

# **The Role of Corporate Philanthropy on Ratings of Corporate Social Responsibility and Shareholder Return**

**Karen Hogan**  
**Saint Joseph's University**

**Gerard T. Olson**  
**Villanova University**

**Rajneesh Sharma**  
**Saint Joseph's University**

*Many current and potential employees, investors, and mutual funds view Corporate Social Responsibility (CSR) as an important feature in their decision process. The purpose of this paper is to assess the relationship between a firm's community spending and the scores it receives from organizations that rate firms' CSR and whether community spending and these scores are related to shareholder return. We find differences in the relationship between corporate philanthropy and a firm's scores on various measures of CSR. We also find that firms with a lower probability of bankruptcy, as measured by Altman's Z score, more women on the Board, and larger Boards tend to give more money to the community. Finally, we find that excess returns are positively related to a firm's governance disclosure score but negatively related to its social disclosure score. The data does not support the contention that, on average, Community Spending as a Percent of EBITDA has any effect on the value to the firm.*

## **INTRODUCTION**

A response by many investors to the recent accounting and financial scandals is an increased importance in their investment selection strategy of firms that are viewed as socially responsible. Mutual funds have been created that invest only in firms who are considered socially responsible. Not wanting to be associated with organizations that are in the news for behaving unethically, many potential employees view Corporate Social Responsibility (CSR) as an attractive feature in their decision process while current employees view it as an important source of job satisfaction. A hot topic in the academic finance and management literature for the past decade has been exploring the potential benefits and costs associated with a company's CSR. CSR is used in industry to define and evaluate the company's involvement in its corporate community. Depending on your point of view, CSR can either be an important component of the company's strategy or it can be a waste of shareholders' money.

Rubin (2008) claims that socially responsible investment assets grew faster from 1996 to 2007 than the entire managed funds universe in the United States during the same time period. Rubin claims that this shift in paradigm is not only important for how investments are perceived and viewed but also in how portfolios are created and implemented.

In light of these results, numerous studies make eloquent arguments regarding the necessity and importance of CSR. Other studies are based on using CSR index ratings, for example the Domini index, that report company profiles based on different aspects of social responsibility including charitable giving, community involvement, diversity, employee welfare, corporate governance, and the natural environment. Financial studies tend to compare the returns of companies who rank highly in these indices compared to companies not included. Favorable stock returns with companies also high in the Domini index would imply a positive relationship and support the argument of good corporate citizenship.

The purpose of this paper is to assess the relationship between a firm's community spending and the scores it receives from organizations that rate firms' CSR and whether community spending and these scores are related to shareholder return. While there has been much attention in the academic literature concerning CSR, few studies have addressed corporate philanthropy, or charitable giving, and how it relates to the value of the firm. Prior research has also not addressed the impact of a firm's community spending on the scores it receives for CSR.

Godfrey (2005) looks at the relationship between corporate philanthropy and shareholder wealth. Philanthropy is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer (FASB, 1993:2). Godfrey argues that overall rational managers should engage in corporate philanthropy because such activity benefits shareholders. This paper will expand Godfrey's research by specifically testing for a company's change in stock price based on its annual charitable corporate giving as shown in its annual tax filings. Using this methodology we will have non-subjective method of determining the effect that corporate giving has on the value of the firm. In addition, we will assess the relationship between a firm's community spending and the scores it receives from rating agencies concerning its CSR. Since these scores may be used by some investors in their stock selection process, it becomes important for managers to know the impact of the firm's community spending on their CSR scores and shareholder return.

## **HISTORY OF DEFINING CORPORATE SOCIAL RESPONSIBILITY**

The term Corporate Social Responsibility (CSR) is used synonymously with many different terms in the finance/accounting and management academic literature. While each term surrounding CSR may have slight differences in their academic meaning, they can all stand under the same umbrella as terms used to evaluate the company's involvement in its corporate community. Some of the terms used interchangeably in the literature are Stakeholder Theory as defined by Freeman (1984), Corporate Social Performance (CSP) as defined by Waddock and Graves', (1997 & 1997), Corporate Community Involvement (CCI) as defined by Burke (1999), Corporate Philanthropy as defined by Godfrey (2005), and the general term Social Responsibility (SR).

Freeman (1984) first expressed the idea of the stakeholder theory of the firm as a common thread for the idea that doing good deeds is good for the company. The stakeholder theory of the firm qualifies the idea of a profit maximizing firm as one that also does right by its employees, its customers, the environment, and the local community. Under Freeman's definition corporate philanthropy undertaken by a company is just one of the duties that are expected of good corporate citizenship. Solomon and Hanson (1985) expand on Freeman's definition and suggested that a corporation's social performance may, in fact, be 'good business'. He argues that while the company has obligations to its owners, it both exists and operates within a web of stakeholders. Stakeholders can include customers, employees, communities, and environmental interests. Rochlin and Christoffer (2000) conclude that given the arguments above devoting attention to stakeholders is not inconsistent with devoting attention to shareholders. This is because the firm's management of stakeholders will directly and indirectly affect the bottom line.

Waddock and Graves (1997 & 1997) discusses Corporate Social Performance (CSP) as a multidimensional construct, with behaviors ranging across a wide variety of inputs, internal behaviors or processes, and outputs (e.g. community relations and philanthropic programs). Subsequently, Burke (1999) defines corporate community involvement (CCI) as the state of relations between the company and the communities in which it has a presence or impact. It encompasses programs that advance the interests

of both the company and its communities, such as donations, employee volunteerism, and community partnerships. It involves the impact of the operational activities of the company on its communities, as well as, programs established to develop relationships with groups and organizations in communities.

## LITERATURE REVIEW

Numerous academic studies surrounding a firm's social responsibility and financial performance have been done. As with most academic research questions, the answers are not necessarily straight forward. Literature reviews have found both positive and negative reactions to these questions, however, a preponderance of evidence in the finance/accounting and management academic fields does show a wealth of studies that statistically support the idea that corporate social responsibility (corporate philanthropy) is good for business in many ways including a firm's financial performance, employee retention, and corporate reputation to name a few.

Roman, Hayibor, and Agle (1999) review the current literature on the portrait of the relationship between CSP and Corporate Financial Performance (CFP) and find 33 studies that suggest a positive relationship, 14 studies that find no effect or were inconclusive, and only 5 studies that find a negative CSP/CFP relationship. Thus, Roman, Hayibor, and Agle conclude that their perception that the CSP/CFP relationship may in general be positive is consistent with the results from prior research.

Waddock and Graves (1997) also address the question of whether CSP and financial performance are related. Using a constructed index from the firm Kinder, Lydenberg, and Domini and financial statement data, they find that CSP and profitability are positively related. Kinder, Lydenberg, Domini & Co. is an agency that reports company profiles based on different aspects of social responsibility including charitable giving, community involvement, diversity, employee welfare, corporate governance, and the natural environment. According to their official web site: [www.kld.com](http://www.kld.com), the SOCRATES index used in the "Corporate Social Ratings" for community has companies rated strongly who show programmatic evidence of: Charitable Giving, Innovative Giving, Non-US Charitable Giving, Support for Education, Support for Housing, Volunteer Programs, and Other Strengths. Waddock and Graves' research suggests that causality goes both ways in that firms with strong financial performance have slack resources that can be spent on CSP measures, and that good social performance "may be linked to good managerial practice," which in turn leads to strong financial performance.

These results support earlier evidence by McGuire, Sundgren, and Schneeweis (1988) who find a positive relationship between CSR and financial performance. In this study, the authors use a survey of corporate reputation ratings from *Fortune* magazine as a social responsibility metric. Using both prior-and-post-performance measures, they find that prior accounting-based performance measures explain more of the variation in corporate reputation ratings than do prior stock returns. However, prior measures of performance (both accounting- and market-based) are more closely related to corporate reputation ratings than post measures of performance.

According to *Giving USA*, corporate donations totaled \$13.5 billion for the year 2003. As corporate giving has increased over the years, indexes to measure corporate social responsibility have also been introduced. Verschoor and Murphy (2002) use the list of 100 Top U.S. Best Corporate Citizens published annually in *Business Ethics* magazine and three financial performance rankings to conclude that firms with strong social values have superior financial performance. This relationship holds in foreign markets as well. Pearson (2000) suggests that U.K. firms that are perceived as trustworthy have greater long-term success than firms not perceived as trustworthy. The author finds that firms supporting corporate philanthropy in areas related to their business activities have more transparency between management and stakeholders, and finds them to exhibit greater long-run performance than firms not involved in philanthropic activities. Pearson's results are supported by Hillman and Keim (2001), who show that stakeholder management and shareholder value are directly correlated, while social issue participation hurts performance.

Recent studies on CSR have begun to look at alternative non-index related variables that could be used as a proxy for CSR. Godfrey (2005) looks at the relationship between corporate philanthropy and

shareholder wealth. Godfrey states three core hypotheses: 1) corporate philanthropy can generate positive moral capital among communities and stakeholders, 2) that moral capital can provide shareholders with “insurance like” protection for many of a firm’s idiosyncratic intangible assets, and 3) that the insurance like protection contributes to shareholder wealth. According to Godfrey, one of the main reasons this study uses philanthropic activity as a variable of study is because researchers, social indices, and professors in the field all consider philanthropy as an important measure of corporate social responsibility.

Relying on the Financial Accounting Standards Board (FASB), there is a concrete definition of philanthropy which is not open to debate and thus a consistent instrument to use as a measure for corporate social responsibility and its effect on shareholder wealth. Godfrey argues that overall rational managers should engage in corporate philanthropy because such activity benefits shareholders. Godfrey discusses three principles that should underlie a firm’s processes: transparency, stability, and responsiveness. Transparency requires the firm to disclose details of the firm’s philanthropic portfolio. Stability argues that for the firm to have the most moral capital resulting from the philanthropy it needs to show a pattern of consistent philanthropic activity. This consistency, it is argued, squelches the idea that the firm is engaging in philanthropy for purely opportunistic reasons. Responsiveness means that decisions about the philanthropy changes as economic and social conditions change.

Corporate social responsibility has also been credited for attracting and retaining employees. According to Rochlin and Christoffer (2000), there is a “war for talent.” According to Rochlin and Christoffer, a shift in perspective now defines “human capital” as an asset of equal (if not greater) value than “physical capital”. Given current and projected labor shortages in certain fields, attracting and retaining top quality applicants is becoming increasingly important for organizational success. CSR is viewed as an important dimension in recruiting and retaining the workforce in the future. Also, increased media coverage on CSR is raising public awareness and expectations. CSR can be an important tool in supporting employee recruitment and retention. Rochlin and Christoffer argue that the relationship between CSR and customer recruitment has been around for some time. Many industries use the relationships established from business involvement in civic affairs to spill over into new client and customer development.

Research has shown that if the reputation of the company is that of a leader in the field then that can translate into better financial outcomes for the company. Collins and Porras (1994) analyze what they call visionary companies that are “Built to Last” (BTL). According to Collins and Porras, BTL companies are premier institutions, the crown jewels in their industries, widely admired by their peers, and have a long track record of making a significant impact on the world around them. Collins and Porras compare 18 large capitalization, visionary companies which were identified in a survey of Chief Executive Officers to a group of matched firms by industry and age that were not identified as visionary. Their results show that a visionary company’s success results from their adherence to an immutable core ideology while stimulating progress with audacious goals that change over time. The core ideology is an established purpose and vital set of core values.

Graves and Waddock (2000) extend the work by Collins and Porras by comparing firms listed in the bestselling book, *Built to Last*, with a group of comparable firms not listed as visionary in the book. Graves and Waddock conclude that BTL companies outperform non-BTL companies using data from Computstat in both accounting and market based measures of Return on Equity, Return on Assets, Return on Sales, ten-year relative total return, and ten-year total return. The pooled t-tests show that visionary companies statistically outperform non-visionary companies in terms of return on equity, return on assets, return on sales, ten-year relative total return, and ten year total return. When looking at stakeholder relationships Graves and Waddock also show that similar patterns for stakeholder relationships exist. BTL companies significantly outperform non-BTL companies in most stakeholder relationships that were studied. BTL companies show statistical support for superior performance in employee relations, community relations, product (treatment of customer), and diversity measures than do non-BTL firms

A 2000 study by Antunovich and Laster analyzed data for the 1983 to 1996 period from an annual survey conducted for *Fortune* Magazine to identify “America’s Most Admired Companies.” Antunovich

and Laster find that stock returns for those companies yield an excess annual return of 3.2% in the following year and 8.3% over the following three years. The research also shows that stocks in the lowest decile return an excess negative return of 8.6% in the nine months following the survey report, thus implying that firms that were not admired were penalized at least in the short run.

Graves and Waddock (1994) and Cox, Brammer, and Millington (2004) using a sample of over 500 UK companies both investigate poor corporate social responsibility practices by companies and the effect of long term institutional investors holding their stock. Both studies suggest that being affiliated with poor corporate social responsibility leads to fewer institutional holdings of a company's stock.

Marquez and Fombrun (2005) discuss the plethora of ratings agencies around the world that are devoted to measuring a company's corporate social responsibility index. Marquez and Fombrun suggest these ratings have become so important that many large companies now appoint in-house specialists and teams to monitor and communicate their social performance. They point to the two key factors of the growing prominence of mutual funds made up of companies that pass the ratings and the increased social regulations that now compel businesses to consider the social and environmental implications of their activities as reasons they believe have increased the visibility of the CSR ratings.

Aras, et.al. (2010) investigate the relationship between corporate social responsibility and firm financial performance using the Istanbul Stock Exchange 100 Index companies and their social responsibility policy and financial indicators for the years 2005 to 2007. Their results show support for a relationship between firm size and corporate social responsibility, but no significant relationship between corporate social responsibility and financial performance/profitability.

Mittal, et.al. (2008) evaluate the linkage between good corporate social responsibility in India and economic value added and market valued added. Their findings do not support a financial benefit for the firm as it relates to corporate social responsibility.

Cribbs (2003) references a five year study by Leslie Gaines-Ross who is the Chief Knowledge and Research Officer at Burson Marsteller, the global communications consultancy, and Yankelovich Partners, a US research firm. Gaines-Ross conducted research on "CEO Capital" which she argues shows that in the US, UK, and Australia, the personal reputation of a CEO can account for up to half of the corporate reputation. Her study concludes that the five factors which contributed most to the CEO reputation were credibility, code of ethics, internal communication, good management and motivating and inspiring employees. Her study concluded that these factors were even more important than shareholder gains.

Empirical studies have shown that not only could reputation be extremely important and directly related to the company's ability to increase the firm's value to its shareholders, but also corporate reputation could give the company insurance-like protection in case it has any issues that may not be looked at favorably by its consumers.

Gan (2006) analyzes a sample of 40 Fortune 500 companies over seven years and finds support for Godfrey (2005) by looking at the relationship between corporate philanthropy and shareholder wealth using philanthropic behavior of 40 Fortune 500 companies over a seven year period. He argues that his data does show that philanthropy could provide insurance-like protection for relational wealth. Gan continues to argue that companies appear to do good to do well. The reputational benefits from making the donation in hard times may be better appreciated and applauded than if made in good times.

Patten (2008) investigates the market reaction to corporate press releases announcing donations to the relief effort following the December, 2004 tsunami in Southeast Asia using a sample of 79 U.S. companies. Patten's results indicate a statistically significant positive 5-day cumulative abnormal return. While differences in the timing of the press releases do not appear to have influenced market reactions, the amount of the donations did. Overall, Patten's results support Godfrey (2005) who claims that philanthropic giving must be perceived as being a genuine manifestation of the firm's underlying social responsiveness in order to increase firm value.

Calderon-Martinez, et.al (2005) use an event study analysis to evaluate share price as a result of announcements of philanthropic and commercial sponsorship. Their results suggest that only commercial

sponsorship events generate abnormal returns with the key being the size of the company and the link between the event and the company's activity.

Brown, et.al. (2006) study corporate philanthropy using an original database that includes firm-level data on dollar giving, giving priorities, governance, and managerial involvement in giving programs. The author's results provide some support for the theory that giving enhances shareholder value, as firms in the same industry tend to adopt similar giving practices and firms that advertise more intensively also give more to charity. However, the authors argue that much of the evidence indicates that agency costs play a prominent role in explaining corporate giving. Firms with larger boards of directors are associated with significantly more cash giving and with the establishment of corporate foundations.

Verschoor (2005) shows that a strategic awareness of and commitment to social and environmental issues does in fact bring greater success to the firm's profits. The study surveys 9,500 senior executives from 365 companies from a cross section of industries over thirty countries. Among the key findings is the belief that values influence two important strategic areas: relationships and reputations. Specifically, a majority of respondents believe that corporate reputation along with employee recruitment and retention are important to their business strategy and believe they are strongly affected by values. The survey finds that 88% of the leading companies claim a commitment to their employees. Almost half of the financial leaders say that corporate values geared toward environmental and social responsibility have a positive effect on financial performance in the short run. While few studies have been able to specifically quantify the effect, they point to companies like Johnson and Johnson as a good example of a company that uses its values as a main driver for business strategy.

A 2005 study by Menguc and Ozanne uses data from 140 Australian manufacturing firms to discuss the impact of the higher order construct of natural environmental orientation (NEO) on firm performance. The NEO construct is composed of three dimensions, entrepreneurship, corporate social responsibility, and commitment to the natural environment. The results show that NEO is positively and significantly related to profit after tax and market share. Their results support the argument that sound environmental practices can be profitable. The study also finds that corporate social responsibility, next to entrepreneurship, was the second most important factor. Effective communication of the environmental impact of the products is likely to positively affect the firm's performance through its reputational advantage.

A number of studies show a relationship between corporate social performance and the ability to attract and maintain employees. Rochlin and Christoffer (2000) review multiple studies that show that CSP aids attraction, recruitment, and retention of employees. They argue that the current research supports the hypothesis that employees are drawn to a company that has a strong reputation for CSP/CCI, and are more loyal to companies that are active corporate citizens.

A 1995 Boston College study entitled, "Employee Assessment of Corporate Image and Organizational Commitment", done for the Center for Corporate Community Relations in Boston, MA. finds that a company's reputation in the community affects employee loyalty. Also in the study they find that eighty four percent of employees surveyed indicated that community is "important" and with fifty four percent believing it is "very important". The study concludes these attributes are stronger for the company if employees are familiar with the company's community relations activities.

Amalric and Hauser (2005) evaluate the circumstances by which companies may increase value due to corporate social responsibility projects. Their findings show support for value increase as a result of either expectations for responsible corporate conduct held by the stakeholders of the company and secondly the belief that the state will impose new binding restrictions on companies.

## **SAMPLE**

The sample includes data from the Bloomberg database for the period January 1, 2003 to December 31, 2011. The database was screened for firms who have specifically made philanthropic contributions and have reported the contributions on their corporate tax returns. Measures of assessing these firms' corporate social responsibility, financial characteristics, and board characteristics were obtained.

Observations with missing data were deleted resulting in a final sample of 540 observations with data for all variables. Stock and market return data are obtained from the CRSP database. To address the issue of outliers distorting the interpretation of findings, excess returns are Winsorized at the five percent level.

Measures of a firm's corporate social responsibility comprise independent organizations' scores on multiple dimensions of 'good behavior'. These measures of corporate social responsibility include a firm's Environmental Disclosure Score, Social Disclosure Score, Governance Disclosure Score, Corporate Governance Quotient (CGQ) Index Score, CGQ Industry Score, and Global Metrics International (GMI) Overall Global Rating Score. Measures of firm's financial characteristics include the Number of Employees, Net Sales, Total Assets, Total Liabilities, Percent of Insider Shares Outstanding, Percent of Floating Shares held by Institutions, Cash Flow per Employee, Profit Margin, and Altman Z Score. Measures of a firm's Board characteristics include Board Size, Percent of Independent Directors, Board Meetings per year, and the Percent of Women on the Board.

Environmental Disclosure Score is a Bloomberg proprietary score based on the firm's environmental disclosure. The value is calculated based on the amount of environmental data disclosed with .1 being the lowest for those that are ranked to 100 for those companies who disclose every data point collected by Bloomberg related to environmental disclosures. Various factors are weighted differently based on its importance to the environment. Some of the variables such as greenhouse gases are weighted higher than other variables.

Social Disclosure Score and Governance Disclosure Score are Bloomberg proprietary scores based on the firm's social and governance disclosures. The value is calculated based on the amount of data disclosed with .1 being the lowest for those that are ranked to 100 for those companies who disclose every data point collected by Bloomberg related to social and governance disclosures. Each data point is weighted differently with workforce data getting higher weight than other variables for social disclosures and board of director data for governance disclosures. These indices are also scored by variables within industry sector so each industry is only related to variables important in that industry.

In the Corporate Governance Quotient (CGQ) Index Score a firm is ranked relative to its peers with .1 as the lowest and 100 as the highest. The Corporate CGQ Industry Score is the firm's industry score relative to its peers with .1 as the lowest and 100 as the highest.

## RESULTS

We use corporate community spending as a percent of EBITDA (CS % EBITDA) to show the effects of community spending relative to a firm's operating cash flow. Table 1 shows standard descriptive statistics parsed into three different panels of data labeled as Panels A through C. Panel A shows the variables related to community social responsibility. As shown in Panel A, the mean community spending as a percent of EBITDA is 1.30 percent. The median value is .55 percent and the standard deviation is 2.42 percent. The maximum percentage of EBITA for community spending was 26.7% and the minimum is 0. The Environmental Disclosure Score (E Score) mean and median are 30.63 and 28.13 respectively. The Social Disclosure Score (S Score) mean and median are 38.90 and 36.84. The Governance Disclosure Score (G Score) shows a mean value of 57.53 and a median value of 57.14. These results indicate that a firm is most likely to disclose information regarding the governance variables related to a firm and they are least likely to relate details about environmental disclosures. The Corporate Governance Quotient (CGQ) Index Score has a mean of 59.35 and a median of 61.80. The CGQ Industry Score has a mean of 84.72 and a median of 90.10. These results imply that firms who dedicate some of their cash flows to community spending are more likely to be rated in the top half of their peer when looking at corporate governance disclosure and the top twenty percent when looking at their industry peers. Lastly the Global Metrics International (GMI) Overall Global Rating Score's mean and median value were 8.61 and 9.0 respectively.

Panel B shows the results for the financial variables. The average number of employees is 74,768 with a median of 30,000 and a standard deviation of 193,110 showing a large disparity between the number of employees at each firm. The net sales variable shows average sales of \$27,691,000 with a

median value of a little less than half of that. Average firm liabilities in the sample are calculated to be \$24,784,000 and median liabilities are \$10,772,000. The excess return relative to the market, Winsorized at 5%, has a mean and median value of 4.97% and 5.96% respectively. The average cash flow per employee is \$153,069 and the median is \$60,351. The profit margin shows an average of 8.40% and Altman Z's Score has a mean value of 3.47.

Panel C shows the results for the Board Variables. The average and median size of the board was between 11 and 12 members. Over 85% of the boards have independent directors and the average board meets about 8 times a year. The percentage of women on the board is 17.13% on average.

**TABLE 1**  
**DESCRIPTIVE STATISTICS**

Descriptive Statistic Data for 540 firms listed in Bloomberg during the years 2003 to 2011 with complete data. CS % EBITDA = Community Spending as a percent of EBITA. E Score = Environmental Disclosure Score. S Score = Social Disclosure Score. G Score = Governance Disclosure Score. RTG GMI Global = Governance Metrics International Overall Global Rating. % Inside Sh Out = Percentage Insider Shares Outstanding. % Flt Sh Instit = Percent of Floating Shares Held by Institutions.

**PANEL A: COMMUNITY SOCIAL RESPONSIBILITY SCORES**

|         | CS % EBITDA | E Score | S Score | G Score | CGQ Index Score | CGQ Industry Score | RTG GMI Global |
|---------|-------------|---------|---------|---------|-----------------|--------------------|----------------|
| mean    | 1.30        | 30.63   | 38.90   | 57.53   | 59.35           | 84.72              | 8.61           |
| median  | 0.55        | 28.13   | 36.84   | 57.14   | 61.80           | 90.10              | 9.00           |
| std dev | 2.42        | 16.08   | 15.22   | 7.62    | 26.32           | 16.00              | 1.08           |
| max     | 26.07       | 89.92   | 82.81   | 85.71   | 100.00          | 100.00             | 10.00          |
| min     | 0.00        | 2.33    | 8.77    | 33.93   | 2.50            | 9.10               | 5.00           |

**PANEL B: FINANCIAL VARIABLES:**

|         | # Emp           | Net Sales (000) | Assets (000) | Liabilities | Excess Rtn on Market |
|---------|-----------------|-----------------|--------------|-------------|----------------------|
| mean    | 74,768          | 27,691          | 37,723       | 24,784      | 4.97                 |
| median  | 30,000          | 12,508          | 17,285       | 10,772      | 5.96                 |
| std dev | 193,110         | 49,783          | 76,632       | 60,366      | 32.15                |
| max     | 2,100,000       | 433,526         | 797,769      | 684,157     | 70.05                |
| min     | 7               | 318             | 338          | 273         | -53.55               |
|         | % Inside Sh Out | % Flt Sh Instit | CF per Emp   | PM          | Alt Z                |
| mean    | 1.32            | 83.23           | 153,069      | 8.40        | 3.47                 |
| median  | 0.46            | 85.23           | 60,351       | 7.98        | 3.39                 |
| std dev | 2.98            | 17.70           | 1,155,399    | 10.93       | 2.10                 |
| max     | 22.25           | 176.99          | 26,707,710   | 59.61       | 13.71                |
| min     | 0.00            | 0.00            | -123,245     | -110.34     | -2.12                |

**PANEL C: BOARD VARIABLES:**

|         | Board Size | % Independent Directors | # Board meets year | % Women on Board |
|---------|------------|-------------------------|--------------------|------------------|
| mean    | 11.59      | 85.88                   | 8.41               | 17.13            |
| median  | 12.00      | 90.00                   | 8.00               | 16.67            |
| std dev | 1.80       | 7.89                    | 3.44               | 8.19             |
| max     | 18.00      | 100.00                  | 34.00              | 50.00            |
| min     | 6.00       | 45.45                   | 4.00               | 0.00             |

Table 2 shows the correlations across all the variables in the study. Community Spending as a percent of EBITDA (CS % EBITDA) has positive correlations when compared to Environmental Disclosure Score (E Score), Social Disclosure Score (S Score), Corporate Governance Quotient Industry Score (CGQ Industry Score), Number of Employees (# Emp), Excess Returns (Excess Rtn), Percent of Insider Shares Outstanding (% Inside Sh Out), Percent of Floating Shares held by Institutions (% Flt Sh Instit), Profit Margin (PM), Altman's Z Score (Alt Z), Board Size, Board Meetings per year (# Board meets yr), and the Percent of Women on the Board (% Women on Board).

Interestingly the highest correlation with Community Spending as a Percent of EBITDA is Altman Z's Score. Since Altman's Z Score can be viewed as a proxy for financial health, the results suggest that firms who are more financially sound give more of their operating earnings to the community. The next highest correlations are related to the characteristics of the Board of Directors: Board Size and the Percent of Women on the Board. Board Size suggests that larger boards tend to give more of their operating earnings to the community and the Percent of Women on the Board suggests women have a positive effect on the amount the firm gives to the community.

The Community Spending as a Percent of EBITDA, however, is negatively correlated to Governance Disclosure Score (G Score), Corporate Governance Quotient Index Score (CGQ Index), Global Metrics International Overall Global Rating Score (RTG GMI Global), Net Sales, Assets, Liabilities, Cash Flow per Employee (CF per Emp), and the Percent of Independent Directors (% Indep Directors).

Looking at some of the other correlations, we find relatively high correlations among the Community Social Responsibility scores. Environmental Disclosure (E Score), Social Disclosure (S Score), and Governance Disclosure Score (G Score) have correlations ranging from .57 to .63, suggesting that if firms are open about disclosing data are more likely to disclose all types of information. There is a positive correlation between Profit Margin (PM) and Environmental Disclosure (E Score), Social Disclosure (S Score), and Governance Disclosure Score (G Score), but a negative correlation with Corporate Governance Quotient Index Score (CGQ Index) and Corporate Governance Quotient Industry Score (CGQ Industry Score). (Please see APPENDIX 1 for TABLE 2)

Table 3 shows the F tests for all variables broken into quintiles based on the amount of Community Spending as a Percent of EBITDA where Quintile 1 refers to the lowest quintile of firms' community spending as a percent of EBITDA and Quintile 5 refers to the highest quintile.

Panel A of Table 3 includes F Tests of differences in the means of the quintiles and p values for the Community Social Responsibility scores. The F test of a differences in means for the quintiles for Environmental Disclosure Score (E Score), Social Disclosure Score (S Score), Governance Disclosure Score (G Score), Corporate Governance Quotient Index Score (CGQ Index), Corporate Governance Quotient Industry Score (CGQ Industry Score), and Global Metrics International Overall Global Rating Score (RTG GMI Global) results in p values of .0751, .0565, .2242, .0212, .0040, and .0457 respectively. Only the Governance Disclosure Score is not significant at a least the 10% level.

Panel B of Table 3 includes F Tests of differences in the means of the quintiles and p values for the Financial Variables. Based on quintiles of Community Spending as a Percent of EBITDA, Altman's Z Scores, Percent Insider Shares Outstanding, and Number of Employees are highly significantly different with p values of .0000, .0001, and .0027 respectively. The Percent of Floating Shares held by Institutions and Profit Margin are both significantly different at the 5% level and Net Sales at the 10% level. The Total Assets, Total Liabilities, Cash Flow per Employee, and Excess Returns are not significantly different. The results suggest that it isn't just the large or small firms that are giving a relatively larger percentage of their operating earnings to their communities. The significant differences in the Altman Z Scores implies there may be a difference in the amount a firm is willing to give based on their risk of bankruptcy.

**TABLE 3**  
**F TESTS ALL VARIABLES. DATA SORTED INTO QUINTILES OF COMMUNITY**  
**SPENDING AS A PERCENT OF EBITDA WHERE QUINTILE 1 = LOWEST**  
**AND QUINTILE 5 = HIGHEST**

| <b>Panel A: CSR Characteristics</b> |                                       |                                |                                    |
|-------------------------------------|---------------------------------------|--------------------------------|------------------------------------|
|                                     | <b>Environmental Disclosure Score</b> | <b>Social Disclosure Score</b> | <b>Governance Disclosure Score</b> |
|                                     |                                       |                                |                                    |
| <b>Groups</b>                       | <b>Mean</b>                           | <b>Mean</b>                    | <b>Mean</b>                        |
| <b>QUINTILE 1</b>                   | 28.5265                               | 37.2167                        | 57.5562                            |
| <b>QUINTILE 2</b>                   | 28.8191                               | 35.9322                        | 56.6799                            |
| <b>QUINTILE 3</b>                   | 32.9239                               | 40.4169                        | 58.0192                            |
| <b>QUINTILE 4</b>                   | 33.1701                               | 41.0915                        | 58.7136                            |
| <b>QUINTILE 5</b>                   | 29.7028                               | 39.8473                        | 56.6964                            |
|                                     |                                       |                                |                                    |
| <b>F</b>                            | 2.1363                                | 2.3132                         | 1.4253                             |
| <b>P-value</b>                      | 0.0751                                | 0.0565                         | 0.2242                             |
|                                     |                                       |                                |                                    |
|                                     | <b>CGQ Index Score</b>                | <b>CGQ Industry Score</b>      | <b>RTG GMI Overall Global</b>      |
|                                     |                                       |                                |                                    |
| <b>Groups</b>                       | <b>Mean</b>                           | <b>Mean</b>                    | <b>Mean</b>                        |
| <b>QUINTILE 1</b>                   | 55.6713                               | 79.7657                        | 8.5093                             |
| <b>QUINTILE 2</b>                   | 60.2352                               | 84.0685                        | 8.6713                             |
| <b>QUINTILE 3</b>                   | 65.8491                               | 86.7250                        | 8.8426                             |
| <b>QUINTILE 4</b>                   | 59.7565                               | 87.0676                        | 8.6296                             |
| <b>QUINTILE 5</b>                   | 55.2404                               | 85.9893                        | 8.4213                             |
|                                     |                                       |                                |                                    |
| <b>F</b>                            | 2.9092                                | 3.8913                         | 2.4433                             |
| <b>P-value</b>                      | 0.0212                                | 0.0040                         | 0.0457                             |

| <b>Panel B: Financial Variables</b> |                            |                  |                     |
|-------------------------------------|----------------------------|------------------|---------------------|
|                                     | <b>Number of Employees</b> | <b>Net Sales</b> | <b>Total Assets</b> |
|                                     |                            |                  |                     |
| <b>Groups</b>                       | <b>Mean</b>                | <b>Mean</b>      | <b>Mean</b>         |
| <b>QUINTILE 1</b>                   | 46,335                     | 20,776           | 33,278              |
| <b>QUINTILE 2</b>                   | 56,945                     | 34,316           | 43,057              |
| <b>QUINTILE 3</b>                   | 41,729                     | 19,748           | 31,640              |
| <b>QUINTILE 4</b>                   | 104,794                    | 29,275           | 46,264              |
| <b>QUINTILE 5</b>                   | 124,038                    | 34,341           | 34,378              |
|                                     |                            |                  |                     |

|   |                          |                            |                                       |
|---|--------------------------|----------------------------|---------------------------------------|
| <b>F</b>                                  | 4.1087                   | 2.2153                     | 0.7774                                |
| <i>P-value</i>                            | 0.0027                   | 0.0662                     | 0.5402                                |
| <b>PANEL B: FINANCIAL VARIABLES Cont.</b> |                          |                            |                                       |
|   | <b>Total Liabilities</b> | <b>Pct Insiders Sh Out</b> | <b>Pct Floatation Sh Institutions</b> |
|   |                          |                            |                                       |
| <b>Groups</b>                             | <b>Mean</b>              | <b>Mean</b>                | <b>Mean</b>                           |
| <b>QUINTILE 1</b>                         | 22,257                   | 0.65                       | 85.69                                 |
| <b>QUINTILE 2</b>                         | 26,916                   | 0.84                       | 81.31                                 |
| <b>QUINTILE 3</b>                         | 21,196                   | 0.97                       | 81.12                                 |
| <b>QUINTILE 4</b>                         | 33,801                   | 1.84                       | 81.06                                 |
| <b>QUINTILE 5</b>                         | 19,752                   | 2.28                       | 87.00                                 |
|   |                          |                            |                                       |
| <b>F</b>                                  | 0.9662                   | 6.3816                     | 2.8914                                |
| <i>P-value</i>                            | 0.4255                   | 0.0001                     | 0.0218                                |

|                   |                               |                      |                       |
|-------------------|-------------------------------|----------------------|-----------------------|
|                   | <b>Cash Flow Per Employee</b> | <b>Profit Margin</b> | <b>Altman Z Score</b> |
|                   |                               |                      |                       |
| <b>Groups</b>     | <b>Mean</b>                   | <b>Mean</b>          | <b>Mean</b>           |
| <b>QUINTILE 1</b> | 390,370                       | 10.53                | 3.01                  |
| <b>QUINTILE 2</b> | 145,406                       | 8.60                 | 2.80                  |
| <b>QUINTILE 3</b> | 94,569                        | 6.82                 | 3.05                  |
| <b>QUINTILE 4</b> | 55,817                        | 6.59                 | 4.10                  |
| <b>QUINTILE 5</b> | 79,183                        | 9.46                 | 4.41                  |
|                   |                               |                      |                       |
| <b>F</b>          | 1.5168                        | 2.6331               | 14.3286               |
| <i>P-value</i>    | 0.1959                        | 0.0335               | 0.0000                |

|                   |                       |
|-------------------|-----------------------|
|                   | <b>Excess Returns</b> |
|                   |                       |
| <i>Groups</i>     | <i>Mean</i>           |
| <b>QUINTILE 1</b> | 2.77                  |
| <b>QUINTILE 2</b> | 9.12                  |
| <b>QUINTILE 3</b> | 2.87                  |
| <b>QUINTILE 4</b> | 4.75                  |
| <b>QUINTILE 5</b> | 5.35                  |
|                   |                       |
| <b>F</b>          | 0.6961                |
| <i>P-value</i>    | 0.5949                |

Panel C of Table 3 includes F Tests of differences in the means of the quintiles and p values for Board Characteristics. Based on quintiles of Community Spending as a Percent of EBITDA, Board Size, Percent of Independent Directors, and the Percent of Women on the Board highly significantly different with p values of .0015, .0002, and .0021 respectively. The results suggest that characteristics of the Board of Directors can influence the amount of community spending relative to EBITDA.

**TABLE 3  
CONTINUED**

| <b>Panel C: Board Characteristics</b> |                   |                                      |
|---------------------------------------|-------------------|--------------------------------------|
|                                       | <b>Board Size</b> | <b>Percent Independent Directors</b> |
|                                       |                   |                                      |
| <b>Groups</b>                         | <b>Mean</b>       | <b>Mean</b>                          |
| <b>QUINTILE 1</b>                     | 11.35             | 86.16                                |
| <b>QUINTILE 2</b>                     | 11.68             | 88.25                                |
| <b>QUINTILE 3</b>                     | 11.28             | 86.44                                |
| <b>QUINTILE 4</b>                     | 11.46             | 85.07                                |
| <b>QUINTILE 5</b>                     | 12.18             | 83.46                                |
|                                       |                   |                                      |
| <b>F</b>                              | 4.4733            | 5.6180                               |
| <b>P-value</b>                        | 0.0015            | 0.0002                               |

|                   | <b>Board Meetings Per Year</b> | <b>% Women on the Board</b> |
|-------------------|--------------------------------|-----------------------------|
|                   |                                |                             |
| <b>Groups</b>     | <b>Mean</b>                    | <b>Mean</b>                 |
| <b>QUINTILE 1</b> | 8.51                           | 15.27                       |
| <b>QUINTILE 2</b> | 8.87                           | 15.76                       |
| <b>QUINTILE 3</b> | 8.13                           | 17.25                       |
| <b>QUINTILE 4</b> | 8.28                           | 18.94                       |
| <b>QUINTILE 5</b> | 8.25                           | 18.43                       |
|                   |                                |                             |
| <b>F</b>          | 0.7814                         | 4.2598                      |
| <b>P-value</b>    | 0.5376                         | 0.0021                      |

Table 4 shows the regression results for community spending as a percent of EBITDA as a function of Corporate Social Responsibility Score, Financial Variables, and Board Characteristics. Panel A shows that change in Community Spending as a Percent of EBITDA is significantly positively related to changes in the firm's Social Disclosure Score ( p value = .02) and CGQ Industry Score ( p value = .00). It is significantly negatively related to the firm's CGQ Index Score (p value = .01) and Global Metrics International Overall Global Rating Score (RTG GMI Overall Global: p value = .08). There is no significant relationship between the Community Spending as a Percent of EBITDA and either the Environmental Disclosure Score or the Governance Disclosure Score. The results indicate that disclosing relatively more information relating to environmental and governance issues does not translate to more

community spending as a percentage of EBITDA. However, firms who include more social disclosures do have an increase in the amount of Community Spending as a percent of EBITDA. The increase in community spending as a result in an increase in social disclosure could imply that the increases in both community spending and social disclosure are ways for a firm to signal potential employees that it is a positive environment to work in and is committed to the community.

**TABLE 4**  
**REGRESSION ANALYSIS. DEPENDENT VARIABLE: COMMUNITY**  
**SPENDING AS A PERCENT OF EBITDA**

**Panel A: CSR Scores**

|                                | Coefficients | t Stat | P-value | Adjusted R Sq | F Value | P Value | Obs |
|--------------------------------|--------------|--------|---------|---------------|---------|---------|-----|
| Intercept                      | 1.45         | 1.10   | 0.27    | 0.03          | 3.71    | 0.00    | 540 |
| Environmental Disclosure Score | 0.00         | -0.22  | 0.83    |               |         |         |     |
| Social Disclosure Score        | 0.02         | 2.14   | 0.03    |               |         |         |     |
| Governance Disclosure Score    | -0.02        | -1.23  | 0.22    |               |         |         |     |
| CGQ Index Score                | -0.02        | -2.79  | 0.01    |               |         |         |     |
| CGQ Industry Score             | 0.03         | 3.83   | 0.00    |               |         |         |     |
| RTG GMI Overall Global         | -0.19        | -1.73  | 0.08    |               |         |         |     |

**Panel B: Financial Variables**

|                             | Coefficients | t Stat | P-value | Adjusted R Sq | F Value | P Value | Obs |
|-----------------------------|--------------|--------|---------|---------------|---------|---------|-----|
| Intercept                   | 0.02         | 0.04   | 0.97    | 0.03          | 2.47    | 0.01    | 540 |
| Win (5%) Excess Returns     | 0.00         | 1.03   | 0.30    |               |         |         |     |
| Number of Employees         | 0.00         | 1.80   | 0.07    |               |         |         |     |
| Net Sales                   | -0.00        | -1.93  | 0.05    |               |         |         |     |
| Total Assets                | 0.00         | 1.72   | 0.09    |               |         |         |     |
| Total Liabilities           | 0.00         | -1.56  | 0.12    |               |         |         |     |
| % Insider Sh Outstanding    | 0.03         | 0.96   | 0.34    |               |         |         |     |
| % Flt Sh Held Institutional | 0.01         | 1.05   | 0.29    |               |         |         |     |
| Cash Flow Per Employee      | 0.00         | -0.60  | 0.55    |               |         |         |     |
| Profit Margin               | 0.00         | -0.42  | 0.67    |               |         |         |     |
| Altman Z Score              | 0.18         | 3.40   | 0.00    |               |         |         |     |

**Panel C: Board Characteristics**

|                         | Coefficients | t Stat | P-value | Adjusted R Sq | F Value | P Value | Obs |
|-------------------------|--------------|--------|---------|---------------|---------|---------|-----|
| Intercept               | -0.05        | -0.04  | 0.97    | 0.02          | 3.06    | 0.02    | 540 |
| Board Size              | 0.15         | 2.54   | 0.01    |               |         |         |     |
| % Independent Directors | -0.01        | -0.78  | 0.43    |               |         |         |     |
| Board Meetings Per Year | 0.01         | 0.21   | 0.83    |               |         |         |     |
| % Women on Board        | 0.03         | 2.24   | 0.03    |               |         |         |     |

Panel B of Table 4 shows the change in Community Spending as a Percent of EBITA to changes in the Financial Variables. Panel B shows that changes in Community Spending as a Percent of EBITDA is highly significantly positively related to changes in the firm's Altman Z Score (p value = .00) and mildly significantly positively related to changes in the Number of Employees (p value = .07), and Total Assets (p value = .09). Increases in Community Spending as a Percent of EBITDA is statistically negatively related to Net Sales (p value = .05). Changes in Community Spending are not shown to be related to changes in Excess Returns or any of the other Financial Variables. These results show that firms who do better than the market with respect to returns do not on average give more of those returns to community spending projects. However, firms that are less likely to find themselves in bankruptcy as measured by the Altman Z Score do tend to give more money. Larger firms as measured by both asset size and number of employees do tend to give a larger percent of EBITDA to community spending. Firms that have a larger amount of debt on their balance sheets don't tend to give more or less as a percentage of EBITDA than firms who pay for assets with other forms of financing.

Panel C of Table 4 shows the change in Community Spending as a Percent of EBITA to changes in Board Characteristics. Board Size (p value = .01) and the Percent of Women on the Board (p value = .03) are both statistically significantly positive. It is not known if the firms who have a higher percentage of women are from similar industries or not. However the results in this data set show each one percent increase in the percentage of women on the board translates to a .03% increase in Community Spending as a percentage of EBITDA. It is possible that community groups who are searching for philanthropic donations could increase their chances by targeting companies who have a higher percentage of women on the Board. However, these results could also be showing that women are more inclined to participate on Boards when the company is more devoted to community giving programs. The variables related to the Percent of Independent Directors and the Board Meetings per year appears to have no effect on a firm's Community Spending as a percent of EBITDA.

**TABLE 5**  
**REGRESSION ANALYSIS. DEPENDENT VARIABLE: EXCESS RETURNS**

**Panel A: CSR Variables**

|                                       | Coefficients | t Stat | P-value | Adjusted R Sq | F Value | P Value | Obs |
|---------------------------------------|--------------|--------|---------|---------------|---------|---------|-----|
| <b>Intercept</b>                      | -42.19       | -2.40  | 0.02    | 0.01          | 2.16    | 0.05    | 540 |
| <b>Environmental Disclosure Score</b> | 0.08         | 0.70   | 0.49    |               |         |         |     |
| <b>Social Disclosure Score</b>        | -0.32        | -2.59  | 0.01    |               |         |         |     |
| <b>Governance Disclosure Score</b>    | 0.55         | 2.27   | 0.02    |               |         |         |     |
| <b>CGQ Index Score</b>                | -0.02        | -0.22  | 0.82    |               |         |         |     |
| <b>CGQ Industry Score</b>             | 0.06         | 0.45   | 0.65    |               |         |         |     |
| <b>RTG GMI Overall Global</b>         | 2.54         | 1.74   | 0.08    |               |         |         |     |

**Panel B: Community Spending**

|                                 | Coefficients | t Stat | P-value | Adjusted R Sq | F Value | P Value | Obs |
|---------------------------------|--------------|--------|---------|---------------|---------|---------|-----|
| <b>Intercept</b>                | 4.19         | 2.67   | 0.01    | 0.00          | 1.1     | 0.29    | 540 |
| <b>Community Spend % EBITDA</b> | 0.60         | 1.05   | 0.29    |               |         |         |     |

Many studies have proposed that higher values of Corporate Social Responsibility indexes and higher levels of community spending translate into higher values for the firms. Table 5 shows the regression results for changes in excess returns as a function of changes in Corporate Social Responsibility variables

and Community Spending as a percentage of EBITDA. The results show that Excess Returns are statistically positively related to a firm's Governance Disclosure Score (p value = .02) and Global Metrics International Overall Global Rating Score (RTG GMI Overall Global: p value = .08) but highly negatively related to its Social Disclosure Score (p value = .01). Excess returns are not statistically related to Environmental Disclosure Score, CGQ Index Score, or CGQ Industry Index Score. Excess returns are also shown to not be significantly related to the amount of Community Spending as a percent of EBITDA. These results suggest that firms who have higher Social Disclosure Index Scores do worse than the market. Those firms that disclose more governance information tend to do better than the market. These firms could also be better run than the average firm, thus the excess value. The data does not support the contention that, on average, Community Spending as a Percent of EBITDA has any effect on the value to the firm.

## **SUMMARY AND CONCLUSIONS**

Corporate Philanthropy has become an important part of many firm's strategic plans in recent years. Depending on your point of view, corporate philanthropy can either be an important component of a firm's strategic policy or it can be a waste of shareholders' money. For a sample of 540 observations for the period 2003 to 2011 with complete data in the Bloomberg and CRSP databases, we segment the data based on Community Spending as a Percent of EBITDA into quintiles from low to high and test for differences in CSR, Financial, and Board measures across the quintiles. We find that Environmental Disclosure Score (E Score), Social Disclosure Score (S Score), Corporate Governance Quotient Index Score (CGQ Index), Corporate Governance Quotient Industry Score (CGQ Industry Score), and Global Metrics International Overall Global Rating Score (RTG GMI Global) are all statistically significantly different across the quintiles. Only the Governance Disclosure Score is not significant across the quintiles. We also find Altman's Z Scores, Percent Insider Shares Outstanding, Number of Employees, Percent of Floating Shares held by Institutions and Profit Margin are significantly different across the quintiles. Board Size, the Percent of Independent Directors, and the Percent of Women on the Board are also significantly different across the quintiles of Community Spending as a Percent of EBITDA.

Interestingly, there appears to be differences in the relationship of corporate philanthropy and a firm's scores on measures of CSR. We find a significant positive relationship between Community Spending as a Percent of EBITDA and a firm's Social Disclosure and CGQ Industry Scores but a negative relationship between Community Spending as a Percent of EBITDA and CGQ Index and GMI Overall Global Scores. Moreover, we find no statistical relationship between Community Spending as a Percent of EBITDA and Environmental Disclosure or Governance Disclosure Scores. The increase in community spending as a result in an increase in social disclosure could imply that the increases in both community spending and social disclosure are ways for a firm to attract potential employees and retain current employees who value working for a firm dedicated to the community.

Changes in Community Spending as a Percent of EBITDA are not shown to be related to changes in Excess Returns suggesting that firms who outperform the market with respect to returns do not on average give more of those returns to community spending projects. However, firms with lower probability of bankruptcy as measured by Altman's Z Score do tend to give more money. Larger firms as measured by both asset size and number of employees tend to give a larger percent of EBITDA to community spending. Firms that have a larger amount of debt on their balance sheets don't tend to give more or less as a percentage of EBITDA than firms who pay for assets with other forms of financing.

Board Size and the Percent of Women on the Board are both statistically significantly positive in explaining Community Spending as a Percent of EBITDA. The results suggest that it is possible that community groups who are searching for philanthropic donations could increase their chances by targeting companies who have a higher percentage of women on the Board. However, these results could also be showing that women are more inclined to participate on Boards when the company is more devoted to community giving programs.

Many studies have proposed that higher values of Corporate Social Responsibility indexes and higher levels of community spending translate into higher values for the firms. Our results show that Excess Returns are statistically positively related to a firm's Governance Disclosure Score and GMI Overall Global Rating Score but highly negatively related to its Social Disclosure Score. Excess returns are not statistically related to Environmental Disclosure Score, CGQ Index Score, or CGQ Industry Index Score. Excess returns are also shown to not be significantly related to the amount of Community Spending as a percent of EBITDA. These results suggest that firms who have higher Social Disclosure Index Scores do worse than the market but firms that disclose more governance information tend to do better than the market. Firms that disclose more governance information could also be better run than the average firm, thus the excess value. The data does not support the contention that, on average, Community Spending as a Percent of EBITDA has any effect on the value to the firm.

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**APPENDIX 1**

**TABLE 2  
CORRELATIONS**

Correlations for 540 firms listed in Bloomberg during the years 2003 to 2011 with complete data. CS % EBITDA = Community Spending as a percent of EBITA. E Score = Environmental Disclosure Score. S Score = Social Disclosure Score. G Score = Governance Disclosure Score. CGQ Index = Corporate Governance Quotient Index. CGQ Industry Score = Corporate Government Quotient Score. RTG GMI Global = Governance Metrics International Overall Global Rating. # Emp = Number of Employees. % Inside Sh Out = Percentage Insider Shares Outstanding. % Flt Sh Instit = Percent of Floating Shares Held by Institutions. CF per Emp = Cash Flow per Employee. PM = Profit Margin. Alt Z = Altman Z score.

|                    | CS % EBITDA | E Score | S Score | G Score | CGQ Index Score | CGQ Industry Score | RTG GMI Global | # Emp | Net Sales | Assets | Liabilities | Excess Rtn | % Inside Sh Out | % Flt Sh Instit | CF per Emp | PM    | Alt Z | Board Size | % Indep Directors | # Board meets yr | % Women on Board |  |  |
|--------------------|-------------|---------|---------|---------|-----------------|--------------------|----------------|-------|-----------|--------|-------------|------------|-----------------|-----------------|------------|-------|-------|------------|-------------------|------------------|------------------|--|--|
| CS % EBITDA        | 1.00        |         |         |         |                 |                    |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| E Score            | 0.04        | 1.00    |         |         |                 |                    |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| S Score            | 0.08        | 0.63    | 1.00    |         |                 |                    |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| G Score            | -0.01       | 0.59    | 0.57    | 1.00    |                 |                    |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| CGQ Index          | -0.04       | 0.01    | 0.02    | -0.10   | 1.00            |                    |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| CGQ Industry Score | 0.09        | 0.11    | 0.06    | -0.07   | 0.68            | 1.00               |                |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| RTG GMI Global     | -0.04       | 0.11    | 0.11    | -0.01   | 0.44            | 0.44               | 1.00           |       |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| # Emp              | 0.03        | -0.05   | -0.08   | -0.09   | -0.08           | -0.06              | 0.01           | 1.00  |           |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| Net Sales          | -0.01       | 0.02    | 0.03    | -0.02   | -0.05           | 0.01               | 0.06           | 0.77  | 1.00      |        |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| Assets             | -0.03       | 0.02    | 0.10    | -0.01   | -0.04           | 0.04               | 0.06           | 0.33  | 0.62      | 1.00   |             |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| Liabilities        | -0.04       | 0.01    | 0.08    | -0.02   | -0.04           | 0.01               | 0.02           | 0.29  | 0.52      | 0.98   | 1.00        |            |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| Excess Rtn         | 0.05        | 0.04    | -0.04   | 0.07    | 0.03            | 0.04               | 0.08           | 0.02  | 0.01      | -0.01  | -0.01       | 1.00       |                 |                 |            |       |       |            |                   |                  |                  |  |  |
| % Inside Sh Out    | 0.06        | -0.04   | -0.05   | -0.05   | 0.03            | 0.06               | -0.08          | -0.01 | -0.03     | -0.10  | -0.09       | 0.06       | 1.00            |                 |            |       |       |            |                   |                  |                  |  |  |
| % Flt Sh Instit    | 0.07        | 0.01    | -0.11   | -0.01   | 0.03            | 0.14               | -0.16          | -0.15 | -0.23     | -0.31  | -0.28       | 0.06       | 0.11            | 1.00            |            |       |       |            |                   |                  |                  |  |  |
| CF per Emp         | -0.03       | 0.01    | 0.10    | 0.07    | 0.01            | -0.02              | -0.10          | -0.03 | -0.01     | 0.00   | -0.01       | 0.00       | -0.02           | 0.00            | 1.00       |       |       |            |                   |                  |                  |  |  |
| PM                 | 0.02        | 0.04    | 0.12    | 0.15    | -0.12           | -0.01              | 0.00           | -0.05 | -0.04     | 0.03   | 0.00        | 0.04       | -0.04           | -0.12           | 0.23       | 1.00  |       |            |                   |                  |                  |  |  |
| Alt Z              | 0.17        | -0.04   | -0.11   | 0.00    | -0.13           | 0.08               | -0.09          | 0.06  | -0.01     | -0.19  | -0.22       | -0.01      | 0.14            | 0.18            | 0.00       | 0.21  | 1.00  |            |                   |                  |                  |  |  |
| Board Size         | 0.11        | 0.06    | 0.07    | 0.01    | -0.12           | -0.09              | 0.06           | 0.23  | 0.31      | 0.38   | 0.35        | 0.10       | 0.02            | -0.12           | -0.13      | -0.01 | -0.11 | 1.00       |                   |                  |                  |  |  |
| % Indep Directors  | -0.02       | 0.05    | 0.05    | 0.02    | 0.29            | 0.30               | 0.35           | -0.19 | -0.11     | 0.00   | 0.00        | -0.02      | -0.23           | -0.14           | 0.00       | 0.11  | -0.14 | -0.04      | 1.00              |                  |                  |  |  |
| # Board meets yr   | 0.02        | 0.03    | 0.10    | 0.00    | 0.06            | 0.09               | -0.04          | -0.02 | 0.08      | 0.23   | 0.24        | 0.04       | -0.12           | 0.01            | 0.07       | -0.01 | -0.14 | 0.03       | 0.13              | 1.00             |                  |  |  |
| % Women on Board   | 0.09        | 0.04    | 0.04    | 0.08    | 0.21            | 0.19               | 0.19           | 0.07  | 0.04      | 0.07   | 0.07        | 0.01       | -0.03           | -0.04           | 0.00       | 0.03  | 0.09  | 0.02       | 0.19              | 0.12             | 1.00             |  |  |