stakeholders and whether there are controversies with these stakeholders (see Table 1 for details). Also, the SiRi provides an overall rating on CSR by weighting the score of the different stakeholders. These weightings are sector-specific and are developed annually. For each sector, SiRi's analysts determine the firm's potential negative impact on each stakeholder and assign a weighting in proportion to this potential.

Control variables are R&D intensity, measured as the ratio of R&D investment to number of employees; *Size*, measured as the number of employees on a log scale and *Leverage*, proxied by the debt-to-equity ratio.

[Table 1 here]

3.2 Methodology

We test our hypotheses relying on a specification that explains brand equity value in terms of different dimensions of a firm's CSR as well as control variables. We follow McWilliams and Siegel (2000) to include R&D as control; Rego, Billett and Morgan (2009) for risk (related to a firm's leverage); and Godfrey, Merrill & Hansen

(2009) for size, which is a proxy of a firm's visibility (brand-equity value is connected to a firm's visibility). In particular, the specification we consider is as follows:

$$\begin{aligned} Brand\ equity_{it} = {} & \alpha_0 + \alpha_1 Community_{it} + \alpha_2 Suppliers_{it} + \alpha_3 Employees_{it} + \\ & \alpha_4 Customers_{it} + \alpha_5 Corporate\ governance_{it} + \alpha_6 Size_{it} + \alpha_7 Leverage_{it} + \\ & \alpha_8 R\&D_{it} + \alpha_9 Dummies(Temporal, Sectoral, Country) + \eta_i + \varepsilon_{it} \end{aligned} \quad (1)$$

where i and t index firm and year, respectively, η_i is the firm-specific component of the error term, and ε_{it} is the error term.

This specification has two important caveats. First, a correlation might exist between unobservable heterogeneity η_i and the explanatory variables (fixed-effect problem). For example, the characteristics of the manager (which are time-invariant) may have an effect on the CSR policy implemented as well as on the brand value. In this case, the relationship between CSR policies and brand equity would have been spurious and based on their mutual connection with managerial characteristics (η_i). We will contrast whether this fixed-effect is relevant in our specification making use of the Hausman tests. This test contrasts the null hypothesis of equal coefficients between the fixed-effect and the random-effect specification, in which there is no fixed-effect component correlated with the explanatory variables. The results found indicate that we cannot reject the previous null hypothesis of equality in the coefficients, which indicates that we can estimate specification (1) making use of random-effect estimations, which are more efficient than fixed-effect ones.[3] The second problem of the previous estimation refers to the reverse causality issue: brand equity value may open the possibility of obtaining resources to be spent on social issues (*slack theory* of McGuire, Sundgren, and Schneeweis 1988; Waddock and Graves 1997). To address this endogeneity concern related to reverse causality,

[3] Apart from that, there is a second reason for relying on random-effect estimations, which is the persistence in the variables related to CSR policies, which make fixed-effect estimations, which are based on differences along time, particularly inefficient.

we have instrumented the variables that capture the different dimensions of CSR and that are subject to potential endogeneity problems (the overall CSR score, Community, Suppliers, Employees, Customer and Corporate governance). The instrument that we use is the corresponding predicted values obtained from an estimation of each variable in terms of the control variables (Size, Leverage, R&D). The adoption of such specification follows Torres and Tribó (2010). Such instruments are not correlated, by construction, with the error term in the specification of brand equity. Additionally, we have conducted underidentification tests to estimate whether the instruments proposed are correlated with the endogenous variables (Bascle 2008). All instruments pass the test indicating that they are good instruments.

3.3 Results

Table 2 shows the mean, standard deviation, minimum and maximum values as well as the table of correlations of the variables that are used in specification (1). The correlation matrix shows that Brand equity is positively correlated with the different dimensions of CSR that we consider (Community, Suppliers, Employees, Customer and Corporate governance)[4], which is in line with Hypothesis 1. Also, among control variables, larger firms that invest in R&D and/or are low leveraged are positively correlated with brand equity.[5]

[Table 2 here]

Table 3 shows the results of specification (1). Column 1 includes as an explanatory variable the aggregate score of CSR; while in column 2 we disaggregate this variable in its different dimensions (Community, Suppliers, Employees, Customer and Corporate governance). In both cases, we instrument the variables linked to CSR policy using

[4] We have excluded environment as an additional stakeholder due to its high correlation with community.

[5] Although there is correlation between the different dimensions of CSR that we consider, we have computed the VIF for each variable and in all cases the value was below the threshold of 20 that is considered as indicative of the existence of multicolinearity problems.

predicted values from specifications of each variable in terms of control variables (*Size*, *Leverage* and *R&D*), as explained in the methods section.

The results found are that a firm's CSR has a positive impact on a firm's brand equity ($p < .01$). Once, we consider the different dimensions of a firm's CSR, we have found that community ($p < .01$), customers ($p < .05$), as well as corporate governance ($p < .05$) have a positive effect on a firm's brand equity value. This evidence is consistent with Hypothesis 1. The effect of community on brand equity is remarkably strong, and even larger than the effect of customer satisfaction and shareholder interest (proxied by corporate governance). Among control variables, larger firms (with higher visibility) and firms that invest on R&D are those that are connected with larger brand equity values.

[Table 3 here]

Table 4 shows the result of specification (1) once we lead the dependent variable by one period.[6] Column 1 shows that the overall score of CSR has a positive impact on the next-period brand equity ($p < .01$). When we distinguish the different dimensions of CSR, we have found that stakeholders providing physical capital (*Suppliers*) and those providing human capital (*Workers*) have a positive impact ($p < .05$) on next-period brand equity value.[7] Additionally, the variable of Community, that was very significant for the contemporaneous brand equity value, also has a significant impact ($p < .1$) on the next-period brand equity. Concerning customers and shareholders, we have found a neutral relationship.[8] These results conform to Hypothesis 2 and confirm the pivotal

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[6] Although the endogeneity problem of reverse causality is less important once we led the dependent variable by one period, we also instrument the variables related to a firm's CSR in the same way as we did for the estimations of contemporaneous brand equity (Tables 3 and 5)

[7] We have not led the dependent variable by more than one period because of the limited number of observations.

[8] We have conducted additional estimations (available upon request) that suggest that these neutral relationships disguise a curvilinear relationship. We have not reported these results due to the existence of multicolinearity issues.

role played by community satisfaction in the generation of brand value. Finally, the results concerning the control variables are consistent with those for the contemporaneous relationship: positive effect of size ($p < .01$) and R&D ($p < .1$) in the generation of next-period brand equity value.

[Table 4 here]

The test of Hypothesis 3 is done in Table 5, which departs from specification (1) as it includes two alternative interaction terms. On the one hand, variable *D_Community x Customer* in column 1, where D_Community is a dummy that is equal to 1 (0) when *Community* is above (below) the mean value for the corresponding sector, year and country. This variable tests the possible moderating effect of Community (when intense) in the connection from *Customer* to Brand equity. On the other hand, variable *D_Community x Corporate governance* in column 2 tests moderation of Community (when intense) in the connection from *Corporate governance* to Brand equity.

Results of Table 5 are consistent with those of Table 3: *Community* ($p < .01$), *Customer* ($p < .05$) and *Corporate governance* ($p < .01$) have a positive impact on a firm's brand equity. Concerning the interactive terms, column 1 shows that *Community* satisfaction, when above the mean of the sector, year and country, enhances the positive impact of *Customer* satisfaction on brand equity ($p < .05$). By the same token, column 2 shows that *Community* satisfaction, when large, also plays a positive moderating role ($p < .05$) in the connection from shareholder value (corporate governance) to brand equity value. This result stresses the relevance of taking into consideration community satisfaction as a way to create brand equity. Community has a positive direct effect on brand equity value, as well as a positive moderating effect in the positive impact of customer satisfactions and shareholder value (corporate governance). Finally, control variables effects are consistent with those of the previous specifications.

[Table 5 here]

Summarizing the previous results, the model that we have found, which relies on the pivotal role of community satisfaction, is presented in the following figure:

[Figure 1 here]

IV Conclusions and Managerial Implications

In this paper, we have analyzed the effect of different dimensions of a firm's corporate social responsibility (CSR) policy on the creation of brand equity (BE) value. We have provided empirical support for our hypotheses using an extensive database of 57 firms from various industries, from 10 countries, for the period 2002 to 2007.

Our main contribution is that the key stakeholder that enhances firm brand equity value to the greatest extent is the community. A strategy based on the satisfaction of community interests has two beneficial effects. One effect on brand equity is direct given that satisfying the interests of the community is a way to improve a firm's credibility of being an institution with an ethical stance to all stakeholders (Godfrey, Merrill and Hansen 2009). Such gained reputation has a direct brand value of its own. The other effect on BE is indirect as a reinforcing mechanism (positive moderator) in the positive impact on BE of the satisfaction of different stakeholders' interests (in particular customers and shareholders). Such reinforcing mechanism is explained in terms of the generation of trust coming from the application of visible CSR practices towards secondary stakeholders (Logsdon and Wood 2002). A trustworthy firm will get more loyalty from satisfied customers. Also, trust will reduce the conflicts within the firm that may damage shareholders' interests. In both cases this will improve brand equity.

A second result found in the paper is that capital suppliers (human capital & physic capital) provide firms with a competitive advantage and generate a positive effect on medium-term brand equity. Such medium-term effects on brand equity also appear when firms satisfy community interest, a feature that emphasizes the pivotal role played by such stakeholders.

Managerial implications

Several conclusions for managers can be extracted from our paper. First, managers that wish to send a credible signal of commitment towards their stakeholders in order to enhance their firm's brand value, should pay special attention to the less salient stakeholders. Our proposal gives weight to the satisfaction of community interests. Second, those firms that expand internationally and want to fix certain standards of social responsible policies abroad are advised to acquire firms with strong community roots. Such strategy will eliminate fears of corporate expropriation by entrant firms in less developed countries. Lastly, managers that wish to sustain social responsible policies in order to create brand value are advised to maintain a balance among different stakeholders and not focus on a single one given that brands are a complex social phenomena (Mühlbacher et al. 2006). Customers and shareholders generate brand value in the short-term, but have a neutral effect that we conjecture disguises a curvilinear relationship in the long-term. In a long-term framework, capital providers (suppliers and workers) are the main drivers to generate value.

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Future avenues

The main message that can be extracted from this paper is that the satisfaction of community interests is very relevant to creating brand value sustainably. A natural

extension of the model proposed is to incorporate virtual communities into the analysis and investigate whether the reinforcing effects linked to real communities also hold when we also consider virtual communities. A second avenue is the inclusion in the analysis of other stakeholder, such as the environment. In our analysis the conclusions applied to community are easily extended to the environment given the high correlation between both stakeholders. Finally, a contingency analysis on the economic cycle would be of major interest. After the recent turmoil in the financial sector, it may be of interest to investigate whether those firms that have maintained their CSR policies towards community have been rewarded with more significant increases in their brand value. The investigation of such issue is left for future research once a new wave of data on CSR is available.

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Table 1. Definition of the variables

Dependent Variables	
Brand_Equity	The score that Interbrand provides for such issue. Interbrand's method of valuing brands consists of three analyses: financial, role of brand, and brand strength. The financial analysis forecasts current and future revenues attributed to the branded products, subtracting the costs of doing business (e.g., operating costs, taxes) and intangibles, such as patents and management strength, to assess the portion of earnings due to the brand. The role of the brand constitutes a measure of how the brand influences customer demand at the point of purchase. Finally, brand strength provides a benchmark of the brand's ability to secure ongoing customer demand (loyalty, repurchase, and retention) and sustain future earnings, which translates branded earnings into net present value. This assessment provides a structured means to determine specific risks to the strength of the brands. We take this variable in logs in order to reduce skewness.
Main explanatory Variables:	
Customer_Satisfaction	*Customer Satisfaction* is the weighted average of the following items: (1) whether a separate report features customer issues; (2) the appearance of information concerning customer issues on the firm's Web site; (3) whether the annual report contains information concerning customer issues; (4) a formal policy statement noting customer issues; (5) the degree of detail of the management system, including the disclosure of quantitative data and the existence of a formal policy with regard to product quality; (6) whether a formal policy pertains to marketing/advertising practices; (7) the existence of a formal policy statement on product safety; (8) the level of board responsibility for customer satisfaction; (9) facilities with quality certification; and (10) marketing practices designed to satisfy customers.
Corporate Governance	*Corporate Governance* is the weighted average of the following items: (1) Directors' biographies; (2) Directors' remuneration/compensation; (3) CEO's remuneration/compensation; (4) Number and nature of board committees; (5) Primary stock ownership and voting rights; (6) The company has corporate governance principles; (7) Directors' term of office; (8) Board performance evaluation; (9) Board effectiveness; (10) Number of NEDs on the Board; (11) Number of independent NEDs on the Board; (12) Separate position for chairman of board and CEO; (13) Existence of audit committee; (14) Audit committee composition; (15) Remuneration committee composition; (16) Existence of nomination committee; (17) Nomination committee composition; (18) "One share, one vote" principle; (19) 3% non-audit fees of audit fees; (20) Absence of anti-takeover devices; (21) Remuneration; (22) Shareholders' rights; (23) Governance structures or practices.

Community	*Community satisfaction* is the weighted average of the following items: (1) Separate foundation or community report; (2) Community involvement information on websites; (3) Community information in annual report; (4) Statement on community involvement; (5) Formal human rights policy in sensitive countries; (6) Description of community programs/organization; (7) Data on allocation of resources; (8) Formal policy on community involvement; (9) Human rights policy in sensitive countries; (10) Management responsibility for community affairs; (11) Community affairs department; (12) Formal volunteer programs; (13) Programs for consultation with communities; (14) Guidelines for operations in sensitive countries; (15) Total giving; (16) Percent donations; (17) Primary areas of support; (18) Local communities; (19) Tax issues; (20) Activities in sensitive countries.
Employees	*Employee satisfaction* is the weighted average of the following items: (1) Separate employee report; (2) Employee information on website; (3) Employee information in annual report; (4) Policies/Principles regarding employees; (5) Description of employee benefits programs; (6) Disclosure of quantitative data; (7) Formal policy statement on health and safety; (8) Formal policy on diversity/employment equity; (9) Formal policy on freedom of association; (10) Formal policy statement on child/forced labor; (11) Formal policy statement on working hours; (12) Formal policy statement on wages; (13) Board responsibility for human resources issues; (14) Specific health and safety targets; (15) Diversity/Equal opportunity programs; (16) Work/Life programs; (17) Training programs; (18) Participative management programs; (19) Systems for collective labor negotiations; (20) Cash profit sharing programs; (21) Ownership programs; (22) Regular employee satisfaction surveys; (23) Specific employment related indicators; (24) Total workplace time lost; (25) Health and safety fines; (26) Employee satisfaction; (27) Supervisory Board (NEDs); (28) Management (EDs); (29) Quality of industrial relations; (30) Subsidiaries with social certification; (31) Major recent lay-offs; (32) Health and safety incidents; (33) Freedom of association; (34) Discrimination; (35) Child/Forced Labor; (36) Restructuring; (37) Employment conditions
Suppliers	*Suppliers satisfaction* is the weighted average of the following items: (1) Separate report on contractors and suppliers; (2) Contractor's information on website; (3) Contractor's information in annual report; (4) Code of conduct for contractors; (5) Description of organization and programs; (6) Disclosure of quantitative data on contractors; (7) Formal statements on health and safety; (8) Formal statements on working hours or wages; (9) Formal statements on freedom of association; (10) Formal statements on child/forced labor;

	(11) Formal statements on acceptable living conditions; (12) Formal statements on non-discrimination; (13) Statements on disciplinary practices; (14) Board responsibility for contractors human rights; (15) Contractors' awareness programs; (16) Monitoring systems to ensure compliance; (17) Contractors' audits results; (18) Contractors with social certification; (19) Health and safety among contractors; (20) Freedom of association among contractors; (21) Child/Forced labor among contractors; (22) Discrimination among contractors; (23) Employment conditions among contractors.
Control variables:	
Leverage	The debt-to-equity ratio
Size	Number of employees on a log scale
R&D	The ratio of R&D investments to the number of employees.

Table 2. Descriptive Statistics

		Obs	Mean	DS	Min	Max	1	2	3	4	5	6	7	8
1	Brand equity	294	9.15	0.85	7.79	11.16	1.00							
2	Community	294	60.94	16.90	12.00	98.19	0.19	1.00						
3	Suppliers	294	45.29	22.07	0.00	95.44	0.19	0.33	1.00					
4	Employees	294	55.14	13.23	14.12	86.13	0.06	0.37	0.42	1.00				
5	Customer	294	54.68	17.13	0.00	100.00	0.13	0.23	0.23	0.27	1.00			
6	Corporate governance	294	70.14	14.61	6.67	100.00	0.06	0.19	0.09	0.09	0.14	1.00		
7	Size	294	16.45	3.87	10.10	26.35	0.18	-0.11	0.03	-0.01	-0.01	-0.49	1.00	
8	Leverage	294	2.89	6.55	0.13	81.39	-0.22	-0.15	-0.09	-0.07	-0.05	-0.01	-0.08	1.00
9	R&D	194	0.06	0.03	0.00	0.16	0.04	-0.24	-0.13	-0.23	-0.15	-0.49	0.67	-0.10

Table 3: Determinants of brand equity

Table 3 shows the results of conducting estimations of firm's brand-equity in terms of a firm's CSR as well as its different components. The variables are defined in Table 1. All variables are standardized.

Variables	Brand equity	Brand equity
CSR variables		
CSR	0.325***	
	(0.080)	
Community		1.823***
		(0.126)
Suppliers		0.002
		(0.015)
Employees		0.549
		(0.510)
Customer		0.021**
		(0.010)
Corporate governance		0.025**
		(0.011)
Control variables		
Size	0.544***	0.418**
	(0.197)	(0.197)
Leverage	-0.017	-0.126
	(0.054)	(0.157)
R&D	0.407	0.264**
	(1.693)	(0.144)
Intercept	7.305***	9.388***
	(0.498)	(0.265)
Observations	194	194
Hausman test	2.21 (0.987)	2.22 (0.999)
R^2 (%)	47.63%	49.91%

Robust standard errors in parentheses.. *** p<0.01, ** p<0.05, * p<0.1

Table 4: Determinants of brand equity (led variable)

Table 4 shows the results of conducting estimations of firm's brand-equity (led by one period) in terms of a firm's CSR as well as its different components. The variables are defined in Table 1. All variables are standardized.

VARIABLES	Brand equity (t+1)	Brand equity (t+1)
CSR variables		
CSR	0.208***	
	(0.065)	
Community		0.026*
		(0.016)
Suppliers		0.125**
		(0.055)
Employees		0.025**
		(0.012)
Customer		0.002
		(0.007)
Corporate governance		0.013
		(0.013)
Control variables		
Size	0.639***	0.761***
	(0.178)	(0.178)
Leverage	-0.082	-0.030
	(0.074)	(0.042)
R&D	0.044	0.041*
	(0.060)	(0.024)
Intercept	8.042***	10.740***
	(0.459)	(0.474)
Observations	167	167
Hausman Test	1.74 (0.994)	1.83 (0.999)
R^2 (%)	47.64 %	57.55 %

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 5: Determinants of brand equity (Interaction terms)

Table 5 shows the results of conducting estimations of firm's brand-equity (led by one period) in terms of a firm's CSR as well as its different components, some interactive terms and control variables. D_Community is a dummy that is equal to 1 (0) when Community is above (below) the mean value for the corresponding sector, year and country. The remaining variables are defined in Table 1. All variables are standardized.

VARIABLES	Brand equity	Brand equity
CSR variables		
Community	1.819***	1.815***
	(0.123)	(0.120)
Suppliers	0.003	0.005
	(0.015)	(0.015)
Employees	0.559	0.520
	(0.507)	(0.515)
Customer	0.018**	0.018**
	(0.010)	(0.009)
Corporate governance	0.025***	0.024***
	(0.011)	(0.010)
D_Community x Customer	0.012**	
	(0.007)	
D_Community x Corp. governance		0.019**
		(0.009)
Control variables		
Size	0.426**	0.420**
	(0.196)	(0.195)
Leverage	-0.118	-0.132
	(0.155)	(0.157)
R&D	0.264**	0.234*
	(0.143)	(0.146)
Intercept	9.384***	9.385***
	(0.266)	(0.266)
Observations	194	194
Hausman test	1.66 (1.000)	1.75 (1.000)
R^2 (%)	50.09%	49.17%

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Figure 1: The model to be estimated