DOES CORPORATE GIVING RAISE FIRM VALUE?

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Spring 2003

ABSTRACT

This study examines the motivations behind corporate giving. In particular, I explore the question of whether social responsibility plays a role in driving in financial markets. Is firm value affected by corporate giving? If so, could this be a driving factor in determining whether or not and to what extent a firm engages in corporate philanthropy? Using financial data, an original empirical study is carried out, the results of which indicate that firm value is strongly and positively associated with the total giving of a firm. This supports the idea that financial markets perceive firms to have some social duty, and that firms are rewarded financially for fulfilling those responsibilities.

I. Introduction and Literature

American corporations often pride themselves not only on their success as a business but also on their philanthropic effort and their commitment to the public good. Yet the question as to *why* firms choose to give to foundations and other nonprofit organizations continues to be a contested issue.

While the motivations behind altruism, time contributions, as well as individual giving and bequests have been debated for some time, much less literature and empirical research exists on the issue of corporate giving, in part due to the lack of necessary data and also to the fact that it is a relatively new concept[1]. The bulk of the research that has been carried out on this issue tends to provide a set of tax rate and income elasticities that serve by predicting the

[1] Corporate giving, while the concept has been around for a while, did not really come of age until the 1950s. See Himmelstein 14-19.

level of contributions[2], but do little in terms of explaining the underlying motivations of corporate giving[3].

If the ultimate goal of a corporation is to maximize the wealth and well-being of its shareholders, why then do corporations make gifts? One possibility may be that the managers and shareholders genuinely care about the overall level of the public good that the corporation's donation provides. Interestingly enough, we are forced to look toward other reasons. A court ruling in 1916 actually prohibited corporations from giving with the sole intent of benefiting mankind for purely altruistic reasons[4]. It was only in 1952 and 1969 following two further court cases that corporate philanthropy became more clearly established; "while the courts never fully gave up the requirement of 'direct benefit,' it extended that requirement to 'cases where a contribution, not resulting in immediate economic results, was made as a matter of business judgment to fulfill business objectives'"[5]. The decision regarding which donations were acceptable was left to the discretion of the firms' executives, as the rulings defined it appropriate to support of all forms of higher education as well as any cause that had some sort of "business justification" to it[6].

Thus, it seems as if corporate philanthropy may merely be a means to an end that ultimately includes the firm's well-being. In the end, the maximization of profits and of the shareholders' wealth is the goal. This is consistent with the research carried out by Peter

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[2] Navarro, 66. Note that these elasticities (see Clotfelter's work) also refer primarily to individuals but can be applied to corporations.

[3] The piece of work that most specifically addresses the question of why corporations give was carried out by Peter Navarro in 1988. He develops a model that regresses the giving-to-sales ratio on several different variables. In terms of firm value and corporate contributions, no previous empirical research exists on the subject.

[4] Himmelstein 18. Michigan court case ruling in *Dodge v. Ford* (1916) stating: there is a difference "between an incidental humanitarian expenditure of corporate funds for the benefit of employees…and a general purpose to benefit mankind at the expense of others…[furthermore,] a business corporation is organized and carried on primarily for the profit of shareholders. The powers of the directors are to be employed for that end. The discretion of the directors is to be exercised in the choice of the means to attain that end, and does not extend to a change in the end itself…"

[5] Himmelstein 22.

[6] Himmelstein 22.

Navarro, who finds that his empirical test strongly indicates "profit maximization [to be] an important motive in driving contributions"[7].

But even so, if the final goal is to maximize profits, we return to the question of why firms choose to give. What is the motivation behind giving as a means to maximize profits, as opposed to other methods which may directly benefit the firm in more immediate, visible and more concrete ways?

Harbaugh, in his 1998 article, introduces the prestige motive among individuals for making charitable transfers and hypothesizes that "the prestige benefits from public recognition of donations are an important reason why people give"[8]. By examining incrementally reported donations, he finds that his results "support the hypothesis that donors have a taste for prestige, and …show that a substantial portion of donations can be attributed to it"[9]. Huseyin and Romano (2001) also reach a related conclusion by theoretically approaching the issue of announcements from the charity's perspective; they find that a higher payoff may be obtained through announcing to the public the magnitude of donations, and hence inducing the players (the donors) to engage in a sequential game as opposed to having them donate

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[7] Navarro 90.
Navarro's empirical study regressing the giving-to-sales ratio on several explanatory variables; he finds that profit-maximization is supported by his research. Embedded in the profit-maximization motive, Navarro also briefly touches upon an "overall advertising strategy designed…to promote the firm's image" (67). Such advertising may serve to increase the goodwill of the company, which stockholders view favorably. His theoretical model includes a profit function in which the level of product output is a function of price and contributions (67). In differentiating and manipulating the equations, he obtains a variation on the Dorfman-Steiner rule in which the firm's giving-to-sales ratio rises with the elasticity of demand with respect to contribution advertising and falls with respect to the price elasticity of demand (68). He finds that the giving-to-sales ratio rises with an advertising expenses variable as well as the price-cost margin (86). His results as well as other implications from his study support the hypothesis that "corporate contributions represent a form of advertising" (90). *For more on the question of whether corporate giving is an advertising strategy, see Appendix.*

[8] Harbaugh, 277.
Harbaugh's empirical work estimates a utility function that incorporates the prestige motive by looking at the categorical reporting of donations and how it affects the level of giving. He uses data on gifts made by lawyers to their law schools.

[9] Harbaugh, 281.

simultaneously[10]. One underlying assumption in his model is that the level of giving is motivated by the individuals' private interests, which may include social prestige and reputation[11].

If indeed prestige and social status are a concern when it comes to individual donations, what implications do these theories have for public donations made by private corporations? These prestige motives, which have been shown to be consistent with the observed giving patterns of individuals, hint at a deeper issue: the importance and the weight that the fulfillment of social responsibility has on one's reputation. If a corporation's reputation affects its economic value and if contributing to the public good positively affects its reputation, firms may be motivated to give by an impure altruism[12], one in which profit and firm-value maximization continues to be the ultimate goal. Thus, the question is firstly whether or not markets perceive the act of corporate giving as an indication of social responsibility and correspondingly whether or not markets reward companies for the degree to which they fulfill that duty.

The purpose of this paper is to examine – theoretically and empirically – the motive of prestige and social recognition in the context of corporate giving, as well as to look at how social responsibility is perceived in financial markets. The following section of the study details the theory and method that will be used to carry out this investigation. The empirical

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[10] Huseyin and Romano (2001) examine the role of sequential announcements and how these announcements affect the level of giving amongst donors. While we are not concerned here specifically with the game theory behind charitable giving, some underlying assumptions and important implications from their research may be applied to this study. In particular, their theory of the importance of announcements supports the notion that donors generally have a taste for public recognition. This can be applied to firms; we can consider that their profit functions may be positively related to their prestige and social reputation, and specifically, the social recognition they receive for donations.

[11] Huseyin, 426.

[12] The concept of *impure altruism* was introduced by Andreoni (1989, 1990), in which an individual may not only gain utility from increasing the total supply of the public good but also by the act of giving itself. Using data separated by income groups, his study finds that giving will increase with a tax cut on those with a higher altruism coefficient and a lower income elasticity of giving, which is consistent with a model that takes into consideration an impure altruism. Here, we apply the concept to corporations by considering their profit functions: the profit of the corporation may rise with the act of giving itself (impure altruism) as well as with the amount of total giving (prestige motives and intrinsic benefits).

model is then presented in the third section, and Section IV provides an analysis of the results. The final two portions conclude by shedding insight on the implications of these results and by offering directions for future study.

II: Theory and Methodology.

Does social pressure exist in financial markets? If so, there is reason to believe that firm-value is affected by a corporation's overall contribution to public welfare. Given this is indeed the case, profit-maximizing managers may be motivated to give not out of a sense of altruism or duty, but rather to simply promote the firm's public image. This may result in an increase in a firm's goodwill, which would therefore raise or at least maintain the firm's market value and ultimately maximize the wealth of its stockholders.

To test such a hypothesis[13], I use as a dependent variable Tobin's *q*, the ratio of the market value of a firm to the replacement cost of the firm's assets (often estimated by the book value of the firm). *q* is well-recognized as a useful indicator in the evaluation of corporate

Dependent Variable:

q	=	Tobin's Q

Independent Variables:

TA	=	Size (proxied by logarithm of Total Assets)
TG	=	Total Giving (logarithm)
EGR	=	Earnings Growth Rate
DR	=	Debt to Total Asset Ratio
DP	=	Dividend Payout Ratio

investment behavior[14]. Moreover, *q* may also serve as an indicator of a firm's goodwill[15], a value that embodies many tangible factors as well as takes into account many intangibles that serve to increase the overall firm value.

[13] No previous author has carried out such regressions prior to this study. Examining prestige and social recognition effects by looking at the direct relationship between giving and firm value is an original idea.

In order to investigate the effect that corporate giving has on a firm's *q*, I regress *q* upon the natural log of a corporation's *total giving* over the preceding year. As the variable of interest in this study, its associated coefficient offers insight into how it affects firm value in relation to previously established causal factors. It sheds light on the elasticity of *q* with respect to giving. It is to be interpreted as a percentage point change in *q* with respect to a one percent change in giving.

However, since *q* has been previously shown to be correlated with certain other variables, failure to take those variables into account may result in a spurious relationship between giving and *q*. In order to control for other possible sources of goodwill and firm value, I also include some key variables that have been proven to have a significant relationship with a firm's Tobin's *q*. Namely, these variables are *firm size*, the *earnings growth rate*, the *debt-to-total asset ratio*, and the *dividend payout ratio*.

Earlier research has shown *q* to have a significantly positive relationship with both firm size[16] and potential growth[17]. In my study, I use the *book value of total assets* to proxy for firm size and the *earnings growth rate* to indicate growth potential.

The *debt-to-total asset ratio* has been shown to be negatively associated with market value for the high-*q* group and positively associated for the low-*q* group. Firms that have a high potential for growth are thought to be better off with smaller debt as a large one may end up hindering the full exploitation of that growth. For overinvesting corporations, however, a large debt might actually be desirable since it may serve to "reduce the agency costs of free

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[14] Chung and Wright (1998), 289.

[15] Henning, Lewis and Shaw. "Valuation of the Components of the Purchased Goodwill". *Journal of Accounting Research,* Volume 38 No. 2. Autumn 2000. *q* is related to market value, and market value has been shown by Henning et al. al. to be related to goodwill in this paper.

[16] In general, the average book value of total assets of low-*q* firms is significantly larger than that of high-*q* firms. See Chung and Wright, 296.

[17] Pilotte, Eugene. "Growth Opportunities and the Stock Price Response to New Financing." *The Journal of Business*, Volume 65, Issue 3 (July 1992). 389-390.

cash flows…[as it] forces managers to pay out future cash flows as interest payments"[18], thus lessening the likelihood of investments in projects of a negative NPV. Moreover, in order to ensure debt service payments, the large debt may actually compel more efficient management of the firm.

Previous research shows the *dividend payout ratio* to be positively associated with the market value of overinvesting firms ($q < 1$) and to have no significant relationship with the market value for high-q firms[19]. Intuitively, a high payout to the shareholders of overinvesting firms may reduce the resources that are under the managers' control and also making it less likely that the firm would invest in a venture yielding a negative NPV. For high-q firms, the relationship between the dividend payout and q is not statistically significant, hypothesized to be due to two offsetting effects: while some investors perceive high payouts as an indicator of abundant future cash flows, others view the "high payouts by these firms [to] be detrimental to shareholder wealth according to the transactions cost argument"[20].

In order to show that my results are consistent with previous research that has been done and to lend them some legitimacy, a control regression was performed on size, financing, and the payout ratio prior to the main test regressions. The results of this regression can be found in the Appendix[21].

III: The Data and the Empirical Model

$$q = \beta_0 + \beta_1 \mathrm{TA} + \beta_2 \mathrm{TG} + \beta_3 \mathrm{EGR} + \beta_4 \mathrm{DR} + \beta_5 \mathrm{DP}$$

I use a sample of 233 observations, 87 of which were recorded at the end of the year 2000 and 146 at the end of the year 2001. The accounting and share value data used in this

[18] Chung and Wright (1998), 298.
[19] Chung and Wright (1998), 301. See also Lang and Litzenberger (1989).
[20] Chung and Wright, 301.
[21] See Appendix, Section B Table A.

study comes from three different sources. q is approximated by the sum of the market value of common stock, the liquidating value of preferred stock, and the book value of long-term debt , all divided by the book value of the total assets of the firm (TA). These values were gathered from the Center for Research in Security Prices (CRSP). COMPUSTAT provided the numbers needed for the dividend payout and the debt ratios. The dividend-payout ratios (DP), defined

Panel A. Univariate statistics

Variables	Mean	Median	Max	Min	Standard Deviation
Tobin's Q (q)	1.29	0.85	8.45	0.02	1.37
Book Value of Total Assets (TA) [a]	58,214	16,353	1,051,450	386	130,934
Total Giving (TG) [a]	10.33	2.70	137.02	0.006	20.41
Earning Growth Rate (EGR)	0.12	0.11	0.40	0.03	0.05
Dividend Payout (DP)	0.68	0.34	58.40	0	3.88
Debt Ratio (DR)	0.21	0.19	0.72	0.00	0.15

[a] In millions of dollars

as the total dollar amount of dividends (other than stock dividends) declared on the common stock divided by Income Before Extraordinary Items adjusted for common stock equivalents[22]. The debt ratio (DR) is measured by dividing the book value of long-term debt by total assets. The earnings-growth-rates (EGR) are the mean values of the Long Term Growth Forecasts as recorded by I/B/E/S. Finally, the data on *total giving* (TG) was provided by the Foundation Center, a nonprofit group that collects and organizes information on philanthropy in the United States.

Three different sets of cross-sectional regressions were run: one including the full sample, and one for each respective year (2000 and 2001). Within each of these sets, three regressions were also run: one with all of the available data in the set, one for firms with $q < 1$, and one for firms with $q > 1$. The distinction between the q values above and below unity is necessary in order to take into consideration whether or not firms are overinvesting or underinvesting, due to the observation that the "valuation implications of financing decisions

[22] Note that when the dividend-payout is negative, it is set to zero in this study.

are quite different depending on whether the firms are underinvesting or overinvesting"[23]. Logarithms were used on Total Assets and Total Giving in order to standardize the data across the firms, as the numbers varied greatly across the different companies and covered a wide range.

Panel B. Correlation matrix

	Q	TA	DP	DR	EGR	TG
Q	1.000	-0.181	-0.033	-0.104	0.222	0.159
TA		1.000	-0.006	-0.089	0.085	0.382
DP			1.000	0.054	-0.026	0.013
DR				1.000	-0.231	-0.088
EGR					1.000	0.018
TG						1.000

Panel B contains information regarding the correlations between the different variables. The earning-growth-rate also has a positive correlation with *q*; this is expected with regard to previous research. The debt-ratio and dividend payout ratio are positively correlated with each other, as they are both indications of financing activities for the firms. In observing the positive correlation between giving and *q*, already it is evident that giving may have a positive effect. Giving also has a significantly positive correlation with the book value of total assets, which makes intuitive sense as wealthier firms have the means to make larger contributions.

IV: Results and Analysis

Table 1 presents the results of the regression on the pooled cross-sectional data for years 2000 and 2001. Table 2 and 3 follow by presenting the data for each individual year. Each table also includes the results for the regressions that distinguish between firms with a *q* greater than or less than unity. This is done in order to eliminate any off-setting effects that

[23] Chung and Wright 290.

certain variables may have on the dependent variable, as many factors have different effects and implications on *q* depending on whether the firm is overinvesting or underinvesting[24].

Potential growth is the most significant variable in terms of explaining *q*, which is consistent with previous findings. This makes sense that investors view growth optimistically as a positive signal in the markets. The debt-ratio coefficients agree with preceding research, in the full sample case as well as the in the samples that distinguish between high and low-*q* firms. The dividend-payout ratio coefficients did not test to be significant in this study. As for size, a positive relationship with *q* is found for firms with a high-*q*. This is expected, as *q* is a function of market value, and both market value as well as book value proxy for firm size. For firms with $q < 1$, the relationship with book value is negative. This is also expected, because the book value must be greater than the market value in order to produce a *q* less than unity. For the full sample, the book value of total assets is found to have a slightly negative beta, most likely due to the offsetting effects between the betas for high versus low-*q* firms.

Perhaps the most exciting and powerful results are that in each of the regressions, total giving is found to have a significantly positive relationship with *q* at the 1% and 5% levels, the full sample having the highest t-values. These values highly support the idea that firm value is indeed affected by the amount of corporate donations. Furthermore, in distinguishing between firms with high and low-*q* ratios, a high and significant value for beta is also found, especially in the high-*q* category. The results for high-*q* firms are especially indicative, for these include firms possessing market values that exceed their book values. For these companies, the extra component of market value may reflect future growth as well as many other intangible assets, including goodwill and perhaps social prestige.

[24] Chung and Wright 290. Discusses the importance of distinguishing between overinvesting ($q < 1$) and underinvesting ($q > 1$) firms.

Table 1. The Effect of Giving on Firm Value, Full Sample of Years 2000 and 2001

	Full Sample	Tobin's Q > 1	Tobin's Q < 1
Intercept (α)	3.627***	-0.708	1.334***
	(2.872)	(-0.288)	(5.016)
$SIZE_i$ (β_1)	-0.444***	0.079	-0.097***
	(-3.612)	(0.306)	(-3.737)
GV_i (β_2)	0.229***	0.331***	0.004
	(4.191)	(3.566)	(0.300)
EGR_i (β_3)	4.568***	1.506	-0.116
	(2.797)	(0.504)	(-0.315)
DR_i (β_4)	-0.498	-3.298***	0.878***
	(-0.837)	(-3.168)	(6.901)
DP_i (β_5)	-0.002	0.670	0.003
	(-0.100)	(1.464)	(0.852)
Adjusted R^2	0.126	0.206	0.349
Number of Observations:	233	95	138

NOTE – Parenthetical numbers indicate t-statistics.
***Significant at the 1% level, two-tailed test.

Table 2. The Effect of Giving on Firm Value in the Year 2000

	Full Sample	Tobin's Q > 1	Tobin's Q < 1
Intercept (α)	1.865	-2.173	1.251**
	(0.641)	(-0.420)	(2.165)
$SIZE_i$ (β_1)	-0.785***	-0.229	-0.103*
	(-2.846)	(-0.464)	(-1.707)
GV_i (β_2)	0.671***	0.757**	0.027
	(2.929)	(2.187)	(0.499)
EGR_i (β_3)	8.660***	2.696	-0.469
	(2.865)	(0.524)	(-0.625)
DR_i (β_4)	-0.121	-2.941	0.600**
	(-0.100)	(-1.438)	(2.309)
DP_i (β_5)	1.026	1.179	-0.003
	(1.462)	(0.996)	(-0.017)
Adjusted R^2	0.173	0.153	0.123
Number of Observations:	87	41	46

NOTE – Parenthetical numbers indicate t-statistics.
*Significant at the 10% level, two-tailed test.
**Significant at the 5% level, two-tailed test.
***Significant at the 1% level, two-tailed test.

Table 3. The Effect of Giving on Firm Value in the Year 2001

	Full Sample	Tobin's Q > 1	Tobin's Q < 1
Intercept (α)	4.212***	-1.899	1.532***
	(3.501)	(-0.693)	(5.138)
$SIZE_i$ (β_1)	-0.778***	0.107	-0.196***
	(-5.083)	(0.307)	(-4.694)
GV_i (β_2)	0.726***	0.491*	0.126***
	(4.889)	(1.825)	(3.069)
EGR_i (β_3)	2.158	1.439	0.142
	(1.242)	(0.380)	(0.346)
DR_i (β_4)	-0.522	-2.650**	0.970***
	(-0.906)	(-2.316)	(6.973)
DP_i (β_5)	-0.011	0.310	0.001
	(-0.673)	(0.713)	(0.360)
Adjusted R^2	0.173	0.176	0.484
Number of Observations:	146	54	92

NOTE – Parenthetical numbers indicate t-statistics.
* Significant at the 10% level, two-tailed test.
**Significant at the 5% level, two-tailed test.
***Significant at the 1% level, two-tailed test.

The primary results (those for each of the full samples of each respective year) are all significant at the one-percent level, as it is a larger sample. The beta coefficient for total giving indicates a percentage point increase in *q* with respect to giving, and illustrates the elasticity of *q* and total giving.

Because giving has a positive relationship with *q*, it supports the notion that firm value is impacted by corporate giving. Thus, profit-maximization may in fact be an integral factor in determining donor amounts[25]. My results suggest one form of the many possible concrete manifestations of the profit-maximization incentive, as market value appears to increase with the total giving of a firm. Companies may actually be motivated to give in order to maintain or increase their firm value. Instead of having altruistic intentions and being concerned with the public good, corporate giving may potentially be a strategic move in terms of profit-maximizing. In addition, my research also extends the ideas of Harbaugh (1998) and Romano

[25] This is consistent with Navarro's hypothesis (1988).

and Huseyin (2001), in that raising a firm's own social prestige and public reputation may be an incentive.

Most importantly, the results support my hypothesis that in financial markets, social responsibility and social pressure do exist and are recognized. Failure to act in accordance with those duties may actually result in very tangible negative financial results for the firm.

Section V: Some Caveats, Implications and Directions for Future Study

Before concluding, some caveats must be made. Firstly, due to the limited availability of data, no distinction was made in terms of the industries the donor firms were from. It may be more appropriate to look at different industries separately and examine the effect that giving has on the *q* of those specific companies. Amounts of donations may differ among different types of firms; for example, some industries, especially those that deal with consumers on a daily basis, may place a higher importance on giving. In addition, neither was there any distinction made among the various recipients of the corporate donations. It was not taken into account whether donors were giving to support the endeavors of various nonprofits, foundations, educational institutions, or other types of establishments.

Another caveat that must be made in regard to prestige benefits is that it is unknown as to which donations and giving values in the sample were actually announced to the public. Hence, to say that public recognition and social prestige play a definite role in determining corporate giving amounts is risky. However, because the numbers come from the Foundation Center, a nonprofit organization that serves as a public information base and because the values were readily accessible, I assume that corporate giving numbers are part of the wealth of information that affects a firm's reputation.

As for the possibility of reverse causality – that a higher *q* value may be what actually increases a firm's propensity toward making donations – there is less concern because the

implications may actually point toward similar conclusions. For example, high market value firms might feel an even greater pressure to contribute to the public good, and in turn they would be inclined to give more. The driving factor would still be a pursuit of prestige or an attempt to maintain social repute.

In the future, perhaps attention could be paid to the different sectors of firms. It may also be of interest to test for prestige benefits in more concrete ways, as it was done indirectly in this study. Other questions that may be asked is whether the firms were solicited for the donations or whether they sought out a cause or nonprofit to support. Furthermore, it would be interesting to test for reverse causality while also incorporating the tax rate effects that have been found to be related to giving in previous studies; for example, in each respective year, in what way and by how much does *q* affect giving as opposed to the tax rate? The issue of announcements in relation to prestige and firm value could also be explored from the firm side[26].

This study sheds light on one of the many motivating factors behind corporate giving in the context of firm value. While it brings into question the legitimacy of the altruistic claims that firms make when contributing, it does support the legality of corporate contributions, in that there is indeed a "business justification"[27]. Furthermore, by taking into account the prestige effects, implications on the recipient side may be that an even higher yield of cash inflow could be obtained through ensuring that companies are adequately recognized. On the flip side, such information could also be used to leverage power against major corporations in a detrimental yet strategic manner, as firms may be induced to contribute to the public good in order to avoid negative publicity.

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[26] It may be interesting to apply and extend the theories of Huseyin and Romano (2001), except from the donor's perspective.
[27] Himmelstein 22.

Section VI: Conclusion

In order to test for the effect of corporate giving on firm value, I regressed the Tobin's *q* values of various firms upon several explanatory variables, with total giving as the variable under scrutiny and the rest as control variables. The data proves to be in line with previous research on firm value, lending credibility to these regressions. I find giving to have a significantly positive relationship with Tobin's *q*, indicating that there is a strong connection between the amount of corporate donations a firm makes and the firm's overall value. This might be attributable to prestige effects and is consistent with my belief that social responsibility and social pressure do exist in financial markets. Furthermore, it is of great importance for companies to abide by those social pressures, for failure to do so may result in tangible costs for the firm, such as a decrease in their firm value.

Appendix

A. Corporate Giving as an Advertising Strategy.

Navarro's study finds there to be an advertising incentive nested in giving. While my research does not address advertising issues directly, the conclusions support the notion. Social responsibility seems to exist in financial markets, and firms seem to be rewarded for the fulfillment of those responsibilities. If firm value increases when the name and reputation of the corporation is made known to the public, corporate philanthropy would serve as a means to both amplify and publicize a positive image. Giving, in particular, is thus a very visible way to show that firms are fulfilling that social duty, as it garners respect and prestige.

Among corporations, there is a general claim among corporations that corporate philanthropy is not marketing and actually serves merely as a means to "benefit the corporation only indirectly by improving the quality of life in the community in the long run"[28]. In several interviews with different corporate contributions managers, Himmelstein finds that most of them stress the indirect nature of the benefits that their giving programs have on the firm itself. The "key is to address the community needs and to make a difference in what it is that we're doing," says one contributions manager, while another claims that firms do not donate "if the reason…is because it's going to bring them business directly"[29]. However, the same manager then adds that "if as a result of these donations, people perceive the company as 'a good corporate citizen' and this helps business, [she would] not be opposed to that."

The empirical, intuitive, and theoretical observations generally seem to agree on the public image effects of corporate giving. Regardless of whether or not firms actively intend to use giving as a publicity stunt or a marketing strategy, their donations nonetheless appear to

[28] Himmelstein 47.
[29] Himmelstein 48-49.

have the effects of advertising. Hence, in that sense, corporate giving also brings direct benefits to the firm.

B. Control Regression

My results are consistent with previous studies done regarding Tobin's *q* and market value. Specifically, I compare my results with the study carried out by Chung and Wright in 1998, where they look at the predictive power of *q* on many different corporate policy variables. Below are the results of the control regression that was run. To refer to the explanations behind the signs of each variable, see Section II and Section IV of my paper. For further insight, refer to pages 296-302 of Chung and Wright (1998).

Table A. The Effect of Size, Financing, and Dividend Payout on Corporate Value

	Full Sample	Tobin's Q > 1	Tobin's Q < 1
Intercept (α)	4.974*** (3.868)	-0.909 (-0.358)	1.332*** (5.099)
$SIZE_i$ (β_1)	-0.340*** (-2.720)	0.393 (1.522)	-0.095*** (-3.843)
DR_i (β_2)	-1.101* (-1.812)	-3.547*** (-3.354)	0.880*** (7.116)
DP_i (β_3)	-0.007 (-0.288)	0.409 (0.888)	0.003 (0.843)
Adjusted R^2	0.030	0.105	0.358
Number of Observations:	233	95	138

* Significant at the 10% level, two-tailed test.
***Significant at the 1% level, two-tailed test.

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