DOES CORPORATE GIVING SIGNAL FIRM QUALITY?

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Abstract

This study explores whether and how firms can use corporate giving strategically to signal firm quality. Drawing on signaling theory, we posit that managers could use unexpected cash giving to disseminate their private information on improvement in future corporate financial performance. Further, such signaling mechanism will only be effective when signals are interpreted as credible for quality. Our empirical analyses on a sample of U.S. firms with information on cash donation from the ASSET4 database during the period of 2002 to 2012 lend support for our signaling-hypothesis prediction: that positive unexpected cash giving by no or low dividend paying, high-growth, and well-governed firms is associated with improved return on assets (ROA) and increased excess risk-adjusted buy-and-hold returns.

Keywords: cash giving; signaling theory; firm quality; corporate financial performance; corporate philanthropy