There are no translations available.

Abstract This paper argues the case that tests of how investors value corporate social performance (CSP) based upon realised stock market returns are liable to be weak tests if markets are efficient and firms change CSP policies infrequently. We provide a theoretical explanation of why this will be the case using examples to illustrate. Subsequently, we set out an alternative theoretical framework for the purposes of investigating whether markets place a positive, or a negative, valuation on CSP, and show why this is superior to tests based upon Tobin's Q. Using US KLD data, we demonstrate that, as theorised, markets place a positive value on CSP that is not detected by conventional returns-based tests. Our conclusion is that researchers who are interested in the question of whether engagement with a corporate social responsibility agenda is a value-enhancing activity for a company (as argued by some stakeholder theorists) or value destructive (as argued by Friedman, The social responsibility of business is to increase its profits, *The New York Times Magazine*, 1970), need to look beyond returns-based tests to answer the research question posed.

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