THE IMPACT OF CSR ADVERTISING AND PRODUCT ADVERTISING ON ABNORMAL STOCK RETURNS: A COMPARATIVE ANALYSIS USING EVENT STUDY METHODOLOGY

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ABSTRACT

Corporate Social Responsibility (CSR) advertising has been shown to improve stock returns and promote positive image. This paper examines to impacts of institutional advertising and product advertising on stock prices. Is the adoption of CSR advertisements positively associated with the positive variations in stock prices? Does the impact of CSR advertisements differ from product advertising in explaining positive abnormal stock returns? We follow the definition of firms' CSR advertising as categorized by the Public Service Advertising in Korea. If advertising is grouped as institutional advertising or public service advertising then we categorized the adoption as CSR advertising. We test four hypotheses, focusing on comparing financial effectiveness between institutional advertising and product advertising. We find that CSR advertising is significantly positively associated with the abnormal returns in terms of moving window estimation, while product advertising is not significant in influencing the returns. We adopt the event study methodology to investigate the impact of institutional advertising and product advertising on abnormal stock returns. This study adopts an empirical approach for examining advertisements which were shown to the public through moving window estimation.This study highlights important implications for academicians and practitioners: we find that (1) institutional advertising supports companies contribute to public welfare as well as enhance the brand image and reputation of a company, (2) institutional advertising has a more substantial impact on stock price than product advertising, and (3) marketers in the financial service industry can inform stock investors about the positive effect on the abnormal stock return of advertising through advertising analysis for moving window estimation,

***Keywords**: Corporate Social Responsibility (CSR), Advertising, Event Study, Moving Window Estimation*

1. INTRODUCTION

In the 21st century, leading global companies have increased corporate social responsibility (CSR) activities to enhance their competitiveness (Kang, Lee, and Huh, 2010). CSR advertising allows companies to indirectly improve their profitability and while simultaneously contributing to public welfare (Nyilasy, Gangadharbatla, and Paladino, 2014). More often, companies use CSR to enhance their image and reputation. For instance, the slogan “A person is the future” has created a favorable public image for Doosan Corporation, one of the leading companies in South Korea. CSR advertising can have a positive impact on a firm's sales by improving consumer attitudes toward a company or a product (Luo and Bhattacharya, 2006).

We investigate the impact of CSR advertising and product advertising on abnormal stock returns through a comparative analysis using event study methodology. Previous papers related to event study investigate whether advertising on Super Bowl Sunday generates abnormal stock returns (Fehle, Tsyplakov, and Zdorovtsov, 2005; Eastman, Wiggenhorn, and Lyer, 2010). In the United States, the Super Bowl is one of the biggest sports and advertising events in terms of the number of viewers. Thus, many companies strive to broadcast novel commercials on Super Bowl Sunday (Aiken and Boush, 2006). A company expends about US$4 million on average to execute a Super Bowl advertisement; in return,