Advertising Expenditures, Negative Corporate Social Performance, and Firm Performance: Does Advertising Orientation Matter? An Abstract

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Abstract In this study, we investigate the relationship between advertising expenditures, negative corporate social performance, and firm performance. Our empirical analysis seeks to understand the implications of negative corporate social performance for advertising response strategies—namely, annual, corporate-focused, and product-focused firm-level advertising expenditures. Furthermore, we examine the potential of these advertising response strategies for firm-level performance (i.e., profitability and firm value measures).

Using a sample of firms with negative corporate social performance between 1995 and 2011, we examine our propositions and find an empirically significant distinction between the use and influence of corporate- versus product-focused advertising on firm performance—in the context of corporate social performance-based crises. More specifically, the results of this analysis indicate a positive but insignificant relationship between negative corporate social performance and all three of our advertising measures (annual, corporate-focused, and product-focused advertising). Additionally, we find that despite the insignificant increase in advertising following negative corporate social performance, advertising spending, more specifically product-oriented advertising spending, is shown to significantly reduce the negative impact of negative corporate social performance on firm performance.

Overall, we generate empirical support for the relevance of advertising expenditure-based strategies for the mitigation of nonproduct-related brand scandals in the context of corporate social performance.

References Available Upon Request

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