

The Moderating Effect of Marketing Capabilities on the Relationship between Changes in CSR perceptions and Changes in Brand Equity

Cau Ngoc Nguyen and Renee Oyotode

Texas A&M International University, TX, USA

CauNguyen@dusty.tamui.edu

reneeoyotode@dusty.tamui.edu

[Abstract] In recent years, firms have been pressured by stakeholders to undertake additional corporate social responsibility investments. Some firms have taken the initiative to allocate additional resources to CSR investments, while others argue that these investments conflicts with the firms' objectives to maximize profits. This controversy has piqued researchers' interests as they explore and study the linkage and relationship between CSR and firm performance. As such, we seek to contribute to this literature by studying the sensitivity of changes in CSR perceptions on brand equity, a noted measure of firm performance. We also take the resource-based view perspective to introduce marketing capabilities as a possible moderator for the CSR-brand equity relationship. Using data from 134 firms, we run a structured equation model (SEM) path analysis and find a positive relationship between changes in CSR perceptions and brand equity, significant at the 5% level. We also find that not only is there a positive and significant ($p < .01$) link between the marketing capabilities and brand equity, but also that marketing capabilities positively and significantly ($p < .05$) moderate the changes in CSR-brand equity relationship. With our significant results, we provide actionable information for managers and decision makers, as well as make theoretical contributions to literature.

[keywords] corporate social responsibility, brand equity, resource-based view, marketing capabilities, structured equation model

Introduction

In recent years, firms have been pressured by stakeholders to undertake additional investments in corporate social responsibility (CSR) activities. CSR activities concern actions that appear to further some social good beyond the interests of the firm and the requirements of law (McWilliams & Siegal 2000). Some firms have taken the initiative to allocate additional resources and devoting them to CSR, while others resist and argue that the additional investments to CSR conflicts with the firms' objective to maximize profits. This controversy has motivated researchers to examine the relationship between CSR and firm performance in an attempt to shed light upon the tradeoff or benefits of CSR investments.

In accounting for firm performance, extant marketing literature has highlighted the importance of brand equity (e.g. Keller 1993; Taylor, Celuch & Goodwin 2004). *Brand equity* is the centerpiece and the backbone of an organization as it defines the power that a brand may command in the marketplace by the means of only its name, logo, and symbol (Mahajan, Rao, & Srivastava 1994). Realizing its importance, researchers have used brand equity as a measure of firm performance as they try to identify the key antecedents that may have positive effects on brand equity (Kim, 1993; Yoo, Donthu & Lee 2000; Torres et al. 2012).

Existing literature on the CSR-brand equity relationship, to the best of our knowledge, has yielded positive results (e.g. Brickley et al., 2002; Lai et al., 2010; Torres et al., 2012). Thus, the social responsibilities of the firm have been identified as a key antecedent in consumers' purchasing decisions as it influences the consumers' perceptions of the brand and the firm as a whole (Wagner, Lutz, & Weitz 2009). However, most studies on this relationship have only examined the present CSR perceptions on brand equity and have not analyzed how the changes in CSR perceptions of the firms affect their brand equity. This brings us to the first purpose of our paper. We analyze the sensitivity of CSR perceptions and its effects in how the changes of the consumers' perceptions of a firm's CSR affect the brand equity and

how the brand equity changes.

We also draw upon the resource-based view theory (RBV) to introduce marketing capabilities as a possible moderator for the changes in CSR perceptions-brand equity relationship. The *RBV theory* assumes that firms can achieve a strategic competitive advantage by bundling their heterogeneous resources and realizing their potentials through organizational actions and behaviors (Hult, 2011). *Marketing capabilities* are abilities of firms to efficiently combine several marketing resources to engage in productive activity and attain marketing objectives (Dutta, Narasimhan, & Rajiv, 2005), and has long been considered to be rare, valuable, and inimitable (Morgan, Vorhies, & Mason, 2009). We argue that marketing capabilities is a possible moderating link for the changes in CSR perceptions- changes in brand equity relationship in that firms with stronger marketing capabilities would be able to mitigate the negative changes in CSR perceptions. If the CSR perceptions of the firm changes in a negative way, a firm with a stronger marketing capability can make the negative effects of its image less severe on its brand equity. On the other hand, firms with weaker marketing capabilities may not be able to mitigate the negative perceptions of CSR. Therefore, the negative impact of the changes in CSR perceptions will not be remedied as it lowers the firms' brand equity and firm performance.

This study contributes to literature by providing theoretical and empirical insights into the CSR-brand equity relationship by examining the effect of the sensitivity in changes in CSR perception on the changes of brand equity. With new evidence, we not only contribute to the CSR-brand equity literature, but also to the RBV literature by using it as a perspective into the investigation of how firms bundle its heterogeneous resources (i.e. marketing capabilities and CSR perceptions) to create a strategic and sustainable competitive advantage.

The organization of the paper is as follows. The next section will be discussing the conceptual framework and hypotheses development. The research design will be outlined in the third section. The fourth section will highlight the analysis the results. In the fifth section, we will discuss our conclusions and the theoretical contributions of our findings. Following that will be a section in which we will discuss the managerial implications of the research. Finally, in the last section, we discuss our limitations and avenues for future research.

Literature Review and Hypotheses Development

CSR-Brand Equity Relationship

CSR activities concerns with actions that appear to further some social good, beyond the interests of the firm and the requirements of law (McWilliams & Siegal, 2000). There have many studies that have tried to identify and highlight the benefits that are derived from the engagement and investments in CSR activities (Waddock & Graves 1997; Posnikoff 1997; Teoh, Welch & Wazzan, 1999). Thus, there have been a plethora of research focused on examining the CSR-firm performance relationship (e.g. Hull & Rothenberg, 2008; Wagner, Lutz, & Weitz 2009; Arendt & Brettel 2010). Although there are many ways in which firm performance has been measured, extant literature has noted brand equity as a key element of accounting for firm performance (Keller 1993; Taylor, Celuch, & Goodwin, 2004).

Brand equity is the centerpiece and the backbone of an organization, as it defines the power that a brand may command in the marketplace by the means of only its name, logo, and symbol (Mahajan, Rao, & Srivastava, 1994). Noting its importance, researchers have used brand equity as a proxy for firm performance (Kim, 1993; Yoo, Donthu, & Lee, 2000; Torres et al., 2012) and existing literature on the CSR-brand equity relationship, to the best of our knowledge, has yielded positive results (Brickley et al., 2002; Lai et al., 2010; Torres et al., 2012).

For example, Brickley et al. (2002) acknowledged that one of the important elements of building brand capital is to build an organization's reputation for social responsible behaviors. They argued that through the credible promises of acting ethically, firms can differentiate themselves and increase demand for their products, creating a competitive advantage.

In addition, Jones (2005) proposed that the value of brand equity is derived from the interactions between the brands and stakeholders (i.e. CSR activities). He argued that by fulfilling the stakeholders'

expectations, the firm is building the value of their brand equity. Furthermore, Lai et al. (2010) analyzed 179 Taiwan manufacturing and service companies and provided empirical evidence that suggests that CSR positively and significantly affect brand equity at the 1% level. They argued that investments in CSR activities help build a firm's reputation, and in turn, enhances its brand equity.

Following the noted arguments above, we attempt to go in more depth and see the sensitivity effects of CSR perceptions. More specifically, the first purpose of our paper is to examine how the changes in a company's CSR perceptions can affect and changes brand equity. Consistent with the findings and arguments of Brickley et al. (2002), Jones (2005), and Lai et al. (2010), we derive the following hypothesis:

H1: The positive (negative) changes in CSR perceptions are positively associated with the positive (negative) changes in brand equity.

Direct Effects of Marketing Capabilities on Brand Equity

Marketing capabilities are abilities of firms to efficiently combine several marketing resources to engage in productive activity and attain marketing objectives (Dutta, Narasimhan, & Rajiv, 2005). To be more specific, marketing capabilities concerns with the extent in which firms are able to identify customers' needs and understand the elements that influence consumer choice behaviors (Dutta, Narasimhan, & Rajiv, 1999). In having stronger marketing capabilities, the firm will be able to achieve better targeting and positioning of its brands relative to its competitors (Dutta, Narasimhan, & Rajiv, 1999).

The positive relationship between marketing capabilities and firm financial performance has been well documented in extant marketing literature (e.g. Krasnikov & Jayachandran, 2008; Morgan, Vorhies, & Mason, 2009). For example, Krasnikov and Jayachandran (2008) conducted a meta-analysis on 114 studies and found that marketing capabilities had a stronger impact on firm performance than research-and-development and operations capabilities. They argued that the superior performance and impact of marketing capabilities is derived from the ability to generate tangible assets, such as efficient and effective customer acquisition and retention and the ability to manage customer relationships and respond to customer needs.

In addition, Morgan, Vorhies, and Mason (2009) analyzed 230 US firms and found that marketing capabilities had positive and significant effects on both subjective levels (managers' perceptions) and objective levels (ROA) of firm performance at the 1% level. They argue that marketing capabilities are rare, valuable, inimitable, and non-substitutable sources of advantages that are accumulated and embedded over time. Thus, these capabilities can become a sustainable competitive advantage and positively affect firm performance. Although there has been a plethora of studies examining the relationship between marketing capabilities and firm performance, there has been scarce research exploring the relationship between marketing capabilities and brand equity (Bahadir, Bharadwaj, & Srivastava, 2008).

To the best of our knowledge, Bahadir, Bharadwaj, and Srivastava (2008) performed the only study linking marketing capabilities directly to brand equity. From their study of mergers and acquisitions, they found evidence suggesting that both the acquirer and target marketing capability had positive and significant effects on target brand value, at the 1% and 5%, respectively. Being that most extant marketing research have been focused on establishing the link between marketing capabilities and firm financial performance, their results suggests that theoretical models should incorporate brand equity as a measure of firm performance. Consistent with the aforementioned scholars, we believe that marketing capabilities is one of the key antecedents to brand equity. The ability to identify customers' needs and fulfill them is critical in a firm's success. As such, we derive the following hypothesis:

H2: The level of marketing capabilities is positively associated with brand equity.

Moderating Effects of Marketing Capabilities on the CSR-Brand Equity Link

The *resource-based view (RBV)* of a firm states that a firm is a collection of heterogeneous strategic resources and to realize a sustainable competitive advantage, a firm must bundle its specialized resources via organizational actions and behaviors (Wernerfelt, 1984; Barney, 1991; Hult, 2011). These

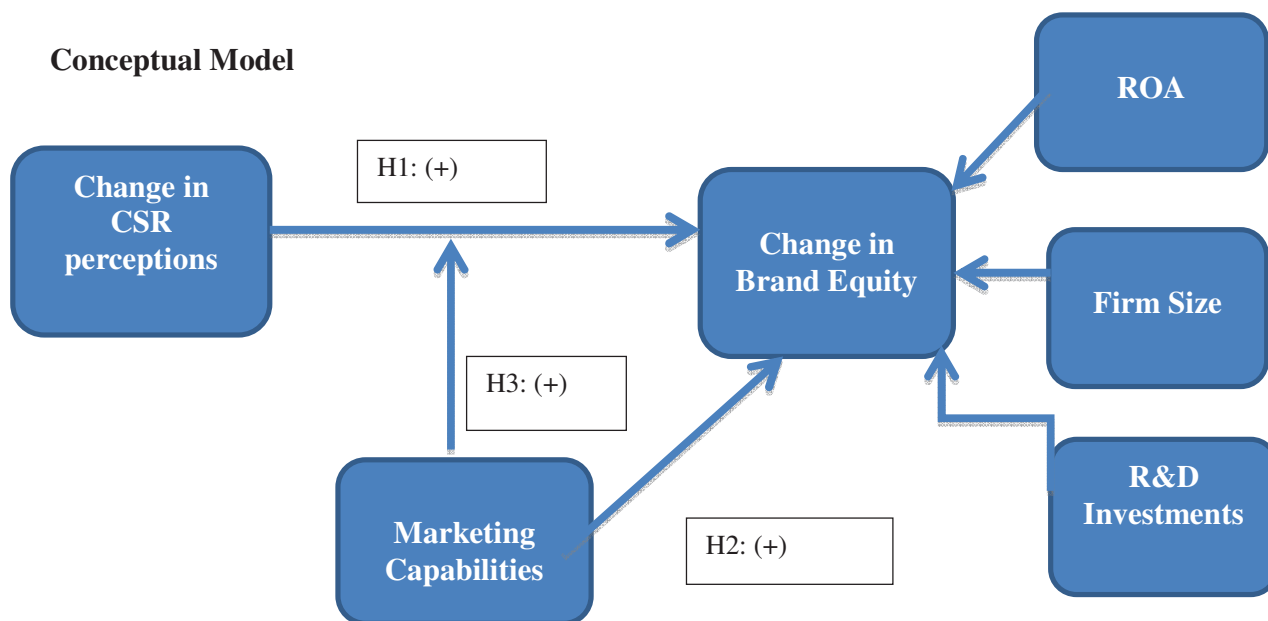
heterogeneous and specialized resources include all assets, capabilities, information, knowledge, informational processes, etc. (Barney 1991). By implementing strategies to exploit these resources, a firm can create a strategic edge and advantage to compete with its competitors.

Drawing upon the RBV theory, we argue that a firm can bundle CSR and marketing capabilities in order to achieve a sustainable competitive advantage in the market. If a firm’s CSR perception is improved relative to the year prior, a firm with stronger marketing capabilities may find ways to exploit this perception improvement to reap optimal benefits and advantages deriving from the CSR-brand equity relationship. With a more positive CSR perception, firms with higher marketing capabilities can better communicate their commitment to ethics to their stakeholders and, in turn, build on its brand equity.

On the other hand, if a firm’s CSR perception is affected negatively, a firm with stronger marketing capabilities would be able to mitigate the negative changes in CSR perceptions and its effects on brand equity. The marketing capabilities of a firm may “soften the landing” and remedy the negative impacts that the lowered CSR may have on the firm’s reputation and its brand equity. Thus, we propose the following hypothesis:

H3: The positive relationship between the positive changes in CSR perceptions and changes in brand equity is stronger with higher levels of marketing capabilities

Conceptual Model



Research Design

Sample

The initial sample population for this analysis includes 150 US firms assessed by the CSR RepTrak for the year 2012. We used the 2012 data because the *Reputation Institute* published its first CSR report in 2012. For our analysis, we focused on publicly traded firms because the data for our moderating variable (i.e marketing capability) is only available for publicly traded firms. After eliminating private firms and other firms due to missing data, our final sample consisted of 134 firm observations.

Data Collection

To test our hypotheses, we collected data on CSR, brand equity, marketing capability, and a set of control variables. The sources used were *Reputation Institute*, *COMPUSTAT*, and *Brand Finance*. We collected CSR data using the *Reputation Institute 2012 CSR RepTrak* reports. We collected data for brand equity

using the *Brandirectory* from *Brand Finance* for 2014. Finally, we used *COMPUSTAT* to collect the selling, general, and administrative expenses, the advertising expenses, receivables, and the control variables. We summarize the data sources and measured for each variable in Table 1.

Table 1. Variables Measures and Data Sources

Variables	Measures	Data Source	Data types
Brand Equity	Royalty Relief methodology: Dollar value a company would be willing to pay to license its brand	brandirectory	Millions of dollar
Corporate social responsibility (CSR)	CSR score based on questions measuring Workplace, Governance and Citizenship	Reputation institute	Interval from 0 to 100
Return on assets (ROA)	The ratio of a firm's operating income to its book value of total assets	COMPUTSTAT	Millions of dollar
Total Asset	Firms' reported total assets from the start and end of the fiscal year	COMPUTSTAT	Millions of dollar
Advertising Expense	Firms' reported advertising expense	COMPUTSTAT	Millions of dollar
Selling, General and Administrative expense	Firms' reported Selling, General and Administrative expense	COMPUTSTAT	Millions of dollar
Receivables	Firms' reported Receivables	COMPUTSTAT	Millions of dollar
R&D expenses	Firms' reported R&D expenses	COMPUTSTAT	Millions of dollar
Sales	Firms' reported Sales	COMPUSTAT	Millions of dollar

Measurement of dependent variable. Brand equity: Literature on brand has proposed three ways to measure brand equity: "customer mindset," "product market," and "financial outcomes" (Keller and Lehmann 2006). For this study, we used the financial outcomes component of brand equity because the other measures do not incorporate the market value of brand and firm. In our analysis, brand equity is the dollar value a company would be willing to pay to license its brand. This value is measured by the *Brandirectory* data developed by *Brand Finance*.

Brandirectory measures the value of brand using the royalty relief approach. The royalty relief approach is one that gives valuation specific to the industry and is based on the traditional brand licensing practices. Another major advantage of this method is that it is accepted by a wide range of fiscal authorities as an appropriate measure of brand equity (Salinas & Ambler 2009). Following Godfrey and Hatch's (2007) observations and suggestions that there are significant lags between CSR actions and performance changes, we collected data for brand equity for 2014, two years after our data on CSR. This procedure allows for integration of the lag effect of changes CSR on brand equity in our model.

Measurement of Independent variables. *Corporate social responsibility (CSR)*: Orlitzky, Schmidt, and Rynes (2003) found that CSR has a positive relationship with financial outcomes and that this relationship was moderated by measures of CSR and financial outcomes. We propose to use the new CSR data from Reputation Institute to give a different perspective in understanding the research between CSR and brand equity. The Reputation Institute computes CSR scores based on questions measuring Workplace, Governance and Citizenship of a firm. The data and reports from the Reputation Institute have been validated and proven reliable throughout literature and have been used to analyze the effects of firm reputation (Fombrun, 2007; Deephouse, 2002). However, the Reputation Institute only started producing CSR reports in 2012. Therefore, to the best of our knowledge, we are the first to take this data set and test it. As previously stated, we allowed a two-year lag between changes CSR and changes in brand equity in order to control for the lag effect of CSR. Thus, we collected data for changes of CSR for year 2012.

Measurement of moderating variable. *Marketing capability:* To measure marketing capability, we used an output measure as a proxy of marketing capabilities. Consistent with extant literature, we measured marketing capabilities as a latent variable composed of selling, general, and administrative expenses, advertising expenses and receivables as a percentage of sales (McAlister, Srinivasan, & Kim, 2007). To test our hypotheses on the effect of CSR changes, we collected data for the year 2012 and tested its moderating effect on the relationship between changes in CSR and brand equity.

Measurement of control variables. To isolate the effects of changes CSR on brand equity and the moderating effect of marketing capabilities, we controlled for firm-level constructs that have been linked with brand equity and CSR in the extant marketing literature. We controlled for firm profitability, and research and development expenses (R&D) (McWilliam & Siegel, 2000; Chu & Keh, 2006). We measured R&D using R&D expenses divided by sales. We measured firm profitability using return on assets (ROA). We also controlled for size since brand equity has been linked to firm size (Godfrey, Merrill, & Hansen, 2009) and we used total assets as a proxy for firm size.

Table 2. Correlation Matrix

Variables	1	2	3	4	4	6	7
changes CSR	1	0.092	0.051	-0.066	-0.065	-0.024	0.051
Changes BRAND	0.092	1	0.017	0.056	0.293***	0.281***	0.056
Changes ROA	0.051	-0.017	1	0.046	-0.097	0.032	-0.05
Firm size	-0.066	0.056	0.046	1	0.151	0.369***	-0.522***
R&D intensity	-0.065	0.293***	0.097	0.151	1	0	-0.053
Marketing Capabilities	-0.024	0.281***	0.032	0.369***	0	0.735	-0.359***
Marketing Capabilities	0.051	0.056	-0.05	-0.522***	-0.053	-0.359***	0.842
Composite Reliability	1	1	1	1	1	0.776	0.877
Cronbach's alpha	1	1	1	1	1	0.564	0.783

***p<0.01 (two tailed)

**p<0.05(two tailed)

Note: Square roots of average variances extracted (AVEs) shown on diagonal.

Measurement validity and reliability. Table 2 presents the correlation matrix of the measures. Results from this table show that all the constructs have good reliability, with alpha coefficients varying from 0.564 to 1 and the composite reliability for the constructs ranging from 0.776 to 1. We assessed the discriminant validity by checking if the average variance (AVEs) extracted was greater than the shared variance for each construct. We found that the AVEs are greater than the corresponding shared variance of all possible pairs of constructs on the upper triangle of the table therefore, suggesting a discriminant validity among all of the constructs in the study.

Results

We assessed our hypothesized relationship in a single SEM using WarpPLS 4.0. Our results confirmed the positive relationship between changes in CSR and changes in brand equity ($\beta=0.11$, $p<0.05$), supporting H1, suggesting that positive (negative) changes in CSR perceptions are positively associated with positive (negative) changes in brand equity. Similarly, the results support the positive impact of marketing capabilities on changes in brand equity ($\beta=0.27$, $p<0.01$), supporting H2. Thus, the level of marketing capabilities is positively associated with brand equity and is significant at the 1% level. The results also show significant positive relationship between the interaction of marketing capabilities with changes in CSR and brand equity ($\beta=0.14$, $p<0.01$), supporting our final hypothesis, H3. The empirical evidence suggests that the positive relationship between the positive changes in CSR perceptions and changes in

brand equity is stronger with higher levels of marketing capabilities. Therefore, we successfully demonstrate using empirical and theoretical analysis that marketing capability moderates the relationship between changes in CSR and brand equity.

Besides ROA ($\beta=0.03$, ns), all of our control variables also had significant impact on changes in brand equity. Size is shown to have a significant and negative effects on changes in brand equity ($\beta=-0.11$, $p<0.05$), whereas, R&D showed a significant and positive effect. The coefficient of determination shows that our model explains about 23% of the variance in brand equity. Please refer to Table 3 for our detailed results.

Table 3. Empirical Results

Variables	SEM results	
	coefficients	p-value
Control effects		
Changes ROA	0.03	0.34
Firm size	-0.11**	0.05
R&D intensity	0.30***	0.01
Simple effects		
changes CSR	0.11**	0.05
Marketing Capabilities	0.27***	0.01
Moderating effects		
Marketing Capabilities X Changes in CSR	0.14**	0.02
Observations	134	
R-squared	0.23	

Conclusion and Theoretical Contributions

There were three main purposes to this study. The first was to contribute to the CSR-firm performance literature by investigating the sensitivity effects of CSR perceptions on brand equity. More specifically, we investigate how the change in CSR perceptions of a firm affect and change their brand equity. Our results supported our H1 in that this relationship was shown to be positive and significant at the 5% level. This suggests that an increase (decrease) will significantly increase (decrease) brand equity. The second purpose of the paper is to add to the literature on marketing capabilities. To the best of our knowledge, the link between marketing capabilities and brand equity has only been established by Bahadir, Bharadwaj and Srivastava (2008). Consistent with their suggestions, we included marketing capabilities into our theoretical model and found that there is a positive and significant relationship between marketing capabilities and brand equity. This effect, significant at the 1% level, suggests that firms can greatly impact their brand equity through the deployment of their marketing capabilities, supporting our H2.

The final purpose of the study is to make contributions to the RBV literature by using it as a perspective in examining the moderating effect of marketing capabilities on the changes in CSR perceptions and brand equity. Supporting our H3, we found that marketing capabilities had a significant and positive effect on the changes in CSR-brand equity relationship. This relationship is shown to be significant at the 5% level. In line with our theoretical insights, this evidence suggests that a firm with stronger marketing capabilities can optimize the benefits of a positive change in the CSR-brand equity relationship or mitigate the negative changes in CSR perceptions and its effects on brand equity.

Managerial Implications

The results deriving from this research have two main implications for managers. The first implication suggests to managers and decision-makers that CSR investments are indeed beneficial to firms. It enhances the brand equity of a firm by building the image and reputation of the brand and, thus, must be integrated into one's business model. Managers should not see CSR investments as a cost, but rather a strategic resource in helping the firm to compete in the market. The second implication of this research highlights the importance of a firm's marketing capabilities. It not only directly influences brand equity, but it may also be used as a tool to buffer and mitigate negative changes in perceptions of CSR and brand, as well as a strategic advantage in communicating and highlighting the firm's commitment to ethical practices to its stakeholders.

Limitations and Directions for Further Research

There are several limitations in this study. First, the small sample size limits the generalizability of the results. Future research should use larger sample sizes to generate more confidence in the research. Second, the unavailability of data for some of our marketing variables may lead to measurement error or misspecification of the model. Further studies should hand collect these variables from firms' annual reports to control for any possible measurement errors. Future research could also retest the moderating effect of marketing capabilities using the measure proposed by Dutta, Narasimhan, & Rajiv (1999). Finally, the composition of the sample could limit the applicability of these findings to other US firms, since most of the firms in the sample size are large firms (i.e. Apple, IBM). Future studies could differentiate between the sizes of firms to study whether small or medium firms would also profit from the bundling of their marketing capabilities with CSR.

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