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Corporate Social Responsibility and Financial Performance in the Consumer and Nonconsumer Sectors

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Abstract

With corporate social responsibility (CSR) becoming more important to stakeholders and thus firms, understanding the relationship between CSR and corporate financial performance (CFP) is becoming more and more important. Although there is much research examining the general CSR-CFP relationship, there is very little, if any, research that investigates the CSR-CFP association across industries. With a sample of 429 firms from the S&P 500, my study looks to see if this association differs between the consumer and nonconsumer sectors. Time-series regression analyses reveal that while the CSR-sales relationship is negative for both consumer and nonconsumer companies, the CSR-gross profit association is more positive for nonconsumer than consumer firms.

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CHAPTER 1: INTRODUCTION

In this paper, I investigate the impact of corporate social responsibility (CSR) initiatives on the corporate financial performance (CFP) of consumer and nonconsumer industries. The consumer sector is comprised of business-to-consumer corporations while the nonconsumer sector consists of business-to-business firms. My study furthers Palmer (2012) who finds that CSR is negatively related to sales and positively related to gross profit.

The concept and definition of CSR has been widely debated because of its vagueness, subjectivity, and authenticity (Sweeney and Coughlan 2008). That said, more and more definitions of CSR are beginning to agree with each other. The Harvard Kennedy School of Government defines CSR as programs that go "beyond philanthropy and compliance and [address] how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm" (The Initiative: Defining CSR). The definition Palmer (2012) provides is similar to this one. Citing Williams and Siegel (2001), she claims that CSR initiatives are "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." In line with these two definitions, I define CSR programs as initiatives that positively affect local communities and society in general. Operational business functions and legal obligations do not comprise such initiatives.

Just as CSR's definition has been debated, so has its theoretical framework. A number of theories exist to explain the purpose and strategic implementation of CSR, which include the agency theory, the resource-based view of the firm, the stewardship

theory, and the stakeholder theory. Friedman's (1970) agency theory asserts that CSR programs are typically direct results of managers' interests that help augment their wealth at the cost of shareholder profits. He and others who hold this perspective believe that CSR programs are problematic within corporations unless they improve the economic well-being of the company or shareholders. This agency issue is avoided under Hart's (1995) theory of the firm, which looks at CSR as a means for some companies to gain a competitive advantage. Contrary to the agency theory and theory of the firm, Donaldson and Davis' (1991) stewardship theory argues that managers are obligated to "do the right thing" whether or not the economic impact is beneficial for the corporation and shareholders. And finally, Freeman's (1984) stakeholder theory agrees that when implementing CSR programs, managers should consider other factors besides manager and shareholder interests. Instead, CSR initiatives should reflect the interests of other stakeholders, including employees, customers, suppliers, and community establishments. Plainly, the reasons and ways to implement CSR programs are disputable.

Although both the definition and theoretical framework have been debated, many agree that CSR programs can be broken up into three segments: environment, social, and governance (ESG). Examples of environmental initiatives are preventing pollution and decreasing both greenhouse gas emissions and energy consumption. There are a wide array of social issues that CSR programs can tackle, including enhancing diversity, employee relations with management, and health and safety in the workplace. At the same time, social agendas can address human rights, product quality, charitable giving, and community involvement. Lastly, governance matters revolve around transparency,

reporting and disclosure quality, shareholder rights, and executive accountability and compensation (ESG Managers Portfolios).

An excellent example of a corporation dedicated to all aspects of CSR is J. Crew Group, Inc., a multinational company that sells upscale clothing and accessories to women, men, and children. J. Crew has lessened its environmental footprint by using shopping bags made from 100% recycled paper, an initiative that began in 2010. Since shopping bags composed of recycled paper are more expensive than other types of bags and do not fall under ordinary business functions or legal obligations, this environmental initiative meets the criteria for CSR. J. Crew also helps the environment through its implementation of energy management systems that minimize energy consumption. These systems, which have been installed in all new stores since 2002 and some older stores, benefit not only the environment but also the company's normal business operations. As stated on J. Crew's website, "These systems help optimize and minimize our heating, ventilation and cooling (HVAC) and lighting usage." Thus, although both the recycled shopping bags and revamped energy systems are advantageous to the environment, the former initiative constitutes CSR while the latter does not, an important distinction to make.

The famous retail firm also spearheads social initiatives, which include its Responsible Sourcing Program, membership with Fair Factories Clearinghouse (FFC), and partnership with charities that aim to improve education conditions. The Responsible Sourcing Program ensures that suppliers comply with their Code of Vendor Conduct, which addresses child labor, forced labor, discrimination, harassment and abuse, wages and benefits, hours of work, freedom of association, health and safety, laws and

regulations, customs and security, environmental standards, subcontracting, transparency, and monitoring and compliance. In addition, as a member of FFC—a nonprofit committed to using technology and cooperation to improve the workplace—J. Crew has advanced collaboration with business partners, which has allowed the company's operations to become more efficient. Last but not least, J. Crew partners with DonorsChoose.org and Teach For America to help "[foster] and [promote] safe, happy and effective learning environments." Overall, by ensuring their suppliers are socially responsible and by teaming up with FFC and nonprofits focused on education, J. Crew promotes social reform.

In terms of governance, J. Crew advocates for transparency and executive accountability through its Responsible Sourcing Program discussed earlier and accompanying audits of suppliers. The Production team and management are required to attend frequent seminars that discuss J. Crew's Responsible Sourcing necessities and the ways in which they can ensure their suppliers meet these requirements. A major strategy they use is regularly auditing suppliers who manufacture J. Crew products. These audits include "document reviews, private worker interviews and a walk-through of the facility. When appropriate…surveillance and off-site interviews" are used to inspect suppliers as well. In sum, while the Responsible Sourcing Program is a social-focused CSR initiative in that it promotes human rights, this program is also a governance-focused CSR program in its advancement of corporate transparency and executive accountability (J. CREW).

J. Crew is one example of many companies nowadays engaging in high levels of CSR. Corporations "today are undertaking environmental and social efforts to complement traditional business activities, using these efforts as catalysts to improve

everything they do—from innovation and customer relationships to brand building and beyond. The results? Higher profits. Lower costs and risks. Increased shareholder value. Competitive advantage. And… a measurable positive impact on society and the planet" (Park and Koehler 2013). This emphasis on CSR has grown over the last 30 to 40 years. Abbott and Monsen (1979) found that 51.4% of *Fortune* 500 companies reported CSR disclosures in 1971 while 85.7% did so by 1975. The attention companies give to CSR in the 21st century has only increased since these findings. Beyond CSR disclosures, more and more companies are publishing annual CSR reports and posting CSR information on their websites. In a study consisting of 602 public and private firms from the U.S., Canada, Europe, Japan, and Australia, the amount of firms issuing CSR reports increased from 31% in 2009 to 40% in 2010. The percentage of corporations that display CSR information on their websites rose from 75% in 2009 to 81% in 2010. Plainly, CSR plays a larger role in firms nowadays than several decades ago (PricewaterhouseCoopers LLP and Craib Design & Communications).

Taking the stakeholder approach to CSR, it seems that companies have increased their level of CSR largely because stakeholder attitudes have changed. Between 1966 and 1975, stakeholders lost confidence in American institutional leadership (Abbott and Monsen 1979). Following this decline in confidence, the 2001 Enron and 2002 WorldCom scandals transpired, and the amount of corporate malpractice drastically increased (The Corporate Scandal Sheet). CSR serves as a means to restore diminished stakeholder confidence and trust in the market. Cone Communications' telephone study on 1,040 Americans illustrates stakeholders' recent augmented demand for CSR. While in March 2001 about 40% of Americans asserted that "A company's commitment to

social issues is important when I decide which stocks/mutual funds to invest in," around 66% of respondents agreed with this statement by July 2002. In this same timeframe, the percent of respondents agreeing that "A company's commitment to social issues is important when I decide which companies I want to see doing business in my community" increased from approximately 58% to 84% (Cone Communications). When taken as a whole, since CSR programs have become more valuable to stakeholders, corporations have placed a greater emphasis on CSR.

With CSR becoming more important to stakeholders and thus firms, understanding the CSR-CFP relationship has become crucial. Managers can use CSR-CFP information to make more informed decisions for their companies' CSR practices, allowing them to better assess their returns on CSR investment. While there is much research examining the general CSR-CFP relation, there is very little, if any, research that investigates the CSR-CFP association across industries. My study looks to see if this association differs between the consumer and nonconsumer sectors. I hypothesize that the relation between improved CSR and sales is negative for consumer firms and positive for nonconsumer firms. My results illustrate a negative relationship for both sectors, which can be attributed to the high price sensitivities of buyers of consumer goods. These price sensitivities are reflected in nonconsumer transactions because consumer companies buy their goods from nonconsumer firms. In addition, I forecast that the relation between improved CSR and gross profit is more positive for nonconsumer firms than for consumer firms, which is verified in my results. CSR's differential impact on gross profit can be explained through the lower price sensitivities of nonconsumer as compared to consumer buyers and, thus, the relatively inelastic demand in the nonconsumer sector.

CHAPTER 2: LITERATURE REVIEW

Stakeholders have recently increased their demand for CSR initiatives for two primary reasons: (1) to restore their decreased confidence and trust in the market after a high level of corporate malpractice as identified in Chapter 1 and (2) to "improve their own identity and reputation by identifying with a corporation's commitment to CSR initiatives" (Palmer 2012). This increased demand has led to an increase in CSR, leading one to think that these programs provide an enhanced economic return for companies. Although the majority of studies show this positive association, some research concludes otherwise. With an increase in CSR, some studies have shown CFP worsens or is not affected. After identifying several studies demonstrating these divergent relationships, I will summarize two studies illustrating ways in which CSR differs across industries. Finally, because my study looks at the differential impact of CSR on CFP for consumer and nonconsumer industries, I will examine differences in price sensitivities between these two sectors.

2.1 The CSR-CFP Relationship

2.1.1 A Null Association

Abbott and Monsen (1979) and Aupperle *et al.* (1985) found that CSR and CFP do not have a significant relationship, meaning a change in CSR does not substantially impact CFP. With a sample of 450 firms from the 1974 *Fortune 500*, Abbott and Monsen measured CSR via ratings from the Social Involvement Disclosures (SID) scale for the years 1964-1974. Firms with less than three CSR items on their annual reports from 1973 to 1974 were classified as not highly involved, and firms with more than three CSR items were categorized as highly involved. CFP was measured by total returns to investors.

After statistical analysis, they concluded that higher social involvement did not augment investors' total returns.

Aupperle *et al*. (1985) detected an insignificant CSR-CFP relationship after developing their own measure of CSR. In order to generate this CSR measurement, they sent out a survey to 818 CEOs in the *Forbes 1981 Annual Directory*. The survey contained four sets of 20 items that stated different ways to measure CSR. The four sets analyzed a distinct area of CSR—economic, legal, ethical, and philanthropic—and their content validity and reliability were confirmed via empirical tests. The 241 CEOs that responded to this survey assigned up to 10 points to each item, with a 10 indicating that item appropriately measured CSR. Once Aupperle *et al.* compiled these surveys and produced their CSR measure, they did not find a statistically significant relationship between CSR and CFP, measured using short-term (one-year) and long-term (five years) ROA.

There are number of reasons these two studies found a null relationship between CSR and CFP. First and foremost, there is no clear and accepted CSR measurement. As stated by Parket and Eilbirt (1975), "There are, as yet, no accounting techniques, analytical tools, or statistical methods which will objectively differentiate companies that are socially responsible from those that are not. To measure degrees of social responsibility would be an even more ethereal task." Second, confounding variables may exist and stakeholders may not be aware of companies' CSR initiatives. If firms do not successfully inform stakeholders of their CSR programs, then there is no way of determining if CSR influences stakeholders' decisions and., subsequently, companies' CFP (Ullmann 1985).

2.1.2 A Negative Association

The research of Vance (1975) and Lopez *et al*. (2007) demonstrated a negative association between CSR and CFP. Vance's study reexamined Moskowitz's (1972) previous CSR-CFP findings, one of the earliest discoveries in this area of research. Moskowitz looked at 14 socially responsible companies. He never explained why or how he chose these companies, which serves as a limitation. Nevertheless, as editor of the first issue of *Business and Society*, he advised investment in these "securities…on the basis of corporate behavior that can be considered socially responsive." Six months later, the stock prices went up by an average of 7.28%, as compared to the 4.4% increase for Dow-Jones, 5.1% increase for the New York Stock Exchange, and 6.4% increase for Standard and Poors Industrials. Because the stock prices of his suggested securities increased, Moskowitz concluded a positive relationship between CSR and CFP existed.

Vance challenged Moskowitz's simplistic exploratory research. Using the same sample, he extended the short timeframe analyzed from 1972 to 1975. Vance found that stock prices for all firms dropped and, in fact, much more than did the returns for Dow-Jones, New York Stock Exchange, and Standard and Poors. To further confirm the negative relationship between CSR and CFP, Vance looked at 95 companies whose level of CSR had been reported in *Business and Society Review* in 1974. While 45 companies' CSR ratings came from surveys completed by corporate staffers, 50 companies' CSR ratings came from business students' survey responses. With these ratings, Vance found a negative relationship between high socially responsible firms and CFP as measured by share price.

Lopez *et al*. (2007) did run regressions and, in the end, found a statistically significant negative CSR-CFP association. To come to this conclusion, they looked at two groups of 55 companies for two periods: 1999-2001 and 2002-2004. The first group of firms belonged to the Dow Jones Sustainability Index (DJSI) because they had implemented the necessary level of sustainability practices. The second group had not adopted sufficient sustainability initiatives and, as a result, did not belong to the DJSI. CSR was measured by whether or not the firms in this study belonged to the DJSI. CFP was measured using profit/loss before taxes. After controlling for size, risk, and industry, Lopez *et al*. (2007) found a negative relationship between CSR and CFP for both time periods. The explanation the researchers provided for this negative relationship, which Vance would support, was that CSR activity "involves a cost or reallocation of resources that negatively affects the firm's performance." They asserted, "The expenses can be greater than the incremental revenue that these measures generate."

2.1.3 A Positive Association

Finally, Heinz (1976) and Orlitzky *et al*. (2003) found a positive association between CSR and CFP. Heinz's sample consisted of 29 big companies, which served as his study's key limitation. He measured CSR using a reputational scale that was developed from business students' responses to a *Business and Society Review* CSR survey. His methodology for measuring CSR essentially mimicked the methodology Vance utilized in the second half of his study. Although they measured CSR similarly, Heinz found a significant positive association between CSR and return on equity (ROE). Factors contributing to these divergent results may include different time periods, companies in their sample, sample size, and measures of CFP.

The meta-analysis of 52 studies investigating the CSR-CFP relationship that Orlitzky *et al.* (2003) has conducted offers one of the most recent and comprehensive studies in this field. This study referred to CSR as corporate social performance (CSP). With 33,878 observations and a time period of 30 years, this meta-analytic review found that "corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off." Orlitzky *et al.* (2003) also discovered that CSR is more positively related to accounting rather than market measures of CFP. The researchers used the instrumental stakeholder theory, which maintains that meeting the interests and needs of a variety of stakeholders is instrumental for a corporation's financial success, as a way to explain this positive association (Donaldson and Preston 1995). With this theory in mind and the increasing demand of CSR by various stakeholders, it follows that CSR and CFP are positively associated (Orlitzky *et al.* 2003). When companies boost their CSR presence, they enhance their brand and reputation. This improved corporate image could provide them with the ability to boost their prices, attract better employees, increase their customer base, and decrease business risk. At the same time, CSR programs can decrease operating costs in the long-term (Palmer 2012).

2.2 CSR Differences Across Industries

Several studies have argued that studying CSR is incomplete and somewhat useless if industries are not accounted for because the dynamics of CSR are so distinct across industries. Sweeney and Coughlan (2011) and Robertson and Nicholson (1996) successfully illustrate how CSR differs across industries. Sweeney and Coughlan identified six potential stakeholders— customers, employees, suppliers, shareholders, the environment, and the community—and examined which stakeholders were addressed in

the annual and CSR reports of 28 FTSE4Good companies in December 2004. The FTSE4Good firms belonged to a stock market index based on certain CSR criteria and created by the FTSE Group, a wholly-owned subsidiary of the London Stock Exchange Group. The selected companies represented a broad range of industries, including financial services, pharmaceutical (medical), pharmaceutical (health & beauty), telecommunications, automobile, oil & gas, and retail. Upon analysis, they concluded "that the industry the firm operates within should have a significant effect on the stakeholders addressed in the firm's annual report." For example, while firms in the telecommunications industry indorsed CSR initiatives focused on customers and employees, those in the automobile industry spearheaded CSR programs geared towards the environment. On the other hand, corporations in financial services addressed customers, employees, and communities via CSR practices, and pharmaceutical firms promoted CSR activity focused on customers, employees, communities, and shareholders.

Robertson and Nicholson (1996) found that industry influences not only the type of CSR programs implemented but also how they are disclosed to the public. To reach these conclusions, they sent out a detailed survey asking questions regarding social responsibility disclosure to 1,000 CEOs. These CEOs were selected from a database according to their company's size and industry traits. In addition to the survey, they asked for "one example of a mission statement, annual report or other corporate communication dealing with these [social responsibility issues." Ultimately, 299 responded to the surveys and 118 of the 299 sent some type of firm document. All 299 companies analyzed belonged to the following industries: chemicals; construction; distribution and retail;

energy; engineering; financial services; food, drink and tobacco products; newspapers; pharmaceuticals; publishing; radio and television; textiles; water; and other services.

While chemical and pharmaceutical firms promoted employee-focused CSR initiatives (since their success depends on highly skilled workers), food, drink, and tobacco and newspaper industries advanced consumer-focused CSR programs, primarily via product quality. Also, a majority of firms in this study emphasized the environment as a stakeholder. However, companies in other industries such as the water industry had more extensive environment-focused CSR programs, and their disclosure was more specific. Rather than a generic statement such as "Our firm remains committed to safeguarding the environment while providing safe, secure, efficient, economic products to meet the needs of our customers," companies in environment-related industries would describe a more impactful, particular initiative in detail. In total, the two studies discussed show that companies tailor the area of CSR they focus on and the manner in which they report on CSR toward their respective industry's stakeholders.

2.3 Price Sensitivities

Since (1) it has been demonstrated that stakeholders and thus CSR differ across industries and (2) my study looks at the CSR-CFP relationship between consumer and nonconsumer industries, it is necessary to discuss the distinct price sensitivities of consumer and nonconsumer stakeholders, or buyers. The divergent price sensitivities are crucial to my hypotheses and conclusion. Although pricing dynamics for the nonconsumer sector is under-researched, it is a widely accepted microeconomics theory that consumer buyers are more price sensitive than nonconsumer buyers (Reid and Plank 2004). This means that demand for consumer goods is elastic: if prices go up for one

consumer firm, then the buyer can purchase less of that consumer firm's goods or buy essentially the same goods from another consumer company. Switching sellers is more difficult for nonconsumer companies, and thus demand for their products is more inelastic. If a nonconsumer corporation raises its prices, their buyers—who are consumer companies and other nonconsumer companies—will generally accept this price increase. This is partly due to the fact that nonconsumer consumers "use formalized, lengthy purchasing policies and processes" and typically buy infrequently in bulk. On the other hand, consumer buyers buy small quantities on a regular basis generally "on impulse or with minimal processes" (Brassington and Petitt 148). In sum, the consumer industry is characterized by a more elastic demand and more price sensitive buyers; the nonconsumer industry is characterized by a more inelastic demand and less price sensitive buyers.

CHAPTER 3: HYPOTHESES

As stated earlier, this study extends Palmer (2012) who analyzed the CSR-CFP relationship for 333 companies in the S&P 500 between 2001 and 2005. CFP was measured using the ratios sales/assets, sales/employees, and gross profit. I extend her research by examining the differential impact of CSR on CFP for consumer and nonconsumer firms. For consistency and comparability purposes, my study uses the same ratios to measure CFP.

Currently, there is minimal, if any, research that looks to see if the CSR-CFP relationship differs across industries. There is, however, research showing that the focus-area and disclosure of CSR programs depend on industries (Robertson and Nicholson 1996; Sweeney and Coughlan 2011). These industry differences have been attributed to stakeholder differences (Donaldson and Preston 1995). In line with the stakeholder theory discussed earlier, companies target their most important stakeholders in their CSR initiatives, whether they are customers, employees, or the environment to name a few. Taking into consideration these demonstrated industry differences, I hypothesize that CSR will have a differential impact on CFP for consumer and nonconsumer firms.

H1: The relationship between improved CSR and sales is negative for consumer firms and positive for nonconsumer firms.

The different price sensitivities and behaviors of buyers of consumer and nonconsumer goods help support this hypothesis. Buyers of consumer products are more price sensitive than those of nonconsumer products (Brassington and Petitt 148). As a result, when a consumer company spends money on CSR programs and consequently increases their goods' prices, some individuals will most likely (1) buy less of that good

or (2) buy the same amount of that good from another company. Both scenarios lead to decreased sales, but not necessarily a decrease in gross profit. I believe these price sensitivities should hold for both industries of the consumer sector: consumer staple and consumer discretionary. While people need staple goods (which include items such as food, beverages, and household items) to live, they may still choose to decrease the amount of staple goods they buy or switch vendors if the CSR premium gets too high. The demand for consumer discretionary goods is by nature more elastic than the demand for consumer staple goods. By definition, elastic demand is the result of high price sensitivities of buyers. Such dynamics would be supported by Palmer (2012), who found that "some customers are willing to pay a higher price for the products/services of socially responsible firms, but that fewer customers are willing to buy the products."

Further, I forecast that sales will actually increase for nonconsumer corporations as their CSR improves because their customer base (consumer and other nonconsumer firms) will increase. The foundation for this prediction is the importance of brand to corporations' success (AllBusiness.com) and the increased demand from consumer consumers for CSR programs (Cone Communications). In order to enhance their brand and thus consumer loyalty, I predict that consumer companies will buy more from nonconsumer companies with well-established CSR programs rather than those without such programs. J. Crew's Responsible Sourcing Program discussed in Chapter 1 is an excellent example of this hypothesized trend. J. Crew is a consumer company that ensures they do business with socially responsible nonconsumer firms. This transaction trickles down to their consumer transactions and thus financial success by improving their brand. Then, as consumer companies give more business to socially responsible

nonconsumer firms, nonconsumer firms will be compelled to do business with socially responsible nonconsumer companies as well. This domino effect will cause nonconsumer firms with higher levels of CSR to gain more of both consumer and nonconsumer customers. Subsequently, they will experience higher sales.

H2: The relationship between improved CSR and gross profit is more positive for nonconsumer firms than for consumer firms.

Before establishing this hypothesis, I confirmed that CSR and profitability, as measured by return on assets (ROA), are positively related for both consumer and nonconsumer companies (Table 1). That said, this positive relationship is insignificant for consumer companies and significant at the $p<0.05$ level for nonconsumer companies. Considering this positive association and Palmer's results, I recognized that CSR and gross profit are positively associated for both consumer and nonconsumer firms. That said, should H1 be true, the relationship between CSR and gross profit percentage should be more positive for nonconsumer firms: they are selling more goods at a higher price. Should H1 be false, I still believe that the relationship between improved CSR and gross profit percentage is more positive for nonconsumer firms than for consumer firms. This prediction is due to the nature of nonconsumer activity and the price sensitivities of nonconsumer buyers. Irrespective of how high prices go, nonconsumer buyers need the goods supplied by nonconsumer firms in order to manage their own business and make a profit. They do not have the option to completely stop buying from nonconsumer companies, unless they have gone bankrupt and are going out of business. Buyers of consumer products, on the other hand, do have this option. Because demand for nonconsumer products is more inelastic than for consumer products, for the same

increase in CSR, a nonconsumer corporation should experience a larger increase in gross profit than does a consumer company (Brassington and Petitt 148).

CHAPTER 4: METHODOLOGY

4.1 Sample Selection

The total sample is composed of 429 firms (Appendix 1) that belong to the MSCI ESG (Environmental, Social, and Governance) STATS 2000-2004 data set, which will be further explained in section 4.2, and whose 2001-2005 financial data was available on the financial database COMPUSTAT. (In order to investigate how improved CSR relates to CFP, 2000-2004 CSR data and 2001-2005 CFP data were evaluated.) As an extension of Palmer (2012), this study analyzed only the S&P 500 corporations from the full dataset. While Palmer narrowed her dataset by eliminating companies without ESG data for all the years in the investigated time frame, my study kept these firms. Since this study is relational rather than longitudinal, it made sense to keep these firms.

The 429 firms were divided into consumer and nonconsumer groups based on their global industry classification (GIC) developed by MSCI. The consumer group consisted of 96 companies (31 consumer discretionary firms and 65 consumer staple firms); the nonconsumer group consisted of 333 companies. Table 2 displays the sub-industries in these consumer and nonconsumer groups, as well as their CSR descriptive statistics. With these groups, I investigate the differential impact of CSR on CFP for consumer versus nonconsumer companies.

4.2 Independent, Dependent, and Control Variables

For both hypotheses, CSR serves as the independent variable. CSR is measured using the MSCI ESG STATS database, which is considered one of the most comprehensive measurements of CSR. This database accounts for a variety of CSR initiatives using a number of different sources. CSR is divided into seven categories:

environment, community, human rights, employee relations, diversity, product, and governance. If sources illustrate CSR involvement in a certain category, companies receive a 1 in that category; if they show a lack of CSR involvement, that category is allotted a 0. The sources evaluated to come to these conclusions include corporate documents (i.e. annual reports and CSR reports), internal CSR surveys from companies' investor-relations departments, external CSR surveys, and press reports to name a few (Waddock and Graves 1997).

Beyond considering CSR strengths, the MSCI ESG Index investigates CSR weaknesses to control for the criticism that CSR programs are implemented to conceal their unethical practices from important stakeholders. If CSR weaknesses are detected, companies are assigned a 1 in the respective categories; if weaknesses are not detected, companies are assigned a 0. I also took into consideration CSR strengths and weaknesses in my CSR measure by creating a total CSR score that equals 100 plus CSR strengths minus CSR weaknesses. A base of 100 was necessary in order to avoid negative CSR scores.

The dependent variable—CFP—is measured in three different ways: sales/assets, sales/employees, and gross profit percentage. These ratios were chosen for consistency in extending Palmer (2012). At the same time, I was particularly interested in examining the association between CSR and sales because there is less information on this relationship as compared to the CSR-profitability relationship. Most past CSR-CFP studies have used return on assets (ROA), return on sales (ROS), and return on equity (ROE) to measure CFP. Both my study and Palmer (2012) look into a different area of CFP.

In order to test my hypotheses, I created an indicator variable that separated my companies into their consumer and nonconsumer groups. An additional indicator variable was used to distribute the consumer group into consumer staple and consumer discretionary sub-industries. By making this second indicator variable, later statistical analysis could determine if CSR affected the sub-industries of the consumer sector differently. Before running statistical tests, I normalized total CSR scores and control variables. The control variables included long-term debt/total assets, total sales, and number of employees. While long-term debt/total assets and controlled for company risk, total sales and number of employees controlled for company size. Company size is a crucial variable to control for because large companies have bigger budgets and resources than small companies. As a result, it is common for big-sized companies to engage in more CSR activities (Udayasankar 2007). Both the total CSR scores and control variables are lagged in the H1 and H2 regression models, displayed in section 4.3.

4.3 Statistical Analysis

As stated in section 4.1, my statistical analysis used 2000-2004 CSR data to form the independent variable and 2001-2005 CFP data to construct the dependent and control variables. Using lagged CSR data was necessary to assess how improved CSR is associated with CFP. To determine if improved CSR is negatively related to sales for consumer firms and positively related to sales for nonconsumer firms, the H1 model displayed on the next page was used. CFP was measured using the ratios sales/assets and sales/employees. I ran this regression four times for the four industry groups I initially created: consumer, consumer staple, consumer discretionary, and nonconsumer. The results are shown in Table 4**.**

H1 Model:

$$\Delta CFP_t = \beta_0 + CSR\ Score_{t-1} + Controls\ Variables_{t-1} + \varepsilon_t$$

For both H1 and H2, I generated an interaction variable with the nonconsumer dummy variable and lagged CSR score. This new independent variable and nonconsumer dummy variable were added to the original H1 model, as displayed in the new H2 model below. With CFP being measured by sales/assets, sales/employees, and gross profit percentage, the marginal effect of CSR on these three CFP measurements for consumer versus nonconsumer firms could be analyzed. Thus, this updated model could effectively evaluate if the relationship between improved CSR and gross profit percentage is more positive for nonconsumer than consumer companies, as predicted in H2. The results are shown in Table 5.

H2 Model:

$$\Delta CFP_t = \beta_0 + CSR\ Score_{t-1} + Nonconsumer\ Dummy_{t-1} +$$
$$(Nonconsumer\ Dummy_{t-1} \times CSR\ Score_{t-1}) + Controls\ Variables_{t-1} + \varepsilon_t$$

CHAPTER 5: RESULTS AND DISCUSSION

Descriptive statistics for the consumer and nonconsumer sectors, as well as for the complete 429 sample are displayed in Table 3. To see the industries in the consumer and nonconsumer sectors along with their average, minimum, and maximum CSR score, refer back to Table 2. A CSR score below 100 indicates more CSR weaknesses than strengths while a CSR score above 100 indicates more CSR strengths than weaknesses. When looking at the consumer staple industry, only one out of the three sub-industries—household products—has a CSR score above 100. For consumer discretionary, this amount increases to three out of the five sub-industries, or 60%. Finally, for the nonconsumer sector, the number of sub-industries with a CSR greater than 100 is four out of eight, or 50%. Ultimately, the range of minimum, average, and maximum CSR scores across the industries illustrates the industry effect on the implementation of CSR programs.

Returning to the correlation matrices presented in Table 1, they not only confirm the positive relationship between CSR and ROA, which was vital for developing H2, but also provide useful information for analyzing the association between CSR and sales/assets, sales/employees, and gross profit percentage for the nonconsumer and consumer sectors. For consumer firms, improved CSR is negatively associated with sales/employees at the $p < 0.05$ level and positively associated with gross profit percentage at the $p < 0.05$ level. The relationship between CSR and sales/assets is negative and insignificant. Although CSR and the CFP variables are related in the same direction for nonconsumer companies as they are for consumer companies, the association is more significant for nonconsumer companies. For nonconsumer firms,

improved CSR is negatively related to sales/assets and sales/employees at the $p < 0.001$ level and positively related to gross profit at the $p < 0.001$ level.

Regarding the regression analysis, Table 4 and Table 5 show that some support was found for H1, and Table 5 alone demonstrates that support was found for H2.

H1: The relationship between improved CSR and sales is negative for consumer firms and positive for nonconsumer firms.

Table 4 shows that the relationship between CSR and sales is negative for both consumer and nonconsumer companies. For consumer companies, a 10-point increase in CSR score (i.e. 95 to 105) leads to a decrease in $6.81 of sales per employee in a year at the $p < 0.01$ level. The relationship between CSR and sales/assets for consumer companies is negative but insignificant. This can be attributed to the fact that the CSR-sales/assets relationship is positive for consumer staple firms and negative for consumer discretionary firms. Regarding nonconsumer companies, both sales ratios are negatively related to improved CSR at the $p < 0.001$ level. While a 10-point increase in CSR score leads to a 2.8% decrease in sales for every dollar in assets, this same increase leads to a decrease in $15.82 of sales per employee in a year. In the end, the regressions involving the interaction variable show that the negative relationship between CSR and sales/employees is not significantly different between consumer and nonconsumer companies (Table 5).

With both consumer and nonconsumer sectors experiencing a negative relationship between CSR and sales, the price sensitivity argument presented earlier for the consumer case holds while the corporate branding argument for the nonconsumer case does not. To recap the consumer scenario, buyers of consumer goods are more price

sensitive than buyers of nonconsumer goods. As a result, when consumer corporations raise prices in order to fund CSR initiatives, many of their buyers will either (1) buy less of that good or (2) buy the same amount of that good from another firm. Both actions beget fewer sales for these consumer companies.

With regards to the nonconsumer sector, I originally proposed that improved CSR is positively related to sales because the customer base of socially responsible nonconsumer companies would increase. This increase would be due to the heightened importance of CSR to buyers of consumer goods. In response to these buyers' augmented CSR demand, consumer companies would buy from more socially responsible nonconsumer corporations to improve their brand and, thus, customer relations. As consumer companies do more business with socially responsible nonconsumer corporations, nonconsumer companies would also do more business with nonconsumer firms highly involved in CSR. However, my results show a negative association between CSR and sales for the nonconsumer sector. This negative CSR-sales relationship suggests that although those who buy consumer products have claimed that they greatly value CSR in making buying decisions, their actions demonstrate otherwise. The price sensitivities discussed for the first part of H1 override these individuals' social interest.

The world's largest retailer, Walmart, successfully exemplifies that many consumers value low prices more than slightly higher prices in return for CSR. For many years, Walmart has come under scrutiny for CSR mishaps. The Los Angeles Alliance for a New Economy (LAANE), an organization established in 1993 essentially to promote CSR in economic and business endeavors, identified some of these mishaps. LAANE discovered that employees of Walmart receive salaries that are 20% lower than that of the

average retailer worker. Also, while about 67% of employees working for large employers like Walmart are enrolled in health insurance plans, less than half of Walmart employees are registered for such plans. Even more, as stated by UC Berkeley labor policy specialist Steven Pitts who participated in LAANE's Walmart investigation, "Our research found that when Wal-Mart comes into any area, it reduces earnings of the community by 1.3% and the worst affected are black workers and others of color" (as cited in Gogoi). All these CSR weaknesses considered, Walmart still remains the world's largest retailer with the slogan "Save Money. Live Better."

With the actions of consumer goods' buyers placing more weight on lower prices rather than CSR, CSR may not have as big of an impact on corporate brand as one may think. Consequently, consumer companies may not feel compelled to pay more to do business with socially responsible nonconsumer firms. As consumer companies do less business with nonconsumer firms engaged in high levels of CSR, nonconsumer companies will buy less from socially responsible nonconsumer companies in order to save money. This in turn, will cause the customer base of the nonconsumer sector –which includes consumer and other nonconsumer companies—to decrease.

H2: The relationship between improved CSR and gross profit is more positive for nonconsumer firms than for consumer firms.

Although limited support was found for H1, overwhelming support was found for H2. As demonstrated in Table 5, the relationship between CSR and gross profit percentage is 0.014 more positive for nonconsumer corporations as compared to consumer firms at the $p < 0.001$ level. Because the results for H1 revealed a negative association between CSR and sales for the nonconsumer sector, this more positive CSR-

gross profit relationship cannot be due to increased sales. Instead, this difference can be attributed to the price sensitivities of nonconsumer companies' buyers and the nature of the nonconsumer industry's activity. Buyers of nonconsumer products are less price sensitive than buyers of consumer products because their businesses cannot function without goods bought from other nonconsumer firms and because they have a larger budget (Brassington and Petitt 148). Nonconsumer companies can therefore charge higher CSR premiums than can consumer companies. At the same time, even if the CSR premium charged by consumer and nonconsumer companies is the same, nonconsumer companies should lose fewer customers than consumer firms because consumer firms' buyers can more freely decide to buy less of certain goods, or even stop buying goods outright. As stated earlier, those who buy from nonconsumer corporations cannot behave in this manner because they need a certain level of goods for business operations. They are also typically locked into long-term contracts, and switching suppliers can often be a costly, complicated process. The ability of nonconsumer companies to charge higher CSR premiums and lose less customers in charging these premiums results in a more positive CSR-gross profit relationship for nonconsumer rather than consumer corporations.

A couple of H1 and H2 sensitivity tests came to similar conclusions. Because the discussed results normalized the total CSR scores and control variables, the first sensitivity test looked at the H1 and H2 models without normalizing these variables. In the H1 model, the direction and significance of the relationship between CSR and sales/assets are identical for the consumer and nonconsumer sectors with or without normalization. While the direction of the association between CSR and sales/employees

was the same for the consumer and nonconsumer industries, the significance levels were different. The consumer industry's normalized results were at the $p < 0.01$ level and not normalized results were at the $p < 0.001$ level; the nonconsumer industry's normalized results were at the $p < 0.001$ and not normalized results were at the $p < 0.01$ level. In addition, the H2 model without normalization found that the relationship between CSR and gross profit percentage is 0.013 more positive for nonconsumer companies as compared to consumer corporations at the $p < 0.01$ level. When compared to the normalized results, the direction of the relationship is the same while the significance level is slightly lower.

The second sensitivity test eliminated all companies that did not have CSR data from the MSCI ESG Index for the entire timeframe of 2000 to 2004 and returned to normalizing the total CSR scores and control variables. Despite the fact that this study is relational and not longitudinal, Palmer (2012) removed these firms from her study and, thus, I wanted to investigate the effects of doing so in my research. Regarding H1, the direction and significance of the relationship between CSR and the two sales measurements are the same for the consumer and nonconsumer groups under the conditions of this sensitivity test as compared to the conditions of my research. The only exception is the relationship between CSR and sales/employees in the nonconsumer sector. While my study found that a 10-point increase in CSR score leads to a decrease in \$15.82 of sales per employee in a year at the $p < 0.001$ level for the nonconsumer industry, this sensitivity test calculated an insignificant decrease in \$3.93 of sales per employee in a year. Finally, like the H2 model without normalization, this H2 model with normalization and a narrowed sample found that the relationship between CSR and

gross profit percentage is 0.013 more positive for nonconsumer companies as compared to consumer corporations at the $p < 0.01$ level. Taking both sensitivity tests into consideration, my study's results and conclusions are robust to alternative assumptions.

CHAPTER 6: CONCLUSION

When taken as a whole, my study shows that CSR has a differential impact on CFP for consumer and nonconsumer industry sectors. While the CSR-sales relationship is negative for consumer and nonconsumer companies, the CSR-gross profit association is more positive for nonconsumer than consumer firms. The negative CSR-sales association for consumer companies can be explained by the high price sensitivities of these corporations' buyers. When consumer firms increase their prices in order to fund their CSR programs, individuals will either (1) buy less of that good or (2) buy the same amount of that good from another company. Although recent surveys and studies have shown that CSR is becoming increasingly important to consumers' buying decisions, my results suggest otherwise. It seems that these buyers' price sensitivities override their desire for CSR. Perhaps, then, consumer companies' brands may not benefit from CSR programs as much as many think. Subsequently, consumer firms may be doing business with less socially responsible nonconsumer firms in order to save money. This dynamic can cause less nonconsumer firms to buy from other nonconsumer companies with high CSR premiums attached to their goods, leading to a decrease in consumer and nonconsumer customers for socially responsible nonconsumer corporations.

Though sales decrease for consumer and nonconsumer companies as their CSR improves, gross profit for both types of firms increases. The relationship between improved CSR and gross profit is more positive for nonconsumer than consumer companies. The greater magnitude of this increase cannot be due to increased sales, as originally predicted. Instead, the more positive CSR-gross profit relationship can be attributed to the inelastic demand of nonconsumer products as compared to the elastic

demand of consumer companies' goods. Due to these elasticity differences, more buyers of nonconsumer than consumer products will accept a CSR premium. Even more, nonconsumer companies should be able to charge a higher CSR premium. Therefore, the gross profit of nonconsumer firms benefits more from improved CSR than does the gross profit of consumer firms.

These conclusions contribute to prior studies examining the CSR-CFP relationship, which is an area of research that provides valuable information to managers who make funding decisions for their companies' CSR programs. Many of these studies have investigated the general impact of CSR on CFP using a number of measurements for these two variables. This study extends past research by looking at the industry effect of CSR on CFP. The results from this research suggest that the association between improved CSR and CFP does differ across industries. Nonconsumer corporations benefit more from CSR programs that consumer firms. Although both sectors experience decreased sales with improved CSR, the nonconsumer sector experiences a greater degree of improved profitability with increases in CSR than does the consumer sector. This is due to the fact that nonconsumer companies can charge higher CSR premiums or lose fewer customers as they charge these premiums than do consumer firms, or both.

While this study has shown the divergent CSR-CFP association based on industry (the consumer and nonconsumer sectors), breaking down these sectors into more narrow industries would be an interesting topic for future research. Another aspect of the CSR-CFP that needs to be further analyzed is the immediate impact of CSR on CFP versus the long-term effect. It would also be worthwhile to see if certain types of CSR reporting have a more substantial impact on CFP, as well as to control for transparency when

studying the CSR-CFP association. Finally, this field of research would greatly benefit from a clearer, more universal measure of CSR by enhancing the validity and comparability of studies. Hence, while informative research exists on the relationship between CSR and CFP, there are still more questions concerning this relationship that need to be answered.

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Appendix 1: Sample

	Company Name	Ticker
1	Agilent Technologies, Inc.	A
2	Alcoa, Inc.	AA
3	Apple Computer, Inc.	AAPL
4	AmeriSourceBergen Corporation	ABC
5	Abbott Laboratories	ABT
6	Ace Limited	ACE
7	Affiliated Computer Services, Inc.	ACS
8	Alberto-Culver Company	ACV
9	Adobe Systems Incorporated	ADBE
10	ADC Telecommunications, Inc.	ADCT
11	Analog Devices, Inc.	ADI
12	Archer-Daniels-Midland Company	ADM
13	Automatic Data Processing, Inc.	ADP
14	Autodesk, Inc.	ADSK
15	Ameren Corporation	AEE
16	American Electric Power Company, Inc.	AEP
17	AES Corporation	AES
18	Aetna, Inc.	AET
19	AFLAC, Inc.	AFL
20	Allergan, Inc.	AGN
21	American International Group, Inc.	AIG
22	Apartment Investment And Management Company	AIV
23	Allstate Corporation (The)	ALL
24	Altera Corporation	ALTR
25	American Greetings Corporation	AM
26	Applied Materials, Inc.	AMAT
27	Applied Micro Circuits Corporation	AMCC
28	Advanced Micro Devices, Inc.	AMD
29	Amgen Inc.	AMGN
30	AutoNation, Inc.	AN
31	Andrew Corporation	ANDW
32	Apache Corporation	APA
33	Anadarko Petroleum Corporation	APC
34	Air Products & Chemicals, Inc.	APD
35	Ashland Inc.	ASH
36	Archstone-Smith Trust	ASN
37	Allegheny Technologies Incorporated	ATI
38	Avon Products, Inc.	AVP
39	Avery Dennison Corporation	AVY
40	Allied Waste Industries, Inc.	AW

41	American Express Company	AXP
42	Allegheny Energy, Inc.	AYE
43	AutoZone, Inc.	AZO
44	Boeing Company	BA
45	Bank of America Corporation	BAC
46	Baxter International, Inc.	BAX
47	Bed Bath & Beyond, Inc.	BBBY
48	BB&T Corporation	BBT
49	Best Buy Company, Inc.	BBY
50	Brunswick Corporation	BC
51	Bard (C.R.), Inc.	BCR
52	Black & Decker Corporation	BDK
53	Becton Dickinson and Company	BDX
54	Franklin Resources, Inc.	BEN
55	Biogen, Inc.	BGEN
56	Baker Hughes Inc.	BHI
57	Biogen Idec Inc.	BIIB
58	BJ Services Company	BJS
59	Bank of New York Company, Inc. (The)	BK
60	Ball Corporation	BLL
61	BellSouth Corporation	BLS
62	BMC Software, Inc.	BMC
63	Bemis Company, Inc.	BMS
64	Bristol-Myers Squibb Company	BMY
65	Broadcom Corporation	BRCM
66	Boston Scientific Corporation	BSX
67	Citigroup Inc.	C
68	Computer Associates International, Inc.	CA
69	ConAgra Foods, Inc.	CAG
70	Cardinal Health, Inc.	CAH
71	Caterpillar Inc.	CAT
72	Chubb Corporation	CB
73	Cooper Industries, Inc.	CBE
74	Compass Bancshares, Inc.	CBSS
75	Coca-Cola Enterprises Inc.	CCE
76	Carnival Corporation, Inc.	CCL
77	Clear Channel Communications, Inc.	CCU
78	Constellation Energy Group	CEG
79	Chiron Corporation	CHIR
80	CIGNA Corporation	CI
81	CIENA Corporation	CIEN
82	Cincinnati Financial Corporation	CINF
83	CIT Group, Inc.	CIT

84	Colgate-Palmolive Company	CL
85	Clorox Company	CLX
86	Comerica Incorporated	CMA
87	Comcast Corporation	CMCSA
88	Cummins, Inc.	CMI
89	CMS Energy Corporation	CMS
90	Comverse Technology, Inc.	CMVT
91	CenterPoint Energy, Inc.	CNP
92	Conexant Systems, Inc.	CNXT
93	Capital One Financial Corporation	COF
94	Coach, Inc.	COH
95	Rockwell Collins	COL
96	ConocoPhillips	COP
97	Costco Wholesale Corporation	COST
98	Campbell Soup Company	CPB
99	Calpine Corporation	CPN
100	Compuware Corporation	CPWR
101	Crane Co.	CR
102	Computer Sciences Corporation	CSC
103	Cisco Systems, Inc.	CSCO
104	CSX Corporation	CSX
105	Cintas Corporation	CTAS
106	Cooper Tire and Rubber Company	CTB
107	CenturyTel, Inc.	CTL
108	Citrix Systems, Inc.	CTXS
109	Convergys Corporation	CVG
110	CVS Corporation	CVS
111	ChevronTexaco Corporation	CVX
112	Dominion Resources, Inc.	D
113	Delta Air Lines, Inc.	DAL
114	DuPont Company	DD
115	Dillard's, Inc.	DDS
116	Deere & Company	DE
117	Dell Computer Corporation	DELL
118	Dollar General Corporation	DG
119	Quest Diagnostics, Inc.	DGX
120	Danaher Corporation	DHR
121	Disney, Walt Company (The)	DIS
122	Dow Jones & Company	DJ
123	Deluxe Corporation	DLX
124	Dover Corporation	DOV
125	Dow Chemical Company	DOW
126	Darden Restaurants, Inc.	DRI

127	DTE Energy Company	DTE
128	Duke Energy Corporation	DUK
129	Devon Energy Corporation	DVN
130	Dynegy Inc.	DYN
131	eBay, Inc.	EBAY
132	Ecolab Inc.	ECL
133	Consolidated Edison Inc.	ED
134	Equifax Inc.	EFX
135	Edison International	EIX
136	EMC Corporation	EMC
137	Eastman Chemical Company	EMN
138	Emerson Electric Co.	EMR
139	EOG Resources, Inc.	EOG
140	Equity Office Properties Trust	EOP
141	El Paso Corporation	EP
142	Equity Residential	EQR
143	Express Scripts, Inc.	ESRX
144	Eaton Corporation	ETN
145	Entergy Corp.	ETR
146	Exelon Corporation	EXC
147	Ford Motor Company	F
148	FleetBoston Financial Corp	FBF
149	Freeport-McMoRan Copper & Gold Inc.	FCX
150	Family Dollar Stores	FDO
151	FedEx Corporation	FDX
152	FirstEnergy Corporation	FE
153	First Horizon National Corporation	FHN
154	Federated Investors, Inc.	FII
155	Fiserv, Inc.	FISV
156	Fifth Third Bancorp	FITB
157	Fluor Corporation	FLR
158	Forest Laboratories, Inc.	FRX
159	NICOR Inc.	GAS
160	Gannett Co., Inc.	GCI
161	General Dynamics Corporation	GD
162	Guidant Corporation	GDT
163	Golden West Financial	GDW
164	General Electric Company	GE
165	Genzyme Corporation	GENZ
166	Gilead Sciences, Inc.	GILD
167	General Mills Incorporated	GIS
168	Corning Incorporated	GLW
169	General Motors Corporation	GM

170	Genuine Parts Company	GPC
171	Gap, Inc. (The)	GPS
172	Goodrich Corporation	GR
173	Goldman Sachs Group, Inc. (The)	GS
174	Goodyear Tire & Rubber Co.	GT
175	Gateway, Inc.	GTW
176	Grainger (W.W.), Inc.	GWW
177	Halliburton Company	HAL
178	Hasbro, Inc.	HAS
179	Huntington Bancshares, Inc.	HBAN
180	HCA Inc.	HCA
181	Manor Care, Inc.	HCR
182	Home Depot, Inc.	HD
183	Hartford Financial Services Group (The)	HIG
184	Hilton Hotels Corporation	HLT
185	Health Management Associates, Inc.	HMA
186	Heinz (H.J.) Company	HNZ
187	Honeywell International, Inc.	HON
188	Starwood Hotels and Resorts Worldwide, Inc.	HOT
189	Hercules Incorporated	HPC
190	Hewlett-Packard Company	HPQ
191	Block (H&R), Inc.	HRB
192	HealthSouth Corporation	HRC
193	Hospira, Inc.	HSP
194	Hershey Foods Corporation	HSY
195	Humana Inc.	HUM
196	International Business Machines Corporation	IBM
197	International Flavors & Fragrances Inc.	IFF
198	International Game Technology	IGT
199	Intel Corporation	INTC
200	Intuit, Inc.	INTU
201	International Paper Company	IP
202	Interpublic Group of Companies, Inc.	IPG
203	Ingersoll-Rand Company	IR
204	ITT Industries, Inc.	ITT
205	Illinois Tool Works Inc.	ITW
206	Jabil Circuit, Inc.	JBL
207	Johnson Controls, Inc.	JCI
208	Penney (J.C.) Company, Inc.	JCP
209	JDS Uniphase Corporation	JDSU
210	John Hancock Financial Services	JHF
211	Johnson & Johnson	JNJ
212	Janus Capital Group, Inc.	JNS

213	Jones Apparel Group, Inc.	JNY
214	Jefferson-Pilot Corporation	JP
215	Morgan (J.P.) Chase & Company	JPM
216	Nordstrom, Inc.	JWN
217	Kellogg Company	K
218	KB Home	KBH
219	KeyCorp	KEY
220	King Pharmaceuticals, Inc.	KG
221	KLA-Tencor Corporation	KLAC
222	Kimberly-Clark Corporation	KMB
223	Kerr-McGee Corporation	KMG
224	Kinder Morgan, Inc.	KMI
225	Coca-Cola Company	KO
226	Kroger Co.	KR
227	MBNA Corporation	KRB
228	Knight Ridder	KRI
229	KeySpan Corporation	KSE
230	Kohl's Corporation	KSS
231	Leggett & Platt, Inc.	LEG
232	Laboratory Corporation of America Holdings	LH
233	L-3 Communications Holdings, Inc.	LLL
234	Linear Technology Corp.	LLTC
235	Lilly (Eli) and Company	LLY
236	Lockheed Martin Corporation	LMT
237	Lincoln National Corporation	LNC
238	Lowe's Companies, Inc.	LOW
239	Louisiana-Pacific Corporation	LPX
240	LSI Logic Corporation	LSI
241	Limited, Inc. (The)	LTD
242	Lucent Technologies, Inc.	LU
243	Southwest Airlines Co.	LUV
244	Lexmark International, Inc.	LXK
245	Marriott International, Inc.	MAR
246	Masco Corporation	MAS
247	Mattel, Inc.	MAT
248	MBIA Inc.	MBI
249	McDonald's Corporation	MCD
250	McKesson Corporation	MCK
251	Moody's Corporation	MCO
252	Meredith Corporation	MDP
253	McDermott International, Inc.	MDR
254	Medtronic, Inc.	MDT
255	MedImmune, Inc.	MEDI

256	Mercury Interactive Corporation	MERQ
257	Metlife, Inc.	MET
258	Medco Health Solutions, Inc.	MHS
259	McCormick & Company, Inc.	MKC
260	Marsh & McLennan Companies, Inc.	MMC
261	Minnesota Mining and Manufacturing Company	MMM
262	Monster Worldwide, Inc.	MNST
263	Altria Group, Inc.	MO
264	Molex Incorporated	MOLX
265	Monsanto Company	MON
266	Merck & Co., Inc.	MRK
267	Marathon Oil Corporation	MRO
268	Microsoft Corporation	MSFT
269	M&T Bank Corporation	MTB
270	MGIC Investment Corporation	MTG
271	Micron Technology, Inc.	MU
272	MeadWestvaco Corporation	MWV
273	Maxim Integrated Products, Inc.	MXIM
274	Mylan Laboratories, Inc.	MYL
275	Navistar International Corporation	NAV
276	Nabors Industries, Ltd.	NBR
277	National City Corporation	NCC
278	NCR Corporation	NCR
279	Noble Corporation	NE
280	Newmont Mining Corporation	NEM
281	North Fork Bancorporation, Inc.	NFB
282	NiSource, Inc.	NI
283	NIKE, Inc.	NKE
284	Northrop Grumman Corporation	NOC
285	Novell, Inc.	NOVL
286	Norfolk Southern Corporation	NSC
287	Network Appliance, Inc.	NTAP
288	Northern Trust Corporation	NTRS
289	Nucor Corporation	NUE
290	NVIDIA Corporation	NVDA
291	Novellus Systems, Inc.	NVLS
292	Newell Rubbermaid, Inc.	NWL
293	Nextel Communications, Inc.	NXTL
294	New York Times Company	NYT
295	Office Depot, Inc.	ODP
296	Omnicom Group Inc.	OMC
297	OfficeMax, Inc.	OMX
298	Oracle Corporation	ORCL

299	Occidental Petroleum Corporation	OXY
300	Palm, Inc.	PALM
301	Paychex, Inc.	PAYX
302	Pepsi Bottling Group, Inc.	PBG
303	Pitney Bowes Inc.	PBI
304	PACCAR, Inc.	PCAR
305	PG&E Corporation	PCG
306	Plum Creek Timber Co. Inc.	PCL
307	Phelps Dodge Corporation	PD
308	Placer Dome Inc.	PDG
309	Public Service Enterprise Group, Incorporated	PEG
310	PepsiCo, Inc.	PEP
311	Pfizer, Inc.	PFE
312	Principal Financial Group, Inc.	PFG
313	Procter & Gamble Company	PG
314	Progress Energy, Inc.	PGN
315	Progressive Corporation (The)	PGR
316	Parker-Hannifin Corporation	PH
317	Pulte Homes, Inc.	PHM
318	PerkinElmer, Inc.	PKI
319	ProLogis	PLD
320	Pall Corporation	PLL
321	PMC-Sierra, Inc.	PMCS
322	Parametric Technology Corporation	PMTC
323	PNC Financial Services Group	PNC
324	Pinnacle West Capital Corporation	PNW
325	PPG Industries, Inc.	PPG
326	PP&L Corporation	PPL
327	Prudential Financial, Inc.	PRU
328	Pactiv Corporation	PTV
329	Providian Financial Corporation	PVN
330	Power-One, Inc.	PWER
331	Praxair, Inc.	PX
332	Qualcomm Inc.	QCOM
333	QLogic Corporation	QLGC
334	Ryder System, Inc.	R
335	Reynolds American, Inc.	RAI
336	Reebok International Ltd.	RBK
337	Rowan Companies, Inc.	RDC
338	Regions Financial Corp	RF
339	Robert Half International, Inc.	RHI
340	Transocean Sedco Forex, Inc.	RIG
341	Rohm and Haas Company	ROH

342	Rockwell Automation, Inc.	ROK
343	Donnelley (R.R.) & Sons Company	RRD
344	RadioShack Corporation	RSH
345	Raytheon Company	RTN
346	Sears, Roebuck and Co.	S
347	Sanmina-SCI Corporation	SANM
348	Sapient Corporation	SAPE
349	Starbucks Corporation	SBUX
350	Siebel Systems, Inc.	SEBL
351	Sealed Air Corporation	SEE
352	Schering-Plough Corporation	SGP
353	Sherwin-Williams Company (The)	SHW
354	Sigma-Aldrich Corporation	SIAL
355	Schlumberger N.V.	SLB
356	SLM Corporation	SLM
357	Solectron Corporation	SLR
358	Snap-on Incorporated	SNA
359	Synovus Financial Corp.	SNV
360	Southern Company	SO
361	SouthTrust Corporation	SOTR
362	Simon Property Group, Inc.	SPG
363	Staples, Inc.	SPLS
364	Sempra Energy	SRE
365	SunTrust Banks, Inc.	STI
366	St. Jude Medical, Inc.	STJ
367	State Street Corporation	STT
368	Sunoco, Inc.	SUN
369	SUPERVALU Inc.	SVU
370	Stanley Works (The)	SWK
371	Safeway Inc.	SWY
372	Stryker Corporation	SYK
373	Symantec Corporation	SYMC
374	SYSCO Corporation	SYY
375	AT&T Corp.	T
376	TECO Energy, Inc.	TE
377	Teradyne, Inc.	TER
378	Target Corporation	TGT
379	Tenet Healthcare Corporation	THC
380	Tiffany & Company	TIF
381	Temple-Inland Inc.	TIN
382	TJX Companies, Inc.	TJX
383	Tellabs, Inc.	TLAB
384	Torchmark Corporation	TMK

385	Thermo Electron Corporation	TMO
386	Thomas & Betts Corporation	TNB
387	T. Rowe Price Group, Inc.	TROW
388	Tupperware Corporation	TUP
389	Time Warner, Inc.	TWX
390	Texas Instruments Incorporated	TXN
391	Textron Inc.	TXT
392	Tyco International Ltd.	TYC
393	Unocal Corporation	UCL
394	Unisys Corporation	UIS
395	UnitedHealth Group, Inc.	UNH
396	UnumProvident Corp.	UNM
397	Union Pacific Corporation	UNP
398	United Parcel Service, Inc.	UPS
399	U.S. Bancorp	USB
400	United Technologies Corporation	UTX
401	Visteon Corporation	VC
402	VF Corporation	VFC
403	Valero Energy Corporation	VLO
404	Vulcan Materials Company	VMC
405	Verizon Communications	VZ
406	Walgreen Company	WAG
407	Waters Corporation	WAT
408	Wachovia Corporation	WB
409	Wendy's International, Inc.	WEN
410	Wells Fargo & Company	WFC
411	Whirlpool Corporation	WHR
412	WellPoint Health Networks, Inc.	WLP
413	Washington Mutual, Inc.	WM
414	Williams Companies, Inc.	WMB
415	Wal-Mart Stores, Inc.	WMT
416	Worthington Industries, Inc.	WOR
417	Wrigley (Wm.) Jr. Company	WWY
418	Weyerhaeuser Company	WY
419	Wyeth	WYE
420	United States Steel Corporation	X
421	Xcel Energy, Inc.	XEL
422	XL Capital, Ltd.	XL
423	Xilinx, Inc.	XLNX
424	Exxon Mobil Corporation	XOM
425	Xerox Corporation	XRX
426	Yahoo! Inc.	YHOO
427	TRICON Global Restaurants, Inc.	YUM

428	Zions Bancorporation	ZION
429	Zimmer Holdings, Inc.	ZMH

Appendix 2: Tables

Table 1: Correlation matrices of 2001-2005 financial data with one-year lagged CSR data and financial controls.

All Firms

	Sales/A	Sales/Emp	Gross Profit	ROA	Lag CSR	Lag Assets	Lag LD/A	Lag Emp	Lag Sales
Sales/A	1								
Sales/Emp	0.07**	1							
Gross Profit	(0.33)***	(0.15)***	1						
ROA	0.18***	0.03	0.19***	1					
Lag CSR	(0.07)**	(0.12)***	0.21***	0.07**	1				
Lag Assets	(0.22)***	0.09***	0.03	(0.06)*	0.11***	1			
Lag LD/A	(0.09)***	0.02	(0.20)***	-0.04	(0.11)***	(0.09)***	1		
Lag Emp	0.21***	(0.14)***	(0.14)***	0.03	0.01	0.27***	0.05*	1	
Lag Sales	0.17***	0.23***	(0.18)***	0.03	0.004	0.50***	(0.009)	0.73***	1

Consumer Sector

	Sales/A	Sales/Emp	Gross Profit	ROA	Lag CSR	Lag Assets	Lag LD/A	Lag Emp	Lag Sales
Sales/A	1								
Sales/Emp	0.04	1							
Gross Profit	(0.32)***	-0.09	1						
ROA	0.21***	0.07	0.41***	1					
Lag CSR	(0.05)	(0.11)*	0.11*	0.08	1				
Lag Assets	(0.21)***	0.21***	(0.13)**	(0.21)***	(0.003)	1			
Lag LD/A	(0.34)***	0.01	(0.02)	(0.33)***	0.003	0.17***	1		
Lag Emp	0.16***	(0.12)**	(0.21)***	(0.06)	(0.13)**	0.41***	0.07	1	
Lag Sales	0.09	0.15**	(0.22)***	(0.14)**	(0.09)	0.79***	0.08	0.83***	1

Nonconsumer Sector

	Sales/A	Sales/Emp	Gross Profit	ROA	Lag CSR	Lag Assets	Lag LD/A	Lag Emp	Lag Sales
Sales/A	1								
Sales/Emp	0.22***	1							
Gross Profit	(0.34)***	(0.19)***	1						
ROA	0.14***	0.07*	0.19***	1					
Lag CSR	(0.10)***	(0.12)***	0.23***	0.06*	1				
Lag Assets	(0.23)***	0.06*	0.04	(0.04)	0.13***	1			
Lag LD/A	(0.10)***	0.06*	(0.23)***	(0.03)	(0.15)***	(0.11)***	1		
Lag Emp	0.09**	(0.15)***	(0.13)***	(0.01)	0.13***	0.46***	(0.01)	1	
Lag Sales	0.16***	0.35***	(0.17)***	0.05	0.05	0.55***	(0.08)**	0.64***	1

*$p \leq 0.05$; **$p \leq 0.01$; ***$p \leq 0.001$

Table 2: Industries in sample.

Consumer Sector	**N**	**Avg. CSR Score**	**Std. Dev.**	**Min.**	**Max.**
Consumer staple					
Food retailing	8	98.6	2.1	93	102
Food beverage	17	99.2	3.2	93	109
Household products	6	102.5	2.8	98	107
Total consumer staple	31	99.7	3.2	93	109
Consumer discretionary					
Automobiles	6	100.7	2.9	95	106
Apparel	16	99.8	2.8	94	108
Services	11	100.3	3.2	92	108
Media	10	100.7	2.4	97	107
Retailing	22	99.7	2.0	96	106
Total consumer discretionary	65	100.1	2.6	92	108
Nonconsumer Sector	**N**	**Avg. CSR Score**	**Std. Dev.**	**Min.**	**Max.**
Energy	24	97.4	3.1	89	106
Materials	33	99.3	2.7	93	108
Industrials	54	99.3	3.1	90	108
Healthcare	50	100.1	3.0	92	109
Financials	67	100.7	2.3	95	107
Technology	70	100.7	3.1	93	111
Telecommunications	6	100.7	2.5	96	107
Utilities	29	98.3	3.3	90	106
Total Nonconsumer	333	99.8	3.1	89	111
Total firms	429	99.8	3.0	89	111

Table 3: Descriptive statistics**.**

All firms

Variable	Firms	Mean	Standard Deviation	Minimum	Maximum
CSR Score	429	99.8	3.0	89.0	111.0
Sales	429	14,615.0	27,609.5	34.4	328,213.0
Employees	429	49.6	101.5	0.1	1,800.0
Total Assets	429	38,073.8	117,445.9	27.8	1,494,037.0
ROA	429	0.0	0.1	(2.9)	0.5
LD/Total Assets	429	0.2	0.1	0.0	0.9
Sales/Assets	429	0.9	0.7	0.0	4.8
Sales/Employees	429	435.5	489.2	10.2	4,561.9
Gross Profit Percent	429	0.4	0.2	(0.3)	1.0

Consumer Sector

Variable	Firms	Mean	Standard Deviation	Minimum	Maximum
CSR Score	96	100.0	2.8	92.0	109.0
Sales	96	20,203.8	38,483.6	92.3	313,335.0
Employees	96	96.5	179.3	0.2	1,800.0
Total Assets	96	20,890.7	55,844.3	82.0	479,921.0
ROA	96	0.1	0.1	(0.1)	0.5
LD/Total Assets	96	0.2	0.1	0.0	0.6
Sales/Assets	96	1.4	0.8	0.1	4.0
Sales/Employees	96	259.5	212.3	19.4	1,409.2
Gross Profit Percent	96	0.4	0.2	0.0	0.8

Nonconsumer Sector

Variable	Firms	Mean	Standard Deviation	Minimum	Maximum
CSR Score	333	99.8	3.1	89.0	111.0
Sales	333	12,884.5	22,977.3	34.4	328,213.0
Employees	333	35.0	51.6	0.1	407.0
Total Assets	333	43,394.4	130,321.3	27.8	1,494,037.0
ROA	333	0.0	0.1	(2.9)	0.5
Long-Term Debt/Total Assets	333	0.2	0.1	0.0	0.9
Sales/Assets	333	0.7	0.6	0.0	4.8
Sales/Employees	333	490.1	535.7	10.2	4,561.9
Gross Profit Percent	333	0.4	0.2	(0.3)	1.0

Table 4: Main effects of CSR on CFP dependent variables for consumer and nonconsumer sectors, as well as consumer discretionary and consumer staple industries.

	Consumer	**Consumer Discretionary**	**Consumer Staple**	**Nonconsumer**
Dependent Variable: Sales/Assets				
Independent Variable: CSR Score	(0.004)	-0.006	0.0002	(0.028)***
Intercept	1.820	2.28	0.97	3.40***
Control Variables				
Lag Long-Term Debt/Total Assets	(0.098)***	(0.120)***	(0.079)**	(0.023)***
Lag Total Sales	0.105***	0.053**	0.138*	0.015
Lag Number of Employees	(0.008)	0.005	0.011	0.030***
Observations	440	298	142	1421
R squared	0.24	0.29	0.21	0.06

	Consumer	**Consumer Discretionary**	**Consumer Staple**	**Nonconsumer**
Dependent Variable: Sales/Employees				
Independent Variable: CSR Score	(6.806)**	(3.302)	(4.56)	(15.818)***
Intercept	1081.62***	692.83*	885.64*	2030.74***
Control Variables				
Lag Long-Term Debt/Total Assets	3.058	8.752**	(4.917)	1.232
Lag Total Sales	85.572***	79.528***	134.64***	203.416***
Lag Number of Employees	(97.682)***	(91.400)***	(146.497)***	(209.916)***
Observations	440	298	142	1421
R squared	0.63	0.64	0.64	0.49

	Consumer	**Consumer Discretionary**	**Consumer Staple**	**Nonconsumer**
Dependent Variable: Gross Profit Percentage				
Independent Variable: CSR Score	0.005*	(0.004)	0.015***	0.019***
Intercept	0.03	0.97**	(0.85)*	(1.18)***
Control Variables				
Lag Long-Term Debt/Total Assets	(0.0003)	(0.002)	(0.003)	(0.017)***
Lag Total Sales	(0.010)**	(0.014)**	(0.057)***	(0.033)***
Lag Number of Employees	(0.015)***	(0.015)***	0.032**	0.004
Observations	440	298	142	1421
R squared	0.17	0.23	0.41	0.23

*$p \leq 0.05$; **$p \leq 0.01$; ***$p \leq 0.001$

Table 5: Marginal effects of CSR on CFP dependent variables for consumer and nonconsumer sectors, as well as consumer discretionary and consumer staple industries.

Model 1	
Dependent Variable: Sales/Assets	
Independent Variable: CSR Score	(0.010)
Interaction Variable: Nonconsumer * CSR Score	(0.022)
Intercept	2.204*
Control Variables	
Nonconsumer Dummy Variable	1.536
Lag Long-Term Debt/Total Assets	(0.039)***
Lag Total Sales	0.036***
Lag Number of Employees	0.021*
Observations	1861
R squared	0.26

Model 2	
Dependent Variable: Sales/Employees	
Independent Variable: CSR Score	(4.024)
Interaction Variable: Nonconsumer * CSR Score	(12.248)
Intercept	
Control Variables	
Nonconsumer Dummy Variable	1233.062
Lag Long-Term Debt/Total Assets	2.157
Lag Total Sales	175.836***
Lag Number of Employees	(182.565)***
Observations	1861
R squared	0.48

Model 3	
Dependent Variable: Gross Profit Percentage	
Independent Variable: CSR Score	0.005
Interaction Variable: Nonconsumer * CSR Score	0.014***
Intercept	0.1143
Control Variables	
Nonconsumer Dummy Variable	(1.402)***
Lag Long-Term Debt/Total Assets	(0.013)***
Lag Total Sales	(0.028)***
Lag Number of Employees	(0.001)
Observations	1861
R squared	0.22

$*p \leq 0.05$; $**p \leq 0.01$; $***p \leq 0.001$