# CORPORATE CHARITABLE CONTRIBUTIONS: BUSINESS AWARD WINNERS' GIVING BEHAVIORS

**Choong-Yuel Yoo**
KAIST Business School
85 Hoegiro, Dongdaemoon-gu,
Seoul, Korea

**Jinhan Pae**
Korea University Business School
Anam-dong, Seongbuk-gu,
Seoul, Korea

**Abstract**

*We investigate corporate giving behaviors of prestigious business award winners in Korea. In particular, we examine whether firms strategically use corporate giving to enhance corporate reputation. We find that (1) award winners generally make more charitable contributions than non-winners prior to winning awards and maintain significant charitable contributions after winning awards; (2) multiple award winners make even more charitable contributions than single award winners; and (3) an increase in charitable contributions does not raise the probability of winning awards in the year after the increase. The results suggest that CEOs of award winning firms do not use corporate giving opportunistically to enhance their status and reputation. Rather, significant charitable contributions by award winners may be indicative of a sound business strategy to maximize long-term firm value.*

**Keywords:** Charitable contributions, corporate giving, business awards, corporate reputation.

## Introduction

Winning prestigious business awards is an external recognition of excellence in business and social domains. Firms that receive prestigious business awards and CEOs of such firms experience an enhancement of their reputation and status (Wade *et al*. 1997; Wade *et al*. 2006; Malmendier & Tate 2009). Enhanced reputation and status will allow award winning firms to enjoy a premium in their business relations with stakeholders: customers are willing to pay higher prices and firms will be able to attract better qualified employees. Corporate reputation is increasingly regarded as an important source of sustained competitive advantage for successful firms (Barney 1991). Thus, more companies are interested in attaining reputation and social status. In this paper, we investigate whether prestigious business award winners use corporate giving strategically to enhance their status and reputation.

We choose to examine particularly corporate giving among various dimensions of corporate social performance (CSP) because it is the most visible form of CSP to stakeholders and there is quite a bit of variation in corporate giving due to its discretionary nature. Corporate reputation and CSP are indirectly linked through corporate financial performance (CFP).[1] Researchers (for example, Navarro 1988; Preston & O'Bannon 1997; Waddock & Graves 1997; Margolis & Walsh 2003; Orlitzky *et al.* 2003; Surroca *et al.* 2010) generally find a positive relation between CFP and CSP, suggesting a virtuous cycle between CFP and CSP: firms with better CFP exhibit better CSP and superior CSP leads to superior CFP. While a few researchers have examined the effect of corporate reputation on CFP (for example, Malmendier & Tate 2009; Roberts & Dowling 2002; Kotha *et al.* 2001), they report mixed results for their relation. Thus, one cannot infer *a priori* the effect of corporate reputation on CSP despite the fact that CSP and CFP are positively linked. We examine the effect of corporate reputation on CSP by focusing on the effect of award winning on corporate giving.

The remainder of the paper proceeds as follows. We first review the literature and develop empirical hypotheses. We then describe research design and the sample. Next, we report the empirical results along with additional tests and robustness checks. We conclude by summarizing and discussing our study's contributions to the literature.

**Literature And Hypothesis Development**

Our study is related to three streams of research in management and financial economics. One stream of research examines the relation between corporate reputation and CFP. A second stream examines the relation between CSP and CFP. A third stream regards a link between corporate reputation and CSP. Figure 1 depicts the three-way dynamics among corporate reputation (award winning), CSP and CFP.

***Corporate Financial Performance (CFP) and Corporate Reputation***

Several studies use the receipt of business awards as a proxy for corporate reputation and examine the relationship between award winning and CFP.[2] For example, Wade *et al*. (1997) find that the winners of *Financial World*'s CEO of the Year medals demonstrate strong CFP *prior to* their winning, but these firms do not show better CFP than non-winners *after* winning accolades (Link 1, Figure 1). Malmendier & Tate (2009) report no immediate market reaction to winning awards, but subsequent long-term negative abnormal stock returns. In contrast, Koh (2011) reports long-term positive abnormal stock returns and subsequent improvements in profitability and cash flows from operations.

On balance, there are mixed results for the relation between winning prestigious business awards and subsequent CFP. However, research also indicates that award winners often engage in rent extraction activities after winning awards, as evidenced by an increase in compensation of award winners.

***Corporate Social and Financial Performance (CSP and CFP)***

CSP encompasses various attributes of corporate behaviors, such as investment in environmental protections, equal treatment of minorities, customer relationships, and philanthropy. Waddock & Graves (1997) report a 'virtuous circle' between CFP and CSP: good CFP leads to good CSP, and good CSP further enhances CFP for Standard and Poor's 500 firms. Similarly, Brammer *et al*.

(2006) find that their CSP index is negatively related to stock returns but that the employment aspect of the CSP index is positively related to stock returns. These findings suggest that the market may react differently to the components of CSP.

Prior research also suggests that increasing CSP could be detrimental to the current CFP, but beneficial to the long-term CFP. Lev *et al*. (2010) find that growth in corporate charitable contributions is associated with subsequent revenue growth, suggesting that corporate philanthropy is also financially justified.

Several researchers survey the literature on the relation between CSP and CFP. For example, a meta-analysis by Orlitzky *et al*. (2003) suggests a reciprocal causality between CSP and CFP. That is, CSP and CFP mutually reinforce one another. Margolis & Walsh (2003), and Margolis *et al*. (2007) find that the majority of literature suggests a positive relationship between CSP and CFP. In sum, most studies document a positive association between CSP and CFP (Link 2, Figure 1).[3]

***Corporate Social Performance (CSP) and Corporate Reputation***

A small number of studies investigate the effect of charitable giving on corporate reputation (Link 3, Figure 1) and report that the effect is not uniform across countries (Brammer & Millington 2005; Fombrun & Shanley 1990; Williams & Barrett 2000). For instance, Brammer & Millington (2005) use *Management Today*'s survey of the most admired UK companies of 2000 (which is highly similar to *Fortune*'s survey in the US) as a proxy for corporate reputation and find a significantly positive effect of corporate giving (i.e., CSP) on corporate reputation for UK firms.

In contrast, US studies find that the effect is at best marginal for US firms. Fombrun & Shanley (1990) use *Fortune*'s survey as a proxy for corporate reputation and find no significant effect of their corporate giving estimates on corporate reputation for a sample of 115 firms with sales segment information.[4] William & Barrett (2000) also use *Fortune*'s survey and compile their own corporate giving data using the Corporate 500 Directory of Corporate

Philanthropy and the National Directory of Corporate Giving. They find a marginally significant effect of corporate giving on corporate reputation.

Some studies investigate the effect of a firm's visibility on CSP (Gan, 2005; Brammer & Millington, 2006; Amato & Amato, 2007; Campbell & Slack, 2006; Zhang *et al.*, 2010). Campbell & Slack (2006) report that publicly-more-visible firms make more charitable contributions than less visible firms.[5] However, no prior studies have directly examined the effect of corporate reputation (as evidenced by winning prestigious business awards) on corporate giving. Our study attempts to fill this gap in the literature.

***Hypotheses: Business Awards and Charitable Contributions***

There are two views about corporate giving in the literature (Navarro 1988; Masulis & Reza 2014). One is the strategic use of corporate giving in which corporate giving serves a dual objective of corporate value added and charitable benevolence (Campbell & Slack 2007). The other is the agency theory perspective in which mangers use corporate giving opportunistically for their private benefits, *i.e.*, the diversion of corporate resources.

In order to understand the corporate giving practices of award winners vis-à-vis non-winners, we need to discern the implications of corporate giving for the objectives of award winners. Under the strategic use perspective, award winners will make more charitable contributions than non-winners only when charitable contributions are an effective means to enhance corporate image, which in turn contributes to generating more revenues and profits. On the other hand, under the agency problem perspective, corporate giving is more likely to be detrimental to long-term firm value because the level of corporate giving is not determined to maximize firm value, but manager's personal benefits. If award winners are concerned about their own reputation as good citizens or philanthropists, then while award winners make more charitable contributions than non-winners, the level of corporate giving is not likely to be optimal, but excessive. Strong corporate governance and the labor market policing, however, may inhibit managers' excessive use of corporate resources for private benefits.

In any case of the adopted perspective, we expect that award winners will make more charitable contributions than non-winners, because corporate giving is an effective means to enhance corporate reputation (Wade *et al.* 1997; Wade *et al.*, 2006; Malmendier & Tate 2009) and mangers have discretion about corporate giving expenditures (Brammer, Brooks & Pavelin 2006; Masulis & Reza 2014; Werbel & Carter 2002).

*Hypothesis 1: Award winners make more charitable contributions than non-winners.*

We next examine whether there is a change in corporate giving behavior after winning awards. In the above, we explained the two converse views about corporate giving. Under the strategic use perspective, business award winners are not likely to change their corporate giving strategy after winning awards because the level of corporate giving is strategically determined to maintain their reputation or to execute their business strategy regarding CSP. On the other hand, under the agency problem perspective, CEOs or firms are inherently opportunistic. Thus, after establishing corporate reputation or securing a higher social status, CEOs or firms have less incentive to maintain the high level of corporate giving in the post-award winning period. It is *a priori* unclear which perspective of corporate giving prevails. However, we allege that award winners will increase or at least maintain the level of charitable contribution as explained below.

Winning a prestigious business award is likely to boost the winner's public visibility and in turn may put increased pressure on the winner to excel in CSP (Miles 1987: 275; Campbell & Slack 2006). CEOs' hubris can be triggered by a combination of internal dispositions, such as sense of self-importance (i.e., narcissism) and external stimuli (Chatterjee & Hambrick 2007). As the award stimulus boosts the winners' hubris, they are not likely to reduce charitable contributions than they did before winning awards.

Furthermore, CEOs have substantial discretion on corporate giving (Brammer, Millington & Pavelin 2006; Masulis & Reza 2014; Werbel & Carter 2002) and their decision horizon for making charitable contributions is rather long (Lev *et al*. 2010). Corporate reputation is an intangible asset and an important source of sustained competitive advantage (Barney 1991; Roberts & Dowling 2002).

Hence, we predict that, to the extent that award winners' decisions about charitable contributions are strategic as opposed to myopic or opportunistic, the winners will maintain the level of charitable contributions after winning awards.

*Hypothesis 2: Award winners maintain their charitable contributions after winning awards.*

Business award granting agencies often mention superior CFP as one of the key criteria when selecting award winners, but they rarely cite CSP. If the cited criteria are taken at face value, companies may not be able to improve their probability of winning business awards by increasing their corporate giving. But, if corporate giving enhances corporate image and the enhanced corporate image leads to better CFP, companies may increase their corporate giving to improve their corporate reputation. However, the positive effect of corporate giving on winning business awards will be at most indirect. Accordingly, we do not expect that corporate giving affects a firm's chance of winning business awards once we control for CFP. Our final hypothesis regarding the effect of charitable contributions on the probability of winning awards is as follows:

*Hypothesis 3: A relatively high level of (an increase in) charitable contributions does not affect the probability of winning a business award in the following year.*

## RESEARCH DESIGN

### *H1: Comparison of Charitable Contributions between Award Winners and Non-winners*

We estimate the following regression model to test the difference in charitable contributions between award-winning firms and non-winning firms (H1).

$$\begin{aligned} CharCont_{it} = {} & \beta_0 + \beta_1 AwardD_i + \beta_2 ROA_{it} + \beta_3 LossD_{it} + \beta_4 SIZE_{it} + \beta_5 BTM_{it} \\ & + \beta_6 NegEqD_{it} + \beta_7 Leverage_{it} + \beta_8 CGD_{it} + \beta_9 Owner\_LS_{it} \\ & + \beta_{10} Owner\_FRG_{it} + \beta_{11} Owner\_GOV_{it} + \beta_{12} ChaebolD_{it} \\ & + \varepsilon_{it} \end{aligned} \quad (1)$$

where the dependent variable, $CharCont_{it}$, is the amount of charitable contributions made by firm *i* in year *t*, deflated by sales and the main variable of interest, $AwardD_{i,,}$ is an indicator variable for firms that received at least one business award during our sample period from 1990 to 2009. We predict a positive coefficient on *AwardD*.

Prior studies show that there is a sizable variation in charitable contributions across industries (Brammer & Millington 2003, 2004; Brown *et al*. 2006; Amato & Amato 2007). Thus, we control for the industry effect. In one approach, we include industry dummy variables for each two-digit SIC code. In the other approach, we use industry-adjusted variables, except for dummy variables. For example, the industry-adjusted *CharCont* is measured by the amount of charitable contributions made by a firm in a year, minus the average charitable contributions of firms in the industry to which the firm belongs. We also note that *CharCont* is quite skewed. To mitigate the impact of the skewed distribution of *CharCont*, we also use the natural log of one plus *CharCont* as the dependent variable.

Our regression model contains several control variables. *ROA* (net income divided by total assets) and *LossD* (an indicator variable for firms reporting losses) are intended to control for firm profitability (Brown *et al.* 2006; Amato & Amato 2007; Lev *et al*. 2010). We include *NegEqD* (an indicator variable for firms with a negative book value of equity) because sustained losses and lack of replenishment of additional capital lead to negative book values of equity. We control for *SIZE* (the natural log of total assets) and *ChaebolD* (the indicator variable for firms that are affiliated with large business groups or *Chaebols*) because larger firms and firms associated with *chaebols* face more pressure to regard CSP than smaller firms or firms that are not associated with *chaebols* (Campbell & Slack 2006; Amato & Amato 2007). We also include several agency cost related variables:

*BTM* (the ratio of the book of equity to the market value of equity), *Leverage* (total liabilities divided by total assets), *CGD* (an indicator variable for firms with strong corporate governance), and *Owner_LS* (the ownership of stock held by the largest shareholder and her related parties). CEOs with strong monitoring constraints are likely to curb their rent extraction behaviors (Atkinson & Galaskiewicz 1988; Brown *et al*. 2006).

Prior research also reports that foreign investors and government have significant influence on corporate decision making, thus also on firm value (Black *et al.* 2006a, 2006b; Li *et al.* 2013). So, we include *Owner_FRG* (the ownership of stock held by foreign investors) and *Owner_GOV* (the ownership of stock held by the government).

***H2: Temporal Analysis around Award Winning***

We estimate the following regression model to analyze the temporal changes of charitable contributions around winning business awards.

$$\begin{aligned} CharCont_{it} = {} & \beta_0 + \textstyle\sum_k \beta_{1k} Yr(k)_{it} + \beta_2 ROA_{it} + \beta_3 LossD_{it} + \beta_4 Size_{it} + \beta_5 BTM_{it} \\ & + \beta_6 NegEqD_{it} + \beta_7 Leverage_{it} + \beta_8 CGD_{it} + \beta_9 Owner\_LS_{it} \\ & + \beta_{10} Owner\_FRG_{it} + \beta_{11} Owner\_GOV_{it} \\ & + \beta_{12} ChaebolD_{it} + \varepsilon_{it} \end{aligned} \quad (2)$$

In equation (2), $Yr(k)_{it}$, our main variable of interest is an indicator variable that equals one for firm *i*'s $k^{th}$ year

before/after winning the first award during our sample period and that equals zero for non-award winners. When firms or CEOs increase (decrease) their charitable contributions after winning an award, we will observe significantly positive (negative) coefficient estimates for the year dummy variables in the post-winning period [$Yr(1)_{it}$;$Yr(2)_{it}$;$Yr(3)_{it}$;$Yr(4)_{it}$;$Yr(5)_{it}$]. Our second hypothesis, however, predicts no significant coefficients for the year dummy variables in the post-winning period because award-winning firms or CEOs are expected to maintain their charitable contributions after winning awards.

***H3: Effect of Charitable Contributions on Winning Awards***

We estimate the following Probit regression to test H3:

$$\begin{aligned} AwardW_{it} = {} & \beta_0 + \beta_1 AD_{it-1} + \beta_2 RD_{it-1} + \beta_3 ROA_{it-1} + \beta_4 LossD_{it-1} + \beta_5 BTM_{it-1} \\ & + \beta_6 NegEqD_{it-1} + \beta_7 SIZE_{it-1} + \beta_8 CGD_{it-1} + \beta_9 CharCont_{it-1} \\ & + \beta_9 \Delta CharCont_{it-1} + \varepsilon_{it} \end{aligned} \quad (3)$$

In equation (3), $AwardW_{it}$ is an indicator variable for firms in the year when they receive an award for the first time (for award winners, we retain only the very first year of winning an award); $AD_{it-1}$ is advertising expense, as a percentage of sales, in the preceding year; $RD_{it-1}$ is research and development expense, as a percentage of sales, in the preceding year; and $\Delta CharCont_{i,t-1}$ is the change in firm *i*'s charitable contribution. Our main variables of interest are $CharCont_{it-1}$ and $\Delta CharCont_{it-1}$. If firms or CEOs do not use corporate giving opportunistically to win a business award or alternatively the effect of corporate giving is captured by the variables representing or influencing CFP such as *ROA*, *AD*, and *RD*, we will observe no significant coefficients on lagged $CharCont$ and $\Delta CharCont.$

Equation (3) contains several control variables that may affect the probability of winning an award. In particular, we include *AD* and *RD* because advertising is an investment in reputation building (Shapiro, 1983) and CEO reputation grows as firms spend more on adverting and R&D activities (Francis *et al*. 2008). Also, R&D activities lead to innovative products and services, which are often recognized by business award granting agencies.[6]

## SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

### *Business Awards*

We compile a hand-collected list of six prestigious business award winners in Korea: Dasan Award for CEOs (*DasanCEO*), Dasan Award for Financial Institutions (*DasanFIN*), KASBA Award (*KASBA*), KMA Award (*KMA*), KCCI Innovation Award (*KCCI*), and Mecenat Award (*Mecenat*). *Mecenat* is conferred on both CEOs and firms, while other awards are conferred on either CEOs or firms. Firms and CEOs may receive multiple awards in different categories, but they are not likely to receive the same award multiple times.[7]

Our hand-collected list contains 269 business awards that are conferred on a firm or an individual (such as CEO) over the period from 1990 to 2009. When an award is given to a CEO, we identify the firm for which the CEO works. Our initial sample of awardees consists of 156 firms (for 256 firm-years).[8] There are several cases in which a firm collected multiple awards over our sample period.

We collect financial and charitable contribution data for publicly-listed companies from *TS2000*, which is maintained by the Korea Listed Companies Association. We require sample firms to have total assets of at least 1 billion Korean won (KRW) or approximately US $1 million, sales of at least KRW 1 billion, and the market capitalization of at least KRW 100 million (approximately $100,000). To mitigate the effects of extreme outliers, we winsorize continuous variables at their respective top and bottom one percentile values.

Our final sample consists of 23,249 firm-year observations over the period from 1990 to 2009. There are 2,134 firm-year observations for 153 companies that received awards during our sample period. No charitable contribution is reported for 3,959 firm-years (17.03 percent).

### *Charitable Contributions by Listed Korean Companies*

Table 1 reports mean and median charitable contributions and total amounts of charitable contributions made by publicly-listed Korean companies over the period from 1990 to 2009. Panel A of Figure 2 illustrates changes in the percentage of charitable contributions relative to sales. There is a downward trend in charitable contributions. A sharp drop in charitable contributions is conspicuous during the Asian Financial Crisis (from 1997 to 1999). Table 1 shows that the average charitable contribution was above 0.2 percent of sales prior to 1995, but fell below one tenth of one percent of sales in 1998 (0.08 percent). Even after the recovery from the crisis, charitable contributions have not recovered to the pre-crisis level.

Panel B of Figure 2 shows total charitable contributions made by all publicly-listed companies. In 1995, listed companies made total charitable contributions of KRW 1,031 billion. But, in 1998, the figure fell to KRW 638 billion. With the establishment of the KOSDAQ (second stock exchange for new start-up companies in Korea), the number of listed companies increased in the 2000s. Accordingly, total charitable contributions have also increased. But, as shown in Table 1, mean and median charitable contributions per firm have not increased in the 2000s. Moreover, inflation-adjusted total charitable contributions in 2009 were less than those in 1995 (KRW1,240bn vs. KRW1,655bn).

The decreasing trend in charitable contributions may be attributable to changes in the sample composition because newly listed firms, particularly those listed in KOSDAQ, are generally smaller and may contribute less than older, established firms. We thus examine charitable contributions made by 357 firms that have existed over the entire sample period, from 1990 to 2009. Panel A of Figure 3 shows that the downward trend with regard to the percentage of charitable contributions relative to sales is also present for the 357 firm sample. Panel B of Figure 3 also shows that increases in total contribution are less conspicuous in the 2000s. In fact, inflation adjusted total charitable contributions in 2009 are less than those in 1998 (KRW 704bn *vs.* KRW829 bn).

***Descriptive Statistics***

Table 2 reports descriptive statistics of variables that are used in the regression analysis. The mean (median) charitable contribution is 0.119 percent (0.021 percent) of sales. The mean *ROA* is 3.6 percent during the sample period. The mean book-to-market ratio (*BTM*) is 1.775. Note that we calculate *ROA* for firms reporting profits and *BTM* for those with positive book values of equity (27.7 percent of firms report losses and 3.4 percent of firms have a negative book value of equity). The average financial leverage is 0.551. The mean stock ownership by the largest shareholder and her related parties (*Owner_LS*) is 0.298. The mean stock ownership by foreign investors and the government is 5.2 and 0.6 percent, respectively. 12.1 percent of firms are affiliated with large business groups or

*Chaebols*.

In Panel B, we partition the sample into award winners and non-winners. We have 2,134 firm-year observations for award-winners and 21,115 observations for non-winners. Award-winners make more charitable contributions than non-winners: the mean (median) *CharCont* is 0.189 (0.060) for award-winners and 0.111 (0.019) for non-winners. Figure 4 shows mean and median charitable contributions between award winners and non-winners. Throughout the whole sample period, from 1990 to 2008, award winners consistently made more charitable contributions than non-winners.[9]

Award-winners also differ from non-winners in other dimensions. Award winners are significantly larger than non-winners: the mean *SIZE* is 6.994 for award-winners and 4.598 for non-winners. The mean ownership of stock held by foreign investors (*Owner_FRG*) is significantly greater for award-winners than for non-winners (0.115 vs. 0.046). Award-winners are more likely to be a member of a *Chaebol* than non-winners (0.366 vs. 0.097).

**EMPIRICAL RESULTS AND DISCUSSION**

***Test of H1: Comparison of Charitable Contributions between Award Winners and Non-winners***

Table 3 presents regression results for the difference in charitable contributions between business award-winners and non-winners. In column (1), we use the amount of charitable contributions deflated by sales (*CharCont*) as the dependent variable and control for industry differences using industry dummy variables. In column (2), we use industry-mean adjusted *CharCont* as the dependent variable. That is, we investigate whether award-winning firms make more charitable contributions than peers in the same industry. In columns (3) and (4), we take the natural log of one plus *CharCont*.

Our empirical findings are consistent with our prediction that award-winning firms make more charitable contributions than non-winners (H1). When we use *CharCont* as the dependent variable (column 1), the coefficient on *AwardD* is significantly positive at the one percent level (0.0504). We have similar results when we use industry adjusted *CharCont* (column 2) and when we use the log *CharCont* (columns 3 and 4).

We need to be cautious about interpreting the result such that corporate giving helps firms to receive a business award. Firms will make more charitable contributions if corporate giving enhances corporate image, which in turn leads to greater sales or better bottom line and superior CFP helps firms to win business awards. Similarly, we are cautious about alleging that prestigious business award winners exhibit higher levels of CSP than non-award winners because corporate giving is just one of the many dimensions of CSP. It would be interesting to examine whether firms will excel in other dimensions of CSP such as environmental issues, product safety, employee relations, etc.

***Effect of winning multiple awards***

In our awardee sample, about 34 percent of firms received multiple awards. It is probable that multiple award winners have better reputations than single award winners. Hence, to the extent that winning business awards affects award winners' decisions on corporate giving, multiple award winners make more charitable contributions than single award winners.

In Table 4, we report regression results of charitable contributions on *SAwardD* (single award winners) and *MAwardD* (multiple award winners). If award winners make more charitable contributions than non-winners, then we expect a positive coefficient on both *SAwardD* and *MAwardD*. Consistent with these predictions, *SAwardD* is significant when we use industry dummies (columns 1 and 3), and *MAwardD* is significantly positive at the one percent level for all specifications. For example, in column (1), the coefficient estimates on *SAwardD* and *MAwardD* are 0.033 and 0.0959, respectively. That is, single (multiple) award winners on average make 0.0330 (0.0959) percent more contributions than non-winners.[10]

We find that multiple award winners make even more charitable contributions than single award winners. In column (1), the difference in the coefficients between multiple and single award winners is 0.0629 (= 0.0959 – 0.0330), which is significant at the 10 percent level (on a two-tailed test). That is, multiple award winners make 0.0629 percent more charitable contributions than single award winners.

***Test of H2: Temporal Analysis around Award Winning***

In this subsection, we examine temporal changes in charitable contributions associated with the winning of business awards. We focus on the year in which a company received an award for the first time.

Figure 5 presents mean charitable contributions for award winners over the window from −5 to +5 years. Year 0 is the year of winning an award for the first time. Year −1 (+1) is one year before (after) winning the award. Year 5 and later and year −5 and earlier are grouped together. Panel A of Figure 5 shows that the mean charitable contribution steadily increases from year −5 to year 0 and starts to fall in year + 1. However, there is a surge of charitable contribution in year +2. The industry adjusted mean charitable contribution in Panel B of Figure 5 exhibits a similar pattern.

In Table 5, we perform a formal regression analysis for the temporal changes of charitable contributions around winning business awards. Following Malmendier and Tate (2009), we take year *t-1* (one year before winning a business award for the first time) as a reference year. The regression results for award winners are presented in columns (1) and (2). First, in the pre-winning period (year −2 and before) there is no significant difference in charitable contributions relative to year t−1. Second, in the post-winning period (year 0 and after), there is no significant change in charitable contributions, except for year t+2. Our results are consistent with the conjecture that firms and CEOs maintain their charitable contributions after winning an award (H2). In columns (3) and (4), we report the regression results when we include non-award winners. The results are similar to those in columns (1) and (2), except that year 2 is insignificant when we use industry adjusted variables. We repeat the analysis after excluding year 1998, which is the time of the Asia Financial Crisis and the level of charitable contribution was the lowest (see Table 3 and Figures 2~4). Untabulated results indicate that year 2 is no longer significant in the full sample.

To summarize, our analysis of corporate giving practices in the post-winning period shows that award winners maintain high levels of charitable contribution after winning awards, indicating that award winners attempt to retain their reputation for corporate philanthropy. If firms use corporate giving opportunistically to enhance corporate reputation, firms would have less incentives to maintain a high level of corporate giving after winning business awards. Thus, our result is consistent with the strategic use of corporate giving rather than the opportunistic use of corporate giving.

***Test of H3: Effect of Charitable Contributions on Winning Awards***

In this subsection, we formally examine the effect of charitable contributions on the probability of winning business awards. In columns (1) and (2) of Table 6, we report the Probit regression results, which in this case do not include charitable contribution variables. As predicted, the coefficient estimate on lagged *AD* is significantly positive. But lagged *RD* is not associated with winning business awards. Lagged *SIZE* and *CGD* are positively associated with winning business awards. Lagged *LossD* is negatively associated with winning business awards. The results suggest that more profitable and larger companies are more likely to win a business award than less profitable and smaller companies.

In columns (3) and (4), we report the Probit regression results of winning awards on prior charitable contributions and other control variables. The coefficient estimates on the level of, and the change in, prior charitable contributions are insignificant, implying that short-term, opportunistic increases in charitable contributions do not increase the probability of winning business awards.[11] Our result is consistent with H3.

To summarize, our investigation of temporal changes in charitable contributions around winning business awards (related to H2 and H3) indicates that (1) award winners do not increase their charitable contributions prior to winning awards; (2) award winners maintain their charitable contributions subsequent to winning awards; and (3) the amount of, and increases in, charitable contributions do not affect the probability of winning awards. Our results suggest that award winners do not use charitable contributions opportunistically.

## ADDITIONAL TESTS

### *Controlling for Endogeneity of Winning Awards*

Panel B of Table 2 shows that award winners differ from non-award winners in many aspects (i.e., profitability, firm size, capital structure, etc.). Lack of control for these inherent differences between award winners and non-winners could bias our inferences. Thus, we control for the endogeneity of winning awards by using a two-step approach (Maddala, 1983).

In the first step, we estimate the following Probit model for award winners.

$$AwardD_i = \beta_0 + \beta_1 AD_{it} + \beta_2 RD_{it} + \beta_3 ROA_{it} + \beta_4 LossD_{it} + \beta_5 BTM_{it} + \beta_6 NegEqD_{it} + \beta_7 SIZE_{it} + \beta_8 CGD_{it} + \varepsilon_{it} \quad (4)$$

In equation (4), we include advertising expense (*AD*), research and development expense (*RD*) and other control variables, in concurrent form, that are used in equation (3).

In the second step, we augment Equation (1) with the hazard ratio (*h*) calculated from the first stage Probit regression (4).

$$CharCont_{it} = \beta_0 + \beta_1 AwardD_i + \beta_2 ROA_{it} + \beta_3 LossD_{it} + \beta_4 Size_{it} + \beta_5 BTM_{it} + \beta_6 NegEqD_{it} + \beta_7 Leverage_{it} + \beta_8 CGD_{it} + \beta_9 Owner\_LS_{it} + \beta_{10} Owner\_FRG_{it} + \beta_{11} Owner\_GOV_{it} + \beta_{12} ChaebolD_{it} + \lambda h_{it} + \varepsilon_{it} \quad (5)$$

Table 7 reports the two-step regression results. The first stage Probit regression results are presented at the bottom half of Table 7. As predicted, *AD* is significantly positive at the one percent level. But *RD* is not associated with winning business awards. *SIZE* and *CGD* are positively associated with winning business awards. *LossD* is negatively associated with winning business awards when we use industry adjusted variables (columns 2 and 4). The coefficient estimate on concurrent *ROA* is significantly negative, suggesting that award winners are less profitable than non-award winners. The idea that award winners are less profitable than non-award winners may appear to be counterintuitive; however our finding is consistent with Malmendier and Tate (2009), who report the under-performance phenomenon subsequent to winning awards. *BTM* and *NegEqD* are negatively associated with winning awards, indicating that award winners are expected to experience more growth in the future and are less likely to experience equity depletion.

At the top half of Table 7, we present the test results after controlling for the endogeneity of award winning. If winning an award is exogenous or uncorrelated with corporate philanthropy, the coefficient estimate on the hazard ratio (λ) will be insignificant. However, the coefficient estimates on the hazard ratio (λ) are all significantly negative, indicating that the OLS regression underestimates the treatment effect on *AwardD*. Thus, lack of control of the endogeneity of winning awards works against finding a significant result in the OLS regression. In fact, the coefficient estimates on *AwardD* under the two-step approach are bigger than those from OLS regressions (Table 8 vs. Table 3). In sum, our result that business award-winners make more charitable contributions than non-winners is robust, after controlling for the endogeneity of winning business award.

***Alternative Definition of Award Winners***

Our analyses so far assume that winning awards is influenced by firm or CEO characteristics. Thus, we did not distinguish the period before and after winning awards (except for in Table 6). However, the behavior of firms could differ before and after winning business awards. Malmendier & Tate (2009) find that award winning firms subsequently under-perform and CEOs engage in more public and private activities outside their firms, such as assuming board seats and writing memoirs or strategy books. Koh (2011) finds that award winning firms adopt more conservative accounting and engage in less earnings management. Thus, we also consider an alternative definition of award winning.

Under the new definition, the award winner dummy, which is now a firm-year specific variable, is set to zero prior to, but set to one after winning a business award. However, untabulated results are qualitatively similar to those in Table 7.

## SUMMARY AND DISCUSSION

We have investigated the relation between corporate reputation (as evidenced by winning prestigious business awards) and corporate social performance (as proxied by corporate charitable contributions). We find the following: (1) Prestigious business award winners make significantly more charitable contributions than non-winners, and, among award winners, multiple award winners make even more charitable contributions than single award winners. (2) Winners maintain their charitable contributions after winning an award. (3) The level of, and changes (such as increases) in charitable contributions do not affect the probability of winning awards. Overall, we do not see a systematic pattern that award winning CEOs opportunistically adjust the level of corporate charitable contributions before/after winning an award. Instead, award winners maintain a high level of charitable contribution. The results are consistent with the finding of Lev *et al*. (2010) that charitable contributions are not a mere distribution of corporate profits: firms make charitable contributions as strategic investments to help enhance their long-term corporate financial performance. Thus, our study provides evidence that CEOs, particularly those who win prestigious business awards, strategically make their decision on charitable contributions to enhance long-term firm value rather than to increase their own utility from winning prestigious awards.

The main contributions of our study are as follows. First, this study complements extant studies on CFP and financial reporting quality of business award winners (e.g., Malmendier & Tate 2009; Koh 2011). Our finding suggests that CSP is likely to be as important as CFP in building and sustaining corporate reputation. Corporate giving may be viewed as a strategic investment consistent with firm value maximization rather than a diversion of corporate resources under the view of agency problems.

Second, as long as winning prestigious business awards is a manifestation of corporate reputation and reputable firms enjoy superior CFP as a result, firms will be interested in establishing good reputation and enhancing their corporate image. Several studies investigate how CSP affects corporate reputation (Brammer & Millington 2005; Chen *et al*. 2008; Fombrun & Shanley 1990; Williams & Barrett 2000) but, there has been relatively few studies examining the effect of corporate reputation on corporate charitable contributions (one of the important dimensions of CSP). Our study thus complements extant research on the relation between corporate reputation and CSP.

Third, extant research suggests that the relation between corporate reputation and charitable contributions is not uniform across countries. UK firms experience an enhancement of corporate reputation when they increase their charitable contributions (Brammer & Millington, 2005). In comparison, the US results are at best marginal (Fombrun & Shanley 1990; Williams & Barrett 2000; Chen *et al*. 2008). Our result of Korean firms is consistent with that of the UK firms.

We acknowledge that our results may not be generalized to other countries due to the differences in institutional settings, regulations, and expectation for corporate social responsibility. However, our exclusive focus on Korean companies allows us to utilize high-quality corporate giving data and to overcome a small sample size problem of prior studies in the literature. We believe that corporate giving practices of Korean companies are not significantly different from those of companies of other countries. Thus, the findings for Korean companies will be useful in understanding the factors influencing corporate giving practices.

**References**

Amato, L. and C. Amato. 2007. The effects of firm size and industry on corporate giving. *Journal of Business Ethics* 72, 229—241.

Atkinson, L. and Galaskiewicz, J. 1988. Stock ownership and company contributions to charity. *Administrative Science Quarterly* 33, 82—100.

Baek, J.S., Kang, J.K. and Park, K.S. 2004. Corporate Governance and Firm Value: Evidence from Korean Financial Crisis. *Journal of Financial Economics* 71, 265-313.

Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management* 17, 99—120.

Black, B., Jang, H. and Kim, W. 2006a. Does Corporate Governance Predict Firms' Market Values? Evidence from Korea. *Journal of Law: Economics, and Organization* 22:2, 366—4131.

Black, B., Jang, H. and Kim, W. 2006b. Predicting firms' corporate governance choices: Evidence from Korea. *Journal of Corporate Finance* 12, 660—691.

Brammer, S. and Millington, A. 2003. The evolution of corporate charitable contributions in the UK between 1989 and 1999: industry structure and stakeholder influences. *Business Ethics: A European Review*, 12: 216–228.

Brammer, S. and Millington, A. 2004. The Development of Corporate Charitable Contributions in the UK: A Stakeholder Analysis. *Journal of Management Studies* 41, 1411—1434.

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

Brammer, S. and A. Millington. 2006. Firm size, organizational visibility and corporate philanthropy: an empirical analysis. *Business Ethics: A European Review*, 15: 6–18.

Brammer, S., A. Millington, and S. Pavelin. 2006. Is philanthropy strategic? An analysis of the management of charitable giving in large UK companies. *Business Ethics: A European Review*, 15: 234–245.

Brammer, S., Brooks, C. and Pavelin, S. 2006. Corporate social performance and stock returns: UK evidence from disaggregate measures. *Financial Management* 35:3, 97-116.

Brown, W., Helland, E. and Smith, J. 2006. Corporate philanthropic practices. *Journal of Corporate Finance* 12: 855—877.

Campbell, D. and Slack, R. 2006. Public visibility as determinant of the rate of corporate charitable donations. *Business Ethics: A European Review* 15:1, 19—28.

Campbell, D. and Slack, R. 2007. The strategic use of corporate philanthropy: building societies and demutualisation defences. *Business Ethics: A European Review*, 16: 326–343.

Chatterjee, A. and Hambrick, D.C. 2007. It's all about me: Narcissistic CEOs and their effects on company strategy and performance. *Administrative Science Quarterly* 52, 351–386.

Chen, J., Patten, D. and Roberts, R. 2008. Corporate charitable contributions: A corporate social performance or legitimacy strategy? *Journal of Business Ethics* 82:1, 131-144.

Fombrun, C. and Shanley, M. 1990. What's in a name? Reputation building and corporate strategy. *Academy of Management Journal* 33, 233-258.

Francis, J., Huang, A., Rajgopal, S. and Zang, A. 2008. CEO reputation and earnings quality. *Contemporary Accounting Research* 25, 109—47.

Gan, A. 2005. The impact of public scrutiny on corporate philanthropy. *Journal of Business Ethics* 69, 217-236.

Hambrick, D. and Mason, P. 1984. Upper Echelons: The Organization as a Reflection of Its Top Managers. *Academy of Management Review* 9, 193—206.

Koh, K. 2011. Value or glamour? An empirical investigation of the effect of celebrity CEOs on financial reporting practices and firm performance. *Accounting and Finance* 51, 517—547.

Kotha, S., Rajgopal, S. and Rindova, V. 2001. Reputation building performance: An empirical analysis of top-50 pure internet firms. *European Management Journal* 19, 571—586.

Lev, B., Petrovits, C. and Radhakrishnan, S. 2010. Is doing good good for you? How corporate charitable contributions enhance revenue growth. *Strategic Management Journal* 31, 182—200.

Li, Q., W. Luo, Y. Wang, and L. Wu. 2013. Firm performance, corporate ownership, and corporate social responsibility disclosure in China. *Business Ethics: A European Review*, 22: 159–173.

Maddala, G. 1983. *Limited-dependent and qualitative variables in econometrics*. Cambridge University Press: Cambridge.

Makni, R., Francoeur, C. and Bellavance, F. 2009. Causality between corporate social performance and financial performance: Evidence from Canadian firms. *Journal of Business Ethics* 89:3, 409—422.

Malmendier, U. and Tate, G. 2009. Superstar CEOs. *The Quarterly Journal of Economics* 124, 1593—1638.

Margolis, J. and Walsh, J. 2003. Misery loves company: Rethinking social initiatives by business. *Administrative Science Quarterly* 48, 268—305.

Margolis J., Elfenbein, H. and Walsh, J. 2007. Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social and financial performance. Working Paper, Harvard Business School.

Masulis, R. and S. Reza. 2014. Agency Problems of Corporate Philanthropy. *Review of Financial Studies* Forthcoming

Miles, R. 1987. *Managing the corporate social environment: A grounded theory*. Prentice-Hall: Englewood Cliffs, NJ.

Navarro, P. 1988. Why do corporations give to charity? *Journal of Business* 61:1, 65—93.

Orlitzky, M., Scmidt, F. and Rynes, S. 2003. Corporate social and financial performance: A meta-analysis. *Organization Studies* 24, 403—411.

Preston, L. and O'Bannon, D. 1997. The corporate social-financial performance relationship. *Business and Society* 36, 419—429.

Roberts, P. and Dowling, G. 2002. Corporate reputation and sustained superior financial performance. *Strategic Management Journal* 23, 1077—1093.

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

Shapiro, C. 1983. Premiums for high-quality products as returns to reputations. *The Quarterly Journal of Economics* 98, 659—681.

Surroca, J., Tribo, J. and Waddock, S. 2010. Corporate responsibility and financial performance: The role of intangible resources. *Strategic Management Journal* 31:5, 463—490.

Waddock, S. and Graves, S. 1997. The corporate social performance-financial performance link. *Strategic Management Journal* 18, 303—319.

Wade, J., Porac, J. and Pollock, T. 1997. Hitch your corporate wagon to a CEO star: Testing two views of the relationship between the pay, reputation, and performance of top executives. *Corporate Reputation Review* 2, 103-109.

Wade, J., Porac, J., Pollock, T. and Graffin, S. 2006. The burden of celebrity: The impact of CEO certification contests on CEO pay and performance. *Academy of Management Journal* 49, 643—660.

Werbel, J. and Carter, S. 2002. The CEO's influence on corporate foundation giving. *Journal of Business Ethics* 40: 47—60.

Williams, R. and Barrett, J. 2000. Corporate philanthropy, criminal activity, and firm reputation: Is there a link? *Journal of Business Ethics* 26: 341—350.

Wood, D. 1991. Corporate Social Performance Revisited. *Academy of management Review* 16: 691—718.

Zhang, R., Zhu, J., Yue, H. and Zhu, C. 2010. Corporate philanthropic giving, advertising intensity, and industry competition level. Journal of Business Ethics 94: 39-52.

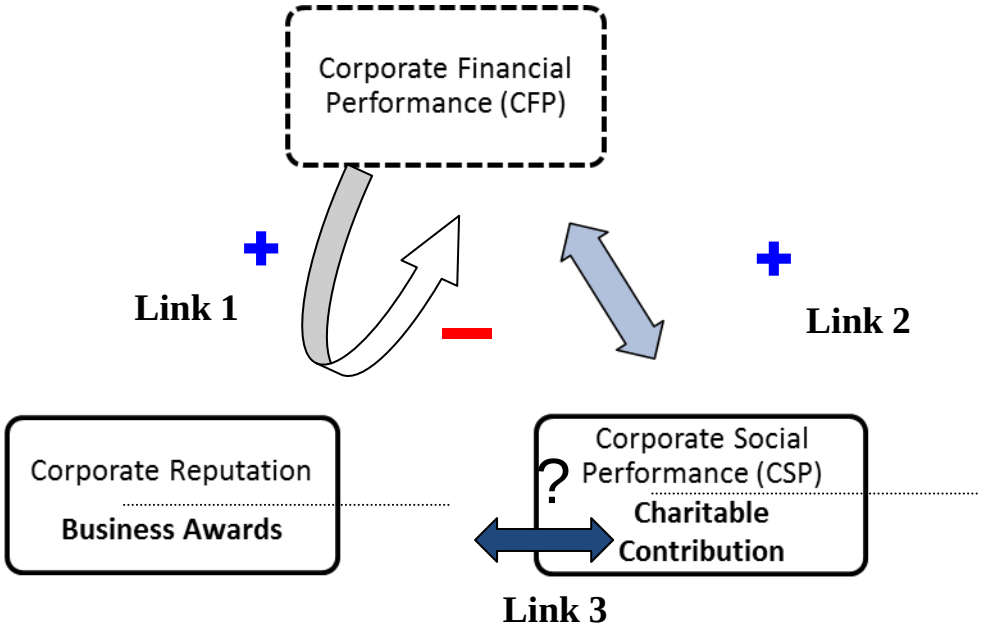
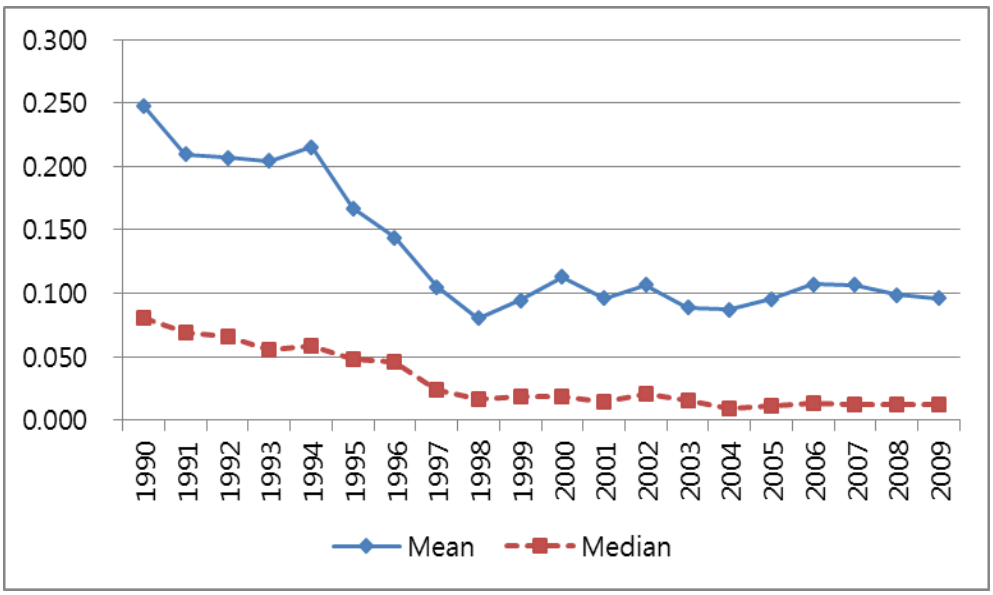
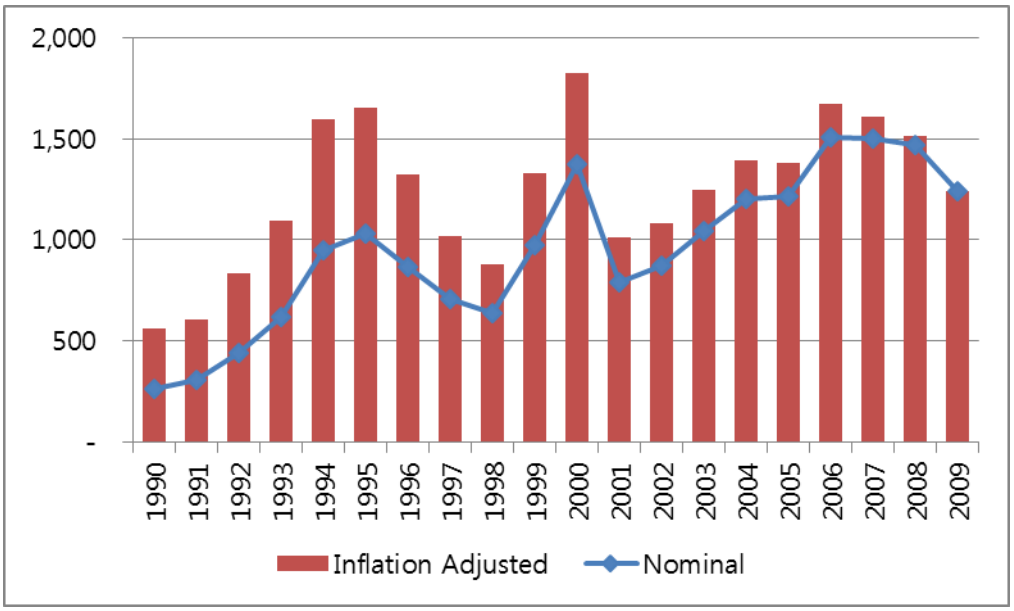



**Figure 1: The link between corporate reputation (Awards) and social performance (CSP)**

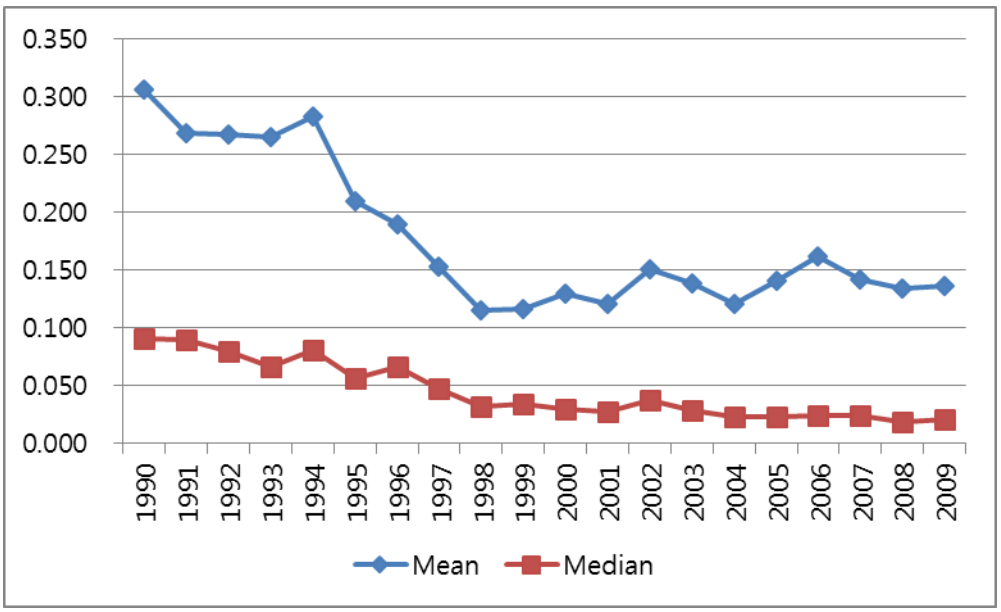



**Panel A: Mean and median charitable contribution as percentage of sales**

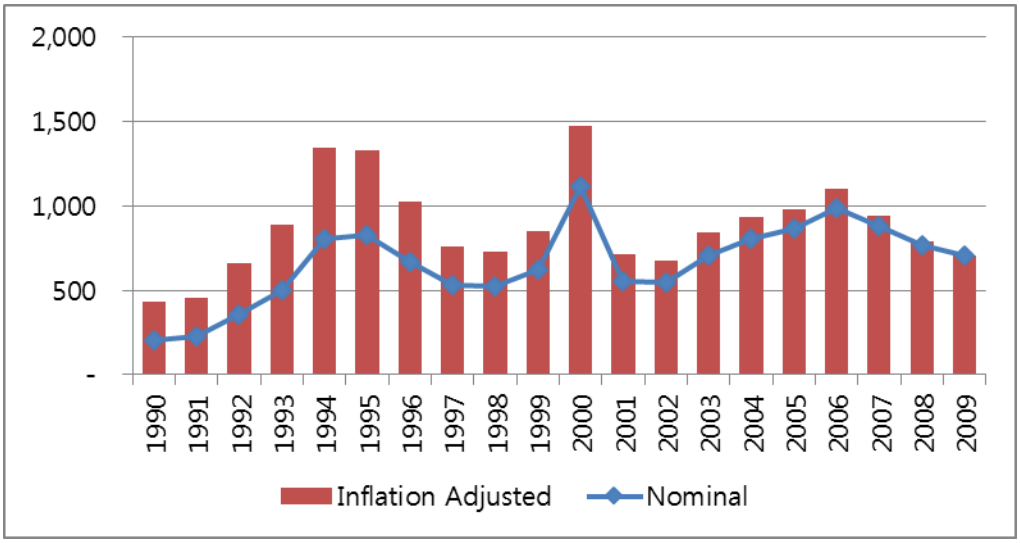



**Panel B: Total charitable contributions in KRW billion**

**Figure 2: Charitable contribution – all listed companies**

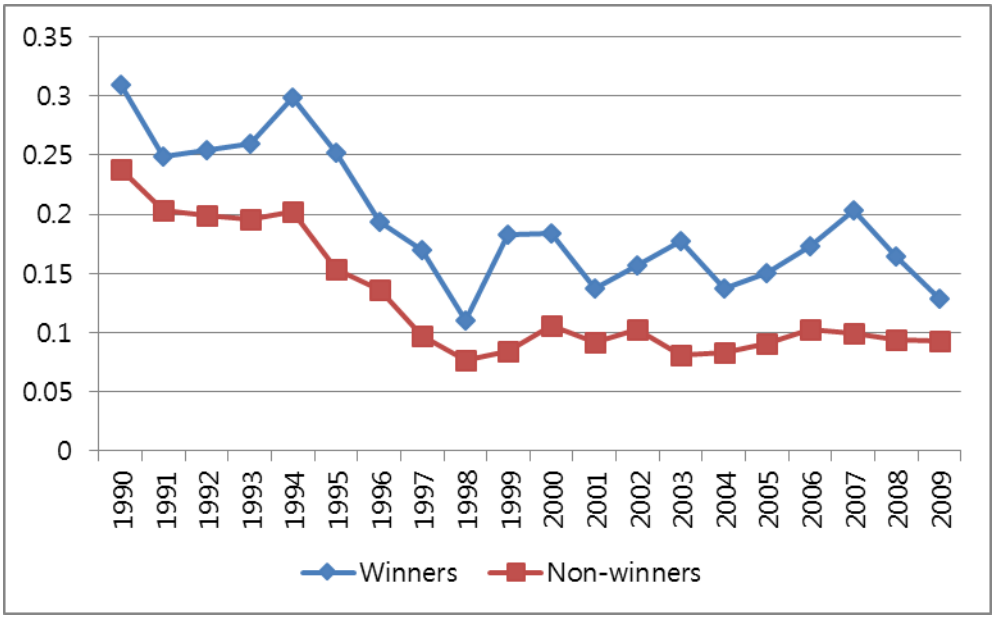



**Panel A: Mean and median charitable contribution as percentage of sales**

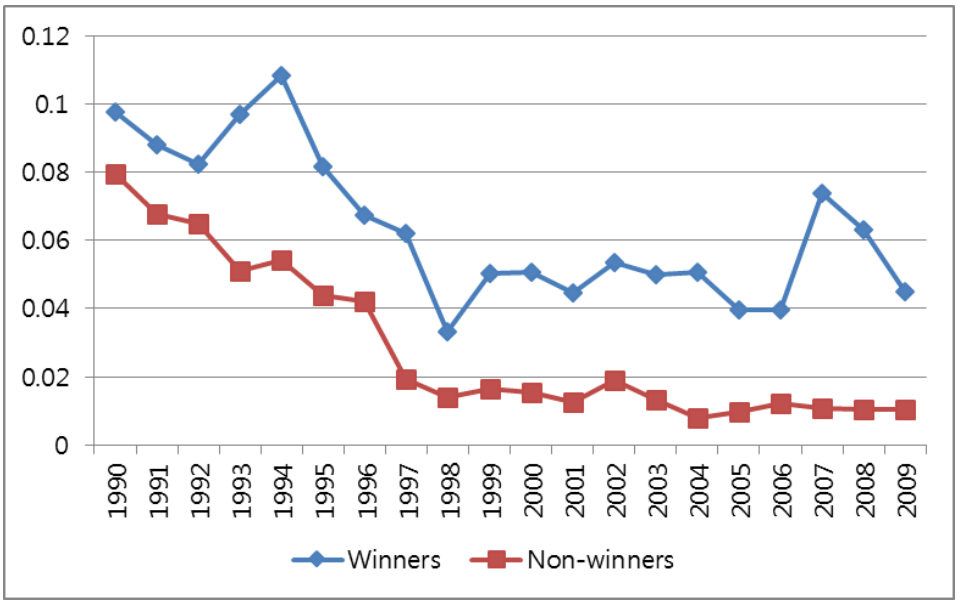



**Panel B: Total charitable contributions in KRW billion**

**Figure 3: Charitable contribution – a constant sample of 357 listed companies**

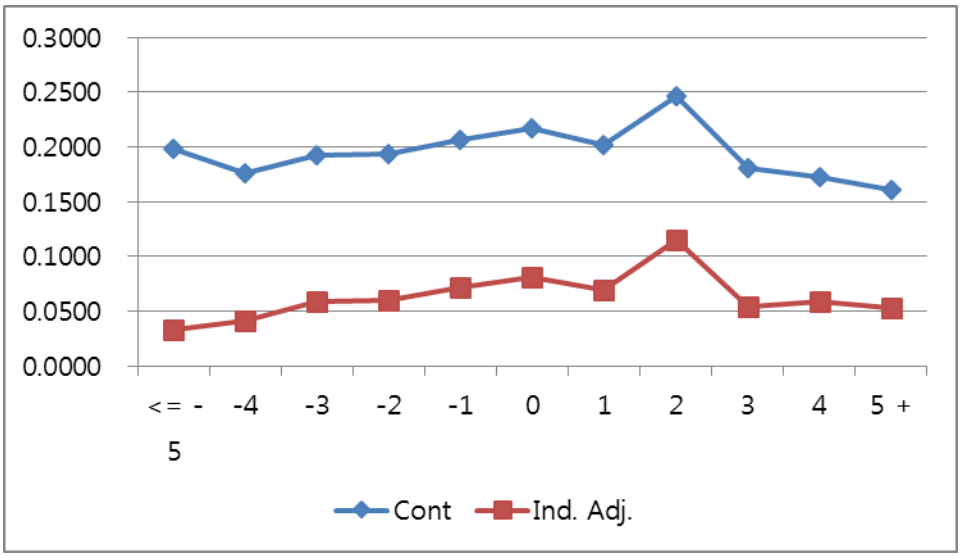



**Panel A: Mean charitable contribution**

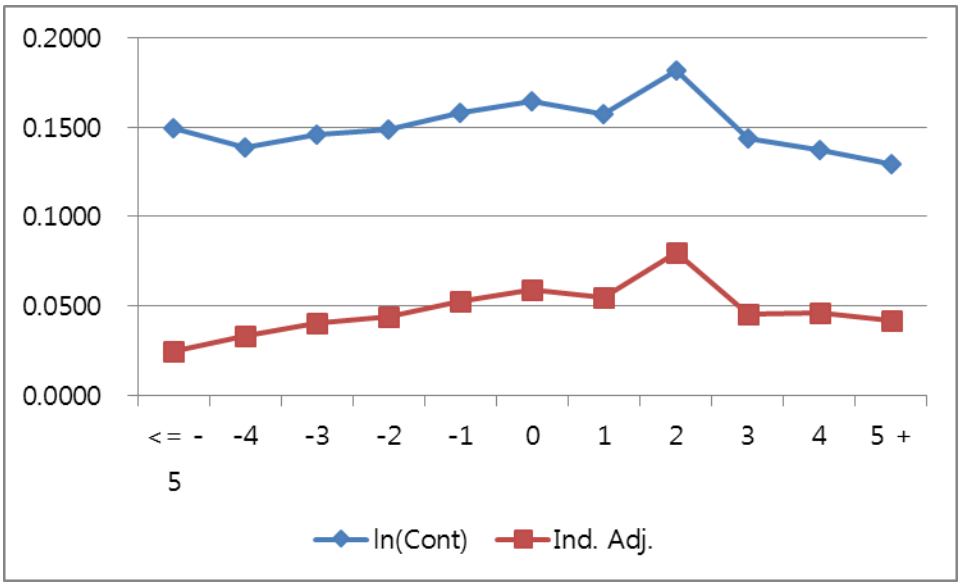



**Panel B: Median charitable contribution**

**Figure 4: Charitable contributions: business award winners vs. non-winners**




**Panel A: Charitable contribution as percentage of sales**




**Panel B: Natural log of charitable contribution as percentage of sales**

**Figure 5: Charitable contributions around winning a business award**

**Table 1: Charitable contributions by listed Korean companies from 1990 to 2009**

| Year | No of Firms | Charitable Contribution as Percentage of Sales | | Total Amount (KRW billion) | |
|---|---|---|---|---|---|
| | | Mean | Median | Nominal | Inflation Adjusted[1)] |
| 1990 | 634 | 0.247 | 0.081 | 262 | 562 |
| 1991 | 651 | 0.210 | 0.069 | 308 | 605 |
| 1992 | 648 | 0.207 | 0.066 | 444 | 834 |
| 1993 | 656 | 0.204 | 0.056 | 616 | 1,094 |
| 1994 | 673 | 0.215 | 0.059 | 949 | 1,595 |
| 1995 | 704 | 0.167 | 0.048 | 1,031 | 1,655 |
| 1996 | 740 | 0.144 | 0.045 | 867 | 1,325 |
| 1997 | 998 | 0.105 | 0.024 | 710 | 1,019 |
| 1998 | 943 | 0.080 | 0.017 | 638 | 881 |
| 1999 | 1,063 | 0.094 | 0.018 | 975 | 1,327 |
| 2000 | 1,226 | 0.113 | 0.018 | 1,375 | 1,822 |
| 2001 | 1,377 | 0.096 | 0.014 | 788 | 1,012 |
| 2002 | 1,499 | 0.107 | 0.021 | 875 | 1,083 |
| 2003 | 1,542 | 0.089 | 0.015 | 1,042 | 1,248 |
| 2004 | 1,542 | 0.087 | 0.009 | 1,201 | 1,395 |
| 2005 | 1,576 | 0.095 | 0.012 | 1,218 | 1,379 |
| 2006 | 1,638 | 0.107 | 0.013 | 1,507 | 1,671 |
| 2007 | 1,700 | 0.107 | 0.012 | 1,502 | 1,608 |
| 2008 | 1,728 | 0.099 | 0.012 | 1,472 | 1,513 |
| 2009 | 1,711 | 0.096 | 0.012 | 1,240 | 1,240 |

[1)] Annual Consumer Price Index data (International Monetary Fund, World Economic Outlook Database, 2010) are used.

**Table 2: Descriptive statistics of key variables**

**Panel A: Raw variables (No. of observations = 23,239)**

| Variable | Mean | Std. Dev. | First Quartile | Median | Third Quartile |
|---|---|---|---|---|---|
| *CharCont*(%) | 0.119 | 0.269 | 0.001 | 0.021 | 0.094 |
| *ln(CharCont)* | 0.093 | 0.178 | 0.001 | 0.021 | 0.090 |
| *AwardD* | 0.092 | 0.289 | 0.000 | 0.000 | 0.000 |
| *ROA* | 0.036 | 0.047 | 0.000 | 0.018 | 0.055 |
| *LOSSD* | 0.277 | 0.447 | 0.000 | 0.000 | 1.000 |
| *SIZE* | 4.818 | 1.575 | 3.682 | 4.505 | 5.662 |
| *BTM* | 1.775 | 2.211 | 0.636 | 1.107 | 1.995 |
| *NegEqD* | 0.034 | 0.181 | 0.000 | 0.000 | 0.000 |
| *LEVERAGE* | 0.551 | 0.287 | 0.349 | 0.538 | 0.714 |
| *CGD* | 0.066 | 0.248 | 0.000 | 0.000 | 0.000 |
| *Owner_LS* | 0.298 | 0.191 | 0.153 | 0.284 | 0.424 |
| *Owner_FRG* | 0.052 | 0.106 | 0.000 | 0.003 | 0.049 |
| *Owner_GOV* | 0.006 | 0.022 | 0.000 | 0.000 | 0.000 |
| *ChaebolD* | 0.121 | 0.327 | 0.000 | 0.000 | 0.000 |

**Panel B: award-winners vs. non-winners**

| Variable | Award-Winners (N = 2,134) | | Non-Winners (N = 21,115) | | Test of Differences in | | | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Median | Mean | Median | Means (t-statistic) | | Medians (z-statistic) | |
| *CharCont*(%) | 0.189 | 0.060 | 0.111 | 0.019 | (10.51) | *** | (18.18) | *** |
| *ln(CharCont)* | 0.146 | 0.058 | 0.088 | 0.018 | (12.17) | *** | (18.18) | *** |
| *ROA* | 0.030 | 0.013 | 0.037 | 0.019 | (-7.35) | *** | (-2.12) | ** |
| *LOSSD* | 0.179 | 0.000 | 0.287 | 0.000 | (-12.09) | *** | (-10.56) | *** |
| *SIZE* | 6.994 | 7.043 | 4.598 | 4.368 | (60.20) | *** | (53.38) | *** |
| *BTM* | 1.631 | 1.091 | 1.790 | 1.110 | (-3.83) | *** | (0.15) | |
| *NegEqD* | 0.022 | 0.000 | 0.035 | 0.000 | (-4.05) | *** | (-3.33) | *** |
| *LEVERAGE* | 0.659 | 0.679 | 0.540 | 0.524 | (20.67) | *** | (22.92) | *** |
| *CGD* | 0.394 | 0.000 | 0.032 | 0.000 | (33.95) | *** | (64.26) | *** |
| *Owner_LS* | 0.252 | 0.224 | 0.303 | 0.290 | (-12.50) | *** | (-12.66) | *** |
| *Owner_FRG* | 0.115 | 0.056 | 0.046 | 0.002 | (21.56) | *** | (30.18) | *** |
| *Owner_GOV* | 0.012 | 0.000 | 0.006 | 0.000 | (8.26) | *** | (12.69) | *** |
| *ChaebolD* | 0.366 | 0.000 | 0.097 | 0.000 | (25.38) | *** | (36.36) | *** |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.

*CharCont* is the amount of charitable contribution as a percentage of sales; ln(*CharCont*) is the natural log of one plus *CharCont*; *AwardD* is the indicator variable for firms that received some business award(s) during our sample period from 1990 to 2009; *ROA* is net income divided by total assets. It is set to zero for firms reporting losses; *LossD* is the indicator variable for firms reporting losses; *Size* is the natural log of total assets in millions of KRW; *BTM* is the ratio of the book of equity to the market value of equity. It is set to zero for firms with a negative book value of equity; *NegEqD* is the indicator variable for firms with negative book values of equity; *Leverage* is total liabilities divided by total assets; *CGD* is the indicator variable for firms with strong corporate governance; *Owner_LS* is the ownership percentage held by the largest shareholder and her related parities; *Owner_FRG* is the ownership percentage held by foreign investors; $Owner\_GOV_{it}$ is the ownership percentage held by the government; and *ChaebolD* is the indicator variable for firms that are affiliated with a large business group or *Chaebol*. **Table 3: Comparison of charitable contribution between award winners and non-winners**

| Variable | Pred. Sign | Dependent Variable (1) *CharCont* | | (2) Industry *CharCont* | Adj. | (3) ln(*CharCont*) | | (4) Industry ln(*CharCont*) | Adj. |
|---|---|---|---|---|---|---|---|---|---|
| *Intercept* | (+/–) | 0.1856 | *** | -0.0042 | | 0.1173 | *** | -0.0023 | |
| | | (28.14) | | (-0.86) | | (18.77) | | (-0.71) | |
| ***AwardD*** | **(+)** | **0.0504** | ******* | **0.0348** | ****** | **0.0354** | ******* | **0.0240** | ****** |
| | | **(2.85)** | | **(2.34)** | | **(3.07)** | | **(2.44)** | |
| *ROA* | (+) | 0.2616 | *** | 0.4402 | *** | 0.1599 | *** | 0.2902 | *** |
| | | (3.34) | | (4.45) | | (3.20) | | (4.53) | |
| *LOSSD* | (–) | -0.0326 | *** | 0.0021 | | -0.0268 | *** | -0.0013 | |
| | | (-3.42) | | (0.36) | | (-4.15) | | (-0.34) | |
| *SIZE* | (+) | 0.0189 | *** | 0.0244 | *** | 0.0151 | *** | 0.0189 | *** |
| | | (4.80) | | (7.75) | | (5.78) | | (8.82) | |
| *BTM* | (–) | 0.0002 | | 0.0011 | | -0.0002 | | 0.0004 | |
| | | (0.10) | | (0.53) | | (-0.13) | | (0.32) | |
| *NegEqD* | (–) | 0.0053 | | 0.0543 | *** | 0.0003 | | 0.0355 | *** |
| | | (0.24) | | (4.24) | | (0.02) | | (4.05) | |
| *LEVERAGE* | (–) | -0.0533 | ** | -0.1232 | *** | -0.0376 | ** | -0.0882 | *** |
| | | (-2.11) | | (-5.93) | | (-2.17) | | (-6.14) | |
| *CGD* | (–) | -0.0351 | * | -0.0203 | | -0.0234 | * | -0.0128 | |
| | | (-1.85) | | (-1.46) | | (-1.89) | | (-1.40) | |
| *Owner_LS* | (–) | -0.0393 | ** | -0.0139 | | -0.0251 | ** | -0.0066 | |
| | | (-2.10) | | (-0.93) | | (-1.99) | | (-0.67) | |
| *Owner_FRG* | (+) | 0.0749 | ** | 0.0702 | ** | 0.0571 | ** | 0.0557 | *** |
| | | (2.17) | | (2.17) | | (2.46) | | (2.64) | |
| *Owner_GOV* | (+) | 0.6455 | *** | 0.4404 | ** | 0.4191 | *** | 0.2643 | ** |
| | | (2.76) | | (2.23) | | (2.90) | | (2.25) | |
| *ChaebolD* | (+) | 0.0060 | | -0.0010 | | 0.0054 | | 0.0003 | |
| | | (0.39) | | (-0.06) | | (0.54) | | (0.03) | |
| *Industry dummies* | | Yes | | No | | Yes | | No | |
| *Adj.* $R^2$ | | 0.1309 | | 0.0435 | | 0.1509 | | 0.0552 | |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.
Refer to Table 2 for the definition of variables.

**Table 4: Comparison of charitable contribution between award winners and non-winners: the effect of winning multiple awards**

| Variable | Pred. Sign | Dependent Variable (1) *CharCont* | | (2) Industry *CharCont* | Adj. | (3) ln(*CharCont*) | | (4) Industry ln(*CharCont*) | Adj. |
|---|---|---|---|---|---|---|---|---|---|
| *Intercept* | (+/–) | 0.1849 | *** | -0.0037 | | 0.1169 | *** | -0.0020 | |
| | | (28.30) | | (-0.78) | | (18.74) | | (-0.62) | |
| ***SAwardD*** | **(+)** | **0.0330** | ***** | **0.0185** | | **0.0243** | ****** | **0.0138** | |
| | | **(1.89)** | | **(1.18)** | | **(2.05)** | | **(1.28)** | |
| ***MAwardD*** | **(+)** | **0.0959** | ******* | **0.0742** | ****** | **0.0644** | ******* | **0.0488** | ******* |
| | | **(2.83)** | | **(2.55)** | | **(3.07)** | | **(2.69)** | |
| *ROA* | (+) | 0.2612 | *** | 0.4392 | *** | 0.1597 | *** | 0.2895 | *** |
| | | (3.35) | | (4.46) | | (3.21) | | (4.54) | |
| *LOSSD* | (–) | -0.0323 | *** | 0.0023 | | -0.0266 | *** | -0.0011 | |
| | | (-3.41) | | (0.40) | | (-4.13) | | (-0.30) | |
| *SIZE* | (+) | 0.0190 | *** | 0.0247 | *** | 0.0151 | *** | 0.0191 | *** |
| | | (4.81) | | (7.85) | | (5.79) | | (8.94) | |
| *BTM* | (–) | 0.0002 | | 0.0011 | | -0.0001 | | 0.0005 | |
| | | (0.13) | | (0.55) | | (-0.10) | | (0.34) | |
| *NegEqD* | (–) | 0.0040 | | 0.0533 | *** | (0.0005) | | 0.0349 | *** |
| | | (0.18) | | (4.13) | | (-0.03) | | (3.93) | |
| *LEVERAGE* | (–) | -0.0521 | ** | -0.1221 | *** | -0.0368 | ** | -0.0875 | *** |
| | | (-2.06) | | (-5.89) | | (-2.12) | | (-6.10) | |
| *CGD* | (–) | -0.0441 | ** | -0.0309 | ** | -0.0291 | ** | -0.0195 | ** |
| | | (-2.41) | | (-2.26) | | (-2.43) | | (-2.17) | |
| *Owner_LS* | (–) | -0.0389 | ** | -0.0136 | | -0.0249 | ** | -0.0064 | |
| | | (-2.07) | | (-0.91) | | (-1.96) | | (-0.65) | |
| *Owner_FRG* | (+) | 0.0743 | ** | 0.0705 | ** | 0.0567 | ** | 0.0559 | *** |
| | | (2.17) | | (2.19) | | (2.46) | | (2.67) | |
| *Owner_GOV* | (+) | 0.6284 | *** | 0.4256 | ** | 0.4082 | *** | 0.2550 | ** |
| | | (2.76) | | (2.24) | | (2.90) | | (2.25) | |
| *ChaebolD* | (+) | 0.0050 | | -0.0018 | | 0.0048 | | -0.0003 | |
| | | (0.33) | | (-0.12) | | (0.48) | | (-0.03) | |
| *Industry dummies* | | Yes | | No | | Yes | | No | |
| *Test of* (*MAwardD=SAwardD*) | | 0.0629 | * | 0.0557 | * | 0.0401 | * | 0.0349 | * |
| | | (1.86) | | (1.77) | | (1.88) | | (1.76) | |
| *Adj.* $R^2$ | | 0.1319 | | 0.0445 | | 0.1518 | | 0.0561 | |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.
$SAwardD_i$ ($MAwardD_i$) is the indicator variable for firms that received a single (multiple) business award during our sample period from 1990 to 2009. Refer to Table 2 for the definition of other variables.

**Table 5: Charitable contributions around winning awards**

Yr(0) denotes the year of winning an award. The reference year is the year before winning an award.

| Variable | Pred. Sign | Dependent Variable (1) *CharCont* Award Winners Only (N=2,134) | | (2) *Ind. Adj. CharCont* | | (3) *CharCont* All Firms (N=23,249) | | (4) *Ind. Adj. CharCont* | |
|---|---|---|---|---|---|---|---|---|---|
| *Intercept* | | 0.3050 | *** | 0.0434 | | 0.3954 | * | 0.0400 | |
| | | (3.57) | | (0.79) | | (1.87) | | (1.36) | |
| *Yr(−5&earlier)* | | -0.0303 | | -0.0193 | | -0.0497 | * | -0.0414 | |
| | | (-0.85) | | (-0.47) | | (-1.72) | | (-1.60) | |
| *Yr(−4)* | | -0.0141 | | -0.0140 | | -0.0311 | | -0.0200 | |
| | | (-0.47) | | (-0.52) | | (-1.02) | | (-0.80) | |
| *Yr(−3)* | | 0.0006 | | 0.0082 | | -0.0122 | | -0.0030 | |
| | | (0.02) | | (0.29) | | (-0.38) | | (-0.11) | |
| *Yr(−2)* | | -0.0045 | | 0.0012 | | -0.0111 | | -0.0041 | |
| | | (-0.17) | | (0.06) | | (-0.44) | | (-0.19) | |
| *Yr(0)* | | 0.0133 | | 0.0147 | | 0.0145 | | 0.0089 | |
| | | (0.52) | | (0.59) | | (0.58) | | (0.37) | |
| *Yr(1)* | | 0.0215 | | 0.0204 | | 0.0152 | | 0.0058 | |
| | | (0.67) | | (0.67) | | (0.48) | | (0.19) | |
| *Yr(2)* | | 0.0725 | ** | 0.0715 | ** | 0.0631 | * | 0.0534 | |
| | | (1.99) | | (2.05) | | (1.89) | | (1.63) | |
| *Yr(3)* | | 0.0082 | | 0.0108 | | 0.0015 | | -0.0070 | |
| | | (0.26) | | (0.37) | | (0.05) | | (-0.26) | |
| *Yr(4)* | | 0.0162 | | 0.0264 | | 0.0020 | | 0.0015 | |
| | | (0.46) | | (0.86) | | (0.07) | | (0.05) | |
| *Y(5+)* | | -0.0103 | | 0.0092 | | -0.0246 | | -0.0148 | |
| | | (-0.30) | | (0.32) | | (-0.87) | | (-0.58) | |
| $ROA_{it}$ | (+) | 0.7262 | ** | 0.6523 | * | 0.4253 | *** | 0.4378 | *** |
| | | (2.53) | | (1.73) | | (5.38) | | (5.49) | |
| $LOSSD_{it}$ | (–) | 0.0035 | | -0.0072 | | -0.0001 | | 0.0018 | |
| | | (0.18) | | (-0.38) | | (-0.01) | | (0.31) | |
| $SIZE_{it}$ | (+) | 0.0347 | *** | 0.0461 | *** | 0.0235 | *** | 0.0246 | *** |
| | | (2.69) | | (4.98) | | (6.94) | | (7.54) | |
| $BTM_{it}$ | (–) | 0.0055 | | 0.0105 | | 0.0014 | | 0.0011 | |
| | | (0.61) | | (1.20) | | (0.84) | | (0.66) | |
| $NegEqD_{it}$ | (–) | 0.0587 | | 0.0748 | ** | 0.0548 | *** | 0.0560 | *** |
| | | (1.26) | | (2.00) | | (3.37) | | (3.84) | |
| $LEVERAGE_{it}$ | (–) | -0.2076 | *** | -0.2478 | *** | -0.1195 | *** | -0.1238 | *** |
| | | (-3.22) | | (-3.61) | | (-6.82) | | (-7.44) | |
| $CGD_{it}$ | (–) | 0.0127 | | (0.0346) | | (0.0184) | | (0.0210) | |
| | | (0.33) | | (-1.43) | | (-0.91) | | (-1.36) | |
| $Owner\_LS_{it}$ | (–) | -0.0883 | | -0.0669 | | -0.0176 | | -0.0139 | |
| | | (-1.58) | | (-1.22) | | (-1.13) | | (-0.91) | |
| $Owner\_FRG_{it}$ | (+) | 0.0948 | | 0.0932 | | 0.0798 | ** | 0.0689 | ** |
| | | (0.95) | | (0.83) | | (2.26) | | (1.97) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Owner_GOV*$_{it}$ | (+) | 0.8115 | ** | 1.2971 | ** | 0.4178 | ** | 0.4466 | ** |
| | | (2.12) | | (2.08) | | (2.14) | | (2.23) | |
| *ChaebolD*$_{it}$ | (+) | -0.0360 | | -0.0323 | | -0.0002 | | 0.0002 | |
| | | (-1.59) | | (-1.33) | | (-0.01) | | (0.01) | |
| *Industry dummies* | | Yes | | No | | Yes | | No | |
| *Year dummies* | | Yes | | Yes | | Yes | | Yes | |
| *Adjusted* $R^2$ | | 0.3997 | | 0.1279 | | 0.2471 | | 0.2380 | |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.
Refer to Table 2 for the definition of other variables.

**Table 6: Determinants of winning awards: Probit regression of winning awards**

| Variable | Pred. Sign | Without *CharCont* | | | | With *CharCont* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | (1) *CharCont* | | (2) Ind. adj. var. *CharCont* | | (3) *CharCont* | | (4) Ind. adj. var. *CharCont* | |
| *Intercept* | | -5.3990 | *** | -2.9235 | *** | -5.3424 | *** | -2.9726 | *** |
| | | (-7.88) | | (-19.70) | | (-7.75) | | (-18.75) | |
| *AD*$_{it-1}$ | (+) | 0.0413 | ** | 0.0390 | ** | 0.0308 | | 0.0319 | |
| | | (2.15) | | (2.07) | | (1.34) | | (1.48) | |
| *RD*$_{it-1}$ | (+) | 0.0126 | | 0.0118 | | 0.0108 | | 0.0090 | |
| | | (0.85) | | (1.13) | | (0.59) | | (0.74) | |
| *ROA*$_{it-1}$ | (+) | 1.6791 | * | 1.7260 | ** | 1.8467 | * | 1.9273 | ** |
| | | (1.87) | | (2.33) | | (1.93) | | (2.47) | |
| *LOSSD*$_{it-1}$ | (–) | -0.4255 | *** | -0.3348 | *** | -0.4229 | *** | -0.3267 | ** |
| | | (-3.02) | | (-2.57) | | (-2.85) | | (-2.42) | |
| *BTM*$_{it-1}$ | (–) | -0.0010 | | -0.0077 | | 0.0015 | | -0.0045 | |
| | | (-0.04) | | (-0.40) | | (0.06) | | (-0.23) | |
| *NegEqD*$_{it-1}$ | (–) | 0.1939 | | 0.0959 | | -0.1684 | | -0.1221 | |
| | | (0.65) | | (0.34) | | (-0.44) | | (-0.33) | |
| *SIZE*$_{it-1}$ | (+) | 0.3518 | *** | 0.1676 | *** | 0.3310 | *** | 0.1509 | *** |
| | | (6.86) | | (4.04) | | (6.20) | | (3.53) | |
| *CGD*$_{it-1}$ | (+) | 0.4511 | *** | 0.9891 | *** | 0.4591 | *** | 0.9845 | *** |
| | | (2.73) | | (6.96) | | (2.67) | | (6.70) | |
| *CharCont*$_{it-1}$ | (+) | | | | | 0.1489 | | 0.1885 | |
| | | | | | | (0.91) | | (1.26) | |
| Δ*CharCont*$_{it-1}$ | (+) | | | | | -0.0495 | | -0.1002 | |
| | | | | | | (-0.25) | | (-0.61) | |
| *Industry dummies* | | Yes | | No | | Yes | | No | |
| *Year dummies* | | Yes | | Yes | | Yes | | Yes | |
| *N* | | 19,000 | | 19,000 | | 16,880 | | 16,880 | |
| *Pseudo* $R^2$ | | 0.2996 | | 0.2035 | | 0.2915 | | 0.2002 | |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.
The dependent variable is *AwardW*$_{it}$ that is set to one for award winners when firms receive some awards for the first time. *AD*$_{it}$ is advertising expense, as a percentage of sales; *RD*$_{it}$ is research and development expense, as a percentage of sales. Refer to Table 2 for the definition of other variables.

**Table 7: Comparison of charitable contribution between award winners and non-winners: two-step approach**

| Variable | Pred. Sign | Dependent Variable (1) *CharCont* | | (2) Industry *CharCont* | Adj. | (3) ln(*CharCont*) | | (4) Industry ln(*CharCont*) | Adj. |
|---|---|---|---|---|---|---|---|---|---|
| *Intercept* | (+/–) | 0.1966 | *** | -0.0156 | *** | 0.1414 | *** | -0.0101 | *** |
| | | (11.11) | | (-5.03) | | (12.18) | | (-5.00) | |
| ***AwardD*** | **(+)** | **0.3488** | ******* | **0.1946** | ******* | **0.2427** | ******* | **0.1343** | ******* |
| | | **(14.88)** | | **(6.19)** | | **(15.90)** | | **(6.54)** | |
| *ROA* | (+) | 0.3077 | *** | 0.4760 | *** | 0.1920 | *** | 0.3148 | *** |
| | | (6.71) | | (10.89) | | (6.38) | | (10.99) | |
| *LOSSD* | (–) | -0.0298 | *** | 0.0061 | | -0.0248 | *** | 0.0015 | |
| | | (-6.30) | | (1.41) | | (-7.99) | | (0.54) | |
| *SIZE* | (+) | 0.0038 | * | 0.0180 | *** | 0.0046 | *** | 0.0145 | *** |
| | | (1.77) | | (8.66) | | (3.22) | | (10.68) | |
| *BTM* | (–) | 0.0007 | | 0.0015 | * | 0.0002 | | 0.0008 | |
| | | (0.90) | | (1.80) | | (0.44) | | (1.36) | |
| *NegEqD* | (–) | 0.0088 | | 0.0534 | *** | 0.0028 | | 0.0349 | *** |
| | | (0.72) | | (4.77) | | (0.35) | | (4.75) | |
| *LEVERAGE* | (–) | (0.0582) | *** | (0.1213) | *** | (0.0410) | *** | (0.0868) | *** |
| | | (-6.80) | | (-13.89) | | (-7.33) | | (-15.20) | |
| *CGD* | (–) | -0.1037 | *** | -0.0811 | *** | -0.0710 | *** | -0.0548 | *** |
| | | (-9.27) | | (-5.76) | | (-9.69) | | (-5.95) | |
| *Owner_LS* | (–) | -0.0336 | *** | -0.0114 | | -0.0212 | *** | -0.0049 | |
| | | (-3.70) | | (-1.27) | | (-3.58) | | (-0.83) | |
| *Owner_FRG* | (+) | 0.0593 | *** | 0.0668 | *** | 0.0463 | *** | 0.0534 | *** |
| | | (3.42) | | (3.83) | | (4.09) | | (4.68) | |
| *Owner_GOV* | (+) | 0.5866 | *** | 0.4293 | *** | 0.3782 | *** | 0.2566 | *** |
| | | (7.89) | | (5.55) | | (7.81) | | (5.08) | |
| *ChaebolD* | (+) | -0.0016 | | -0.0039 | | 0.0002 | | -0.0017 | |
| | | (-0.26) | | (-0.71) | | (0.05) | | (-0.48) | |
| *Industry dummies* | | Yes | | No | | Yes | | No | |
| *Year dummies* | | Yes | | Yes | | Yes | | Yes | |
| **1st Stage:** | | Dependent Variable: $AwardD_i$ | | | | | | | |
| *Intercept* | (+/–) | -4.6577 | *** | -1.7796 | *** | -4.6577 | *** | -1.7796 | *** |
| | | (-28.22) | | (-32.06) | | (-28.22) | | (-32.06) | |
| *AD* | (+) | 0.0365 | *** | 0.0358 | *** | 0.0365 | *** | 0.0358 | *** |
| | | (4.53) | | (4.72) | | (4.53) | | (4.72) | |
| *RD* | (+) | 0.0016 | | 0.0021 | | 0.0016 | | 0.0021 | |
| | | (0.31) | | (0.49) | | (0.31) | | (0.49) | |
| *ROA* | (+) | -1.0455 | ** | -1.3034 | *** | -1.0455 | ** | -1.3034 | *** |
| | | (-2.51) | | (-3.47) | | (-2.51) | | (-3.47) | |
| *LOSSD* | (–) | -0.0536 | | -0.1559 | *** | -0.0536 | | -0.1559 | *** |
| | | (-1.24) | | (-4.18) | | (-1.24) | | (-4.18) | |
| *BTM* | (–) | -0.0153 | * | -0.0158 | ** | -0.0153 | * | -0.0158 | ** |
| | | (-1.89) | | (-2.14) | | (-1.89) | | (-2.14) | |
| *NegEqD* | (–) | -0.1421 | | -0.1762 | ** | -0.1421 | | -0.1762 | ** |
| | | (-1.41) | | (-1.96) | | (-1.41) | | (-1.96) | |
| *SIZE* | (+) | 0.5066 | *** | 0.3046 | *** | 0.5066 | *** | 0.3046 | *** |
| | | (33.47) | | (25.96) | | (33.47) | | (25.96) | |
| *CGD* | (+) | 0.1703 | *** | 1.0609 | *** | 0.1703 | *** | 1.0609 | *** |
| | | (2.83) | | (25.26) | | (2.83) | | (25.26) | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Industry dummies* | | Yes | | No | | Yes | | No | | |
| *Year dummies* | | Yes | | Yes | | Yes | | Yes | | |
| *Lambda (λ)* | | -0.1673 | *** | -0.0839 | *** | -0.1162 | *** | -0.0579 | *** | |
| | | (-13.44) | | (-5.19) | | (-14.37) | | (-5.48) | | |

***, **, * denote significance at the 1%, 5%, and 10% level, respectively.
$AD_{it}$ is advertising expense, as a percentage of sales; $RD_{it}$ is research and development expense, as a percentage of sales. Refer to Table 2 for the definition of other variables.

Notes

[1] Consistent with extant literature, we define CSP as "a business organization's configuration of principles of social responsibility, processes of social responsiveness and policies, programs, and observable outcomes as they relate to the firm's societal relationships" (Wood, 1991). CFP is defined as value creation for firms, in particular from the shareholders' perspective. CFP is often measured by revenues, profits, stock returns, etc.

[2] There are studies that use a survey of the degree of media exposure to measure corporate reputation (e.g., Kotha *et al.* 2001; Roberts & Dowling, 2002).

[3] There are few studies that do not find a positive relationship. For instance, Seifert, Morris, and Bartkus (2003) find an insignificant relationship between CSP and CFP for US firms. Moreover, Makni *et al.* (2009) report a negative association between the environmental dimension of CSP and CFP for Canadian firms.

[4] Fombrun & Shanley (1990) use an estimate of corporate charitable contributions (page 246) but there is no detailed description of the method used for their estimates. When they include firms without annual sales segment data (an extended sample of 148 firms), they report a marginally significant effect of corporate giving on corporate reputation at the 10 percent level.

[5] Campbell & Slack (2006) measure public visibility by asking 500 British-national college students if they have 'heard of' each company in the list of FTSE 100 firms.

[6] For example, one of our six sample awards recognizes devising innovative financial products or services (*DasanFINAward*), and a second award specifically recognizes managerial innovations (*KCCI Award*).

[7] Detailed descriptions of the six awards are available upon request. We do not distinguish firm awards from CEO awards. According to the upper echelon theory (e.g., Hambrick & Mason, 1984), top managers have significant influences on the firm's strategic decisions. Particularly in Korea, owing to strong control of owner managers in many large firms and business groups known as *Chaebols* (Baek *et al.* 2004), CEOs are likely to serve as a synecdochic representation of firms. While we do not distinguish firm awards with CEO awards in our main analysis, we did examine each awards separately but the tenor of our overall results does not change: Among awards, KMA award (a firm award) and KCCI Innovation Award (a CEO awards) yields significant results (untabulated).

[8] There are 13 cases where two awards are conferred on a firm in a year.

[9] We have a similar result for industry-mean adjusted charitable contributions.

[10] We repeat the same analysis by restricting to firms that reported a positive amount of charitable contributions. The untabulated results are qualitatively similar to those in Table 6.

[11] Note that, because we exclude years after winning an award for award winners, equation (3) is not affected by the subsequent under-performance of award winners.