

**THE DIFFERENTIATED EFFECTS OF CSR ACTIONS IN THE
SERVICE INDUSTRY**

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Abstract

Corporate Social Responsibility (CSR) is becoming a common strategy within medium and large companies, which explains the growing number of studies and disciplines focusing on it. One stream of research examines the effects of CSR on a firm's performance, such as its market value, suggesting that the financial performance outcomes of responsible corporate behavior may vary depending on firm-specific and industry-related factors. This study attempts to explain why the impact of CSR initiatives may be different and/or more important in service firms compared to product-based companies. To address this question, we analyze all the 248 companies that have ever traded on the Spanish Stock Market between 1990 and 2007. The results show that CSR activities have a positive impact on firm performance that is higher for service firms than for product-based firms. As for practical implications, these findings suggest that CSR may be an especially valuable tool for differentiation in the service context.

Keywords

corporate social responsibility, service firms, market value, event study

Introduction

Corporate Social Responsibility (CSR) has received considerable scholarly attention over the decades, becoming an integral part of business practice (Mattila and Hanks, 2012). Behind the expansion of CSR activities, we can find many reasons. For example, the growing pressure from civil society actors, such as international organizations, NGOs, or civil society groups, that has pressed companies to make them more socially and environmentally responsible (Scherer and Palazzo, 2011; Zhang et al., 2012). But also the firm's profit strategy has pushed it to be socially responsible because of an anticipated benefit (e.g., reputation enhancement, recruitment of high-quality workers, differentiated products that extract a premium) from these actions (Husted and Salazar, 2006; McWilliams and Siegel, 2000; Waddock and Graves, 1997). Accordingly, this topic has received considerable attention in the marketing and management literature. One primary stream of research has focused on the effects of CSR on the financial outcomes of the firm, such as its market value, although the results of these studies remain mixed (Griffin and Mahon, 1997; Orlitzky *et al.*, 2003). One of the explanations offered for these inconsistent results is that much of the research does not consider the influence of other related variables but only CSR (Barnett and Salomon, 2006). There have been claims to introduce more variables that relate to industry, culture, national systems, and context into this genre of research (e.g., Aguilera *et al.* 2007; Goll and Rasheed, 2004; Salzmann *et al.*, 2005; Simpson and Kohers, 2002). More specifically, Arendt and Brettel (2010), and Halme and Laurila (2009) argued that the financial performance outcomes of responsible corporate behavior might vary depending on firm-specific and industry-related factors. However, studies on CSR have mostly focused on the product-based industry (e.g., Sen *et al.*, 2006) rather than the service industry (Kang *et al.*, 2010; Vlachos *et al.*, 2009).

This article proposes that CSR is likely to play a particularly important role in services selling contexts. We analyze the shareholders' evaluation of socially responsible service companies by looking at the announcements of intended CSR actions. We theorize that these announcements affect more positively shareholder value in service firms compared to good firms through a direct and an indirect way. The direct way refers to the investors' responses to the announcements of intended CSR actions. The indirect way refers to the effect that marketing strategies such as CSR activities have on consumers -or the *demand*

route- (Kalaignamam *et al.*, 2013). As we will argue, service-inherent characteristics make it difficult for investors and customers to evaluate service firms in advance and force them to look for information regarding the service company and the service quality in order to reduce the perceived risk. Companies' CSR initiatives, one of the mechanisms that may be used to infer service quality, may constitute a valuable *signal* of the firm's reliability and commitment to quality and honesty. According to signaling theory, investors would respond to announcements of intended CSR actions by buying stock if they foresee potential or approve (Asquith and Mullins, 1986). Although they are assumed to be rational decision makers, they often evaluate information using cues and heuristics (Wiles, 2007: p. 19). Thus, since service firms are harder than product firms to evaluate, investors may value their CSR efforts higher because they contribute to reduce their perceived risk.

Additionally, investors' responses also reflect their perceptions (heuristics) of the firm's ability to strengthen its brand equity and generate cash flows through such marketing activities and the investment's perceived consumer impact (Lane and Jacobson, 1995). Service firms' investors thus, value their stock prices also indirectly, through the effect that marketing strategies such as CSR actions' announcements have on consumers -or the *demand route-* (Kalaignamam *et al.*, 2013); i.e., an increase in satisfaction, loyalty and, ultimately, profit and market value (Luo and Bhattacharya, 2006).

Our research contributes to the extant research on CSR and firm performance in that we explain why this relationship may be different and/or more important (stronger) for service versus good firms. To this end, this paper uses event study methodology to examine how financial markets respond to the news on a company that implements a CSR action, which reflects whether investors 'care' about CSR. We analyze all the 248 companies that have ever traded on the Spanish Stock Market between 1990 and 2007. The results show that CSR announcements are associated with positive excess returns that are higher in service companies compared to product-based companies.

Theoretical foundations

CSR in the Study Context

CSR conceptualizations have been influenced by different theories, including agency theory, institutional theory, the resource-based view of the firm, stakeholder theory or

stewardship theory (Lindgreen and Swaen, 2010). However, as noted by Lankoski (2009a, p.208), stakeholder theory has gained wide popularity in explaining the relationship between corporate responsibility and economic performance (e.g., Orlitzky *et al.*, 2003). Stakeholder theory sustains the idea that firms do not have responsibilities towards society in general, but rather they should only be concerned about groups –i.e. stakeholders- that may be affected by their activity (Clarkson, 1995). Thus, stakeholders are defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p. 46). Additionally, stakeholders have been grouped in many ways. For example, Clarkson (1995) distinguishes between primary stakeholders (employees, shareholders, customers, suppliers, the government and the community in which the firm operates) and secondary stakeholders (the media and interest groups), whereas Lankoski (2009a) divides them into market stakeholders (those who engage in market exchanges with the firm) and nonmarket stakeholders (those who do not engage in market exchanges with the firm but still have some interaction with it). In this paper, we focus on a primary-market stakeholder group, the shareholders, by analyzing their assessment of socially responsible companies and the effect of the service vs. good character of the firm.

Therefore, given that the specific focus of this study, CSR is defined as “management of stakeholder concern for responsible and irresponsible acts related to environmental, ethical and social phenomena in a way that creates corporate benefit” (Vaaland *et al.*, 2008, p.931). This definition highlights the multidimensional character of the CSR strategy, which will be also examined, considering it as a set of heterogeneous activities rather than one monolithic measure, in line with several authors (e.g., Bhattacharya and Sen, 2004; Carroll, 1979, 1991a; Kotler and Lee, 2005).

Impact of CSR on Financial Performance

The relationship between CSR and financial performance has been alternatively hypothesized to be positive, negative, and neutral (Simpson and Kohers, 2002). The negative relationship is explained by the thesis that high investment in CSR would result in additional costs that would reduce profits and shareholder wealth (Hull and Rothenberg, 2008). Empirical evidence demonstrates that CSR investment can be destructive to

financial performance when it passes a certain level (Wang *et al.*, 2008). The neutral relationship is explained by the complexity of both the firm and the society, which makes it difficult to establish a simple and direct link between CSR and firm performance (Margolis and Walsh, 2003; Ullmann, 1985; Waddock and Graves, 1997). This neutral relationship is also supported by McWilliams and Siegel (2000, 2001) on the basis of the supply and demand theory of the firm. Finally, regarding the positive relationship, some authors suggest that the costs of CSR activities are minimal compared to the potential benefits to the firm (e.g., Pava and Krausz, 1996). Higher CSR can result in higher ability to attract and retain quality employees (thus reducing the probability of labor problems) (Andreassen and Lanseng, 2010; Gouthier and Rhein, 2011; Lings and Greenley, 2010) and in more positive customer attitudes toward the firm and the purchase of its products (e.g., Du *et al.*, 2007). Further, CSR activities may improve a firm's reputation (e.g., Vilanova *et al.*, 2009) and its relationships with stakeholders, and these improved relationships may also be translated into economic benefits (Bhattacharya and Sen, 2004).

As stated above, empirical research has produced mixed results. However, the majority of these studies on the relationship between CSR and firm performance document a positive relationship. As noted by Halme and Laurila (2009), and Stuebs and Sun (2009), a recent literature review (Beurden and Gössling, 2008), two meta-analyses (Margolis and Walsh, 2003; Orlitzky *et al.*, 2003), and several recent studies (e.g., Brammer and Millington, 2008) support the positive link. Additionally, most of the studies have reached a common conclusion that CSR behavior contributes to a firm's long-term sustainability and growth (Taneja *et al.*, 2011). Therefore, although there is no straightforward evidence of the relationship between CSR and financial performance, we expect that CSR activities undertaken by firms will positively affect their performance.

CSR Effect on Performance in Service Firms vs. Goods Firms

After discussing the relationship between CSR and firm performance, our goal is to examine the differential effects of CSR for goods versus services firms. In developing our prediction that CSR effect on performance is higher for services firms than for goods firms, we turn to the literature in financial economics and services marketing. In line with the efficient market hypothesis, which asserts that the stock price reflects all public information

about the firm, new information such as CSR actions should change the price of a stock (Fama *et al.*, 1969). According to signaling theory, investors would respond to firms' announcements by buying stock if they foresee potential or approve (Asquith and Mullins, 1986). However, investors' responses also reflect their perceptions of the firm's ability to strengthen its brand equity and generate cash flows through such marketing activities. Investors' judgments of the value of a firm's marketing investment depend on the investment's perceived consumer impact (Lane and Jacobson, 1995). We propose that service firms' investors react more positively to CSR activities compared to product firms' investors because of the specific nature of the services. Although they are assumed to be rational decision makers (Colisk cited in Wiles, 2007: p. 19), they often evaluate information using cues and heuristics (Stracca cited in Wiles, 2007: p. 19). Thus, since services' firms are harder than products' firms to evaluate, investors may value their CSR efforts higher because they contribute to reduce their perceived risk. In fact, previous research has shown that announcements of customer service strategies are rewarded by investors, suggesting that customer service is one of the more effective ways for firms to create shareholder wealth (Wiles, 2007).

Additionally, service firms' investors value their stock prices not only directly but also indirectly, through the effect that marketing strategies such as CSR actions' announcements have on consumers -or the *demand route*- (Kalaignamam *et al.*, 2013). While manufactured goods tend to be more easily checked for conformance with objective quality standards, service customers often face great variability in service outcomes (Zeithaml, 1981). Prior to the service encounter, the customer forms expectations about the forthcoming experience using a number of intrinsic and extrinsic cues that give an indication of the likely performance standards. The information obtained in this pre-purchase stage is especially relevant in the service industry because of service-inherent characteristics—intangibility, inseparability, heterogeneity, and perishability (Grönroos, 1994; Zeithaml and Bitner, 2000), factors that make it difficult to anticipate the quality of the service until the service is tried and that lead customers to perceive service decisions as risky (Coulter and Coulter, 2002; Murray and Schlacter, 1990). In order to reduce the perceived risk and choose the best firm, customers look for information regarding the service company and its true characteristics (Bergen *et al.*, 1992). At the same time, service firms send signals to the

market so that customers can make inferences about them and the quality they offer. All these work together to generate an information asymmetry context.

Information asymmetry issues have been analyzed by agency and signaling theories (e.g., Mishra *et al.*, 1998). Focusing on the service sector, San Martin and Camarero (2005) argued that, in terms of agency theory, the customer's lack of information raises an "adverse selection" problem (an information asymmetry problem), which means that it is difficult for a customer to set the true quality of different services (Bergen *et al.*, 1992; Eisenhardt, 1989; Mishra *et al.*, 1998; Singh and Sirdeshmukh, 2000). Following signaling theory, the partners in an exchange have different information, which affects their transactions and relationships. Information regarding quality may constitute an important cue (signal) for both customers and service firms (Kirmani and Rao, 2000; Rao *et al.*, 1999), and it is closely related to the firm's vulnerability to consumer sanctions (e.g., reputation loss and/or market value decrease) in case the promised quality is false (San Martin and Camarero, 2005).

Among all the mechanisms consumers may use to infer service quality, an individual may rely on announcements of CSR actions in order to reduce uncertainty, as s/he may reasonably think that taking care of society implicitly means taking care of customers (Nicolau, 2008). Previous research suggests that consumers are more willing to patronize establishments and corporations that are perceived as socially responsible (Mackey *et al.*, 2007). Consumers' perception of socially responsible behavior has been shown to have an influence on their valuation of the service and the perceived quality (García de los Salmones *et al.*, 2005). CSR activities also help to build company reputation (Barnett and Hoffman, 2008), which also indicates a company's involvement in providing quality services/products. Customers often use corporate reputation to assess products, with positive reputation resulting in higher perceptions of product/service quality (Jacoby *et al.*, 1971; Shapiro, 1982). In the minds of some consumers, CSR is a signal of honesty and reliability, and a reliable and honest firm is believed to produce better products (Siegel and Vitaliano, 2007).

Siegel and Vitaliano (2007) found that firms selling experience goods (i.e., products whose characteristics cannot be verified before buying or using them), and experience and credence services are more likely to engage in CSR than those selling search goods (i.e.,

products whose characteristics can be identified before buying). The authors showed that the difference in the intensity of CSR involvement across types of goods is explained by the consumers' perception of a firm's involvement in CSR as a valuable *signal* of the firm's reliability and its commitment to quality and honesty. In this regard, the research findings state that a positive impact of CSR on performance is generally found in consumer industries and especially for experience goods and credence services (Baron *et al.*, 2009; Hoepner *et al.*, 2010; Siegel and Vitaliano, 2007). Previous research supports this assumption (e.g., Calabrese and Lancioni, 2008; García de los Salmones *et al.*, 2005; Maignan and Ferrell, 2001; Sureshchandar *et al.*, 2001, 2002). Maignan and Ferrell (2001) theoretically proposed that CSR has a positive influence on consumers, in particular, on their valuation of a firm's products. Sureshchandar *et al.* (2001, 2002) considered that the firm's ethical behavior transmits trust to users and influences their evaluation of the overall quality of the service received. García de los Salmones *et al.* (2005) found that a firm's socially responsible behavior has a direct and positive influence on the overall valuation of its service (measured by means of technical quality, functional quality and perceived value) by users of mobile telephone services. Finally, Calabrese and Lancioni (2008) argued that service corporations need to be more proactive, anticipating customers' needs and preferences, compared to other sectors and suggested that CSR activities have more positive effects in service companies given the high degree of similarity among these companies, their services, and the social and environmental initiatives (Becker-Olsen *et al.*, 2006). Therefore, the reduction of more prevalent information asymmetry should have a greater effect on reputation in services compared to manufacturers; this reputation, in turn, should bring about a higher firm value. Remember that positive attitudes derived from CSR are claimed to lead to higher expectations of sales; if this is to happen in any context per se, further enhancement of expectations should appear when existing information asymmetries are diminished.

In sum, we assume that the CSR events do carry more information and increase higher service firms' investor awareness compared to products firms' investors, because they make more information available to investors and reduce the information asymmetry problems (information cost hypothesis). These effects have a double source of origin, directly –through investors' evaluation- and indirectly –through consumers' reactions-.

Consequently, we propose that:

Research hypothesis: CSR activities undertaken will have a more positive influence on market value in service firms than in non-service companies.

Method

The Event Study Technique

We based the analysis on the event study technique and on the premises that stock markets are efficient and that a company's share price reflects its CSR strategy (see Johnston (2007) for a review of the application of event studies in marketing). In an efficient stock market, the share prices reflect all the available information on a company, and we assume that tangible and intangible markets are equally efficient. In fact, any information received by the market (e.g., on CSR activities) will be instantly incorporated into the share price. Likewise, any change in a company's share price will reflect, without bias, alterations to its future cash flows. Therefore, the introduction of new information on CSR activities allows an examination of share price behavior to explicitly analyze the underlying change in unbiased market predictions of future returns on the said social activity.

The purpose of the event study method is to estimate the excess returns generated by a sample of unanticipated events -the basic hypothesis is that abnormal returns reflect the stock market reaction to the arrival of new information- defining each event as an announcement of CSR activities. The event study measures the impact of unanticipated events on share prices, being based on the estimation of a market model for each company event and on the posterior calculation of abnormal returns.

Data Collection

The event study technique is based on the following data collection process developed by McWilliams and Siegel (1997). In the first stage, starting with all the 248 companies that have ever traded on the Spanish Stock Market between 1990 and 2007, we detected those companies that carried out CSR activities. To this end, we carried out a search of the *Factiva* database (which provides information on headlines and news items published in different newspapers with international and national coverage, as well as those with general and/or specialized content) using a combination of keywords, such as "company name",

“CSR”, “social action”, “philanthropy”, “sustainability”, “good corporate governance”, “informative transparency”, “disable”, “ethics”, “technological innovation”, “sponsorship”, “environment”, and many other variants of these. In unclear cases, we looked at the full news item in the corresponding newspaper. This involved reviewing around 28,300 news items, from which we identified 2,246 CSR initiatives. The event day was defined as the first day on which the news was divulged in any of the publications included in the database.

In the second stage, we selected the length k of the event window to test for any abnormal behavior in company share returns. To be precise, we considered the five days before and after (-5; +5) the announcement date. Although it was expected that most of the information on CSR activities would be quickly incorporated into share prices, it occasionally either leaked out before any formal publication or was held back. Note that the choice of the length of the event window is a trade-off: it should be long enough so that any significant impact is detected, but short enough so that the effect of confounding effects is kept at a minimum. In short, a 3-day window (such as (-1,+1)) could fail to identify potential abnormal returns occurring two days before or after the event day, and a 41-day window (e.g., (-20,+20)) would not make it easy to “clean” that period and analyze it free of another information different from CSR announcements that could affect the firm’s value. Even though we could have used a longer window length because, as indicated below, our sample size is quite large, it would not be accurate to expect that the press is currently echoing a specific news item beyond five days (Brown and Warner, 1985).

In the third stage, we eliminated announcements of CSR actions that were very close in time to one another (those appearing within the 5-day event window); otherwise, it would not have been possible to determine which of them, if any, was generating abnormal returns. The resulting sample consisted of 1,394 announcements.

In the fourth stage, we discarded any announcements whose event windows published notices such as “takeover bids”, “share offers”, “profit announcements”, “dividend declarations”, “splits”, “complaints”, “claims”, “quality awards”, “trade union actions”, “mergers”, “labor disputes”, “dismissals”, “government contracts”, “court cases”, and “introduction of new products”, among others. This was to facilitate the exclusive measurement of the effect of the CSR action and to eliminate the possibility of including

other effects. Thus, the sample was further reduced from 1,394 to 583 announcements. These announcements referred to “environmental issues,” “responsible labor relationships,” “social action,” “good corporate governance,” “informative transparency,” and “philanthropic sponsorship,” in line with Olcese’s (2007) proposal. It is important to stress the fact that the process of data collection guaranteed that these news items were released during the study period. These 583 come from 117 firms with an average number of announcements per firm of 4.59 (see Table 1).

Take in Table 1

In the fifth stage, we collected data on market measures of performance, which allowed us to consider the risk supported by the firm and the capitalized value (expectations) of the benefits of CSR activities, as well as to minimize the distortions resulting from tax laws and accounting standards. These daily returns were adjusted for dividends, subscription rights, and splits. The returns on the share price of a company i on day t (R_{it}) was expressed as (Sharpe, 1963, 1964): $R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$ (1), where R_{mt} = returns on the market portfolio on day t (this study uses the IBEX 35, a representative index of the Spanish Stock Market, as a substitute variable for the true returns on the market; the information was obtained from the Stock Exchange Society), α_i = returns on the shares of company i independent of those of the market, β_i = sensitivity of returns on share i to variations in market returns, and ε_{it} = error term. The estimation of equation (1) allowed us to calculate the daily abnormal returns (AR) for a company i announcement (2): $AR_{it} = R_{it} - (a_i + b_i R_{mt})$, where a_i and b_i are the estimations of the regressions (1) for period T before the event. It is important to note the characteristic kurtosis and heteroskedasticity in the error term of equation (1). For this reason, this study estimated an autoregressive conditional heteroskedasticity model (Bollerslev, 1986), GARCH (1,1), the main purpose of which was to model the conditional variance of the returns. Such models distinguish between unconditional variance, which is constant and stationary, and conditional variance, which is modified by the available information. Thus, the returns defined by means of this specification are obtained by assuming that $\varepsilon_{it} = h_{it}^{1/2} u_{it}$ and $u_{it} | u_{it-1}, u_{it-2}, \dots \sim N(0, h_{it})$, where u_{it} are i.i.d. with $E(u_{it}) = 0$ and $E(u_{it}^2) = 1$. In this context, h_{it} is the conditional variance and represented as $h_{it} = c_i + \alpha_i u_{it-1}^2 + \beta_i h_{it-1}$, where c_i , α_i , and β_i are the parameters to be estimated.

Testing Abnormal Returns

Abnormal returns represent those obtained by a company once investors have adjusted for normal returns; the return on shares is adjusted by subtracting the expected returns from the actual returns so that any significant difference is considered abnormal.

To analyze the effect of a company's announcements of CSR activities on its share price, this article tested the significance of the average abnormal returns for N company announcements on the event day ($t=0$) using Brown and Warner's (1980) parametric test (which is the traditional test) and Boehmer *et al.* (1991) parametric test (which considers event-induced variance changes).

To examine the potentially different effect of CSR on service and goods firms, we conduct a regression analysis, in which the dependent variable is the abnormal returns and the independent variables are the service character of the firm, measured by a dummy variable, and two control variables: type of CSR activity and firm size.

Type of CSR activity. As stated above, previous research on the relationship between CSR and firm performance evidence contradictory findings, to a certain extent because CSR has been treated as a global strategy without including in the analyses the many different ways it is practiced. From the original classification established by Carroll (1991a): economic, legal, ethical, and philanthropic responsibilities, attempts to categorize the phenomenon of CSR have led to multiple typologies (e.g., Bhattacharya and Sen, 2004; Kotler and Lee, 2005). In a recent review, Pelozo and Shang (2011) categorize CSR types and conclude that not all the categories are viewed as equally positive or positive at all by stakeholders. In fact, CSR may encompass a wide range of programs and policies, e.g., protection of human rights, safety in the workplace, eco-efficiency innovations, and community development (Baughn *et al.*, 2007), reflecting variations across companies and their relationships with their stakeholders. Empirical research on the impact of two or more components of CSR activities on financial performance reports different findings (e.g., Barnett and Salomon, 2006; Berman *et al.*, 1999; Bird *et al.*, 2007; Husted, 2000; Lankoski, 2009b; Pava and Krausz, 1996). Continuing this recent trend, which considers CSR as a set of heterogeneous firm activities rather than one monolithic measure, we control for the existence of performance differences when companies implement different types of CSR activities. Accordingly, and starting from the Valand *et al.*'s (2008) definition, our research

goes a step further by using the Olcese's (2007) proposal. This is a wider typology of CSR activities in order to deal with the heterogeneous nature of this strategy with more detail, but also linked to the three dimensional perspectives (environmental, social, and ethical) considered in Valand *et al.* (2008) definition.

Thus, this paper considers the following activities: "environment" (164 announcements), which considers all the activities related to the environment; "responsible labor relationships" (26), "social action" (119), and "philanthropic sponsorship" (167), which are linked to the social dimension perspective; and, "good corporate governance" (67), and "informative transparency" (40), which are linked to the ethical conduct in business practice. Dummy variables are used and "philanthropic sponsorship" is taken as the base reference in the regression analysis.

Firm size. The size of a firm reflects, to a certain extent, their available resources and, thus, large firms are more able to implement CSR actions (Lee and Chen, 2009), being more likely to have economies of scope and scale (Lieberman and Montgomery, 1988). However, "routine rigidity" (Dickson, 1992) emerges in larger organizations, which makes it less easy to take advantage of market opportunities. Actually, Lee and Chen (2009), in the context of new product introductions, find a negative effect of size on shareholder value, as investors evaluate more optimistically smaller firms which do not have the "layers of bureaucracy" within the organization; let alone the so-called "green backlash" large service companies can suffer derived from their lack of credibility (Chun and Giebelhausen, 2012). To measure the size of the firm we use the logarithm of the firm's assets.

Results

Table 2 shows the estimation of the average abnormal returns in several event windows of the 583 announcements (of which 288 belong to service companies). We have tested these different windows strategically, so that we make sure the analysis covers the whole range of days, starting from (-5,-4), (-5,-3), ... so that the pre-announcement period is examined, then we focus on the full-length window (-5,+5), and finally we analyze the post-announcement windows (+1,+5), (+2,+5) and so on. The results obtained demonstrate that, on average, CSR announcements are associated with positive excess returns on the post-event days, thus showing, as expected, that CSR activities undertaken by firms will positively affect their performance. In particular, both tests -Brown and Warner, and

Boehmer *et al.*, - present significant positive values over the windows (+1,+5), (+2,+5), (+3,+5), and (+4,+5). This means that, on average, firms announcing CSR activities undergo a gain between 0.18% and 0.26% on the five days after the announcement. Note, however, that no reaction appears to exist before the announcement day. This outcome implies that there does not seem to be any significant information leakage prior to the information becoming publicly available, or if there happens to be, investors seem to wait for the official announcement before reacting. The possibility of “greenwashing” (i.e., claiming to be social responsible without implementing anything) can exist, so they do not react until the CSR action is formally announced.

Take in Table 2

To test our research hypothesis, which states that CSR activities undertaken will have a more positive influence on market value in service firms than in non-service companies, we perform a regression analysis (see Table 4). Prior to this analysis, we look at the correlations between the two independent variables to check for collinearity. Table 3 shows that no jeopardizing high values exist and, even more insightful to this point, this absence of collinearity is further ensured by the low figures of the variance inflation factors (VIF) for each coefficient, which fall between 1.09 and 1.49, well below the cut off figure of 10 recommended by Neter *et al.* (1985).

Take in Table 3

Take in Table 4

Second row in Table 4 shows that the effect of CSR in the service firms is significant at 0.05, confirming our key hypothesis that the enhancement of reputation via CSR brings about higher returns in service companies.

Regarding the control variables, we find that, while firm size is not significant, the CSR types show significant effects for actions related to the environment (environment dimension), responsible labor relationships (social dimension), and good corporate governance (ethic dimension). In order to delve into these influences, we analyze potential differentiated effects of CSR types on service and non-service firms. Table 5 shows the results of *t*-tests conducted for each CSR activity, which indicate greater effects for service than non-service firms in the same CSR types that were found significant in the previous regression analysis, namely, “environment”, “responsible labor relationships” and “good

corporate governance”. No differences are detected in the CSR types “social action”, “informative transparency” and “philanthropic sponsorship”, in line with the regression results.

Take in Table 5

Discussion

Theoretical and Managerial Implications

Previous research on the effects of CSR on financial performance mostly focused on the product-based industry (Kang *et al.*, 2010; Vlachos *et al.*, 2009). We investigate whether and how this relationship may be particularly important in the service-selling context. Prior work also noted that different types of CSR activities have different effects on firm value (Barnett and Salomon, 2006; Bird *et al.*, 2007; Lankoski, 2009b; Pelozo and Shang, 2011). Thus, we investigate further whether and how these differentiated effects apply to service firms compared to product-based firms.

The current research shows that CSR activities have a positive impact on firm performance that is higher for service firms than for product-based firms. This finding extends the extant literature on the effects of CSR on financial performance by showing that CSR plays a particularly important role in service-selling contexts. Firms’ CSR initiatives are used as a positive signal of the firm’s reliability and its commitment to quality and honesty (Siegel and Vitaliano, 2007). Accordingly, service firms actively involved in CSR activities should emphasize their responsible behavior as a mechanism to differentiate themselves from competitors (Porter and Kramer, 2006). This strategy depends largely on customers’ and also investors’ trust in a firm’s *real (responsible)* intentions and behaviors. In this sense, recent research has demonstrated that CSR offers protection for CSR-related negative information in a service-selling context, which extends to negative information related to firms’ core service offerings when consumers are novices (Eisingerich *et al.*, 2011; Godfrey *et al.*, 2009). This result supports the above proposed strategy in which a service firm should actively communicate socially responsible behaviors to its stakeholders. In fact, research findings indicate that many companies do not effectively communicate their CSR activities to their stakeholders (Du *et al.*, 2007; Sen *et al.*, 2006), which constitutes a critical impediment for these companies in maximizing the

business benefits of their CSR activities (Du *et al.*, 2010).

As for practical implications, the current financial and economic crisis increases distrust among customers and provides additional motivation for service firms to focus on CSR activities. The findings suggest that service firms are likely to gain from focusing on some CSR activities, such as “environment” (with its critical effects on society’s future well-being), “responsible labor relationships” (aimed at internal stakeholders -employees-, which are especially important in the service context (Bitner *et al.*, 1990)) or “good corporate governance” (of great concern for all stakeholders, but they will probably be more relevant and *visible* to customers and investors).

Limitations and Further Research

The following limitations were identified in the current research. First, in examining the hypothesis regarding differences between service and product firms, we did not differentiate within sectors of the same kind. As such, researchers may aim to include subsectors in future studies to see if the proposed hypotheses apply to them or whether some differences arise regarding specific industry/sector characteristics. Second, in assessing the effect of (different) CSR activities on financial performance in service firms, the present study did not include the volume of CSR activities and the time it took the firm/(sub)sector to carry them out. Future research may examine how the relationship between CSR and performance in service contexts could change based on the volume of CSR activities implemented and the period of time it took the firm to practice the CSR behavior (*firm’s CSR expertise*). Third, it may be worthwhile to examine the interaction effects of different CSR activities to help managers to find the best CSR mix. Fourth, we focused on financial performance (shareholders’ perspective), but we did not consider other stakeholders. As such, a promising avenue for future research is to consider more perspectives together by examining whether firms’ CSR activities affect *real* consumer behavior or employees’ commitment and productivity. For example, to what extent can CSR activities enhance employees’ commitment and customers’ perceived reputation of service firms? Are these effects different for different types of service organizations?. Fifth, we have focused on intentions rather than real actions. Therefore, it would be relevant, first, to observe whether realization announcements perform just like intention announcements

do; and second, to examine whether “greenwashing” strategies exist and, if they do, whether they are penalized by the different stakeholders. As noted by Du *et al.* (2010), this stream of research could include questions regarding CSR communication (i.e., what and where to communicate) to deal with potential skepticism. Lastly, we examined the effect of CSR on service firms’ financial performance in the Spanish stock market. To afford greater confidence in the generalizability of our results, we encourage future research to explore these relationships in different country contexts.

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Table 1. Number of announcements per firm

	Number of firms
Between 20 and 45	5
Between 10 and 19	12
Between 2 and 9	59
One announcement	41
Total	117
Average number of announcements per firm: 4.59	

Table 2. Abnormal return tests

Window	Abnormal returns (%)	Brown and Warner`s test	Boehmer et al.`s test
(-5,-4)	0.10	0.87	0.84
(-5,-3)	-0.00	-0.26	-0.01
(-5,-2)	0.04	0.31	0.47
(-5,-1)	0.05	0.42	0.26
(-5,+5)	0.25	1.46	1.19
(+1,+5)	0.26	2.01 ^a	2.03 ^a
(+2,+5)	0.24	2.07 ^a	1.88 ^b
(+3,+5)	0.18	2.13 ^a	1.90 ^b
(+4,+5)	0.21	2.55 ^a	2.40 ^a

Note. ^a $p < .05$. ^b $p < .1$

Table 3. Correlation among the independent variables

	Service	CSR type	Size
Service	1.00		
CSR type	0.188	1.00	
Size	0.278	0.197	1.00

Table 4. The effect of CSR in the service industry

Variables	Coefficient	Standard Error (95% confidence interval)
Service	0.0041 ^b	0.0017 (0.0016-0.0018)
Environment	0.0052 ^b	0.0022 (0.0021-0.0023)
Responsible labor relationships	0.0081 ^b	0.0040 (0.0038-0.0042)
Social action	0.0029	0.0024 (0.0023-0.0025)
Good corporate governance	0.0081 ^a	0.0029 (0.0027-0.0031)
Informative transparency	0.0055	0.0035 (0.0033-0.0037)
Firm size	-0.0041	0.0221 (0.0209-0.0234)
Constant	-0.0033	0.0018 (0.0017-0.0019)
R-squared		2.69% ¹
F-statistic		2.229 ^b

Note. ^a $p < .01$; ^b $p < .05$

¹ This low R-squared is not an exception in regression models that use cumulative abnormal returns as dependent variable, in particular (see for example, Farrell et al. 2000; Clark, Cornwell, and Pruitt 2009), and when modeling the excess returns of publicly traded stocks, in general (Roll 1988). At any rate, note that the primary objective of the regression analysis is not to develop a model to predict stock market return, but to analyze the relationship between the types of CSR actions and the firm performance, so the value of R-squared is less relevant. The important question is that, from the efficient market hypothesis, the abnormal returns employed in this model, reflect the value that the firm may gain through CSR activities.

Table 5. Number of announcements and abnormal returns by CSR Type

	Number of announcements		Abnormal returns (AR)		Statistical differences in the abnormal returns of the event window (t-test)
	Services	Goods	Services	Goods	
Environment	108	56	0.0053	0.0018	2,166 ^a
Responsible labor relationships	14	12	0.0096	0.0015	1,666 ^b
Social action	49	70	0.0030	0.0013	0.437
Good corporate governance	33	34	0.0102	0.0017	1.691 ^b
Informative transparency	20	20	0.0033	0.0043	-0.141
Philanthropic sponsorship	64	103	0.0003	-0.0036	1.389
Total announcements/ Average ARs	288	295	0.0035	0.0007	

Note. ^a $p < .05$; ^b $p < .1$