J Bus Ethics (2018) 151:375–390
https://doi.org/10.1007/s10551-016-3205-8

Corporate Philanthropy, Reputation Risk Management and Shareholder Value: A Study of Australian Corporate giving

Kate Hogarth[1] · Marion Hutchinson[1] · Wendy Scaife[1]

Received: 8 August 2015 / Accepted: 9 May 2016 / Published online: 24 May 2016

Abstract This study examines the role of corporate philanthropy (CP) in the management of reputation risk and shareholder value of the top 100 ASX listed Australian firms for the 3 years 2011–2013. The results of this study demonstrate the business case for corporate philanthropy and hence encourage corporate philanthropy by showing increasing firms' investment in corporate giving as a percentage of profit before tax, increases the likelihood of an increase in shareholder value. However, the proviso is that firms must also manage their reputation risk at the same time. There is a negative association between corporate giving and shareholder value (Tobin's Q) which is mitigated by firms' management of reputation. The economic significance of this result is that for every cent in the dollar the firm spends on corporate giving, Tobin's Q will *decrease* by 0.413 %. In contrast, if the firm increase their reputation by 1 point then Tobin's Q will *increase* by 0.267 %. Consequently, the interaction of corporate giving and reputation risk management is positively associated with shareholder value. These results are robust while controlling for potential endogeneity and reverse causality. This paper assists both academics and practitioners by demonstrating that the benefits of corporate philanthropy extend beyond a gesture to improve reputation or an attempt to increase financial performance, to a direct collaboration between all the factors where the benefits far outweigh the costs.

Keywords Corporate philanthropy · Reputation risk management · Shareholder value

✉ Marion Hutchinson
m.hutchinson@qut.edu.au

[1] Queensland University of Technology, Brisbane, Australia

Introduction

Why do corporations engage in corporate philanthropy when corporate philanthropy has little direct impact on corporate financial performance? According to Friedman (1970) there are few economic benefits to be gained from corporate philanthropy, but numerous costs associated with it. However, firms may engage in corporate philanthropy for other reasons including: benefits to managers by enhancing their reputation within social circles (Friedman 1970; Werbel and Carter 2002); furthering their political and career agendas (Galaskiewicz 1997); or as part of building the competitive advantage of the firm (Porter and Kramer 2002; Wang and Qian 2011). As corporate philanthropy is a product that can be marketed to the public (Collins 1994; Lowengard 1989; Simon 1995), it is an investment of resources that has a longer term benefit to the firm (Bennett 1997) through enhanced reputation. Bruch and Walter (2005, p. 50) suggest 'only philanthropic activities that both create true value for the beneficiaries and enhances the company's business performance are sustainable in the long run'. It is essential for corporation long term success to gain competitive advantage and engaging in corporate philanthropy is one way to achieve this (Porter and Kramer 2002; Wang and Qian 2011).

Merging two streams of research; (1) the association between corporate philanthropy and reputational risk; and (2) the association between corporate philanthropy and shareholder value, we set out to determine whether corporate philanthropy enhances shareholder value by reducing reputational risk. To our knowledge, this notion has not been empirically tested before. Research attempts to legitimize corporate philanthropy by establishing a business case for the relationship between corporate philanthropy and firm performance (e.g. Griffin and Mahon 1997) with little success. We suggest that this is because there is a negative association between corporate philanthropy and firm performance, simply because it is a cost which reduces profit. Consequently, the contribution of this research is determining the role corporate philanthropy plays in the management of reputational risk and shareholder value. We demonstrate that the business case for corporate philanthropy must be made with the firm's considerate management of its reputation.

In a Utopian world, companies would donate money to the community and gain resounding social and financial return on this investment. Non-profit organisations (NPOs) and their beneficiaries would be better off, and boards and CEOs could adopt corporate philanthropy (CP) without question, as a sustainable business practice because of its tangible benefits. However, in reality, as Likert and Simaens assert (2015, p. 287) CP has had 'an ambivalent relationship to the bottom line'. By exploring the interplay between corporate philanthropy and shareholder value our study aims to add more clarity to this imprecise relationship. In other words, it seeks empirically to boost the business case for corporate philanthropy.

In reviewing 122 journal articles Likert and Simaens also conclude the practice is loaded with 'conceptual and practical challenges' (p. 285). Indeed, if CP were a magic bullet to shareholder wealth, past studies would be less ambivalent in their findings and CP investment would be more uniform and extensive. Clearly other factors influence CP outcomes. In an effort to bolster the academic and managerial CP base, this study investigates whether one such factor, a company's management of its reputation, impacts the relationship between CP and shareholder value or is affected by CP. A body of research (Bai and Chang 2015; Hansen et al. 2011; McKinsey 2008; Luo and Bhattacharya 2006) argues a company's reputation can improve its results and distinguishes reputation management as a rich concept to explore in counterpoint to CP. The main contribution is therefore, to demonstrate that firms that engage in CP (for whatever motivation) must also improve their reputation to increase their shareholder value.

In summary, this research examines whether shareholder value increases when companies lift their giving, while taking into consideration their reputation management. Three phases were undertaken. First, giving levels in our sample of the top 100 listed firms across 3 years had to be determined. Next, we measured these companies' corporate reputation through a comprehensive media analysis. Finally, we calculated whether the interaction of corporate philanthropy and reputational risk is associated with increasing shareholder value.

The results confirm that investing more in CP as a percentage of profit before tax makes an increase in shareholder value more likely. However, the proviso is that firms must also manage their reputation risk at the same time. A negative association emerges between CP and shareholder value (Tobin's Q), which is mitigated by firms' management of reputation.

This study is sited in Australian companies' data. Australia is an interesting context because of its intersections with many other business and social cultures. As a Commonwealth nation its heritage and legal framework around philanthropy and commerce rest on a United Kingdom (UK) tradition. Yet Australia is physically located in the Asia–Pacific space and its business and philanthropy research spheres have an increasing crossover with this region where CP is subject to different influences. Australia is also aligned to the United States (US) economically and socially, and is also influenced by US practice and research. Domestically, the 2015 establishment of a Prime Minister's Community Business Partnership is spurring policy and practice interest in CP. Many local companies are part of the London Benchmarking Group (Australia and New Zealand) activities and some also participate in the Global Reporting Initiative (GRI), these groups promote methods for measuring and reporting on CP activities. According to Gautier and Pache (2015) Australia is one of the eight nations contributing in a measurable way to worldwide CP publications. However, as one of several countries authoring only 1 % of the total there is clear room for more Australian focus in this area. This focus will add to the local and wider bodies of knowledge and proffers perspectives beyond the more heavily studied US and UK landscapes (Gautier and Pache).

CP is a growing concern for Australia given the recent Asian Tsunami and other natural disasters like the Brisbane floods and bushfires in Victoria and the need for corporate support for initiatives in these areas. These types of natural disasters are common among the UK and the US philanthropic activities. Why would we expect corporate philanthropic activities to differ in Australia and thus contribute to the literature? The legal position on corporate giving differs in Australia compared to the UK and the US. Australian donations are slightly lower in comparison to the UK and significantly less than the US (Chester and Lawrence 2008; Philanthropy Australian 2015). The disclosure is voluntary in Australian and in the US, while in 1985 the UK brought in the Companies Act where companies are obliged to disclose charitable donations that exceed 200 lb. Since about 1960, corporate giving in Australia has grown to encompass a variety of initiatives including in-kind donations, staff giving as well as direct cash donations. Although companies are not required to disclose their direct donations, they are required to disclose the direct cash they donate through foundations for tax derived benefits through the foundations tax-free status

(Carroll and Buchholtz 2011, p. 489). Given the different legal and tax requirements of Australian corporate giving we expect to find differences based on altruistic and commercial incentives for corporate philanthropy (Chester and Lawrence 2008).

This study will also add another critical element to the debate surrounding corporate philanthropy and shareholder value by including the interaction with corporate reputation. Australia is catching up with the US and the UK and bringing reputation to the forefront of management strategic considerations. However, this is only to extent that this focus on reputation will lead to the expectation of financial rewards in the form of shareholder returns. Therefore, this study takes this consideration and explores how the interaction between corporate philanthropy and reputation lead to positive shareholder return. The results of which will provide theoretical and practical guidance to support corporate philanthropic activities and management of reputation to increase shareholder returns.

From this context, this article outlines the importance of building on the existing CP research platform before discussing the constructs and prior literature relevant to this study's two main research questions around corporate reputation and shareholder value. The paper then outlines the results and their implications.

Importance of Corporate Philanthropy

Current CP research takes place against the background of: an evolving and still contested business understanding of CP (Likert and Simaens 2015); some years after a global financial crisis; at a time when NPOs are more actively seeking new forms of revenue and partnerships to meet needs (Chikoto and Neely 2014); and when 'sheer scale indicates the necessity to further our understanding of CP' (Likert and Simaens 2015, p. 287).

To consider the initial point, boards need reliable information on which to base CP policy and investment decisions. They must be equipped to judge the benefits of corporate donations to the community as well as to the business. Increasing research is focusing on how best to measure community impact of the corporate and other contributions, with an estimated 75 types of social measurement now in use (Epstein and Buhovac 2014). However, boards also need to judge the impact of CP on the company's sustainability and on key stakeholders such as those who hold its shares. Board members face the tension 'between economics and ethics' (Windsor 2006, p. 94). Much has been trumpeted about the 'business case' for corporate philanthropy but the amount of conclusive empirical data is outstripped by rhetoric. Existing studies on CP and shareholder value are summarised in the following section.

The importance of this research is clear also in light of the impact that economic downturns such as the recent Global Financial Crisis (GFC) can have on corporate giving. In corporations and industries particularly affected by kneejerk budget constraints, cuts may occur to CP programs. Some research suggests the community effect of less CP investment is prolonged because corporate giving is slower to recover than individual giving (for example, Sum and Henry 2013). Even in Australia, which experienced a lesser flow-on from the GFC than many countries, research found many companies unwilling to engage in new corporate community activity at this critical time (Centre for Corporate Public Affairs 2009). A study of twelve of Australia's largest companies (Downes et al. 2012) suggests that economic uncertainty and the tone at the top of corporations influences donations, which in turn are related to the certainty of future cash flows. Thus, corporate giving is often reduced in the times when it is particularly needed by NPOs. That is, when NPOs' clients are also in strained economic times and needing more help and NPOs own investments and other donation sources are hit by downturns.

This perennial need on the part of community organisations is the third factor that underlines the value of this research. As Madden and Scaife (2007, p. 151) assert 'Giving may be increasing, but so too are non-profit numbers as well as the fact that traditional government funding is waning'. They also point out current corporate giving forms only a fraction of the funds needed. If more corporations can be encouraged to think strategically about such activities as something that also benefits the shareholder constituency this may provide the impetus for more businesses to make corporate donations and open the way for a wider and deeper engagement between business and community organisations for mutual benefit.

Finally, CP has been established in the literature as a form of enlightened self-interest that can contribute to the firm's competitive positioning in terms of attracting customers, employees, or strategic partners. Early research positioned CP as a product that can be marketed to the public who increasingly want to know a company's stance on its relationship with the community (Collins 1994; Lowengard 1989; Simon 1995). It is an investment of resources that while helping the community can also benefit the firm (Bennett 1997) through enhanced reputation, which in turn may bring employee recruitment and retention benefits, create more customer interest and purchases and reduce public and regulatory scrutiny. Bruch and Walter (2005) reinforce the importance of both the corporate and community stakeholders benefitting and the principle of mutual benefit.

This logic seems to be in play in various markets that are seeing continued CP activity and varying rates of growth and sophistication in practice, especially in terms of greater disclosure and reporting (Committee Encouraging Corporate Philanthropy 2015). The *Chronicle of Philanthropy* (2012) reports on surveys conducted by various professional organisations in both the United States and Europe that showed a post-GFC increase in the total amount of gifts made by corporations. This increase has been attributed to two factors: corporations requiring ways of gaining competitive advantage as well as an increased expectation from various stakeholders to be seen to be engaged in CP (Porter and Kramer 2002; Wang and Qian 2011).

Hence more research on CP is timely, relevant and fills a knowledge gap. The next section outlines, as it contextualises, the existing research platform on which we seek to build and identifies the two research questions this study addresses.

Background and Research Questions

The recent systematic literature reviews of CP published in the *Journal of Business Ethics* in 2015 by Likert and Simaens and Gautier and Pache provide both a panoramic and deep view of key studies that have built the discipline. The former delineates six intertwined research themes and three perspectives from which CP activity is analysed: the themes being concept, motives, determinants, practices, business outcomes, and social outcomes and the unit of analysis being institutional, organizational or individual (or some combination). The latter writers distil four lines of research enquiry that overlap Likert and Simaens (2015) categories: the essence of CP, its drivers, organization and outcomes.

Our study resonates with several of these themes and bodies of prior work, including what motivates or drives CP and its determinants (e.g. firm or sector characteristics). However, we especially build upon the research corpus on business outcomes, particularly the impact of corporate giving on shareholder value. We do so by investigating three core concepts: corporate philanthropy, reputation risk and shareholder value. To bracket the three concepts we draw on the enlightened stakeholder theory developed by Jensen (2001).

Enlightened Stakeholder Theory

Milton Friedman (1970, p. 55) wrote that 'there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud'. Thus, Friedman equates CP with the theft of someone else's money and a breach of fiduciary duty. However, as Shaw and Post (1992) comment, Friedman endorses corporate philanthropic efforts that have a strategic underpinning. This emphasis on a strategic outcome aligns with Jensen's (2001) enlightened stakeholder theory.

Gautier and Pache's (2015) review of 30 years of intellectual research on corporate philanthropy using 162 academic papers suggests consensus in the literature that CP serves the company's interests, albeit sometimes indirectly. Enlightened stakeholder theory recognizes that corporations favour profit-making activities over philanthropic contributions but that companies will suffer in the longer term if they do not consider the gamut of stakeholder interests. It asserts that a firm realising maximum value for shareholders at the expense of other stakeholders is unlikely to sustain. For example, paying minimum salaries to employees and requiring them to work in very poor conditions is likely to have a negative effect on productivity, which may more than offset any cost-savings and actually reduces the value of the firm. In this study, we use enlightened stakeholder theory to develop a theoretical model of the business case for the relation between CP, corporate reputation management and shareholder value. Chester and Lawrence (2008) suggest neoclassical models of the firm are inadequate when explaining CP and emerging models cast philanthropy as influenced by simple economics, firm strategy, organisational culture and values.

A firm's ability to generate sustainable wealth over time, and hence its long term value, is determined by its relationships with its broad spectrum of critical stakeholders. However, consistent with agency theory, boards and CEOs must evaluate all decisions on the basis of their impact on the market value of the company. That is, management should still apply net present value analysis to decisions. Investment or financing should not be undertaken by the firm unless the present value of the associated incremental benefits exceeds the present value of the incremental costs. We suggest that it is within this framework it is more likely that CP will have a positive impact on firm value due to the management of firm reputation.

Corporate Philanthropy

Financial Accounting Standards Board defines CP as 'an unconditional transfer of cash or other assets to an entity or a settle or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner' (FASB 1993, p. 2). While it may seem contradictory for profit-making companies to give away profits (Manne 1973) companies engage in CP for various reasons from a commitment to the common good to a tool that ultimately benefits the company long-term.

Consequently, it is important to have a more strategic approach to philanthropy to ensure the benefits outweigh the costs. Foster et al. (2008, p. 759) assert that ‘companies that have integrated philanthropy into their operations are quite distinct in both attitudes and behaviour from the others’. The strategic approach to philanthropy is important. As Saiia et al. (2003) states, by being strategic in charitable activity selection, a firm can improve its ‘bottom line’.

However, the correlation between CP and financial performance is mixed. Friedman (1970) argued that philanthropy will have a negative impact on financial performance as it is simply a corporate expenditure that reduces profits.[1] Berman et al. (1999) find that corporate involvement in community had little influence on financial performance; while Orlitzky et al. (2003) find a positive correlation between corporate philanthropy and financial performance. Using similar quantitative approaches several studies find a positive relationship between the amount of corporate giving and financial performance (Patten 2007; Su and He 2010; Wang and Qian 2011). However, research is apprehensive to conclude that CP directly increases shareholder value. For example, Patten (2007) finds a statistically significant positive relationship between large donations and the stock value of firms in the days following the press releases disclosing the donations. Patten (2007) also cautions that financial performance will not increase if CP is not perceived as genuine by stockholders even for large donations. Conversely, some studies have found either no significant relationship (Campbell et al. 2002; Seifer et al. 2003, 2004) or a non-linear relationship (Wang et al. 2008) between the level of contributions and financial performance.

While Brammer and Millington (2005) find a positive association between the size of unconditional donations and firm reputation, most Australian companies do not systematically communicate their unconditional giving (Hempel 2003).

Reputation Risk

A key feature of the research discussed above is to compare CP as an investment instead of a gift or cost (Gautieer and Pache 2015). Researchers (Shaw and Post 1992; Stendardi 1992) suggest the expected corporate returns are not financial but tend to be intangible such as reputation, prestige, or employee pride. Since the reputation of an organisation ‘is based on the sum of how all constituencies view the organisation’ (Argenti 2005, p. 3), then reputation risk is the risk of a change in the way an organisation is perceived by its stakeholders. Christensen and Raynor (2003) indicate that the factors that create a reputation within the private sector are: long term financial performance; corporate governance and leadership; corporate social responsibility; workplace talent and culture; delivery of external partners’ promises; regulatory compliance and communication and crisis management. Murray (2003) adds that managing reputation is more about the risk associated with the relationship the organisation has with stakeholders and the public. It is their perception of the organisation that contributes to the reputation of that organisation. Essentially ‘reputation management is an evolving set of practices that leading companies are developing to help them cope with the changing expectations of their audiences, to manage the interpretations those audiences make, and to build favourable regard’ (Fombrun quoted in Schulz et al. 2000, p. 95).

A passive or reactive approach to managing corporate reputation is unsustainable in today’s environment. This is due to many factors such as: increased public awareness about corporate activities, increased demand for transparency, higher expectations by multiple stakeholder groups, social media, effect of the influence of opinion leaders, the growth in interest groups and increased attention from media (Shamma 2012). Companies need to actively manage their reputations and not merely react to situations of heightened reputation risk.

Corporations can use donations as a way to manage their reputation as evidenced by research finding firms with higher levels of philanthropic expenditures have better reputations (Brammer and Millington 2005). Ditlev-Simonsen and Midttun (2011) posit that in the current context of higher scrutiny there is a longer term approach to profit or value-maximising business strategies that involves philanthropy.

Enlightened stakeholder theory suggests activities that bring reputational benefits to the company will increase both profitability and market valuation in the longer term. Examples of this include decisions to improve product quality or donate to medical research, both of which might have an initial detrimental impact on profitability but contribute to the improvement in the company’s market image which in turn increases in long-term profitability and market value.

Atkins et al. (2006, p. 8) provide the following example to demonstrate the long-term benefits of reputation management. ‘If a company has a reputation for putting profit before principle, it will face a tougher battle to protect its reputation. Companies that weather a crisis of reputation have often accumulated ‘credit in the bank’ with the public and stakeholders’. In other words, a company with a good, solid reputation will often withstand a threat to its reputation during a crisis, as it has a greater agility and reservoir

[1] This explains why this research found many Australian firms reluctant to report a definitive figure of corporate giving.

of goodwill to withstand the impact of the crisis. This is also commonly referred to as moral capital and these elements of the literature suggest that building a stock of 'moral capital' can be critical in guarding a company's reputation.

This study extends this theory by determining whether investing in philanthropy builds a bank of moral capital. Researchers such as Gardberg and Fombrun (2006) and Godfrey et al. (2009) find that a good reputation can act as robust protection when negative events occur. Dowling (2006) proposes that the reputation of a company is the ultimate responsibility of the board, unlike many reputation experts who believe it lies with the CEO and other executives. Trust, which is an integral component of reputation and company performance, can be improved in the minds of stakeholders, as the company's reputation increases. This leads to the question: how can a company portray its CP to stakeholders to gain a good reputation and at the same time increase shareholder value?

Corporate Philanthropy, Reputation Risk Management and Shareholder Value

Although researchers agree that corporate philanthropy does influence the publics' perceptions of a firm (Smith 1994; Himmelstein 1997; Saiia et al. 2003), whether this correlation is positive or negative is mixed. Some research (Knauer 1994; Godfrey 2005) asserts that public goodwill is gained by participation in charitable activities. As highlighted earlier, Brammer and Millington (2005) find that firms with higher levels of philanthropic expenditures have better reputations. However, many also disagree with this proposal. Many of the negative associations centre on public perceptions that it is self-interest of the companies' that motivates charitable activities. Bae and Cameron (2006) contend that when a company has obtained a good reputation, its philanthropic activities will be viewed with less scepticism thereby mitigating the self-interest perspective. However, they find that public scepticism in corporate giving diminishes corporate reputation.

Godfrey (2005, p. 777) makes three theoretical assertions: '(1) corporate philanthropy can generate positive moral capital among communities and stakeholders, (2) moral capital can provide shareholders with insurance-like protection for a firm's relationship-based intangible assets, and (3) this protection contributes to shareholder wealth'. Research supporting these assertions finds that a positive relationship between philanthropy and performance is stronger for firms with greater public visibility (reputation) and for those with better past performance, as philanthropy by these firms gains more positive stakeholder responses (Wang and Qian 2011).

Accordingly, the two main research questions addressed in this paper are:

1. Does CP mitigate or increase firms' reputational risk?
2. Does shareholder valuation of CP depend on the firm's management of its reputation risk?

Research Method

To test the first research question requires a collection of reputational data relevant to each company. Based on prior research (Deephouse 2000; Fombrun and Shanley 1990), media analysis is conducted to ascertain a media reputation score. Media Agenda Setting Theory 'posits a relationship between the relative emphasis given by the media to various topics and the degree of salience these topics have for the general public' (Ader 1995, p. 300). In other words, media coverage influences public perception as it places the organisation at the forefront of the public's minds.

McCombs and Shaw (1972) investigate the agenda-setting hypothesis with fairly robust results. Their study supports the theory that the media can set the tone for the public opinion of an organisation's reputation. Carroll (2004) tests agenda setting in business news content. The study supports the notion that agenda setting predicts that more media coverage about a firm would result in a higher degree of public awareness of that firm. Data is collected from a variety of media sources of each participating company. The information collected is coded using the content analysis computer software, NVivo. A select sample was initially coded by hand to test the results against those obtained through the computer software. Following this test, the remaining data is analysed using the program. The results from this analysis are used to ascertain a reputation score for each company, based on agreed metrics among the three researchers that indicate measures of presence and strength of good and poor reputation.

Testing the second research question requires careful consideration of potential endogeneity between variables of corporate reputation, corporate giving and shareholder value because all three variables are likely to be associated. We would expect that CP will be associated with reputational risk and likewise reputational risk is associated with CP. In addition we expect that shareholder value to be associated with CP and reputational risk. Random effects regression is likely to produce either non-significant coefficients or coefficients that are statistically significant but of substantially lower magnitude compared to three-stage least squares (3SLS) regression. This is because the random effects regressions will possibly produce biased standard errors and suffer from Type I error. In contrast the

3SLS method, which takes into account covariances between the error terms of different equations, is more likely to provide unbiased and consistent standard errors, thus yielding more robust coefficient results and valid tests of hypotheses (Setia-Atmaja et al. 2009).[2]

The main difference between two-stage least squares (2SLS) and 3SLS estimations is that 3SLS captures cross-equation effects as error terms of individual equations in the system which are assumed to be contemporaneously correlated under 3SLS. Also, the 3SLS estimation technique is more suitable for cross-sectional studies, where some of the changes in firm value differ due to different investment in the community which is different for various levels of reputational risk. As a result, reputation risk management, corporate giving and firm value issues can affect each other in various ways. These interactions can be captured through the 3SLS estimation technique.

To eliminate the potential endogeneity problem or reverse causality, the estimation endogenizes reputation risk management, corporate giving and shareholder value (Tobin's Q). The three equations are solved as a system of simultaneous equations using three-stage least squares (3SLS) estimation method. The three equations set out below are used to test the two research questions simultaneously.

Rq1

$$\begin{aligned}\text{CorpGiving} = {} & a + B_1\text{Reputational risk } + B_2\text{firm size} \\ & + B_3\text{firm age } + B_4\text{firm performance} \\ & + B_5 FCF + B_7\text{industry } + e\end{aligned} \tag{1}$$

$$\begin{aligned}\text{Reputational risk } = {} & a + B_1\text{corpgiving } + B_2\text{firm size} \\ & + B_3\text{social } + B_4\text{environmental } + e\end{aligned} \tag{2}$$

The next step in the analysis tests the mediating role of reputational risk on the association between philanthropic expenditures and shareholder value.

Rq2

$$\begin{aligned}\text{Shareholder value}_{t+1} = {} & a + B_1\text{reputational risk} \\ & + B_2\text{philanthropic expenditures} \\ & + B_3\text{reputational risk} \\ & * \text{ philanthropic expenditures} \\ & + B_4\text{controls } + e.\end{aligned} \tag{3}$$

[2] The Durbin–Wu–Hausman (DWH) test which determines whether there is no endogeneity in the equation (null hypotheses). The significant DWH tests (F (1, 681); $p = 0.0000$) indicate that endogeneity is present in the OLS estimates and the instruments have corrected for it.

Dependent Variables

Reputation Risk

Following the common practice of media research (Janis and Fadner 1965; Weber 1990; Deephouse 2000; Sinnewe and Niblock 2015), newspaper data will be coded as positive[3] (Fombrun 1996; Fombrun and Shanley 1990), negative[4] (Deephouse 2000) and neutral. One of the most frequently used and sophisticated software that assists with the media coding is Loughran and McDonald's (2011) Financial Sentiment Dictionaries. The Financial Sentiment Dictionaries can aid in obtaining the ratio of positive and negative to total unit count. We then combine these two ratios into one reputation risk management score by adopting the formula that has been largely used in reputation research, the "coefficient of imbalance" (Brown and Deegan 1998; Dickson 1992; Deephouse 2000; Tong 2013; Sinnewe and Niblock 2015).

$$\text{Coeeficient of imbalance} = \begin{cases} \dfrac{p^2 - PN}{T^2} & \text{if } P < N; \\ 0, & \text{if } P = N \\ \dfrac{PN - N^2}{T^2} & \text{if } N > P \end{cases}$$

where P is the number of positive units, N the number of negative units, and T the total number of positive and negative units.

This variable utilises the reputational data collected to calculate a score out of 100 for each company. The higher the score, the better reputation the company has meaning the more effective their reputation risk management.

Philanthropic Expenditure

Unlike the 1985 UK Companies Act where companies are obliged to disclose charitable donations that exceed 200 lb, there is no such disclosure requirement for Australian firms. Any disclosure of charitable donations or community investment is entirely voluntary. Typically, firms that disclose that they are involved in community investment either provide a narrative and amounts donated/in-kind or a narrative only. The only way to access Australian data is by survey or by paying a UK organisation to collect the data.

Unlike previous research which has used the absolute figure for charitable donations (e.g. Brammer and Millington 2004), our measure of philanthropic expenditure is a measure of charitable donations as a percentage of

[3] Examples such as companies are praised for their action, or an award, monetary or other kind of donation etc.

[4] Examples such as companies are criticized for action etc.

profit before tax for the top 300 firms.[5] This is supplemented in the data with disclosure of community investment within Global Reporting Initiative (GRI) reports. That is, we add this amount to charitable donations if disclosed giving us a total of 330 firms. In addition checking against the GRI reports ensured the amounts provided were accurate.

Shareholder Value

The last component of the study is an investigation of shareholder value and shareholder wealth using two market measures. First, TSR = total shareholder return or return on common stock consists of the [year-end closing price of a firm's stock + dividends per share]/the share price of the previous year. This measure reflects the 1-year total gain (loss) a shareholder receives for holding the firm's common stock (Bloom and Milkovich 1998; Kren and Kerr 1997). Second, Tobin's Q = the market value of the firm/replacement value of assets which a simple measure of Tobin's Q as adopted by Agrawal and Knoeber (1996). The market value of the firm is the market value of equity (total number of issued shares by the ordinary share price at year-end) and debt (total of short and long-term debt). The replacement value of the firm's assets is the book value of total assets. This simple measure of Tobin's Q is adopted because it is highly correlated with the traditionally inflation-adjusted figures and ease of computation. Shareholder value is measured at $t + 1$ as corporate giving is more likely to affect future value rather than current value and we include $t - 1$ to control for reverse causality. Including lagged performance (TOBINSQ$t - 1$) as an independent variable allows for performance persistence and for feedback from past performance to current corporate giving (Bohren and Strom 2010; Wooldridge 2002). Inclusion of the lag of the dependent variable is likely to mitigate concerns over reverse causality and omitted variables. To the extent that omitted correlated variables are relatively stable, their effects can be captured by lagged values of the dependent variable.

Control Variables

The two papers that consider research question closest to ours are Godfrey et al. (2009) and Brammer and Millington (2005). We draw on these papers to determine the appropriate control variables to reduce the possibility of biased results from omitted variables. Godfrey et al. (2009) identify the following firm characteristics that are likely to be associated with corporate giving: firm size, industry, return on assets (ROA), and leverage. We also control for the following variables that are likely to impact corporate giving (model 1): free cash flows measured as gross cash flow less gross investment. Free cash flow is not affected by capital structure as the tax benefits of debt are reversed out, company age and industry, older companies and certain industries are likely to give to charity.

In the reputation risk model (2) we control for firms that have social externalities (e.g. gambling, alcohol, tobacco, pharmaceuticals, and defence) or environmental impacts (e.g. chemical, mining and utilities) as they are likely to have an impact on reputation (Brammer and Millington 2005). Firm size and profit before tax (PBT) are also likely to be associated with reputational risk. The controls in the shareholder value model (3) are chosen by their impact on shareholder value and having no association with reputation risk or corporate giving. It is unlikely that the year, the previous year's shareholder value or the current years

Table 1 Industry Frequencies

Industry	Number	Percent (%)
Mining	32	9.7
Construction and materials	19	5.8
Financial services	24	7.3
Gas and water	12	3.6
Industry transport	15	4.5
Travel and leisure	22	6.7
Chemicals	12	3.6
General industrials	9	2.7
Healthcare	17	5.2
Banks	18	5.5
Real estate	10	3.0
Oil equipment	7	2.1
Industrial metals	12	3.6
Oil and gas	16	14.8
Support	12	3.6
Beverages	7	2.1
Real estate trusts	24	7.3
Software	6	1.8
Pharmaceuticals	4	1.2
General retail	17	5.2
Food and beverage	5	1.5
Food	3	9
Non-life insurance	6	1.8
Telecommunications	5	1.5
Food and drugs	6	1.8
Metal products	2	6.8
Electricity	3	9
Aviation	2	6
Energy	2	6
	330	**100**

[5] We purchased this data from a UK firm that collects this information.

Table 2 Descriptive Statistics

	REP RISK	PBT $'000 s	CORP GIVING %	ROAt	MKTCAPt $'000 s	FCFt $'000 s	TSRt	TOBQt	COAGE	LEV	TA $'000 s
PANEL A											
Mean	65.007	1,168,919	0.321	0.076	12,161,018,829	−1,190,000	5.985	0.912	43.07	2.343	42,500,000
Median	65.000	319,745	0.425	0.061	4054902078	119,000	5.871	0.510	28.00	1.913	5,990,000
Std. Dev	12.643	3,363,820	0.841	0.067	26,599,790,751	11,100,000	3.649	1.379	38.378	1.684	13,800,000
Minimum	31.0	−2,955,500	0.000	0.207	0.0000	−8,260,000	0.250	−0.641	<1.00	0.8118	8638
Maximum	93.0	31,225,000	7.846	0.442	2,331,290,000	71,600,000	40.703	9.185	179	17.374	80,800,000

Variable	Total	No# 1	%
Panel B: dichotomous variables			
Gri reporting	300	153	51
Social	330	27	8.2
Environmental	330	107	32.4
Secondment scheme	301	131	39.7
Gifts in kind	301	220	26.7
Detailed report	330	261	79.1
Payroll giving	301	134	91.2
Board member in community involvement	294	57	17.3
Senior manager community involvement	293	113	34.2

Gri reporting are the firms in the sample that provide GRI compliant reports

Social externalities are gambling, alcohol, tobacco, and pharmaceuticals

Environmental impacts are chemicals, mining and utilities

Employee secondment can include allowing staff to spend (paid) time working on or providing services to community/charitable activities. For example, reading in schools or time off for volunteering activities

The Company has a payroll giving scheme

The Company provides equipment or low-rent premises

The Company has a Community Report published giving details of projects supported

The Company has a Board Member with overall responsibility for community involvement

The Company has a senior manager responsible for community involvement

REPRISK reputation risk score out of 100, *CORPGIVING* corporate giving as a percentage of profit before tax, *TOBQt* the market value of equity and debt divided by the book value of total assets in year t, *TOBQt* − 1 prior year TOBQ, *LNMKTCAP* Closing share price on the last day of the company's financial year * number of shares outstanding at the end of the period, logged, *ROAt* current year ROA [Net Income + Interest Expense*(1 − Corporate Tax Rate)]/[Total Assets − Outside Equity Interests; INDY: dummy variable 1 for mining and travel and leisure, *FCFt* Free cash flows (profit after tax − changes in capital expenditure + depreciation & amortization − changes in working capital), *Social* Dummy variable where gambling, alcohol, tobacco, and pharmaceuticals,1: 0 otherwise, *Environ* Dummy variable where chemicals, mining and utilities, 1: 0 otherwise, *PBTt* Profit before tax, LNTAt = Total assets, logged; LEVERAGE: total assets divided by total liabilities, *Year* dummy variable 1 for 2011, 2012, 2013; 0 otherwise

Table 3 Pearson's correlations ($N = 300$)

	REP RISK	SOC IAL	ENVR ON	GRI	PBTt	CORP GIVE	SEC OND	PAY ROLL	GIFTS	DET AIL
	1	2	3	4	5	6	7	8	9	10
1	1.00									
2	−0.09	1.000								
3	0.01	−0.21**	1.000							
4	0.25**	−0.105	0.271	1.00						
5	0.18**	−0.085	0.130*	0.28**	1.000					
6	0.16**	−0.051	−0.013	0.27**	0.072	1.000				
7	0.19**	−0.155**	−0.018	0.33**	0.236**	0.146*	1.000			
8	0.34**	−0.119*	−0.031	0.24**	0.278**	0.144*	0.374**	1.000		
9	0.23**	−0.191**	−0.083	0.31**	0.175**	0.177**	0.124*	0.180**	1.000	
10	0.29**	−0.083	−0.021	0.25**	0.149**	0.154**	0.304**	0.325**	0.481**	1.000
11	0.19**	−0.157**	0.087	0.26**	0.344**	0.148*	0.301**	0.314**	0.209**	0.224**
12	0.36**	−0.159**	−0.001	0.39**	0.309**	0.258**	0.367**	0.417**	0.262**	0.333**
13	−0.14*	0.098	0.070	−0.19**	0.045	−0.024	−0.026	−0.17**	−0.17**	−0.059
14	0.35**	0.093	0.083*	0.47**	0.660**	0.31**	0.376**	0.426**	0.371**	0.291**
15	−0.05	0.037	0.099	−0.16*	−0.21**	−0.009	−0.092	−0.114	−0.064	−0.056
16	0.33**	−2.11**	−0.036	−0.008	0.52***	0.3**	0.31**	0.470**	0.384**	0.30**
17	0.01	−0.090	−0.129*	0.48**	0.519**	0.035	0.226**	0.289**	0.167**	0.143*
18	0.06	−0.098	−0.143*	0.008	−0.001	−0.001	0.113	0.143*	−0.006	0.032
19	−0.11	0.129*	0.020	−0.24**	−0.036	0.033	−0.006	−0.22**	−0.21**	−0.075
20	0.02	−0.014	0.276**	0.093	0.199**	0.024	0.094	0.217**	0.142*	0.263**

	BRD MEM	SNR MGT	ROAt	LN MKTCAPt	FCFt	LEVt	LN TAt	TRSt	TOBQt	CO AGE
	11	12	13	14	15	16	17	18	19	20
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11	1.000									
12	0.487**	1.000								
13	−0.19**	−0.36**	1.000							
14	0.356**	0.348**	−0.137	1.000						
15	−0.17**	−0.17**	0.157**	−0.28**	1.000					
16	0.35**	0.598**	−0.553*	0.790**	−0.347*	1.000				
17	0.306**	0.334**	−0.23**	0.790**	−0.67**	−0.19**	1.000			
18	0.008	0.115*	−0.017	0.024	−0.083	0.103	0.138*	1.000		
19	−0.149*	−0.30**	0.798**	−0.136	0.081	0.241**	−0.57**	−0.13*	1.00	
20	0.229**	0.188**	−0.021	0.221**	0.041	0.074	0.105	−0.13*	−0.0	1.00

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Table 4 Determinants of corporate giving, reputation risk management and shareholder value (Tobin's Q and TSR)

	Panel A: Tobins Q*t*		Panel B: TSR*t*	
CORPGIVING				
CONS	752.86			
	(4.84)	***		
REPRISKt	0.016			
	(4.11)	***		
ROAt	1.53			
	(2.30)	**		
LNMKTCAPt	−117.96			
	(−4.84)	***		
FCFt	<0.000			
	(−1.27)			
COAGEt	0.001			
	(1.05)		$N = 299$	$R^2 = 0.184$
REPRISKt				
CONS	−536.30			
	(−4.71)	***		
CORPGIVINGt	3.160			
	(3.76)	***		
SOCIALt	−0.792			
	(−0.32)			
ENVIRONt	0.313			
	(0.020)			
LNTAt	146.97			
	(4.84)	***		
PBTt	<0.000			
	(−0.14)		$N = 300$	$R^2 = 0.993$
TOBQt ± 1/TSRt ± 1				
CONS	13.362		−45.80	
	(2.46)	***	(−1.91)	*
REPRISKt	0.002		0.001	
	(1.10)		(0.08)	
CORPGIVINGt	0.014		0.001	
	(0.24)		(0.00)	
CORPGIVt*REPRISKt	−0.0002		0.001	
	(−0.30)		(0.24)	
TOBQ*t* − 1/TSR*t* − 1	0.865		0.431	
	(33.39)	***	(15.15)	***
LNTAt	−3.300		12.048	
	(−2.47)	***	(2.03)	**
LEVERAGE	0.002		−0.116	
	(0.09)		(−1.14)	

Table 4 continued

	Panel A: Tobins Q*t*	Panel B: TSR*t*
N	299	300
R^2	0.856	0.456

This table presents the results of the OLS random effects, unbalanced panel data, clustered on firm. Two-tailed Z statistics in parentheses significant at *** 0.01; ** 0.05; * 0.10; levels

Endogenous variables: REPRISK reputation risk score out of 100, *CORPGIVING* corporate giving as a percentage of profit before tax, *TOBQt* the market value of equity and debt divided by the book value of total assets in year t, *TOBQt* − 1 prior year TOBQ

*Exogenous variables: CORPGV*RREPRISK* interaction term, *LNMKTCAP* Closing share price on the last day of the company's financial year * number of shares outstanding at the end of the period, logged, *ROAt* current year ROA [Net Income + Interest Expense*(1-Corporate Tax Rate)]/[Total Assets − Outside Equity Interests, *INDY* dummy variable 1 for mining and travel and leisure, *FCFt* Free cash flows (profit after tax − changes in capital expenditure + depreciation & amortization − changes in working capital), *Social* Dummy variable where gambling, alcohol, tobacco, and pharmaceuticals,1: 0 otherwise. *Environ* Dummy variable where chemicals, mining and utilities, 1: 0 otherwise, *PBTt* Profit before tax; *LNTAt* = Total assets, logged, *Leverage* total assets divided by total liabilities, *Year* dummy variable 1 for 2011, 2012, 2013; 0 otherwise

leverage is going to have any direct association on the current year's reputation risk or corporate giving. Firm size is included in all the models as it is an important variable of nearly all factors.

Sample

The sample consists of the top 100 Australian publicly listed firms for 2011, 2012 and 2013 that engaged in philanthropic activities with an additional 30 collected from the Global Reporting Initiative disclosures. These years were chosen as the most recent and the least likely to have a major disaster, such as the floods in 2010, fires in 2008 and Tsunami in 2004. Disclosure of the dollar value of philanthropic activities is required to measure the significance of the activity as a percentage of total revenue. We started with a sample size of 330, which was reduced to 299 after eliminating firms with missing variables.

Results

Table 1 reports the industry frequencies for the sample of 330 Australian firms before the reduction to test the research questions. The most frequent industry in our sample is oil and gas (14.8 %) followed by mining (9.7 %). Table 2 Panel A summarizes the descriptive statistics for the continuous variables of the pooled balanced panel of 330 observations for 2011–2013 firms and Panel B provides the descriptive for the categorical variables. The average score for reputational risk management is 65 % out of a possible 100 %. The average corporate giving as a percentage of profit before tax is 0.31 %. The average TOBINSQt is 0.91 and the average TSRt of 5.98. Nearly one-third the sample (32 %) is in an industry that has some impact on the environment while only 8.2 % are in an industry that has a social impact. Fifty-one % of the sample provides GRI compliant reports.

Table 3 shows the Pearson 2-tailed correlation matrix. This table demonstrates a significant positive correlation between reputation risk management and corporate giving. In Table 4 we tested the relationship between philanthropy, reputation and shareholder value using an OLS regression model using panel data and clustering by firm. The results of these tests show a strong association between corporate giving and reputation and visa versa, demonstrating the need to control for reverse causality. The interaction between corporate giving and reputation on shareholder value are not significant hence we turn our attention to controlling for potential endogeneity by using 3SLS estimation.

Table 5 reports the results from testing the research questions simultaneously. Panel A presents the results for the 3SLS estimation of the three equations in which shareholder value is measured as Tobin's Q while shareholder returns (TSR) is reported in Panel B. Column 1 of Table 4 Panel A shows the effect of reputation risk on corporate giving as specified by Eq. (1). Column 2 shows the effect of corporate giving on reputation (Eq. 2). Column 3 shows the effect of reputation risk and corporate giving on Tobin's Q (Eq. 3).

Panel A (column 1) of Table 4 shows that reputation risk management is a significant determinant of corporate giving which supports H1. Corporate giving is positively associated with reputation risk management ($B = 0.207$; $p < 0.001$). Column 2 shows reputation risk is positively associated with corporate giving ($B = 4.67$; $p < 0.001$). Column 3 shows that corporate giving is negatively associated with Tobin's Q ($B = -1.137 < 0.05$) and

Table 5 Determinants of shareholder value (Tobin's Q and TSR)

	Panel A: Tobins $Qt + 1$						Panel B: TSR$t + 1$					
	CORP GIVINGt		REP RISKt		TOBQ$t + 1$		CORP GIVINGt		REP RISKt		TSR$t + 1$	
CONS	1342.30		−110.87		40.98		1137.76		−139.41		−657.51	
	(3.71)	***	(−1.84)	*	(3.05)	***	(3.51)	***	(−2.21)	**	(−1.23)	
CORPGIVINGt			4.674		−1.137				5.336		−2.410	
			(6.81)	***	(2.33)	**			(8.38)	***	(−1.03)	
REPRISKt	0.207				0.059		0.184				−0.064	
	(9.29)	***			(3.75)	***	(9.73)	***			(−1.22)	
CORPGIVt* REPRISKt					0.008						0.025	
					(1.90)	*					(1.45)	
ROAt	1.53						1.814					
	(2.30)	**					(2.75)	***				
LNMKTCAPt	−212.16						−179.93					
	(−3.75)	***					(−3.45)	***				
FCFt	<0.000						<0.000					
	(−0.1)						(−0.27)					
COAGEt	−0.0001						−0.0001					
	(−0.29)						(0.00)					
SOCIALt			0.49						0.419			
			(0.63)						(0.50)			
ENVIRONt			0.78						0.758			
			(1.55)						(1.46)			
LNTAt			42.57		−10.896				49.525		16.051	
			(2.90)	***	(−2.94)	***			(3.21)	***	(1.32)	
PBTt			<0.000						<0.000			
			(1.86)	*					(1.51)			
TOBQ$t - 1$/TSR$t - 1$					0.816						0.435	
					(22.25)	***					(13.36)	***
LEVERAGE					−0.011						−0.164	
					(−0.47)						(−1.44)	
INDUSTRY	Yes		Yes		Yes		Yes		Yes		Yes	
YEAR	Yes		Yes		Yes		Yes		Yes		Yes	
N	299		299		299		299		299		299	
CH1^2	277.86	***	70.23	***	989.36	***	220.29	***	91.71	***	205.24	***
First stage Adj R^2	0.615		0.153		0.879		0.615		0.157		0.472	

This table presents the instrumental variables in the form of 3SLS regression models. The first-stage model is not reported for parsimony. The results of simultaneously testing the three equations for the role of corporate giving, reputation risk management and performance are presented. Two-tailed Z statistics in parentheses significant at *** 0.01; ** 0.05; * 0.10; levels

Endogenous variables: *REPRISK* reputation risk score out of 100, *CORPGIVING* corporate giving as a percentage of profit before tax, *TOBQt* the market value of equity and debt divided by the book value of total assets in year t, *TOBQt* − 1 prior year TOBQ

Exogenous variables: *CORPGV*RREPRISK* interaction term, *LNMKTCAP* Closing share price on the last day of the company's financial year * number of shares outstanding at the end of the period, logged, *ROAt* current year ROA [Net Income + Interest Expense*(1-Corporate Tax Rate)]/[Total Assets − Outside Equity Interests, *INDY* dummy variable 1 for mining and travel and leisure, *FCFt* Free cash flows (profit after tax − changes in capital expenditure + depreciation & amortization − changes in working capital), *Social:* Dummy variable where gambling, alcohol, tobacco, and pharmaceuticals,1: 0 otherwise, *Environ* Dummy variable where chemicals, mining and utilities, 1: 0 otherwise, *PBTt*: Profit before tax; *LNTAt* = Total assets, logged, *Leverage* total assets divided by total liabilities, *Year:* dummy variable 1 for 2011, 2012, 2013; 0 otherwise reputational risk is positively associated with Tobin's Q ($B = 0.060$; $p < 0.001$). The economic significance of this result is that for every cent in the dollar the firm spends on corporate giving, Tobin's Q will decrease by 0.413 %. In contrast, if the firm increase their reputation by 1 point then Tobin's Q will increase by 0.267 %. Consequently, the interaction of corporate giving and reputation risk management is positively associated with shareholder value ($B = 0.008$; $p < 0.05$). This result means that the firm should manage it reputation while concurrently increasing its corporate giving if it wants to increase shareholders' value of the firm. In other words, the market places greater value on corporate giving when the firm also manages its reputation.

Panel B reports no significant associations between corporate giving or reputation risk management and shareholder wealth. There are several plausible reasons for the differences in the results for shareholder value and shareholder wealth. Shareholder value (Tobin's Q) is measured using firm value which incorporates forward looking information and market perception. Tobin's Q is measured as the market value of the firm divided by replacement value of assets. If Tobin's Q is greater than one, the market value of shareholder and creditor investment is greater than the amortized historical cost of the assets. Because Tobin's Q measures the market value of shareholder and creditor investment it encompasses a market assessment of the investment opportunity set and future cash flows of the firm. Shareholder return (TSR) is a measure of the return to stock holders which is based on past performance. This measure reflects the one-year total gain (loss) a shareholder receives for holding the firm's common stock. The decision to pay dividends will be adversely affected by corporate giving as there will be less cash to pay dividends by definition.

The results of the study suggest that, while directly controlling for endogeneity with 3SLS, that increasing firms' investment in corporate giving increases the likelihood that there will be an increase in shareholder value given the association between reputation risk management and corporate giving. That is, the market foresees that the impact of corporate giving on reputational risk management occurs in the future and hence is included in an increase in shareholder value.

Conclusion

The purpose of this study is to examine the influence of CP on corporate reputation and shareholder value. Particular attention is paid to the role that corporate giving and reputation risk management play in determining shareholder value. The study finds that it is the interplay of corporate giving and reputation risk management that is positively associated with shareholder value. Taken separately, corporate giving is negatively associated with shareholder value while reputation risk management is positively related to shareholder value. This result means if firms want to be viewed favourably for their involvement in corporate giving they must also concurrently manage their reputation. Our results concur with those of Patten (2007) finds a statistically significant positive relationship between large donations and the stock value of firms. Patten (2007) suggests financial performance will not increase if CP is not perceived as genuine by stockholders, even for very large contributions.

The limitation inherent in this study is that our sample is limited to the top 100 firms and those that disclose the actual amount of funds corporations donate. There seems to be reluctance by many corporations to disclose how much they give. Future research could investigate the reasons for lack of disclosure. A fruitful area of further research would be to examine the opinions of directors regarding the extent of corporations' philanthropic activities and their opinions on the disclosure of such activities.

The findings of this study aid in building a stronger theoretical and practical foundation for CP. The main contribution is that overall, that firms that engage in CP (for whatever motivation) must also improve their reputation to increase their shareholder value. Consequently, our results are aligned with enlightened stakeholder theory because we find that CP may have an initial detrimental impact on profitability but contributes to the improvement in the company's market image which then translates to increases in market valuation in the longer term. Our results support the notion that CP has not only the benefits to society, but also distinct financial benefits to an organisation.

Acknowledgments We would like to thank the London Benchmarking Group in Australia for their encouragement and assistance in this project. We thank the participants at the 2015 European Accounting Association conference Glasgow and Janet Mack for their insightful comments. We would also like to thank QUT for financial assistance and research assistants Alexandra Williamson and Marie Crittall.

References

Ader, C. (1995). A longitudinal study of agenda setting for the issue of environmental pollutions. *Journalism and Mass Communication Quarterly, 72*(2), 300–311.

Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis, 31*(3), 377–397.

Argenti, P. (2005). The challenge of protecting reputation. *Financial Times*, Mastering Risk, September 30:2–3.

Atkins, D., Bates, I., & Drennan, L. (2006). *Reputational Risk: A question of trust*. London: Lessons Professional Publishing.

Australian Philanthropy Figures. (2015). *Philanthropy Australia*. Viewed April 11 2016, www.philanthropy.org.au.

Bae, J., & Cameron, G. T. (2006). Conditioning effect of prior reputation on perception of corporate giving. *Public Relations Review, 32*, 144–150.

Bai, X., & Chang, J. (2015). Corporate social responsibility and firm performance: The mediating role of marketing competence and the moderating role of market environment. *Asia-Pacific Journal of Management, 32*, 505–530. doi:10.1007/s10490-015-9409-0.

Bennett, R. (1997). Corporate philanthropy in the UK: altruistic giving or marketing communications weapon? *Journal of Marketing Communications., 3*(2), 87–109.

Berman, S. L., Wicks, A. C., Kotha, S., & Jones, T. M. (1999). Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Academy of Management Journal, 42*, 488–506.

Bloom, M., & Milkovich, G. T. (1998). Relationships among risk, incentive pay, and organizational performance. *Academy of Management Journal, 41*(3), 283–297.

Bohren, Y., & Strom, R. (2010). Governance and politics: Regulating independence and diversity in the board room. *Journal of Business Finance & Accounting., 37*(9–10), 1281–1308.

Brammer, S., & Millington, A. (2004). The development of corporate charitable contributions in the UK: A stakeholder analysis. *Journal of Management Studies, 41*(8), 1411–1434.

Brammer, S., & Millington, A. (2005). Corporate reputation and philanthropy: An empirical analysis. *Journal of Business Ethics, 61*, 29–44.

Brown, N., & Deegan, C. (1998). The public disclosure of environmental performance information—A dual test of media agenda setting theory and legitimacy theory. *Accounting and Business Review, 29*, 21–41.

Bruch, H., & Walter, F. (2005). The keys to rethinking corporate philanthropy. *MIT Sloan Management Review, 47*(1), 49–55.

Campbell, D., Moore, G., & Metzger, M. (2002). Corporate philanthropy in the U.K. 1985–2000: Some empirical findings. *Journal of Business Ethics, 27*(4), 363–376.

Carroll, C. E. (2004). *How the mass media influence perceptions of corporate reputation: Exploring agenda-setting effects within business news coverage*. Unpublished doctoral dissertation, The University of Texas, Austin.

Carroll, A. B., & Buchholtz, A. K. (2011) *Business and society: ethics, sustainability, and stakeholder management*. https://books.google.com.au/books?isbn=0538453168.

Centre for Corporate Public Affairs. (2009). *Impact of the economic downturn on corporate Community investment*. Sydney: Final report to the Department of Social Services.

Chester, C., & Lawrence, S. (2008). The business of doing good: An Australasian perspective on corporate philanthropy. *The Journal of Corporate Citizenship, 31*, 89–104.

Chikoto, G. L., & Neely, D. N. (2014). Building nonprofit financial capacity the impact of revenue concentration and overhead costs. *Nonprofit and Voluntary Sector Quarterly, 43*(3), 570–588.

Christensen, C. M., & Raynor, M. E. (2003). *The innovator's solution: Creating and sustaining successful growth*. Cambridge, MA: Harvard Business School Press.

Chronicle of Philanthropy. (2012). http://chronicle.com/. Accessed November 10, 2015.

Collins, M. (1994). Global corporate philanthropy and relationship marketing. *European Management Journal, 12*(2), 226–233.

Committee Encouraging Corporate Philanthropy. (2015). *Giving around the globe 2015 edition.*

Deephouse, D. (2000). Media reputation as a strategic resource: integration of mass communication and resource-based theories. *Journal of Management, 26*, 1091–1112.

Dickson, P. R. (1992). Toward a general theory of competitive rationality. *Journal of Marketing, 56*, 16–83.

Ditlev-Simonsen, C. D., & Midttun, A. (2011). What motivates managers to pursue corporate responsibility? A survey among key stakeholders. *Corporate Social Responsibility and Environmental Management, 18*(1), 25–38.

Dowling, G. (2006). Reputation risk: it is the Board's ultimate responsibility. *The Journal of Business Strategy, 27*(2), 59–69.

Downes, J., Schofield, J., & Fentiner Van Vlissengen, R. (2012). *What gives? How companies invest in communities*. Australia: Catalyst. Retrieved December 27, 2015, from http://www.catalyst.org.au/campaigns/full-disclosure/138-what-gives-how-companies-are-investing-in-communities.

Epstein, M. J., & Buhovac, A. R. (2014). *Making sustainability work: Best practices in managing and measuring corporate social, environmental, and economic impacts*. California: Berrett-Koehler Publishers.

FASB Accounting Standards (No. 117) June, 1993.

Fombrun, C. J. (1996). *Reputation*. Boston MA: Harvard Business School Press.

Fombrun, C., & Rindova, V. (2000). The Road to Transparency: Reputation Management at Royal Dutch Shell. In M. Schultz, M. J. Hatch, & M. H. Larsen (Eds.), *The Expressive Organization: Linking Identity, Reputation and the Corporate Brand* (pp. 77–97). Oxford, UK: Oxford University Press.

Fombrun, C., & Shanley, M. (1990). What's in the name? *Reputation building and corporate strategy, Academy of Management Journal, 33*, 233–258.

Foster, M. K., Meinhard, A. G., Berger, I. E., & Krpan, P. (2008). Corporate philanthropy in the Canadian context: From damage control to improving society. *Nonprofit and Voluntary Sector Quarterly, 38*(3), 441–466.

Friedman, M. (1970). The social responsibility of business is to increase its profits. In T. L. Beauchamp, N. E. Bowie, & D. G. Arnold (Eds.), *Ethical Theory and Business* (8th ed., p. 55). New Jersey: Pearson.

Galaskiewicz, J. (1997). An urban grants economy revisited: Corporate charitable contributions in the twin cities, 1979–81, 1987–1989. *Administrative Science Quarterly, 42*, 445–471.

Gardberg, N. A., & Fombrun, C. (2006). Corporate citizenship: creating intangible assets across institutional environments. *Academy of Management Review, 31*(2), 329–346.

Gautier, A., & Pache, A.-C. (2015). Research on corporate philanthropy: a review and assessment. *Journal of Business Ethics, 126*(3), 343–369.

Godfrey, P. (2005). The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Academy of Management Review, 30*(4), 777–798.

Godfrey, P., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal, 30*, 425–445.

Griffin, J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research'. *Business and Society, 36*(1), 5–31.

Hansen, S. D., Dunford, B. B., Boss, A. D., Boss, R. W., & Angermeier, I. (2011). Corporate social responsibility and the benefits of employee trust: a cross-disciplinary perspective. *Journal of Business Ethics, 102*(1), 29–45.

Hempel, J. (2003) *A corporate cornucopia,* Business Week, December.

Himmelstein, J. L. (1997). *Looking good and doing good*. Bloomington: Indiana University Press.

Janis, I. L., & Fadner, R. (1965). The coefficient of imbalance. In H. Lasswell, N. Leites, & Associates (Eds.), *Language of Politics* (pp. 153–169). Cambridge, MA: MIT Press.

Jensen, M. C. (2001). Value maximization, stakeholder theory, and the corporate objective function. *Journal of Applied Corporate Finance, 14*(3), 8–21.

Knauer, N. J. (1994). The paradox of corporate giving: tax expenditures, the nature of the corporation and the social construction of charity. *DePaul Law Review, 44*(1), 1–97.

Kren, L., & Kerr, J. (1997). The effects of outside directors and board shareholders on the relation between chief executive compensation and firm performance. *Accounting and Business Research, 27*(4), 297–309.

Likert, K., & Simaens, A. (2015). Battling the devolution in the research on corporate philanthropy. *Journal of Business Ethics, 126*(2), 285–308.

Loughran, T., & Mcdonald, B. (2011). When is a liability not a liability? Textual analysis, dictionaries, and 10-Ks. *Journal of Finance, 66*, 35–65.

Lowengard, M. (1989). Community relations: New approaches to building consensus. *Public Relations Journal, 45*(10), 24.

Luo, X., & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing, 70*(4), 1–18.

Madden, K., & Scaife, W. (2007). Corporate giving: Who gives and why? *Wymer* (pp. 145–164). London: W. and Sargeant A. The Routledge Companion to Nonprofit Marketing.

Manne, H. G. (1973). The limits and rationale of corporate altruism: An individualistic model. *Virginia Law Review, 59*(4), 708–722.

McCombs, M. E., & Shaw, D. L. (1972). The agenda-setting function of mass media. *Public Opinion Quarterly, 36*, 176–187.

McKinsey Quarterly (2008). *The state of corporate philanthropy: A McKinsey global survey*. Accessed 27, December 2015 http://www.centerforgiving.org/Portals/0/The%20State%20of%20Corporate%20Philanthropy-%20A%20McKinsey%20Global%20Survey%202008.pdf.

Murray, K. (2003). Reputation—Managing the single greatest risk facing business today. *Journal of Communication Management, 8*(2), 142–149.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*, 403–441.

Patten, D. M. (2007). Does the market value corporate philanthropy? Evidence from the Response to the 2004 tsunami relief effort. *Journal of Business Ethics, 81*(3), 599–607.

Porter, M. E., & Kramer, M. R. (2002). The competitive advantage of corporate philanthropy. *Harvard Business Review, 80*(12), 56–69.

Saiia, D. H., Carroll, A. B., & Buchholtz, A. K. (2003). Philanthropy as strategy: when corporate charity begins at home. *Business and Society, 42*, 169–201.

Seifert, B., Morris, S. A., & Bartkus, B. R. (2003). Comparing big givers and small givers: financial correlates of corporate philanthropy. *Journal of Business Ethics, 45*, 195–211.

Seifert, B., Morris, S. A., & Bartkus, B. R. (2004). Having, giving, and getting: slack resources, corporate philanthropy, and firm financial performance. *Business Society, 43*, 135–161.

Setia-Atmaja, L., Tanewski, G. A., & Skully, M. (2009). The role of dividends, debt and board structure in the governance of family controlled firms. *Journal of Business Finance & Accounting, 36*(7), 863–898.

Shamma, H. M. (2012). Toward a comprehensive understanding of corporate reputation: concept, measurement and implications. *International Journal of Business Management, 7*(16), 151–169.

Shaw, B., & Post, F. R. (1992). A moral basis for corporate philanthropy. *Journal of Business Ethics, 11*(10), 771–779.

Simon, F. L. (1995). Global corporate philanthropy: A strategic framework. *International Marketing Review, 12*(4), 20–37.

Sinnewe, E., & Niblock, S. J. (2015). Trial by Media: An Empirical Investigation of Corporate Reputation and Stock Returns in Australia. *Journal of Media Economics, 28*(1), 41–60.

Smith, C. N. (1994). The new corporate philanthropy. *Harvard Business Review, 72*(3), 105–116.

Stendardi, E. J. (1992). Corporate philanthropy: The redefinition of enlightened self-interest. *The Social Science Journal, 29*(1), 21–30.

Su, J., & He, J. (2010). Does giving lead to getting? Evidence from Chinese private enterprises. *Journal of Business Ethics, 93*(1), 73–90.

Sum, L. S., & Henry, G. J. (2013). *A landscape study of donations in Singapore*. World Future Foundation. Accessed 27, December 2015, http://www.worldfuturefound.org/a/Research/Papers/list_65_2.html.

Tong, S. (2013). Exploring corporate risk transparency: Corporate risk disclosure and the interplay of corporate reputation, corporate trust and media usage in initial public offerings. *Corporate Reputation Review, 16*, 131–149.

Wang, H., Choi, J., & Li, J. (2008). Too little or too much? Untangling the relationship between corporate philanthropy and firm financial performance. *Organisational Science, 19*, 143–159.

Wang, H., & Qian, C. (2011). Corporate philanthropy and corporate financial performance: The roles of stakeholder response and political access. *Academy of Management Journal, 54*(6), 1159–1181.

Weber, R. P. (1990). *Basic content analysis* (2nd ed.). Newbury Park, CA: Sage.

Werbel, J. D., & Carter, S. M. (2002). The CEO's influence on corporate foundation giving. *Journal of Business Ethics, 40*, 47–60.

Windsor, D. (2006). Corporate social responsibility: three key approaches. *Journal of Management Studies, 43*(1), 93–114.

Wooldridge, J. (2002). *Econometric Analysis of Cross Section and Panel Data*. Cambridge, MA: MIT Press.