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Sincerity in Corporate Philanthropy, Stakeholder Perceptions and Firm Value

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This study extends the literature on symbolic management by incorporating the role of stakeholder perceptions into the context of corporate philanthropy. In particular, we differentiate between the quantitative (generous giving) and qualitative (innovative giving) aspects of giving. We argue that although stakeholders may perceive both types of giving as being substantive rather than symbolic, innovative giving is likely to be perceived as more substantive than generous giving is and, thus, has a greater impact on firm value. Furthermore, stakeholder perceptions of corporate philanthropy as being more symbolic or substantive are influenced by firm characteristics—the type of products or services that a firm provides and the life-cycle stage that the firm is in—which provide stakeholders with a context to better assess the nature of a firm's philanthropic actions and the substantiveness of its giving. We find support for our predictions using a sample covering U.S. firms' philanthropic activities over a 19-year period.

Keywords: philanthropy; symbolic management; stakeholders perceptions; financial performance
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Introduction

Whether firms should allocate resources to philanthropic activities remains an intensively debated issue both among practitioners and in academic research (e.g., Brammer and Millington 2005, Freeman 1984, Margolis and Walsh 2003). According to the traditional view of business corporations, firms exist solely to maximize economic efficiency (Bremmer 1987, Friedman 1970). In this view, corporate philanthropy diverts valuable firm resources away from a firm's business operations, thereby reducing shareholder wealth. However, the growing influence of business firms in many aspects of social and political life in recent years has led to an increasing interest in both the economic and social consequences of their actions (Paine 2002, Rosen et al. 2003). As a result, the public has increasing expectations for business firms to engage in philanthropic activities (Marquis et al. 2007).

One potential resolution for this ongoing debate is to understand whether corporate philanthropy enhances firm financial performance. If doing good also enables firms to do well economically, then we have a convergence of the normative and instrumental views of corporate philanthropy. This has led to academic studies that systematically examine the relationship between corporate philanthropy and firm financial performance. Although exceptions exist, reviews of empirical studies on this topic generally reveal a positive relationship between corporate philanthropy and firm financial performance (e.g., Wang and Qian 2011, Wokutch and Spencer 1987). These findings are consistent with the argument that philanthropy positively affects financial performance through its influence on stakeholder relations (Berman et al. 1999, Wang et al. 2008). How stakeholders perceive and attribute corporate philanthropic activities has been argued to be the key mechanism through which firms can gain positive returns from corporate philanthropy.

However, when examining the relationship between corporate philanthropy and corporate financial performance, most previous studies have not distinguished among different types of corporate philanthropic programs or incorporated the characteristics of firms pursuing philanthropic activities. More specifically, most of the existing literature has not considered differential stakeholder perceptions and has assumed implicitly that stakeholders do not discriminate among the merits and drawbacks of different types of philanthropic programs and who makes charitable donations.

In this study, we take a step toward relaxing such implicit assumptions by examining how the nature of corporate philanthropic programs and the characteristics

of firms that engage in such programs may differentially affect stakeholder perceptions and, thus, firm value. In particular, we draw on the symbolic management literature (e.g., Westphal and Zajac 1994, Zajac and Westphal 1995) to argue that stakeholders' perceptions of a firm's motives behind its corporate philanthropy programs will determine the extent to which stakeholders provide cooperation and support for the firm and thereby influence the financial benefit that a firm obtains from its philanthropic activities. This literature differentiates between activities that are substantive and symbolic. We further extend this literature by incorporating the role of audience (stakeholder) perceptions. In particular, we argue that the level of substantiveness of firm actions is not solely determined by the actions themselves; instead, it is influenced by how stakeholders perceive the actions. When a firm's philanthropic acts are perceived as being substantive by stakeholders, corporate philanthropy is likely to be more positively associated with firm value; conversely, if the firm's philanthropic acts are perceived as largely symbolic, the firm will benefit less from charitable acts.

Because firms' motives behind corporate philanthropy are largely unobservable, stakeholders must rely on various information cues to assess the extent to which firms' philanthropic activities are substantive or symbolic. Corporate giving can be broadly classified into two types: quantitative (generous giving) and qualitative (innovative giving). The amount of giving can serve as a quantitative information cue, where more generous giving may be perceived as more substantive than less generous giving. In contrast, a qualitative information cue can relate to the nature of the philanthropic activities (McShane and Cunningham 2012). Innovative philanthropic activities are more likely to require considerable effort and have a positive, long-term social impact on the receiving communities. Contrary to less innovative giving, such philanthropic programs are more likely to be perceived by stakeholders as being substantive rather than symbolic.

Although both generous giving and innovative giving can be considered substantive, there may still be differences across these two dimensions of philanthropic activities in terms of the degree of perceived substantiveness. In general, because innovative giving is associated with more thoughtful considerations given to charitable program selection and requires greater involvement from the part of the firm, the value propositions of innovative giving are likely to be more salient than are those of generous giving. Therefore, we expect that stakeholders are likely to value innovative giving (i.e., qualitative aspect of giving) more than generous giving (i.e., quantitative aspect of giving).

In addition to the quantity and quality of a firm's philanthropic activities, stakeholders may use certain firm characteristics as additional information cues that can help them infer the firm's sincerity in giving. First, firms that provide "sinful" products and services (alcohol, tobacco, or gaming) are subject to additional scrutiny from stakeholders, under which generous giving (i.e., the quantitative aspect) is even more likely to be questioned than innovative giving (i.e., the qualitative aspect). As a result, we expect that the difference between generous and innovative giving in terms of their effects on firm value is more salient among sinful firms. Second, the life-cycle stage that a firm is in may also influence how stakeholders perceive firms' philanthropic activities. In particular, firms that are in the *Mature* stage are often considered cash cows with limited investment opportunities; thus, generous giving by such firms may not be considered as sincere as innovative giving. In contrast, generous giving by firms in the *Growth* or *Shakeout* stages, where they are generally in need of extra resources, is likely to be perceived as more sincere and substantive. Thus, the gap between generous and innovative giving is reduced within these two stages.

We investigate the impact of the type of corporate philanthropic activities and heterogeneity in firms engaging in such activities on firm value using a sample covering U.S. firms' philanthropic activities over a 19-year period from 1991 to 2009. In line with our hypotheses, our results are largely consistent with philanthropic activities that we expect to be perceived as more substantive, either because of the amount and nature of the philanthropic activities or the characteristics of the firm engaging in philanthropic activities, and thus have a stronger impact on firm value.

We aim to make several contributions in this paper. First, with rare exceptions (e.g., McShane and Cunningham 2012[1]), the corporate philanthropy literature has largely ignored the nature of these activities and the factors that differentiate the firms pursuing such activities. We contribute to this literature by addressing this critical omission and by showing that the nature of a firm's philanthropic activities and a firm's characteristics indeed affect how much value a firm creates by pursuing philanthropic activities. Hence, our theoretical refinements help explain considerable variation in the impact of corporate philanthropy on firms' value and some of the apparent contradictions in the existing literature.

Second, we contribute to the growing literature on symbolic management. Previous literature in this area has mainly defined symbolism and substantiveness based on actual firm actions and has underplayed the role that stakeholders play in determining whether these actions are perceived as symbolic and substantive. We extend this literature by incorporating the role of audience perceptions and arguing that the level of substantiveness of firm actions (engaging in corporate philanthropy in our context) is not only determined by the actions themselves but also influenced by how audiences (stakeholders in our context) perceive the actions. In particular, we believe that firm features, such as the type of products or services that a firm provides, and the life-cycle stage of the firm affect how stakeholders perceive a firm's philanthropic actions. This highlights the importance of

incorporating how audiences perceive a firm's actions to improve our understanding of the (performance) implications of firms' actions. Moreover, most studies in the symbolic management literature examine when, how, and why firms use symbolic and/or substantive actions (e.g., Westphal and Zajac 1994, McDonnell et al. 2011, Marquis and Qian 2014), but relatively less attention has been paid to investigating the performance implications of pursuing symbolic and substantive actions. The few studies that have examined the performance implications of these actions have generally not explicitly contrasted and compared the value effects of symbolic and substantive actions. We fill this void by showing that in the context of corporate philanthropy, actions that are perceived to be more substantive clearly have greater impact on firm value than symbolic actions. Finally, the extant literature has not addressed the issue of variation in the saliency of substantive actions. We provide the first known evidence to suggest that the qualitative aspect of actions, compared with the quantitative aspect, has a more salient effect on the substantiveness of these actions.

Background

Different Types of Corporate Philanthropy

Firms face increasing institutional pressures from their stakeholders to behave in socially responsible ways (e.g., Marquis et al. 2007). As a result, they need to balance stakeholders' demands for corporate social responsibility amid the need to maximize corporate profitability. One important area of corporate social activities that draws substantial stakeholder attention is corporate philanthropy. Indeed, employees, customers, suppliers, and even some shareholders have come to perceive corporate philanthropy as an appropriate and legitimate corporate activity (Margolis and Walsh 2003, Sharfman 1994). For example, customers often perceive firms engaging in corporate philanthropy as having better product quality and customer care (Adams and Hardwick 1998) and thus tend to support such firms by increasing their demand for a firm's products or services or by paying premium prices (e.g., Sen and Bhattacharya 2001, Lev et al. 2010, Dunn and Norton 2013, Norton and Avery 2014). Some investors, especially managers of socially responsible funds, are even more willing to invest in firms that are known for their corporate philanthropy (Barnett and Salomon 2006, Graves and Waddock 1994, Johnson and Greening 1999). Moreover, the government may pressure firms to engage in corporate philanthropy by selectively providing government support to certain firms based on the extent to which they engage in philanthropic activities (Wang and Qian 2011). Finally, creditors may encourage firms that engage in corporate philanthropy or punish those that do not by controlling firms' access to credit (Neiheisel 1994). Hence, corporate philanthropy may have the potential to help firms gain the support of various stakeholders, which will, in turn, have a positive impact on firm value. Accordingly, more and more firms have been observed to engage in philanthropic activities in recent years.

As the number of firms engaging in philanthropy has increased, so has the diversity in firms' philanthropy programs. Namely, firms that engage in philanthropy often have different underlying motives, and their programs often differ considerably in a number of important characteristics such as size and content. Broadly speaking, corporate philanthropy programs can be classified based on two dimensions: the quantitative aspect of the program (i.e., the amount of giving) and the qualitative aspect of the program (i.e., the type of giving). In quantitative terms, corporate philanthropy programs can differ in the amount of giving, which may indicate how generous firms appear to be. Although many firms engage in some form of charitable donations such as small cash donations to aid local civic causes (e.g., Porter and Kramer 2002), some firms stand out by donating considerably large amounts to charitable causes. We label the latter type of corporate philanthropy programs as *generous giving*. In addition to variations across firms in terms of quantity or amount of giving, firms can opt for different levels of engagement and involvement with their philanthropic activities, regardless of the dollar amount that they spend. In particular, corporate philanthropy programs can be carefully designed to be more innovative and aimed at promoting self-sufficiency among the recipients. Such programs are more likely to be associated with putting in considerable effort and/or positive long-term social impacts on the recipients, and we label this type of corporate philanthropy program as *innovative giving*.

Symbolic and Substantive Actions

From an institutional theory perspective, firms engage in actions in response to the pressures that they face from their environment and their stakeholders (e.g., Pfeffer and Salancik 1978). Broadly speaking, firms can respond to these pressures in two ways: by using either symbolic or substantive actions (e.g., Zajac and Westphal 1995).

Symbolic actions are actions aimed mainly at managing stakeholders' perceptions and thereby improving a firm's legitimacy while being decoupled from the true purpose of the action. Examples of firms using symbolic management to achieve conformity and compliance with the pressure of stakeholders without any true substance come in various forms. For example, Zajac and Westphal (1995) found that firms can satisfy external demands for increased accountability to shareholders by adopting but not implementing long-term incentive plans. In line with this finding, Weaver et al. (1999) showed that some firms form ethics committees purely as a symbolic action for external appearance without any actual substance. In contrast, substantive actions are those that are aimed at actually meeting the true, underlying purpose of the actions stakeholders expect. For example, firms undertake

substantive actions when they adopt and implement long-term incentive plans to meet pressure from shareholders for increased accountability (Zajac and Westphal 1995). Hence, their actions are consistent with the underlying purpose of why shareholders pressure firms to undertake such actions.

The distinction between symbolic and substantive actions has been employed in various settings. For example, Zajac and Westphal (1995) looked at CEO compensation contracts and found evidence that CEO compensation reflects both substance and symbolism. Looking at the same context, Westphal and Zajac (1994) observed that early adaptors are more likely to use long-term incentive plans in a more substantive way but that late adaptors do so more in a symbolic way to pursue legitimacy. Christmann and Taylor (2006) attempted to explain the conditions under which suppliers in China are more likely to implement quality management standards in a substantive way rather than in a symbolic way. Others have distinguished between symbolic and substantive actions in the contexts of bankruptcies (e.g., McDonnell et al. 2011), entrepreneurial firms (e.g., Zott and Huy 2007), and corporate social responsibility (CSR) (e.g., Short and Toffel 2010).

The importance of differentiating between substantive and symbolic actions has also recently been identified in the CSR literature, including that on corporate philanthropy. For example, Marquis and Qian (2014) differentiated between more symbolic and substantive CSR reporting by Chinese firms and looked at what drives them to comply with stakeholders' demands in a more symbolic or substantive manner. Arya and Zhang (2009, p. 1096) argued that substantive charitable initiatives in South Africa that demonstrate corporate commitment to long-term social change might reduce fears that "corporations might be pursuing symbolism over substance." Short and Toffel (2010) looked at the conditions under which firms' symbolic actions to self-regulate their air pollutant emissions are likely to result in actual implementation and found that the legal framework plays a crucial role. Although these studies have highlighted that some forms of CSR and philanthropy are more symbolic and others are more substantial, they have not investigated the performance implications of symbolic versus substantive actions. More broadly, explicitly comparing the relative performance implications of symbolic and substantive actions has received little attention in the literature.

Although the objective of symbolic actions is to manage stakeholder perceptions, stakeholders are often able to at least partially differentiate between symbolic and substantive actions based on certain information cues. As a result, these information cues have an impact on how stakeholders perceive and respond to firms' actions and consequently influence firms' financial performance. Hence, it might not be sufficient to differentiate between symbolic and substantive actions based on the actions themselves, as previous research has highlighted, but it is crucial to incorporate stakeholder perceptions of firm actions into our understanding of symbolism and substantiveness and their implications for firm value. In addition, firms may engage in a variety of actions that are substantive in nature. However, the existing literature has not differentiated between types of substantive actions and studied how different firm characteristics, which will act as important information cues, impact stakeholders' perception of how substantive these actions are. In this study, we highlight that certain philanthropic actions may be considered substantive if they are carried out by some firms. However, the same actions may be considered less substantive if they are carried out by other firms.

Theory

Symbolically and Substantively Perceived Philanthropy Programs and Firm Value

As noted by Godfrey (2005), the motives stakeholders infer to be driving corporate philanthropy are important in determining whether philanthropic giving can generate the positive moral capital that is necessary to enhance firm value. Therefore, to clearly understand the relationship between corporate philanthropy and firm value, it is important to incorporate stakeholders' perceptions of the intentions behind a firm's charitable acts. In particular, because stakeholders are likely to perceive some forms of philanthropy to be more symbolic than other forms, the characteristics of a firm's philanthropy program will have important value implications for that firm.

As highlighted above, corporate philanthropy programs can be classified based on two dimensions: the quantitative aspect of the program (i.e., the amount of giving) and the qualitative aspect of the program (i.e., the type of giving). Generous giving can lend greater credibility to the program as a greater amount of a firm's resources are committed and accordingly enhance the firm's reputation as a sincere donor. Hence, stakeholders will perceive this type of giving as being more substantive than that of firms that engage only in donating smaller amounts. It is important to emphasize that we are not arguing that less generous giving has little or no social impact. Instead, although less generous philanthropic activities are more likely to be perceived as being symbolic, they may still help firms at least partially meet the pressure from their stakeholders to do good. However, we expect that generous giving is perceived to be more substantive and will have a greater effect on firm value than will actions that are perceived to be symbolic.

In sum, substantive actions in the form of generous giving are more likely to be perceived as sincere and to improve a firm's public image, build rapport with stakeholders, and elicit positive responses and support from the firm's stakeholders; more symbolic philanthropic activities will have less potential to achieve this. This

is in line with most previous studies that have assumed that the performance benefits of corporate philanthropy are associated with the amount or the size of corporate donations, overlooking differences in *how* firms engage in philanthropy. Accordingly, we have the following hypothesis:

HYPOTHESIS 1 (H1). *Ceteris paribus, the valuation of firms engaging in generous giving is higher than that of firms that do not engage in generous giving.*

In addition to the amount of giving, firms may vary qualitatively in terms of the "innovativeness" of their giving activities and in terms of their level of engagement and involvement in their activities. In innovative giving, firms carefully design corporate philanthropy programs to be aimed at promoting self-sufficiency among the recipients by putting in considerable effort and/or enforcing positive long-term social impacts on the recipients. Such *innovative* giving can lend greater credibility to the program and thus enhance the giving firm's reputation as a genuine and sincere donor in the eyes of its stakeholders. Firms engaging in this type of philanthropy can more credibly signal to their stakeholders that their programs represent a sincere commitment to the benefits of the recipients. It also signals a firm's sincerity and genuine concerns about charitable causes. Accordingly, we expect that innovative giving will be perceived as more substantive and, as a result, that it will be more likely to meet the pressures of stakeholders. Consequently, we expect the following:

HYPOTHESIS 2 (H2). *Ceteris paribus, the valuation of firms engaging in innovative giving is higher than that of firms that do not engage in innovative giving.*

So far, we have argued that both the qualitative and quantitative dimensions of corporate philanthropy programs will matter and that both *generous giving* and *innovative giving* can be perceived as substantive. However, the qualitative and quantitative aspects of corporate giving may not be valued equally.

In light of public skepticism about business ethics, firms that can demonstrate that their philanthropy programs have a significant impact on social concerns may gain more credibility with respect to their genuine motives in engaging in such programs than those that are mere generous givers (Porter and Kramer 2002). In addition, generous giving in terms of quantity is more susceptible to abuses, where it is used to exploit fashionable causes to increase firm visibility or for other self-serving purposes (Balotti and Hanks 1999, Friedman 1970, Galaskiewicz 1997, Haley 1991, Porter and Kramer 2002). As such, whereas *generous* giving generally may be motivated by genuine good intentions, it remains more susceptible to perception of a lack of thought, inefficient use of substantial financial resources, and/or insincere ingratiation. In contrast, innovative giving is more likely to be associated with putting in considerable effort and a greater degree of firm involvement. Thus, its positive social effects on the recipients and the sincerity of this effort are more difficult to deny or fully discredit. Hence, relatively speaking, the qualitative aspect of giving is likely to be valued more than the quantitative aspect of giving. Therefore, we predict the following:

HYPOTHESIS 3 (H3). *Ceteris paribus, the positive association between engaging in corporate philanthropy and firm value is stronger for innovative giving than for generous giving. In other words, the qualitative aspect of giving has a stronger effect on firm value than the quantitative aspect.*

Characteristics of Philanthropic Firms and Firm Value

So far, we have argued that both generous giving and innovative giving may be perceived as substantive by stakeholders. Moreover, compared with generous giving, innovative giving can convey a more credible signal to stakeholders about a firm's sincerity in engaging in corporate philanthropic activities. Stakeholders' assessment of firms' sincerity, however, may not be solely based on the philanthropic "action" itself. In this section, we examine how the characteristics of the "actor" (i.e., the firm) may provide additional information cues that further influence how substantive generous and innovative giving are differentially perceived. In particular, we focus on two firm characteristics: the type of products or services that a firm provides and the operational life-cycle stage of the firm. These are two important and salient characteristics of a firm that provide stakeholders with additional information cues about its sincerity in giving and whether they perceive a firm's giving as substantive or symbolic. Furthermore, we argue that such additional information cues may be perceived differently across the two types of giving. Hence, these two firm characteristics allow us to further explore the differences between the firm value effects of the qualitative and quantitative aspects of giving that we advanced above.

The first firm characteristic that we consider is the nature of the products/services that firms provide or, more specifically, whether the products or services that firms provide are collectively known as the "triumvirate of sin," i.e., alcohol, tobacco, and gaming. Hereafter, we label firms that provide one of these products or services as "sin firms." Although firms provide various types of products and services, which can be classified in different ways, the classification based on the "sin" dimension is particularly relevant in the context of this paper because it provides stakeholders with additional information cues for assessing the underlying motives of a firm's philanthropic actions.

Because of the addictive nature and undesirable social consequences of their products when they are consumed

excessively, these products or services are viewed as sinful by many individuals and groups (Hong and Kacperczyk 2009), and this view may be further used to infer the motives or the underlying character of the firm. Corporate philanthropy of firms that provide such products or services is likely to be viewed with greater skepticism because it appears to be in direct conflict with the firms' products or services and may thus not carry much favor with many stakeholders. Their philanthropic activities may be perceived as "blood money" to atone for their products' ill effects. For example, when Philip Morris made an annual commitment of $175 million in donations in 1999, most critics dismissed it as an attempt to buy respectability and legitimacy (Levin 1999). Therefore, although generous giving might leave open more room for skepticism about a firm's sincerity (as discussed in H3), this is especially true for sin firms, whose generous giving may generate added skepticism or even cynicism.

In contrast, innovative giving emphasizes the sustained benefit to the recipients, so its objectives are more congruent with most stakeholders' ethical values and are thus more likely to generate positive moral capital among them (Godfrey 2005). Although stakeholders may view innovative giving by sin firms more skeptically than that by nonsin firms, the additional thought and effort that this giving requires and its focus on creating a sustained positive social impact on the recipients makes the substantive nature of the action more difficult to deny. Thus, to the extent that innovative giving can credibly convey sin firms' genuine motives in their charitable acts, stakeholders may still appreciate their efforts and be less likely to discount the benefits of their innovative giving—that is, stakeholders are not indiscriminant in their assessments of the merits of substantive corporate philanthropy. Such assessment is contingent on both the nature of the firm's philanthropic actions (qualitative versus quantitative) and the perceived morality of the firm that provides the necessary context to assess the sincerity of the firm's philanthropic actions.

In sum, stakeholders are likely to discount the benefits of generous giving by sin firms to a greater extent than innovative giving by sin firms. As such, we predict the following:

HYPOTHESIS 4 (H4). *Ceteris paribus, for firms providing sinful products or services, the positive value effect of engaging in generous giving decreases more than the positive value effect of engaging in innovative giving.*

Economic theory posits that firms evolve over time and proceed through distinct life-cycle stages (e.g., Jovanovic 1982; Spence 1977, 1979; Wernerfelt 1985). These life-cycle stages coincide with different levels of growth, availability of resources, investment opportunities, and risk. We argue that the life-cycle stage that the firm is in serves as another information cue facilitating stakeholder assessment of firm sincerity when engaging in corporate philanthropy programs. In particular, we are interested in understanding how generous and innovative giving are perceived differently depending on a firm's life cycle, which is classified into the following three stages: the *Growth* stage where firms are in an upward trend, the *Mature* stage where firms are largely stable, and the *Shakeout* stage where firms face intense challenges that they must overcome to avoid decline.

First, firms that are in the *Mature* stage are typically endowed with substantial levels of resources. Because of growth opportunities leveling off in this stage, the firm is likely to enjoy a large amount of financial resources but limited new investment opportunities. Considering that stakeholders may question firms' motives for giving, generous giving of large amounts, i.e., the quantitative aspect of giving, might be perceived as being too easy when firms are in a stage of their cycle where they have substantial levels of resources coupled with limited opportunities to deploy these resources. Hence, stakeholders are likely to see generous giving by these firms as less substantive; as a result, the quantitative aspect of giving may be further discounted. In contrast, innovative giving requires greater firm involvement and commitment; as a result, it is more difficult for stakeholders to deny that it is substantive and aimed at doing good, regardless of a firm's resource and investment opportunity situation. We thus expect that the gap between generous and innovative giving in terms of their firm value effect may be more salient when a firm is in the *Mature* stage.

Second, during the *Growth* stage, economic theory suggests that firms can maximize revenue growth by capturing market share and engaging in preemptive investment that can create barriers to entry (e.g., Jovanovic 1982; Spence 1977, 1979; Wernerfelt 1985). To this end, firms in the *Growth* stage typically require a large amount of capital. For example, greater funds are required for increasing capital investment in property, plant, and equipment, to increase capacity to meet the growing market demands and to achieve economies of scale. Research and development funds will also be needed to make changes to the product or services to better reflect customers' needs and suggestions. In addition, greater marketing efforts need to be made to differentiate a firm's offerings from other competitors within the industry. Thus, although profits might be generated in a firm's *Growth* stage, the firm often finds itself short of the funds required to sustain current growth and support future growth. In such a situation, if a firm still allocates resources for generous giving, it is more difficult for stakeholders to deny or fully discredit its philanthropic efforts, given that it is willing to dedicate scarce resources for philanthropic acts.

Third, for firms in the *Shakeout* stage, we also expect that generous giving will be perceived as more substantive. In this stage, firm growth decreases and profits are squeezed. When a firm is in a stage of its life cycle that imposes significant challenges, its resources, especially

financial ones, become critical for its survival. As a result, firms in this stage also tend to be resource constrained, although for different reasons than those in the *Growth* stage. In this case, it would be difficult to deny that generous giving by firms in the *Shakeout* stage is driven by sincere motivations. Therefore, in both the *Growth* and *Shakeout* stages, it is likely that both generous and innovative giving are considered substantive; thus, the gap between their value effect is likely to be narrowed.

In sum, we expect generous giving to be discounted in the *Mature* stage but less so or not at all in the *Growth* and *Stakeout* stage. At the same time, we argue that innovative giving is perceived as being substantive, regardless of the life cycle that the firm is in. Hence, the impact of the two types of giving will differ most in the *Mature* stage but not as considerably in the other two stages. Accordingly, we predict the following:

HYPOTHESIS 5 (H5). *Ceteris paribus, for firms that are in the mature stage, the value of engaging in innovative giving is higher than that of engaging in generous giving, but there is a smaller or no such difference for firms in either the growth or shakeout stages of their life cycle.*

Research Design

Data and Sample

The Kinder, Lydenberg, Domini, and Co. (KLD) and Compustat databases are the two major data sources used for this study. For the benefits of corporate philanthropy to be incorporated into firm value, such activities must be sufficiently substantial and visible to stakeholders (Godfrey et al. 2009). Corporate philanthropy that captures independent rating agencies' attention meets both criteria. This makes the KLD data suitable for investigating the value implications of firms' corporate philanthropic activities. Although the KLD data has its shortcomings and limitations, similar to any database, it is widely used in business and social research and is currently considered to be the best available data for measuring firms' corporate social responsibility activities (Choi and Wang 2009, Graves and Waddock 1994, Hillman and Keim 2001, Waddock and Graves 1997).

First, we obtained information on firms' philanthropic activities from the KLD database for a 19-year period from 1991 to 2009. Subsequently, we merged these data with the Compustat database to obtain information on the firms' financial performance and other firm-level variables. This resulted in a final sample of 3,409 firms and 20,418 firm-year observations that we used to test our hypotheses.

Dependent Variable

Firm Value. Our dependent variable is measured as the firm's share price obtained from Compustat. We focused on firm value because it represents the present value of expected net future benefits and costs. This is particularly important because the benefits of corporate philanthropy in securing access to critical resources would, in essence, focus on long-term benefits that their charitable acts can derive. Moreover, although stakeholders' perceptions of a firm's corporate philanthropy are not directly observable, considerable evidence (e.g., Godfrey et al. 2009, Muller and Kräussl 2011, Ramchander et al. 2012, Flammer 2013, Madsen and Rodgers 2015) suggests that financial markets and investors incorporate the impact of socially responsible activities on a broad set of stakeholders' attitudes and behavior and, thus, on the future cash flows and value of the firm (for a general but more detailed discussion on this issue, please also see, for example, Mackey et al. 2007). Hence, our dependent variable allows us to investigate the impact of different types of philanthropy and whether stakeholders perceive them as being more or less sincere and substantive on the valuation of firms.

Independent Variables

Generous Giving and Innovative Giving. We focused on two separate KLD data items that are consistent with our theoretical constructs of generous and innovative giving.[2] The first item captures our concept of "generous giving" and is defined as firms that have "consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or [have] otherwise been notably generous in [their] giving."[3] The second item captures our concept of "innovative giving" and is defined as firms that have "a notably innovative giving program that supports nonprofit organizations, particularly those promoting self-sufficiency among the economically disadvantaged." Subsequently two dummy variables were created. These two dummy variables are labeled, respectively, as *Generous Giving* and *Innovative Giving* and take a value of one if a firm was identified in the KLD data as exhibiting strengths in the corresponding type of giving and zero when the firm only engaged in nongenerous giving or noninnovative giving. Both variables are lagged and measured in the previous year to ensure that they precede the dependent and other independent variables to reduce reverse causality concerns and to ensure that stakeholders have sufficient time to obtain the necessary information to respond to a firm's corporate philanthropy.

To further ensure that our measures from the KLD database are consistent with our theoretical constructs of generous and innovative giving, we contacted a data consultant at MSCI, the company that currently manages the KLD database. The data consultant confirmed that up to 2009, the KLD variables indeed correspond with our theoretical constructs and that the main component of the variable that we label "innovative giving" is about promoting "self-sufficiency."[4] This leaves us confident about the validity of our measures, that there are clear and substantial differences between the types of giving and that these differences correspond to our theoretical constructs.

Firms Providing Sinful Products or Services. Consistent with the definition used by Hong and Kacperczyk (2009), we identified *sin firms* as those with products and services that are collectively known as the triumvirate of sin, i.e., alcohol, tobacco, and gaming. We created a dummy variable that takes the value one if a firm operates in one of these three businesses and zero otherwise.

Firm Life-Cycle. We follow Dickinson's (2011) method of classifying firm life-cycle stages using the patterns of firms' cash flows that are decomposed into various specific activities. Dickinson showed that her classification captures firm characteristics that are consistent with economic theory, which describes firms in each of those stages, and that her classification captures a firm's life-cycle stages more accurately than other existing measures. In line with Gort and Klepper (1982), firms are initially classified into five stages: *Introduction*, *Growth*, *Mature*, *Shakeout*, and *Decline* based on differences in the patterns of their net cash flows from operations, financing and investing.[5] To facilitate our empirical tests, we combine the introduction and growth stages as *Growth* stage and the shakeout and decline stages as *Shakeout* stage.[6]

Empirical Model Specifications

The ad hoc nature of the empirical models adopted by extant studies on corporate social responsibility (including corporate philanthropy) and financial performance relation has been criticized (e.g., Margolis and Walsh 2001, McWilliams and Siegel 2000). In this study, we deviate from such ad hoc approaches by using the residual income model to theoretically motivate our empirical model specifications. Although the residual income model has a long tradition and has frequently been used in the accounting and finance literature because of its advantages (e.g., Edwards and Bell 1961, Peasnell 1982, Preinreich 1938, Ohlson 1995, Dong et al. 2006, Zhang 2006, Ma et al. 2011), it has only been introduced to the strategic management literature relatively recently (for recent examples, see Koh et al. 2014). We describe the basic empirical implementation of the model and some of its desirable characteristics here. For a more detailed and technical explanation of the model, please refer to Ohlson (1995).

Specifically, the empirical implementation of the theoretical residual income model expresses equity value (price) as a function of a firm's (i) fundamentals (the book value of equity, *BVE*, and earnings, *EARN*); and (ii) other information (for our purpose, whether a firm is known for being a generous or innovative giver), as follows:

$$P_t = \beta_0 + \beta_1 BVE_t + \beta_2 EARN_t + \beta_3 Generous\ Giving_{t-1} + \beta_4 Innovative\ Giving_{t-1} + \Sigma INDUSTRY + \Sigma YEAR + e_t, \quad (1)$$

where P is a firm's share price at the end of fiscal year t, *BVE* is the book value of its equity (per share) at the end of year t, *EARN* is its earnings (per share) in year t, and $\Sigma YEAR$ and $\Sigma INDUSTRY$ are year and industry (based on four-digit SIC codes)[7] fixed effects.[8] To test H4, we introduce *Sin Firm* as another variable interact it with *Generous Giving* and *Innovative Giving*. For H5, we introduce *Growth* and *Shakeout* as two indicator variables to identify whether firms are, respectively, in the *Growth* or *Shakeout* stages of their life cycle. We also interact these two indicator variables with *Generous Giving* and *Innovative Giving*.

This empirical approach has a number of advantages that make it particularly suited to test our hypotheses. First, the residual income model provides the theoretical foundations to incorporate both firm fundamental and nonfundamental information (in this case, corporate philanthropy) into the firm valuation function and thus facilitates a more structured and systematic assessment of the valuation effects of corporate philanthropy. Second, the residual income model is specified in such a way that it avoids the need for having a considerable set of control variables without being at risk of having an under-specified model. Specifically, the two firm fundamental measures that are built into the model, i.e., book value of equity (BVE_t) and earnings ($EARN_t$), summarize a firm's entire financial performance and the financial positions that appear on its financial statements. This alleviates any possible omitted variable problems relating to firm financial information.[9] Furthermore, the key variables in the model (P_t, BVE_t, and $EARN_t$) are expressed on a per share basis that normalizes firm size in the model. Overall, this leaves the empirical implementation of the residual income model elegantly simple. Third, the model is designed to be invariant to different accounting practices by firms making it far less sensitive to such choices than other approaches. Altogether, this makes empirical model specifications motivated by the residual income model ideal to test our hypotheses.

Estimation Procedure

We use ordinary least squares (OLS) regression models to estimate our coefficients with robust standard errors that are heteroskedasticity consistent and that adjust for firm-level clustering (i.e., nonindependence between observations from the same firm). We also check the robustness of our estimation approach by using different model specifications, including two-stage Heckman specifications in the robustness section of the paper.

Results

Descriptive statistics for the data and a correlation matrix are presented in Table 1. Consistent with the valuation model, the equity book value (*BVE*) and earnings per share (*EARN*) are strongly correlated with a firm's equity

Table 1 Descriptive Statistics and Correlation Matrix

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1 *Firm Value*	29.33	19.93									
2 *BVE*	12.49	15.59	0.45***								
3 *EARN*	1.09	2.14	0.61***	0.39***							
4 *Giving*	0.07	0.25	0.17***	0.05***	0.11***						
5 *Generous Giving$_{t-1}$*	0.04	0.19	0.11***	0.04***	0.08***	0.76***					
6 *Innovative Giving$_{t-1}$*	0.03	0.18	0.13***	0.03***	0.08***	0.71***	0.18***				
7 *Sin Firm*	0.01	0.12	0.06***	0.00	0.04***	0.06***	0.04***	0.04***			
8 *Growth Stage*	0.37	0.48	−0.06***	−0.04***	−0.11***	−0.08***	−0.04***	−0.07***	−0.10		
9 *Mature Stage*	0.50	0.50	0.17***	0.08***	0.21***	0.11***	0.06***	0.10***	0.02***	−0.76***	
10 *Shakeout Stage*	0.13	0.34	−0.17***	−0.07***	−0.15***	−0.05***	−0.03***	−0.04***	−0.02**	−0.30***	−0.39***

Notes. The sample size is 20,418. All tests are two tailed: ** $p < 0.01$; *** $p < 0.001$.

value (P). We also observe a significant positive correlation between a firm's equity value and corporate philanthropy (*Generous Giving* and *Innovative Giving*), thus providing preliminary evidence that stakeholders value corporate giving favorably. In addition, only approximately 4% and 3% of our sample observations engaged in generous giving and innovative giving, respectively.[10] Consistent with our arguments, these percentages suggests that engaging in generous or innovative giving is not the norm and that firms can engage in these types of giving to convey the substantiveness of their corporate philanthropic actions and differentiate themselves from other firms.

Table 2 provides the regression results to test our hypotheses. Model 1 presents the baseline valuation model. In Model 2, we add our primary explanatory variables, i.e., *Generous Giving* and *Innovative Giving*. The F-statistics show that every model provides a significant improvement in fit ($p < 0.001$) relative to an intercept-only model. Furthermore, the F-statistics of the models, which include our giving measures, show that adding these measures to the baseline model with only the control variables (Model 1) statistically increases the fit of the model ($p < 0.001$).

As expected for our type of valuation model, the results in Model 1 reveal that both the firm's equity book value and its earnings per share have a positive and significant ($p < 0.001$) effect on firm value. Consistent with H1 and H2, the coefficients in Model 2 of both *Generous Giving* ($p < 0.05$) and *Innovative Giving* ($p < 0.001$) are positive and significant. After comparing both coefficients by conducting an F-test, we find that the positive association between engaging in innovative giving and firm value is stronger than that between engaging in generous giving and firm value ($p < 0.05$), which is consistent with H3. Collectively, these findings offer support for H1–H3.

Examining the practical magnitudes of the hypothesized effects confirms the above inferences. The practical impact of innovative giving on firm value is approximately 2.8 times larger than that of generous giving. Furthermore, the positive relationship between a firm's earnings and its valuation is well established and considered important in the literature, which makes it suitable to use as an anchor to benchmark the effect sizes of our two giving variables (e.g., Ertug and Castellucci 2013). Specifically, we compare the practical magnitudes of the effects of the two giving variables with that of the effect of earnings by comparing the effect on the dependent variable of a one-standard-deviation change in the continuous earnings variable with the effect of engaging in generous giving (compared with nongenerous) or engaging in innovative giving (compared with noninnovative giving) (i.e., a change from zero to one in the giving dummy variables). The effect of innovative giving on the firm's valuation is 65% of that of the firm's earnings, and the effect of generous giving is 23% that of a firm's earnings. It is not surprising that the effects of our giving variables are smaller than that of the firm's earnings, but they still have a substantial impact on the firm's valuation. In addition, when we look at the practical magnitudes of our hypothesized effects in absolute amounts, we observe that moving from a nongenerous giver to a generous giver is associated with an increase in share price of \$2.16 but that a move from a noninnovative giver to an innovative giver is associated with a \$6.11 increase in share price. This is somewhat less than the effect of a one-standard-deviation change in earnings that is associated with an increase of \$9.41 in share price, but it is still significant. Hence, the economic magnitudes of these effects are realistic and consistent with the statistical significance of our findings.

Hypothesis 4 predicts that the benefits of engaging in generous giving by sin firms are discounted to a greater extent than are those of innovative giving. In Model 3, we find that the coefficient of the interaction term *Sin Firm* × *Generous Giving* is negative and significant ($p < 0.05$), which suggests that investors discount the value of generous giving by sin firms. In contrast, the coefficient of the *Sin Firm* × *Innovative Giving* term is not significant. Therefore, it seems that investors do not discount the value of innovative giving, even if it is by a sin firm. Consistent with these findings, additional tests reveal that the coefficient of the *Sin Firm* × *Generous*

Table 2 Regression Results

Variables		Model 1	Model 2	Model 3	Model 4
Constant		25.843***	25.108***	25.057***	25.720***
		(*3.944*)	(*3.938*)	(*3.939*)	(*3.948*)
BVE_t		0.323***	0.322***	0.323***	0.323***
		(*0.083*)	(*0.082*)	(*0.083*)	(*0.082*)
$EARN_t$		4.435***	4.398***	4.396***	4.289***
		(*0.186*)	(*0.183*)	(*0.184*)	(*0.182*)
$Generous\ Giving_{t-1}$	H1		2.162*	2.393*	1.442
			(*0.990*)	(*1.009*)	(*1.056*)
$Innovative\ Giving_{t-1}$	H2		6.109***	6.004***	6.094***
			(*1.389*)	(*1.439*)	(*1.465*)
$Sin\ Firm_t$				5.198	
				(*3.253*)	
$Sin\ Firm_t \times Generous\ Giving_{t-1}$	H4			−6.970*	
				(*3.040*)	
$Sin\ Firm_t \times Innovative\ Giving_{t-1}$	H4			1.905	
				(*3.420*)	
$Growth\ Stage_t$					−0.840**
					(*0.295*)
$Growth\ Stage_t \times Generous\ Giving_{t-1}$					0.255
					(*1.473*)
$Growth\ Stage_t \times Innovative\ Giving_{t-1}$					−1.022
					(*1.648*)
$Shakeout\ Stage_t$					−4.343***
					(*0.374*)
$Shakeout\ Stage_t \times Generous\ Giving_{t-1}$					7.614*
					(*3.210*)
$Shakeout\ Stage_t \times Innovative\ Giving_{t-1}$					0.317
					(*3.051*)
Industry dummies		Included	Included	Included	Included
Year dummies		Included	Included	Included	Included
Observations		20,418	20,418	20,418	20,418
R^2		0.489	0.493	0.493	0.497
Model F-tests		71.16***	72.37***	79.44***	71.05***

Hypothesis 3 (Model 2): Null hypotheses and p-values of the F-tests:

- *Generous Giving = Innovative Giving*: — *p-value = 0.027*

Hypothesis 5 (Model 4): Null hypotheses and p-values of the F-tests:

- *Mature Stage*: (*Generous = Innovative*): — *p-value = 0.011*
- *Growth Stage*: (*Generous Giving + Growth × Generous Giving*) = (*Innovative Giving + Growth × Innovative Giving*): — *p-value = 0.184*
- *Shakeout Stage*: (*Generous Giving + Shakeout × Generous Giving*) = (*Innovative Giving + Shakeout × Innovative Giving*): — *p-value = 0.610*

Notes. The robust standard errors reported in parentheses are adjusted for heteroskedasticity and firm-level clustering. All tests are two tailed: $^{*}p < 0005$; $^{**}p < 0.01$; $^{***}p < 0.001$.

Giving term was significantly smaller than that of the *Sin Firm* × *Innovative Giving* term ($p < 0.05$). As such, we find support consistent with H4.

Hypothesis 5 predicts that the value of engaging in innovative giving is higher than that of engaging in generous giving in the *Mature* stage but that there are no such differences when a firm is in either the *Growth* or *Shakeout* stages of its life cycle. Accordingly, we performed F-tests to examine whether the effects of generous giving on firm values differ from those of innovative giving in each of the three life-cycle stages.[11] The tests revealed that the relation between generous giving and firm value is weaker than that between innovative giving and firm value ($p < 0.05$) in the *Mature* stage. In contrast, the effects of generous giving and innovative giving do not statistically differ from each other in the *Growth* and *Shakeout* stages (p-values = 0.184 and 0.610, respectively). Hence, our findings are consistent with H5.

Robustness Checks and Additional Analyses

We performed several supplementary analyses to ensure the robustness of our main findings. First, considering the structure of our data, our main analysis corrected

for potential dependency among observations from the same firm across time by using clustered robust standard errors. When we reran our analysis without such standard error correction, we continued to find evidence consistent with our main findings, though with stronger statistical significance for our variable of interests. As such, our reported main findings are more conservative.

Another concern relates to potential endogeneity in firms' choice of corporate philanthropy program. We employ the two-stage Heckman (1979) selection model to ensure that our findings are not driven by any endogeneity issues. We start with a straightforward application of Heckman's model with a first stage, in which we run a probit regression of whether a firm is engaging in either generous or innovative giving on a series of known factors that determine corporate philanthropy. Specifically, these factors include the lagged share price, current ratio, debt ratio, firm size, book-to-market ratio, R&D intensity, advertising intensity, age, the proportion of firms in an industry that is known for corporate philanthropy, and industry dummies. The lagged share price variable is included in the first-stage model to allow for potential reverse causality, i.e., the possibility that firms with better performance are more likely to engage in corporate philanthropic activities. We included the proportion of firms in an industry that are known for corporate philanthropy (generous and/or innovative giving) as instruments because they are expected to be associated with a firm's philanthropic activities but are unlikely to be associated with a firm's financial performance (e.g., Galaskiewicz and Burt 1991, Wang et al. 2008, Wang and Qian 2011). The inverse Mills' ratio is then calculated from this first-stage probit estimation. We then reestimated all of our regression specifications including the inverse Mills' ratio. We continue to find evidence consistent with our main tests reported earlier with one exception: generous giving is no longer associated with firm value (i.e., H1 is no longer supported). In a second and more complex specification, we treat both *Generous Giving* and *Innovative Giving* as two separate endogenous variables, each with its own first stage to calculate inverse Mill's ratios. Doing so yielded results that are consistent with our simpler Heckman specification. As predicted, this evidence highlights that the critical distinction between innovative and generous giving and stakeholders' perceptions of whether the philanthropic activities of a firm are more symbolic or substantial do matter. It also offers stronger support for H3.

Our empirical specification to test H4 follows the most commonly used approach of only interacting the *Sin Firm* variable with the variables of theoretical interest, namely, *Generous Giving* and *Innovative Giving*. One potential concern of such specification relates to a potential correlated omitted variable problem introduced by not including interaction terms between the *Sin Firm* variable and control variables. We performed two robustness checks to alleviate concerns that our main findings may be an artifact of such omissions. First, we included additional interaction terms between the *Sin Firm* variable and *BVE* and *EARN*. Second, we separately estimated our model using two subsamples based on whether a firm operates in sin industries. Both sets of additional tests yielded evidence consistent with H4.

Finally, our theoretically motivated empirical model includes two summary measures of firms' financial performance and positions (*EARN* and *BVE*, respectively), where the *EARN* measure includes both R&D expenditure and advertising expense. Because theoretically, we are not interested in how specific financial characteristics influence firm value, we did not decompose these two summary measures into their finer components. However, when examining the relationship between corporate social and financial performance, extant ad hoc model specifications typically control for these two factors separately (e.g., McWilliams and Siegel 2000). Therefore, as robustness checks, we conducted additional analyses that separately control for both R&D expenditure and advertising expenditure, which yielded evidence consistent with our main results. In addition, we separately controlled for firm size by using two separate measures. Our results remained robust when using the firm's total assets and the number of employees as proxies for firm size. Overall, our supplementary analyses showed that our findings are robust.

Discussion

The aim of this study is to investigate the relationship between corporate philanthropy and firm value while incorporating heterogeneity in the way firms give and the characteristics of the philanthropic firms. Our empirical evidence suggests that incorporating these factors is important for enriching our understanding of the financial impact of corporate philanthropy. We found that although innovative and generous corporate philanthropy are positively associated with firm value, this positive association is stronger for innovative giving. Moreover, the gap between the value effects of innovative and generous giving is greater for sin firms and firms that are in the *Mature* stage. In sum, our findings suggest that stakeholders value philanthropic giving in both quantitative and qualitative terms but that the qualitative aspect of philanthropic activities appears to be more salient because it is valued more positively and more consistently. In addition, our findings highlight that it is not solely the philanthropic actions that a firm undertakes that matter but also the characteristics of the firm that undertakes such actions.

This study and its findings have several important implications for both academic research and practice. First, the corporate philanthropy literature is characterized by both a long-running debate and mixed empirical evidence

on the relationship between corporate philanthropy and firm performance. On a broader level, the results of this study help resolve the debate and the mixed findings (e.g., Friedman 1970, Godfrey 2005, Orlitzky et al. 2003, Waddock and Graves 1997). More specifically, the existing corporate philanthropy literature has largely focused on the impact of the magnitude of corporate charitable donations (i.e., the quantitative aspects) but has overlooked the nature of these activities (i.e., the qualitative aspects) and the factors that differentiate the firms pursuing such activities. In this paper, we address this critical omission by showing that the nature of corporate philanthropic activities and the characteristics of the firms engaging in these activities do indeed affect the value created through corporate philanthropy.

Second, we contribute to the literature on symbolic management by incorporating the role of stakeholder perceptions when determining whether actions are symbolic and substantive. Most previous studies have mainly focused on firm actions in terms of whether the firm actually engages in symbolic and substantive actions. However, the literature has underplayed the role of stakeholder perceptions of the actors who pursue the actions. In this study, we fill this gap by showing that firm actions alone may not be sufficient for determining their substantiveness and that stakeholder perceptions of such actions, which are influenced by firm features such as the type of products or services that a firm provide and the life-cycle stage of the firm, also matter. In addition, most studies in the symbolic management literature have focused on how and under which conditions firms use symbolic and/or substantive actions (e.g., Westphal and Zajac 1994, McDonnell et al. 2011). However, far less attention has been paid to the performance implications of pursuing symbolic and/or substantive actions in general and how the value implications of symbolic and substantive might differ. In this study, we fill this gap by contrasting the value implications of philanthropic activities; our evidence suggests that the value created by actions that we expect to be perceived as being symbolic and substantive actions do differ significantly.

Several important practical implications on the practice of corporate philanthropy follow from our findings. The results suggest that although it generally pays for firms to engage in corporate philanthropy, managers must keep in mind that not all corporate philanthropy is valued equally. For corporate charitable acts to garner positive moral capital consistently and to add firm value, firms need to demonstrate their sincerity rather than be considered acts of ingratiation. Otherwise, skeptical stakeholders discount their efforts, which will reduce the potential benefits of corporate philanthropy in terms of firm value. In other words, being known merely as a giver limits the potential for corporate philanthropic programs to add firm value. Instead, being known for doing good with genuine motives is what is required for charitable acts to be truly value enhancing. Our results suggest that one avenue to credibility can be to focus on philanthropic programs that emphasize the qualitative aspects of their giving effort.

Facing the delicate acts of balancing economic and social responsibility, managers can rest assured that they can in fact "do good and do well" at the same time. They can best achieve this by ensuring that they are able to establish the genuineness of their charitable acts and convey that to their stakeholders. They need to ensure that their philanthropic activities are not tempered by self-interest. When managers are able to do that, stakeholders will be more likely to appreciate their charitable efforts, and positive moral capital is more likely to ensue. We have shown that even sin firms can establish credibility in their corporate philanthropy and that if they do so, stakeholders will value their efforts and not discount them purely because of the nature of the firms' business. That is, even sinful firms, if they are genuine in their corporate philanthropic activities, can do good for society and be recognized for their efforts.

The issue, then, is not so much whether corporate philanthropy adds value per se; rather, it is more about *how* firms can engage in charitable acts such that they add value in the presence of a firm's resource constraints. The results of this study can serve as an important step toward a better understanding of not only the relationship between corporate philanthropy and firm value but also the importance of projecting sincerity in this value enhancement process. This has been an important missing piece in most prior empirical studies on corporate philanthropy.

Limitations and Suggestions for Future Research

A number of suggestions for future research stem from this study's limitations. First, although this has been the first known large sample study to examine the impact of qualitative differences in the nature of philanthropic activities on the relationship between corporate philanthropy and firm value, it has focused on only one additional way (on top of the amount of giving) to differentiate between different philanthropic activities, i.e., whether they are innovative. Future research might fruitfully explore other qualitative differences in giving, which might matter in terms of explaining firm value. For example, giving might qualitatively differ in terms of geographic focus (e.g., Tilcsik and Marquis 2013). Hence, future research could investigate how the geographic aspect of giving might influence stakeholders' perception and, thus, firms' value. Another potential area of future exploration is associated with our moderators. We focus on two key factors that may act as information cues in stakeholders' evaluation of the firm's sincerity in giving, i.e., the nature of the products or services that a firm provides and the life-cycle stages of a firm. Future research can investigate other characteristics of the firm that influence how different types of giving are perceived. In addition to sinful products/services, for example, whether the firm has engaged in unethical or

illegal behavior may be considered alternative cues for stakeholders to evaluate a firm's moral character. Another fruitful area for future research is to examine firms' moral character more directly. For example, some recent work has highlighted the promise inherent in the concepts of authenticity and integrity for enhancing our understanding of firm corporate social activities (e.g., Freeman and Auster 2011, Liedtka 2008, Simons 2002). Future studies may build on this literature to provide a more in-depth understanding of how firms' moral character and the alignment (or misalignment) of their character with their social activities affects firm value.

Second, we used the KLD ratings on whether firms engages in innovative giving because it is currently the best available and most widely used source of large sample data on corporate social performance. However, this nonetheless represents the assessments of one rating agency. Future studies may revisit and expand some of the issues that we investigate when other reliable data become available. Another limitation of using third-party ratings such as those by KLD is that they ignore the actual projects in which firms engage. Another avenue for future research might be to examine more closely the actual charitable projects firms support. Closer examination of the nature of those projects may give researchers a better understanding of how firms actually portray their motives to stakeholders, particularly in circumstances where stakeholder skepticism may be difficult to overcome. A good example can be found in a recent study by McShane and Cunningham (2012). Through in-depth interviews with employees, their study provided a detailed account of the nature of firm CSR programs and how employees differentiate between authentic and inauthentic programs. Along these lines, future research can investigate whether participating in projects initiated by the firms themselves or run by other charitable organizations convey different messages to stakeholders. This may limit the use of a large sample archival research methodology such as that adopted in this study.

Third, our arguments rely on implicit assumptions about how stakeholders perceive corporate philanthropy under different conditions. Although there are many challenges to observing stakeholders' perceptions more directly in large quantitative studies such as ours, future research could use different empirical approaches to measure more directly how stakeholders perceive the quantitative and qualitative aspect of firms' philanthropy programs. Moreover, we discuss the perceptions and responses of various firm stakeholders such as employees, customers, and communities and largely consider "stakeholders" to be a homogenous group in developing the key arguments. However, it is clearly the case that some stakeholders may have a greater impact on firm value than others. Although it is beyond the scope of the current study, understanding the variation across different stakeholder groups in their perceptions of corporate philanthropy and the impacts of such different perceptions on firm value is an interesting subject in itself. Such an approach would be especially valuable for future studies examining specific outcome variables (e.g., employee satisfaction or customer loyalty) that are relevant for one particular group of stakeholders (employees or customers).

Moreover, in this study, we focus on one important aspect of a firms' CSR behavior, namely, corporate philanthropy. We believe that our arguments and findings are extendable to firms' other CSR behavior such as environmental performance. Further research could investigate how the quantitative and qualitative aspects of other dimensions of CSR behavior influence stakeholder perceptions and firm value.

Finally, future research might investigate whether stakeholders use the success or failure of previous philanthropic activities as a signal when determining whether to extend goodwill to firms. For example, it is conceivable that stakeholders may not view a firm that has consistently been involved in charitable projects that failed to achieve their stated objectives favorably. Such firms are likely to accrue only very limited positive moral capital among stakeholders despite firms' good intentions in taking part in these charitable acts. Stakeholders may consider such failures to be a sign of consistently poor management decisions that may permeate to other aspects of the firm's operations. In the extreme, ill will might ensue. A longitudinal research methodology that tracks the progress of charitable projects across time seems well suited to addressing research questions of this nature.

Conclusions

Corporate philanthropy can be valuable for firms, but its value depends on stakeholders' inferences about the sincerity of a firm's charitable acts. Firms can credibly signal their sincerity by focusing their philanthropy on programs that are generous and/or innovative. However, the benefits of innovative giving are generally greater than those of generous giving and are less likely to be discounted, even for firms that provide sinful products and firms that are in a certain life-cycle stages. Hence, just doing good or being generous may have a limited impact on building a durable appreciation among stakeholders. Instead, firms can make a substantially bigger impact by focusing on the qualitative aspects when designing their philanthropy programs. We hope that by taking the first step toward incorporating the roles of firms' sincerity in corporate philanthropy and stakeholder inference of firm intentions, this study can spur a lively debate and research agenda on their roles in advancing our understanding of the relationship between firm value and corporate philanthropy.

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Endnotes

[1]The paper examines how employees differentiate between authentic and inauthentic CSR programs, and how these judgments influence their perceptions of the organization. They find that perceived authenticity can lead to positive outcomes such as organizational identification and employee connections.

[2]One of the two items that we use is labeled differently in the KLD data. The item that corresponds to our concept of "generous giving" is labeled "charitable giving" in the KLD data. To avoid confusion, we consistently use the terms "generous giving" and "innovative giving" throughout the entire paper.

[3]We believe this is a substantial amount, considering that the population of Compustat firms over the 1990–2009 period spent, on average, 3.0% and 4.5% of their earnings before taxes on R&D and advertising, respectively.

[4]The KLD data consultant also noted that after 2009, the variable that we label "innovative giving" starts to include a wider range of initiatives than do those aimed at promoting "self-sufficiency." However, this is beyond the 19-year period of our sample, which ends in 2009, and should thus not pose any problems. The full correspondence with the MSCI data consultant is available from the authors upon request.

[5]See Dickinson (2011) for detailed explanations of the classification scheme. In a nutshell, it can be summarized as follows:

Sign of	1	2	3	4
Cash flows from:	*Introduction*	*Growth*	*Mature*	*Shakeout*
Operating activities	−	+	+	−
Investing activities	−	−	−	−
Financing activities	+	+	−	−
Sign of	**5**	**6**	**7**	**8**
Cash flows from:	*Shakeout*	*Shakeout*	*Decline*	*Decline*
Operating activities	+	+	−	−
Investing activities	+	+	+	+
Financing activities	+	−	+	−

[6]Our results are robust to only using firms in the *Growth*, *Mature*, and *Shakeout* stages, as classified by Dickinson's scheme (i.e., excluding firms in the introduction and decline stages), where we continue to find evidence consistent with the results reported in Table 2.

[7]We adopt the Fama-French 49 industry classification, which is commonly used in the accounting and finance literature, as our industry controls. This scheme classifies firms into 49 industry groups based on their four-digit SIC codes. A full list of the classification can be accessed on Kenneth French's website (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/Data_Library/det_49_ind_port.html).

[8]We conducted Hausman tests to select between fixed- and random-effects specifications. These tests showed that the random-effects estimator was inconsistent; thus, fixed effects are preferred.

[9]If one is interested in the effect of a specific financial characteristic on firm value, one can simply include that particular variable of interest separately in the estimation equation and exclude it from either the *BVE* or *EARN* variables as appropriate. Otherwise, there is no need to decompose it from either the *BVE* or *EARN* variables.

[10]More specifically, our sample contains 632 observations in which the firm engages in generous giving, 548 observations in which the firm engages in innovative giving, and 158 observations in which the firm engages in both generous and innovative giving.

[11]The three life-cycle stages are mutually exclusive, and we used the *Mature* stage as the base category in our analysis. To test whether the value of engaging in *Generous Giving* is significantly lower than that of engaging in *Innovative Giving* in the *Mature* stage (i.e., the base category), we compare the coefficient of *Generous Giving* with that of *Innovative Giving* using an F-test. For the *Growth* and *Shakeout* stages, we also use F-tests to contrast the overall effects of *Generous Giving* versus *Innovative Giving* within each stage. Specifically, for the *Growth* stage, we compare (*Generous Giving* + *Growth* × *Generous Giving*) with (*Innovative Giving* + *Growth* × *Innovative Giving*); analogously, we compare (*Generous Giving* + *Shakeout* × *Generous Giving*) with (*Innovative Giving* + *Shakeout* × *Innovative Giving*) to test for the effects within the *Shakeout* stage. As an alternative approach, we also compared the coefficients using three subsamples based on the life-cycle stage, which yielded consistent results.

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