Philanthropy, Corporate Culture and Misconduct

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Abstract

We use firms' philanthropic behavior as a means of estimating their corporate culture. We find that the decision to engage in philanthropy and the amount of giving are negatively associated with corporate misconduct. Our results persist after the Sarbanes-Oxley Act and are robust to differing approaches to defining misconduct. Our findings are consistent with firms' giving activities reflecting a culture that discourages misbehavior. Consistent with this result, we show that firms' philanthropic behavior is positively associated with employee whistle-blowing, and of the CEO being terminated upon fraud discovery. These results have implications to the wide-ranging effects of corporate culture.

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1. Introduction

The past decade has seen widespread corporate wrongdoing that has led to sweeping regulatory changes through the Sarbanes Oxley Act of 2002 (SOX) and recently through the passage of the Dodd-Frank Act. This has significantly impacted all public firms and made the understanding and mitigation of corporate wrongdoing a priority. A large recent literature has examined the role of the board of directors, executive compensation, institutional ownership, labor markets and the regulatory framework in mitigating corporate misconduct. However, there has been little attention devoted to the potential role of ethical norms and corporate culture in the decision to engage in misconduct. Corporate culture can be defined as the common set of assumptions, values, and beliefs shared by organizational members. Corporate culture manifests itself in norms, rituals and the individuals put forth by an organization as model citizens. It can provide the collective norms that influence and guide individual behavior (Trevino (1986), Ajzen (1991)). In this paper, we study corporate culture and its role in mitigating the likelihood of corporate misconduct.

Some recent literature has examined the role of corporate culture in the likelihood of financial misrepresentation. This literature uses regional-, county- or MSA-level proxies of religiosity to capture culture, and finds that firms headquartered in regions with greater religiosity are associated with lower rates of financial misconduct (see McGuire, Omar and Sharp (2012), Grullon, Kanatas and Weston (2010), and Dyreng, Mayhew and Williams (2010)). In this paper, we develop a firm level measure, rather than a regional measure of firm culture, that is based on a firm's philanthropic activities. Though firms give in many ways, the firm's foundation is usually the flagship of its philanthropic efforts. Our measure of corporate culture is based on firms' foundation giving decisions.

The median corporate giving was about 1.3% of pre-tax income in 2004 and was down to 0.91% of pre-tax income in 2010.[2] A vast literature has developed over time to study corporate giving. Successful corporate giving programs can increase a firm's name and brand recognition among important stakeholders. Fisman, Heal and Nair (2006) model the use of corporate philanthropy as a signal of trust where product quality is unobservable. Consistent with this, Varadarajan and Menon (1988) and Lev, Petrovits and Radhakrishnan (2010) find that corporate giving is associated with higher revenues and is thus more prevalent in industries where a firm's image is important to customers. If corporate giving is motivated by a desire to build trust and goodwill with customers, then this corporate culture with a high regard for firm reputation is also likely to be associated with employees and executives that are less likely to engage in corporate misconduct that jeopardizes this reputation. As wrongdoing is more costly for such reputation-sensitive firms, it is also likely to be less attractive for such firms.

In contrast to the above view, several recent studies argue that corporate giving is a manifestation of agency costs and reflects the personal preferences of the CEO or board members (see Werbel and Carter (2002), Brown, Helland and Smith (2006), Masulis and Reza (2012)). However, Campbell, Gulas and Gruca (1999) argue that this alignment of corporate giving to managers' preferences is to be expected. Corporate social responsibility arises from a sense of altruism or pro-social behavior. As these acts of altruism are often based on feelings of sympathy and or empathy (Bar-Tal, 1976), the motivation to give is likely to be influenced by how the cause is perceived by the manager. Therefore, it is not unreasonable to expect that managers incorporate their own attitudes and feelings of social consciousness when making corporate philanthropic decisions. In the end, as stated by Brown and Ferris (2004), "selfless or not, these acts involve a degree of compassion and commitment to others." This would suggest that if corporate giving represents agency costs, it nevertheless captures a managerial pro-social ethic and is also likely to be associated with lower misconduct. In summary, irrespective of whether

[2] See Committee Encouraging Corporate Philanthrophy's (CECP) report titled "Giving in Numbers" for the years 2004 and 2010. The 2004 numbers were based on a sample of 72 firms while that of 2011 were based on a sample of 181 firms.

agency or firm reputation is the rationale for corporate giving, such firms should experience a lower likelihood of misconduct.

Along with a high regard for firm reputation, corporate giving has also been shown to increase employee morale and productivity (Greening and Turban (2000)). Firms that engage in philanthropic activities are more likely to have a culture that empowers employees. This greater employee involvement is exemplified by the following: "Our giving starts with passionate employees who bring causes to the attention of the bigger Bazaarvoice team, and we donate to or match employee donations to these causes year-long through the Bazaarvoice Foundation."[3] As demonstrated by the quote, greater employee involvement arises from programs where firms match donations made by employees. The Committee Encouraging Corporate Philanthropy (CECP) argues that matching-gift programs can be instrumental in attracting and retaining employees and will foster goodwill and employee engagement. The CECP further reports that in 2010, 65% of the companies it examined conducted at least a part of the matching gift through their foundations.[4] Empowered, engaged and ethical employees are less likely to engage in wrongdoing and more likely to blow the whistle if they encounter questionable activities in the firm. We examine if a corporate culture associated with greater giving has higher likelihood of employee whistle blowing.

We also examine the role of the board of directors. A board that shares the culture of the firm is likely to act strongly in response to the discovery of misconduct in the firm. As misconduct by a firm with high corporate giving will be associated with greater customer and employee outrage, this will also compel the board of directors into stronger action. As mentioned above, recent studies have documented that large corporate giving programs often donate to charities supported by the board of directors. The

[3] For the full article see http://www.bazaarvoice.com/blog/2011/01/13/don%E2%80%99t-wait-to-build-a-corporate-culture-of-charitable-giving/

[4] The CECP reports that in 2010, 94% of the 170 companies it examined offered at least one matching-gift program where the firm matched donations by employees Among firms that reported breakdown of their matching programs about 65% of these conducted part of the match through the foundation. The matching programs include work place giving campaigns like United Way, year round giving, dollars for Doers, disaster Relief and other. See http://www.corporatephilanthropy.org/pdfs/giving_in_numbers/GivinginNumbers2011.pdf

ability of firms to contribute to giving priorities of directors would result in attracting and retaining directors that are engaged in pro social ethical behavior and likely concerned about their reputation in this regard. Such directors are more likely to take strong action against the CEO upon the discovery of the fraud. Note that we do not suggest that corporate giving in line with directors' causes is effective or value maximizing; rather, that it is likely associated with directors that are visible in philanthropic activities and thus more sensitive to loss of their reputation that arises from corporate misconduct. In summary, we examine if the board of directors at firms with high corporate giving are more likely to force CEO turnover after misconduct.

We use class action litigation filed over the period from 1996 to 2011 from the Stanford Class Action Clearinghouse to proxy for corporate wrongdoing. We collect data on the filing date as well as the beginning and end of the violation or class period. To examine if corporate culture impacts the decision of firms to engage in a violation, we use corporate giving through foundation. Corporate foundation giving data is obtained from Form 990-PF that the foundation is required to file with the IRS. As culture develops over time, it is likely a function of corporate giving over several years. To capture this fact that sustained corporate giving is likely to generate corporate culture, we use foundation giving in the five years prior to the violation year.

We find evidence that lagged corporate giving is associated with a significantly lower likelihood of engaging in misconduct. This result is robust to different ways of capturing foundation giving. Specifically, our results are robust to measures such as the use of past three years data on foundation giving instead of past five years, average annual giving instead of total giving, the use of dummy variables for giving, and using corporate giving for the entire sample period.

To shed light on the impact of corporate giving and its associated culture on the role of employees, we obtain data on whistle blowing by employees, collected from press searches over the sample period. This data was graciously provided by Andrew Call and has been analyzed in Bowen, Call

and Rajgopal (2010). We find that past corporate giving is associated with a significantly higher rate of whistle blowing by employees.

Lastly, we examine if corporate giving is associated with increased forced CEO turnover by the board. The data on forced turnover has been graciously provided by Dirk Jenter and spans the period 1995 to 2005 for ExecuComp firms. We find that firms are more likely to force CEO turnover in the three years after fraud. In line with our hypothesis, boards of directors at firms with a positive corporate culture that engage in wrongdoing are more likely to fire their CEOs.

In summary, we find that firms associated with higher foundation giving are more likely to have a whistle blowing event as well as higher propensity to fire a CEO subsequent to wrongdoing. This greater likelihood of discovery and greater cost of committing wrongdoing are reflected in a lower propensity of engaging in wrongdoing. In line with prior literature, our results are consistent with the view that firms with large philanthropic activities attract ethical executives that are less likely to engage in wrongdoing. However, our results for the first time also provide evidence of the existence of other channels in mitigating wrongdoing. In particular, we examine the role of culture in mobilizing employees and boards. We are one of the few papers that examine the channels through which culture impacts the likelihood of wrongdoing. Our findings that corporate giving reduces the likelihood of misconduct by increasing the likelihood of employee whistle blowing and the likelihood of forced CEO turnover after misconduct is new to the literature. We show for the first time that corporate culture mobilizes and enhances the potential role of employees and boards in mitigating misconduct.

2. Literature Review and Hypothesis Development

There is a growing literature that examines the effect of compensation, governance, capital market pressures and regulation on the likelihood of engaging in corporate misconduct. However, there has been little study of the role of corporate culture and ethics on the likelihood that firms engage in questionable activities. This is partly because it has been challenging to develop an empirical measure of corporate culture and ethics.

Several recent papers address this difficultly by using regional measures of culture. McGuire, Omer and Sharp (2012) find that firms located in religious MSAs are less likely to engage in financial irregularities. Similarly, Grullon, Kanatas and Weston (2010) and Dyreng, Mayew and Williams (2010) also use measures of local neighborhood religiosity and document a negative effect on financial misrepresentation. Liu (2012) uses another regional proxy for corporate culture. She captures corporate culture by using ancestry information to construct a county level corruption index. Liu (2012) documents that firms located in counties with stronger ethical norms as captured by their ancestry are likely to have lower discretionary accruals, option backdating and insider trading. However, as the measures of culture used are not captured at the firm level, it is hard to interpret these for a large fraction of firms that have significant operations outside the region where they are headquartered.

Hutton, Jiang and Kumar (2012) propose a firm level measure of culture – this is based on the political environment within a firm and its local neighborhood. Hutton et al. argue that political affiliation captures the ideological tilt of a firm towards Republican or Democratic Party and therefore the inclination towards certain types of misconduct. They find that democratic culture is less likely to be the subject of environmental, labor, or civil rights-related litigation. In contrast, Republican values are less likely to be the subject of litigation related to securities fraud and intellectual property rights violations. Though Hutton, Jiang and Kumar (2012) capture elements of culture at the firm level, they can only examine the relative propensity towards certain kinds of misconduct.

The measure of corporate culture used in this paper is based on corporate philanthropy. There is a large inter-disciplinary literature that examines corporate giving. One of the important rationales for corporate giving is that it can enhance a firm's public image and generate a favorable attitude towards the firm. Fisman, Heal and Nair (2006) model the use of corporate philanthropy as a signal of trust where product quality is unobservable. Consistent with this notion, Lev, Petrovits and Radhakrishnan (2010) find that corporate giving in higher in industries where a firm's image is important to customers. This increased visibility and reputation among customers leads to higher sales (see Varadarajan and Menon (1988), and Lev, Petrovits, and Radhakrishnan (2010)).

If corporate giving is motivated by a desire for high firm integrity and for building trust with customers, then it is likely to be associated with a culture that has high regard for firm reputation. These reputation concerns would be accompanied by corporate discouragement of activities that diminish firm goodwill. Bae and Cameron (2006) and Varadarajan and Menon (1988) document that customers become disenchanted with corporate giving and show a negative attitude towards the firm if they perceive the firm as exploiting a good cause. As discovery of corporate misconduct is associated with loss of firm reputation, the expected cost of engaging in corporate misconduct is higher for these reputation-sensitive firms that have spent much time and effort to build a positive firm image. Therefore, such reputation-sensitive firms are less likely to engage in misconduct.

Along with the above literature, there is also a large literature that attributes corporate philanthropy not to an enhancement in firm reputation but rather to agency costs. Specifically, Werbel and Carter (2002) find that corporate giving reflects CEO's personal interests and favorite charities, as measured by his membership in different non-profit organizations. However, this alignment of corporate giving to managers preferences is to be expected. As pointed out by Campbell, Gulas and Gruca (1999) corporate social responsibility arises from a sense of altruism or pro-social behavior. As these acts of altruism are often based on feelings of sympathy and or empathy (Bar-Tal, 1976) the motivation to give is likely to be influenced by how the cause is perceived by the manager. Therefore, it is not unreasonable to

expect that managers incorporate their own attitudes and feelings of social consciousness when making corporate philanthropic decisions. In the end, as stated by Brown and Ferris (2004), "selfless or not, these acts involve a degree of compassion and commitment to others." The manager's personal pro-social ethic is likely to affect his behavior and reduce the likelihood of his engaging in misconduct.

Such a role for executive's personal ethics in the firm's propensity to engage in wrongdoing is also supported by recent papers. Biggerstaff, Cicero and Puckett (2012) find that unethical executives are more likely to manage earnings. They identify unethical executives as those that engaged in prior stock option backdating. Davidson, Dey and Smith (2012) use an executive's past legal infractions, like driving under the influence, to capture unethical behavior. They find that this measure influences the executives's propensity for corporate misconduct. If corporate giving is a manifestation of the CEO's and other executive's pro-social ethic, it is likely to reduce their propensity to engage in corporate wrongdoing.[5] This leads us to our first hypothesis,

H1: Firms with a culture of corporate giving are less likely to engage in corporate wrongdoing.

Corporate philanthropy is likely to be important to another stakeholder, the employee. Corporate giving has been shown to increase employee morale and productivity (Greening and Turban (2000)). Corporate giving programs also help foster a sense of family and loyalty to the firm. As stated on Microsoft's website "*At Microsoft, giving is ingrained in our culture, a cornerstone of our citizenship, and as our employees will tell you, one of most rewarding – not to mention fun –aspects of our job."* Firms that engage in philanthropic activities are also more likely to have a culture that empowers employees. This greater employee involvement arises from programs where firms match donations made by employees.

[5] There is another rationale for a firm's philanthropic activities. Brown, Helland and Smith (2006) find that firms in regulated industries have large philanthropic activities. As these firms are regulated, Brown et al. argue that these firms' philanthropy are unlikely to gain customer goodwill and more likely to appease the regulators as a means of improving the regulatory climate. In this case, corporate giving neither reflects regard for firm reputation nor does it reflect managers' personal ethics. Therefore we exclude firms in regulated industries, i.e., financial and utility firms, from our sample.

If firms with large philanthropic programs have employees that have greater pride and loyalty to the firm, they are unlikely to engage in or help others with activities that diminish firm reputation. Trevino (1986) points out that organizations which foster individual responsibility, in this case through their involvement with philanthropic activities, are more likely to encourage moral actions by their employees. Therefore, empowered employees in firms with large corporate giving activities are more likely to blow the whistle when they encounter questionable activities in the firm. This leads us to our second hypothesis,

H2: Employees of firms with greater philanthropic activities are more likely to whistle blow.

If corporate giving programs are likely to attract and retain employees that care about social causes, they are also likely to have a similar effect in attracting and retaining non-management board-members. Large firms, for example the GE foundation, match directors' contributions to charities up to $100,000 annually. Further, GE also has a charitable award program where the firm will contribute $1 million to five charities designated by the director upon termination of the director's service. These are likely to be attractive to directors with interests in giving and a pro-social personal ethic. These philanthropic efforts focused on director's personal interests are likely not in the interests of the shareholders. However, it still represents a personal ethic by board member that is less likely to be associated with wrongdoing. Such directors with greater interests or visibility in the philanthropic world are also likely to be more sensitive to the loss of reputation that arises from the stigma of wrongdoing. This concern about personal reputation is also going to make them more vigilant and stricter on corporate misconduct. Therefore, directors of firms with large giving programs may be less forgiving of wrongdoing by management. We study this by examining forced CEO turnover after wrongdoing and hypothesize that it is likely be higher in firms with large giving programs. This is summarized in our last hypothesis,

H3: Firms with high corporate giving that engage in wrongdoing are more likely to force out their CEOs.

3. Data and Sample Description

Firms usually have well defined philanthropy programs that may involve foundations, direct giving, and company-wide volunteerism. A company-sponsored private foundation is a separate legal entity that is independent of the firm, though it maintains close ties with its sponsoring parent. Foundations often serve as the flagship of the corporate giving strategy. As foundations are tax exempt entities, they are required to disclose their activities to the IRS.[6] Thus, data on foundation giving can be collected for all firms that have set up foundations and can be tracked over time. In this paper, we use foundation giving to capture corporate philanthropic activities.[7]

Direct giving involves firms donating directly to public charities, and is thus controlled by firm-management. In contrast to foundation giving, direct giving programs are not subject to regulations, and data is available only through self-disclosure and surveys. We also collect data on direct giving when available, and report these results in a later section.

Our data on a firm's foundation giving is from several sources. We begin with data on foundation giving obtained from Petrovits that spans the years 1989 to 2000 and has been discussed in Petrovits (2006).[8] We then update Petrovits's (2006) foundation data from the 990-PF filings through 2010. For updating the data for new foundations, we obtain EINs for corporate foundations created after

[6] A private foundation must file Form 990-PF with the IRS annually among other requirements to maintain its tax-exempt status, The 990-PF requires foundations to disclose all contributions aggregating $5000 or more during the year. As the 990-PF filings are a matter of public record, the amount of the parent company's gifts to its foundation can be accessed.

[7] Petrovits (2006) argues that as managers have flexibility in transferring funds to corporate foundations, they time their contributions to smooth earnings and reduce accruals. As opposed to smoothening earnings, which are within GAAP mechanisms for earnings management, our paper examines corporate misconduct (i.e., activities not within GAAP).

[8] We thank Christine Petrovits for sharing her data with us.

1998 through the Foundation Center. These EINs are used to get foundation outlays from the National Centre for Charitable Statistics (NCCS), which extracts this data from each foundation's 990-PF. As we show in Table 1A, our sample consists of a total of 3,689 firm years with data on foundation giving. This contains 349 unique firms. On average, annual foundation giving is about $4 million dollars, though the median is much smaller at $1.24 million dollars.

We use the sample of firms that are subject to class action litigation obtained from the Stanford Securities Class Action Clearinghouse to proxy for firms that engage in misconduct. We extract the company name and match it to firm level data obtained from Compustat and CRSP. We collect data on the lawsuit filing date and include all litigations filed between 1996 and 2011. For each case, we collect data on the class period, i.e., the period over which the firm is alleged to have committed the violation. We classify a firm as engaging in a violation in a given year if the firm year belongs to the class period. The main dependent variable used in our tests, *Violation*, takes the value of one for firm-years where the firm is engaged in misconduct, and zero otherwise. As the class (violation) periods are before the litigation is filed, our final sample includes violation periods that span from 1994 to 2010.[9]

As can be seen in Table 1B there are 1,471 firms subject to litigation that are included in our sample, for a total of 2,720 firm-years in violation. As shown by prior literature, there is a high concentration of wrongdoing in 2000 and in some industries like business equipment (see Table 1C). Consequently, we control for time and industry fixed effects in all of our estimates. Our control sample consists of all firms in Compustat over the period 1993 to 2009.

Table 2 presents summary statistics of the firms that engage in misconduct, and of the control sample. As expected, firms in our litigation sample are significantly larger, as captured by market value of equity, than the control firms and have significantly lower leverage. In line with prior literature, firms

[9] We did not include class or violation periods before 1994 and after 2010 due to lack of availability of foundation giving data to estimate our models. We also include only the first litigation in instances that a firm has been sued multiple times over the sample period. We exclude firms that operate in regulated industries, i.e., financial and utility firms.

that engage in wrongdoing have higher growth – they have significantly higher market to book ratios, as well as higher sales growth. Finally, litigation firms' cash as a proportion of total assets is significantly higher than that of control firms, consistent with prior research documenting that firms with higher cash balances are more likely to be sued. We control for all of these firm characteristics that differ between the litigation firms and the control firms.

Next, we examine if foundation giving differs between the litigation and the control sample. As discussed above, we want to examine the corporate culture that is associated with giving. As culture is not built overnight and is thus likely to be created only with sustained corporate giving over time, our proxy is based on foundation giving over the past five years. In particular, we create a variable *Foundation5* which is the log of the sum of all dollars given through foundations in the past five years. Note that we do not scale foundation giving by firm size. Employees, customers and important stakeholders observe the firm's efforts for a cause and do not necessarily ask what fraction of the firm's revenue it is. The effort and the resulting goodwill are likely to be related to the dollar value of the program rather than what fraction of firm value it represents. As can be seen in Table 2, the mean value of *Foundation5* is 0.77 for the litigation sample and 0.59 for control sample, and the difference is significant. This is most likely because of firm size, as larger firms are more likely to be engaged in philanthropy and also engage in wrongdoing. Therefore, controlling for firm size, which we do in our multivariate analysis, is important for testing our hypotheses.

We create another variable to capture the incidence of foundation giving. The variable referred to as *GivingDum* takes the value of one if the firm gives in any of the past five years, and is zero otherwise. As seen in Table 2, 4.9% of violation firm years are associated with foundation giving. For our control sample, 3.8% of observations are associated with giving, and the difference is significant. Again, the somewhat larger proportion of giving-firms among the litigation sample is likely driven by firm-size, which we control for in the following section.

4. Empirical Analysis

In this section, we conduct multivariate analyses to test our first hypothesis that firms with high corporate giving are less likely to engage in corporate wrongdoing. The dependent variable is *Violation*, a dummy variable that takes the value of one if the firm year is part of the violation or class period. Our main variables of interest are the two giving variables, *Foundation5* and *GivingDum*. We also control for other firm characteristics that have been shown to impact the likelihood of class action litigation.

As larger firms are more likely to be subject to litigation, we first control for firm size by including log of the market value of equity, *Log(MarketValue)*. Firms that are close to violating debt covenants are more likely to engage in misconduct to avoid the penalties associated with the violations. We follow Richardson, Tuna, and Wu (2003) by including leverage as a proxy for closeness to debt covenant violations or costs of financial distress. *Leverage* is defined as the ratio of total debt to the market value of total assets. High growth opportunities have also been associated with higher wrongdoing (see Povel, Singh, and Winton (2003)). The market-to-book ratio and sales growth are included to control for a firm's growth opportunities. *MarketToBook* is defined as the market value of the firm divided by the book value of its assets, and *SalesGrowth* is defined as the one-period change in revenue.[10] Return on assets, computed using net income divided by prior year total assets, are included to control for profitability (*ROA*). We expect highly profitable firms to be less likely to engage in wrongdoing. We also include the scaled cash balance (*Cash/Assets*), as firms with large cash balances are more attractive candidates for litigation. Finally, we include year and industry dummies, due to the

[10] Specifically, the market to book value ratio is computed as the ratio of the book value of assets plus the market value of equity less common equity and deferred taxes, scaled by the book value of total assets.

significant industry and time trends in the litigation data.[11] Note that all control variables are computed using the data from one year prior to the violation, unless otherwise stated.

As displayed in Model 1 of Table 3, the coefficient of *Foundation5* is negative and significant. This suggests that a higher level of foundation giving is associated with a lower likelihood of wrongdoing. Results are similar in Model 2, when we use the foundation giving dummy *GivingDum*. The coefficient of this dummy is also negative and highly significant. A culture that is associated with giving, irrespective of the amount of giving, is associated with a lower likelihood of wrongdoing.

The results on the control variables are in line with the results documented by prior research. High growth firms, as captured by high sales growth, are more likely to engage in misconduct. Large firms are also more likely to engage in misconduct. However, there is no effect of leverage and firm profitability on the likelihood of misconduct. We find that firms with more cash are more likely to be subject to class action litigation. This is not surprising, as lawyers are likely to target firms that have a higher ability to pay damages.

4.1 Different measures of corporate giving

Our measures of corporate giving are based on the past five years of giving so that our measures capture a corporate culture that accompanies sustained giving. In this section, we explore the sensitivity of our results to our measure of corporate giving. To begin, we examine the role of time periods shorter than five years when aggregating corporate giving. In particular, we examine the effect of one year of giving, i.e., foundation giving in the past year (Model 1) and foundation giving in the past three years (Model 2). We find that changing the window over which we capture foundation giving makes little

[11] In specifications not reported in the paper we also included five day announcement returns on the filing date of the litigation. As the control firms that were not subject to litigation did not have any filing date, this variable was assigned a value of zero for these firms. The CAR was negative and not significant. Though this is an important variable to predict which firms that announce wrongdoing will be litigated, it is not likely to be important in separating clean firms from firms that engage in misconduct.

difference to our results – we continue to find a significantly negative association between foundation giving and the likelihood of wrongdoing. One reason for this is the fact that a firm's foundation giving is stable over time.

In the results reported, we examine the effects of total foundation giving over the prior years. We also test the robustness of our results to including average giving over a range of years instead of total giving over that same range of years. The results remain robust to these alternative specifications, and are omitted from Table 4 for brevity.

Lastly, we examine the robustness to using corporate giving over the entire sample period to proxy for corporate culture. We calculate the average annual corporate giving over the entire sample period from 1989 to 2009. In Model 3, we take average foundation giving over the full sample, and in Model 4 we use median foundation giving over the full sample. Our results remain robust to these additional specifications, consistent with our variables of interest being closely related.

4.2 The effect of SOX

The provisions of the Sarbanes Oxley Act of 2002 (SOX) significantly improved the external regulatory framework. Provisions in SOX also strengthened internal governance systems, making it more costly and difficult for firms to engage in wrongdoing. As SOX would result in less misconduct, it could result in a reduction in the importance of corporate culture in mitigating wrongdoing, especially if corporate culture is an alternate mechanism and substitute for the effects of SOX. Alternatively, the role of corporate culture in mitigating wrongdoing could be unchanged after the passage of SOX, assuming that ethical standards are ingrained in employees and management – in that case, the external monitoring provided by SOX is complementary to the positive corporate culture.

To study this effect, we estimate the effect of corporate giving separately in a pre-SOX subsample (from 1994 to 2002) and a post-SOX subsample (from 2003 to 2010). The results are provided in Table 5. The coefficient of *Foundation5* is significant both before and after SOX . Furthermore, the pre-SOX coefficient of -0.043 is not significantly different from the post-SOX coefficient of -0.035. Similar results are also seen for *GivingDum*. The results suggest that the passage of SOX has not diminished the role played by corporate culture in lowering the likelihood of wrongdoing.

4.3 Role of direct giving

Aside from giving through their foundations, firms can give directly as well. Data on direct giving is not required to be reported. We collect data on direct giving from multiple sources. The data analyzed in Petrovits (2006) includes the direct-giving data of 73 firms from 1989 to 2000, collected from the Taft Group directory of corporate giving. We supplement this direct giving data with a proprietary sample of firms' giving activities. This data was generously provided to us by The Chronicle of Philanthropy, and is the result of annual surveys completed by the top 300 firms in the Fortune 500.[12] The final data set that we use consists of direct giving data on 100 unique firms (488 firm-years), from 1989 to 2010.

The mean level of direct giving is about $23 million, whereas the median is much lower at $12.1 million. Consistent with survey data (GivingUSA Foundation, 2011) firms that give directly tend to give more through their direct-giving program than their sponsored foundations. We set firm-years with missing values of direct-giving (or firms that did not disclose direct-giving to our data sources) to have zero direct-giving. This creates a bias against finding significant results with our direct-giving variable. Direct-giving is defined as the log of one plus the prior year's value of direct-giving.

[12] The Chronicle of Philanthropy data is discussed in greater detail in Bereskin, Campbell, and Hsu (2012).

As can be seen in Table 6, including direct giving also negatively impacts the likelihood of wrongdoing. *LogDirectGiving* is significantly negative, consistent with direct-giving having a similar effect on fraud as foundation-giving. This result is interesting given the potential agency issues involved in direct-giving – despite firms having the ability to engage in rent-seeking through their firms' direct-giving activities, the result is nevertheless a firm-culture that is less likely to engage in fraud. In these regressions, our other variables remain as expected – in particular, our foundation-giving variables remain significantly negative, as expected.

4.4 Robustness with different proxies of wrongdoing

We have used class action litigation as our proxy for corporate wrongdoing. Litigation has been used as a proxy for corporate wrongdoing in several recent papers like Dyck, Morse and Zingales (2010), Peng and Roell (2008) and Call, Kedia and Rajgopal (2012). Despite its frequent use as a proxy for wrongdoing, there are some drawbacks with using class action litigation data. First, there is a possibility of frivolous lawsuits filed by opportunistic lawyers. Second, lawyers are more likely to file lawsuits against firms that have a greater ability to pay damages. Therefore, using class action litigation data raises the possibility that the sample of firms used is biased towards large, cash-rich firms that engage in wrongdoing.

In this section, we provide the results of robustness specifications to ascertain the sensitivity of our results to the above issues. First, we exclude all lawsuits that are eventually dismissed to control for the possibility of nuisance lawsuits. Doing so reduces the number of violation firm-years by 897. Note that we continue to include these firm years in our estimation, but now as control firms. The results for estimations that do not include dismissed cases are provided in Panel A of Table 7. Not including dismissed cases makes little difference to the results. We continue to find a negative significant relation between corporate giving and wrongdoing.

Second, to address the possibility that the use of class action lawsuits may lead to an over-representation of large and cash rich firms in our sample of wrongdoers, we use another proxy for wrongdoing. Specifically, we use the firms subject to SEC enforcement actions to identify those that engage in wrongdoing. As the SEC does not have the resources to investigate all wrongdoers, this sample is smaller than the litigation sample. However, it is likely to have lower error in identifying violators, i.e., firms engaged in wrongdoing. The SEC data has been used by several prior studies, notably Karpoff, Lee, and Martin (2008a, b). The data on SEC enforcement actions is the sample compiled by Karpoff, Lee, and Martin (2008a, b) and contains firms for which the SEC initiated an enforcement action from March 1978 through December 2009. In this paper, we examine all SEC enforcement actions initiated through December 2008, and include all violation periods for these firms from 1994.[13]

The dependent variable *Violation* takes the value of one if the firm year is part of the violation period, as identified by the SEC enforcement action. We have a total of 1,538 firm years that are classified as violation years with the SEC enforcement data (see Table 8). The results with this alternate measure of corporate wrongdoing are presented in Panel B of Table 7. The coefficients of both foundation giving (*Foundation5),* and the dummy for giving (*GivingDum*) are negative and significant. Consequently, the results show that a corporate culture of philanthropic giving is negatively associated with SEC enforcement actions as well.

5. Whistle Blowing and Corporate Culture

One aspect of the corporate culture associated with corporate philanthropy is employee motivation and involvement. As discussed above, corporate giving and matching programs are an important way for firms to attract and retain employees. Motivated and pro-social employees are more

[13] We are very grateful to Jonathan Karpoff, Jerry Martin, and Scott Lee for sharing their data on SEC enforcement with us. We only include SEC enforcements initiated through December 2008.

likely to whistle-blow and bring the wrongdoing to light, as we propose in Hypothesis 2. In this section, we explore the impact of a culture associated with giving on the tendency of employees to engage in whistle blowing.

The employee whistle blowing data has been graciously provided by Andrew Call and has been collected through a Lexis-Nexis search on every combination of the following two search terms: (1) "whistle," "whistle-blowing," "whistle-blower," and "whistle-blower," and (2) "financial," "accounting," and "fraud."[14] The final sample consists of 153 employee whistle-blowing events. To be consistent with our sample, we restrict it to the years 1994 to 2010.

To ensure that the whistle blowing is related to the violation in our sample, we check to see if the whistle blowing event was at a firm that was subjected to either a class action lawsuit or an SEC enforcement action. Moreover, we check to see if the whistle blowing event occurs after the beginning of the violation in our sample. In this case, our dependent variable takes the value of one. For all other violations that were not associated with a valid whistle-blowing event, our dependent variable takes the value of zero. Our dependent variable thus identifies which frauds are discovered from employee whistle-blowing, among all the firms that engage in wrongdoing.

Bowen, Call and Rajgopal (2010) study and identify several factors that influence whistle-blowing by employees. We control for several of these factors that are likely to influence the whistle blowing decision. High monetary rewards from whistle-blowing lead more employees to uncover cases of misreporting. These monetary incentives are high in *qui tam* cases. As 85% of *qui tam* cases deal with the healthcare or defense industry, our proxy for *qui tam* (*QuiTam*) takes value of one if the firm belongs to these industries (SIC codes 8000-8099 for healthcare, and SIC codes 3480-3489, 3760-3769, and 3795 for defense). Large firms (those with higher *Log(MarketValue)*) are more likely to be subject to whistle-

[14] We are very grateful to Andrew Call for sharing his data on whistle blowing. The data have been analyzed in Bowen, Call and Rajgopal (2010) and in Call, Kedia and Rajgopal (2012). This Lexis-Nexis search was performed for the years 1992 through 2010 and was augmented with the employee-based whistle-blowing events identified by Dyck, Morse, and Zingales (2010).

blowing because the media considers such allegations more newsworthy. Whistle blowing may also be more likely if the past performance of the firm appears high relative to employee's perception of its true performance (which is unobservable). Stock returns (*ExcRet*) and return on assets (*ROA*) in the year prior to the violation period are included to control for firm performance. Employees are more likely to blow the whistle if they have recently been laid off or if they feel insecure about their job because of layoffs at the firm (Luthans and Sommer, 1999). We use the change in the number of employees from the year prior to the violation period as our proxy for downsizing (*EmpGrowth*).

Whistle blowing is likely to be influenced by the quality of the employees. Highly qualified employees earning high wages and perks might be less likely to blow the whistle as they value their jobs more and have career concerns. To control for this human capital effect on whistle blowing, we include the log value of the R&D expenditures, *Log(R&D)*. We expect a lower likelihood of whistle blowing in firms with high R&D and human capital.[15]

As can be seen in the Table 9, a culture of greater giving is associated with a higher probability of whistle blowing events. This is true when using either measure of corporate giving. Consequently, our results imply that a culture that permeates employees is associated with a greater role of employees in external whistle blowing. We also find evidence that larger firms and those in the health care and defense industries are more likely to whistle-blow, based on the coefficient of our *QuiTam* variable being large and significantly positive.

6. Philanthropy and Forced CEO Turnover

Finally, we test Hypothesis 3 for whether the likelihood of forced CEO turnover after misconduct is more likely among firms with a culture of giving. Our data on forced CEO turnover is from Dirk Jenter

[15] Bowen, Call and Rajgopal also test whether capital market pressures, internal control systems and communication complexity influence whistle blowing by employees. They find no evidence that these factors are significant. We have therefore not included these variables in our estimation.

and covers the period from 1994 to 2005. This sample is based on the ExecuComp database and recognizes a CEO turnover in a year when ExecuComp reports a change in its CEO. This CEO turnover is then carefully classified as forced or voluntary by Jenter and Kanaan (2010).[16]

We include a dummy variable *RecentMisconduct* that takes the value of one if there was a class action litigation filed or SEC enforcement action against the firm in the past three years. As boards are more likely to force a CEO out after discovery of misconduct, we expect the coefficient of *RecentMisconduct* to be positive. The variable of interest is the interaction of *RecentMisconduct* with giving. As per Hypothesis 3, there should be a significantly greater likelihood of forced turnover after misconduct in a firm with a culture of corporate giving. We also include corporate giving to control for any direct effect philanthropy has on forced CEO turnover.

We include several control variables that are likely to impact forced CEO turnover. As a CEO is more likely to be forced out when the firm has poor performance, we control for both accounting performance (*ROA*) and stock performance (excess stock returns, or *ExcRet*) in the year prior to the turnover. We include sales growth and the market to book ratio to capture the growth opportunities for the firm. The greater the growth, the less likely the CEO is to be forced out. We also include market return (*MktRet*), as CEOs are less likely to be forced out in good periods. To control for whether the CEO is entrenched and can exercise influence over the board, we include CEO tenure and CEO ownership. The greater his tenure and ownership, the lower is the likelihood that he is forcibly removed.

We find significant evidence that CEOs are more likely to experience forced turnover after discovery of misconduct. The coefficient of *RecentMisconduct* is positive and highly significant in both specifications. In line with Hypothesis 3, we find that the likelihood of forced CEO turnover after

[16] We are grateful to Dirk Jenter for sharing his data on forced CEO turnover with this. The original data, analyzed in Jenter and Kanann (2010) is from 1993 to 2001. This was updated to 2005 by Dirk Jenter. Jenter and Kanann classify a departure as forced if press reports state that the CEO is fired, forced out, or retires or resigns due to policy differences or pressure. All other departures for CEOs above and including age 60 are classified as voluntary. All departures for CEOs below age 60 are reviewed further and classified by Jenter and Kanaan (2010) as forced if either the article does not report the reason as death, poor health, or the acceptance of another position (including the chairmanship of the board). For further details please refer to Jenter and Kanaan (2010).

misconduct is higher in firms with more corporate giving. This holds for both measures of giving. In line with prior literature, we find that CEOs are less likely to experience forced turnover in firms with good performance when the market has higher returns. Firms with greater sales growth and higher market to book are less likely to experience forced CEO turnover. CEOs with longer tenures are also less likely to be forced out.

7. Conclusion

Prior research has suggested that corporate culture is an important determinant of firm-behavior. However, one of the difficulties in this literature has been finding a measure that properly reflects the firm's culture. Measures of culture that rely on location tend to be fixed and do not take into account the geographic footprint of the firm. On the other hand, measures of culture that are based on CEO characteristics tend to be difficult to construct and restrict the analysis to decisions taken by the CEO or other top executives. In contrast to these measures, the measure of corporate culture used in our paper is based on a firm's philanthropic activities. This measure is identified at the firm level and captures changes in culture over time. Lastly, and importantly, culture as identified through philanthropic activities influences not just executives but also employees and directors and highlights their role in mitigating wrongdoing.

We find that relatively generous firms are less likely to be involved in financial misconduct, consistent with their philanthropic patterns reflecting a corporate culture that makes inappropriate behavior less likely. Moreover, our results hold even in the period following the Sarbanes-Oxley Act, suggesting that the effect of the culture persists even when there are significantly greater costs to engaging in misdeeds. Our philanthropy measures are also robust to alternative measures of misbehavior, such as various types of class-action litigation and SEC enforcement actions. Consequently, our results have implications for the literature on the causes and consequences of corporate misbehavior.

Crucially, we document channels through which corporate culture mitigates misconduct – its effects drive boards of directors' decisions to terminate CEOs associated with wrongdoing, and employees to whistle-blow when they become aware of inappropriate actions occurring at their firms. In this sense, we show that the effects of culture are broader than a measure tied to a single individual.

The role of philanthropy as our measure of corporate culture holds even though corporate giving programs may provide managers with the opportunity to engage in rent-seeking activities. Consequently, our study also contributes to the literature on the motivation and effects of corporate philanthropy.

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Table 1A
Summary Statistics on Foundation Giving

This table reports summary statistics on corporate giving through corporate-sponsored foundations over the sample period. The second column is the number of firms with non-zero foundation giving in each year. The third and fourth column is the mean and median of these foundations' giving in each year. The final row reflects the total number of foundation-years in our sample, the average of the mean value across all years, and the average of the median across all years, respectively.

Year	N(Foundation giving > 0)	Mean	Median
1993	220	4,113,049	1,478,365
1994	253	3,420,781	1,302,007
1995	256	3,276,201	1,298,067
1996	251	3,566,897	1,366,367
1997	246	3,766,291	1,312,740
1998	248	4,270,962	1,510,596
1999	239	4,864,390	1,500,000
2000	228	5,834,210	1,545,502
2001	197	4,066,654	1,177,996
2002	200	4,016,098	989,292
2003	201	3,655,982	1,024,986
2004	200	3,799,042	1,108,276
2005	208	4,443,363	1,169,581
2006	200	4,226,607	1,082,983
2007	191	4,167,364	1,076,247
2008	178	4,124,965	1,170,103
2009	173	3,117,294	934,703
	3,689	**4,042,950**	**1,238,106**

Table 1B: Litigation Sample

This table displays summary statistics for litigation data. The second column reflects the time trend in the class period for litigation filings from the Stanford Securities Class Action Clearinghouse Database filed from 1996 to 2010. The third column gives the total number of firm years in Compustat available for analysis. The fourth column is the percentage of firm years that are subject to litigation over our sample period.

Year	Litigation	Firm-years	Percentage of firms under litigation
1994	14	5,375	0.26%
1995	70	5,754	1.22%
1996	145	6,380	2.27%
1997	200	6,941	2.88%
1998	234	6,992	3.35%
1999	211	6,828	3.09%
2000	328	6,918	4.74%
2001	234	6,668	3.51%
2002	216	6,209	3.48%
2003	201	5,786	3.47%
2004	197	5,455	3.61%
2005	144	5,298	2.72%
2006	110	5,052	2.18%
2007	119	4,928	2.41%
2008	92	4,839	1.90%
2009	87	4,530	1.92%
2010	118	4,314	2.74%
	2,720	**98,267**	

Table 1C: Litigation across Industries

The industry classification is from Fama French 10 industries; financial and regulated firms are excluded.

Industry	Litigation	Firm-years	Percentage under litigation
Business Equipment	955	25,261	3.78%
Consumer Durables	86	3,197	2.69%
Consumer Non-Durables	162	7,026	2.31%
Healthcare	515	13,295	3.87%
Manufacturing	295	16,252	1.82%
Oil	71	6,020	1.18%
Other	313	14,840	2.11%
Retail	323	12,376	2.61%
	2,720	**98,267**	

Table 2: Summary Statistics of Litigation and Control Sample

This table measures the differences in means and medians of the explanatory variables that we use in our paper. A firm-year is in the litigation sample if the following year is part of the litigation class-period; all other sample firm-years are in the control sample. *Market Value of Equity* is the market value of the firm's equity, *Leverage* is total debt scaled by the market value of assets, *ROA* is net income scaled by assets, *MarketToBook* is the market to book value of assets, *Cash/Assets* is the book value of cash and short-term investments scaled by the book value of assets, *SalesGrowth* is the one-period change in revenue, *Foundation5* is the log of one plus the total value of foundation giving in the past five years, and *GivingDum* is a dummy that takes the value one if the firm's foundation giving is positive in any of the past five years. The t-statistics are provided for the differences in means and medians.

	Litigation Sample		**Control Sample**		**T-statistics for differences in**	
	Mean	Median	Mean	Median	Mean	Median
Market Value of Equity	5,510	508	1,812	89	-8.57	-38.76
Leverage	0.15	0.06	0.21	0.12	17.24	12.64
ROA	-2.04%	1.38%	-5.37%	0.92%	-16.33	-4.44
MarketToBook	3.31	2.29	2.49	1.57	-16.33	-23.48
Cash/Assets	0.27	0.17	0.21	0.10	-11.13	-12.59
SalesGrowth	0.44	0.14	0.24	0.05	-8.73	-19.66
Foundation5	0.77	0.00	0.59	0.00	-2.66	-2.88
GivingDum	4.9%	0.0%	3.8%	0.0%	-2.53	-2.82
Number of Observations	2,720	2,720	95,547	95,547		

Table 3: Model for Misconduct

The table displays results from logit estimations. The dependent variable is *Violation*, a dummy variable that takes the value one for years when the subsequent firm-year is in the class period. The sample includes all Compustat firms with available data from 1993 to 2009. *Foundation5* is the log of one plus the total value of foundation giving in the past five years, *GivingDum* is a dummy that takes the value one if the firm's foundation giving is positive in any of the past five years, *MarketToBook* is the market to book value of assets, *ROA* is net income scaled by assets, *Leverage* is the market value of leverage, *Cash/Assets* is the book value of cash and short-term investments scaled by the book value of assets, and *SalesGrowth* is the one-period change in revenue. Fama-French 10 industry and year fixed effects have been included in all estimations. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2
Foundation5	-0.040***	
	(-4.455)	
GivingDum		-0.621***
		(-4.194)
MarketToBook	0.082***	0.082***
	(8.437)	(8.416)
ROA	0.023	0.024
	(0.604)	(0.663)
Leverage	0.134	0.132
	(0.795)	(0.786)
Log(MarketValue)	0.354***	0.352***
	(30.236)	(30.146)
Cash/Assets	0.386***	0.387***
	(3.138)	(3.149)
SalesGrowth	0.105***	0.105***
	(8.940)	(8.954)
Constant	-11.013***	-10.984***
	(-38.580)	(-38.524)
Observations	98,267	98,267
Pseudo R2	10.64%	10.62%
Fixed-effects	Industry, Year	Industry, Year

Table 4: Robustness with Different Measures of Foundation Giving

The table displays results from logit estimations. The dependent variable is *Violation*, a dummy variable that takes the value one for years when the subsequent firm-year is in the class period. The sample includes all Compustat firms with available data from 1993 to 2009. *Lagged_1yearFoundGiv* is one plus the logged value of foundation giving in the prior year, *Lagged_3yearFoundGiv_Total* is the log of one plus total foundation giving in the prior three years, *FullSample_FoundGiv_Mean* (*FullSample_FoundGiv_Median*) is the mean (median) value of foundation giving over the whole sample. All other explanatory variables are defined as in Table 3. Fama-French 10 industry and year fixed effects have been included in all estimations. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2	Model 3	Model 4
Lagged_1yearFoundGiv	-0.044***			
	(-4.514)			
Lagged_3yearFoundGiv_Total		-0.042***		
		(-4.546)		
FullSample_FoundGiv_Mean			-0.049***	
			(-5.415)	
FullSample_FoundGiv_Median				-0.052***
				(-4.819)
MarketToBook	0.082***	0.082***	0.082***	0.082***
	(8.446)	(8.446)	(8.412)	(8.440)
ROA	0.024	0.023	0.022	0.023
	(0.622)	(0.613)	(0.524)	(0.579)
Leverage	0.133	0.133	0.134	0.135
	(0.788)	(0.792)	(0.796)	(0.799)
Log(MarketValue)	0.353***	0.353***	0.359***	0.354***
	(30.022)	(30.170)	(30.257)	(30.250)
Cash/Assets	0.384***	0.385***	0.376***	0.386***
	(3.120)	(3.126)	(3.050)	(3.139)
SalesGrowth	0.105***	0.105***	0.105***	0.105***
	(8.945)	(8.941)	(8.874)	(8.925)
Constant	-10.998***	-11.008***	-11.113***	-11.025***
	(-38.368)	(-38.510)	(-38.514)	(-38.587)
Observations	98,267	98,267	98,267	98,267
Pseudo R2	10.63%	10.64%	10.71%	10.67%
Fixed-effects	Industry, Year	Industry, Year	Industry, Year	Industry, Year

Table 5: The Effect of the Sarbanes-Oxley Act (SOX)

This table displays the impact of foundation giving in the Pre-SOX and post-SOX period. The pre-SOX period is from 1994 to 2002 and the post SOX period is from 2003. The dependent variable is *Violation* that takes the value of one if the firm year is part of the class period. All other explanatory variables are defined as in Table 3. Fama-French 10 industry and year fixed effects have been included in all estimations. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Pre-SOX		**Post-SOX**	
Foundation5	-0.043***		-0.035**	
	(-4.130)		(-2.345)	
GivingDum		-0.674***		-0.514**
		(-3.973)		(-2.082)
MarketToBook	0.088***	0.088***	0.057***	0.056***
	(7.820)	(7.804)	(3.090)	(3.077)
ROA	-0.049	-0.047	0.044***	0.043***
	(-0.872)	(-0.836)	(3.580)	(3.554)
Leverage	0.279	0.277	-0.263	-0.264
	(1.436)	(1.428)	(-0.878)	(-0.881)
Log(MarketValue)	0.372***	0.370***	0.320***	0.319***
	(25.644)	(25.590)	(17.430)	(17.402)
Cash/Assets	0.322**	0.323**	0.456**	0.457**
	(2.119)	(2.128)	(2.389)	(2.394)
SalesGrowth	0.107***	0.107***	0.101***	0.102***
	(7.579)	(7.589)	(4.821)	(4.827)
Constant	-10.814***	-10.787***	-10.241***	-10.214***
	(-33.977)	(-33.947)	(-22.959)	(-22.966)
Observations	63,851	63,851	34,416	34,416
Pseudo-R2	12.40%	12.39%	7.61%	7.59%
Fixed effects	Industry, Year	Industry, Year	Industry, Year	Industry, Year

Table 6: Impact of Direct Giving

This table examines the effect of direct-giving and foundation-giving on fraud. The dependent variable is *Violation*, a dummy that takes the value of one if the firm year belongs to the class period and zero otherwise. *LogDirectGiving* is the log of one plus the prior year's level of direct-giving. All other explanatory variables are defined as in Table 3. Fama-French 10 industry and year fixed effects have been included in all estimations. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2
Foundation5	-0.035***	
	(-3.765)	
GivingDum		-0.536***
		(-3.559)
LogDirectGiving	-0.030*	-0.032*
	(-1.764)	(-1.920)
MarketToBook	0.082***	0.082***
	(8.448)	(8.431)
ROA	0.020	0.021
	(0.488)	(0.520)
Leverage	0.142	0.142
	(0.841)	(0.838)
Log(MarketValue)	0.357***	0.357***
	(30.046)	(30.017)
Cash/Assets	0.385***	0.385***
	(3.122)	(3.129)
SalesGrowth	0.105***	0.105***
	(8.918)	(8.926)
Constant	-11.088***	-11.072***
	(-38.387)	(-38.376)
Observations	98,267	98,267
Pseudo-R2	10.67%	10.66%
Fixed-effects	Industry, Year	Industry, Year

Table 7: Alternate Measures of Wrongdoing

In Panel A, the dependent variable is *Violation,* that takes the value of one if the firm year is part of the litigation class-period and the litigation was not eventually dismissed. In Panel B, the dependent variable takes the value one if the firm year is part of the violation period, as identified by SEC enforcement actions. All other explanatory variables are defined as in Table 3. Fama-French 10 industry and year fixed effects have been included in all estimations. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Panel A: Excluding Dismissed Cases		Panel B: SEC data	
	Model 1	Model 2	Model 1	Model 2
Foundation5	-0.052***		-0.025*	
	(-4.150)		(-1.711)	
GivingDum		-0.794***		-0.393*
		(-3.819)		(-1.651)
MarketToBook	0.073***	0.073***	0.040**	0.039**
	(6.420)	(6.401)	(1.987)	(1.976)
ROA	0.000	0.002	0.016	0.017
	(0.002)	(0.030)	(0.247)	(0.269)
Leverage	0.252	0.251	0.383	0.381
	(1.223)	(1.216)	(1.501)	(1.494)
Log(MarketValue)	0.333***	0.331***	0.335***	0.334***
	(23.299)	(23.208)	(14.519)	(14.542)
Cash/Assets	0.362**	0.364**	-1.245***	-1.244***
	(2.361)	(2.375)	(-4.236)	(-4.236)
SalesGrowth	0.097***	0.097***	0.090***	0.090***
	(7.181)	(7.198)	(4.692)	(4.699)
Constant	-10.935***	-10.900***	-11.984***	-11.962***
	(-31.087)	(-31.037)	(-20.564)	(-20.604)
Observations	98,267	98,267	90,784	90,784
Pseudo R2	9.15%	9.12%	9.00%	8.99%
Fixed-effects	Industry, Year	Industry, Year	Industry, Year	Industry, Year

Table 8: Description of the SEC Enforcement Data

This table shows the distribution of SEC enforcement action over time. The violation period of SEC enforcements span the period 1994 to 2008.

Year	SEC Enforcement	Firm-years	Percentage of firms under SEC Investigation
1994	53	5,376	0.99%
1995	53	5,760	0.92%
1996	66	6,396	1.03%
1997	79	6,960	1.14%
1998	105	7,020	1.50%
1999	125	6,879	1.82%
2000	181	7,027	2.58%
2001	197	6,805	2.89%
2002	177	6,339	2.79%
2003	148	5,925	2.50%
2004	122	5,597	2.18%
2005	92	5,447	1.69%
2006	61	5,198	1.17%
2007	50	5,073	0.99%
2008	29	4,982	0.58%
	1,538	90,784	

Table 9: Corporate Giving and Employee Whistle Blowing

The dependent variable is a dummy that takes the value one if the firm experienced a whistle blowing event. The sample consists of firms subject to class action litigation or SEC enforcement action. *QuiTam* is a dummy variable that takes the value one if the firm is in the healthcare or defense industries, *EmpGrowth* is the growth rate in the number of employees in the year prior to the beginning of the violation, *ExcRet* is the 12-month market-adjusted stock return, *Log(R&D)* is the log of one plus R&D expenditure. All other explanatory variables are defined as in Table 3. T-statistics of robust standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2
Foundation5	0.045**	
	(1.960)	
GivingDum		0.708*
		(1.894)
MarketToBook	-0.062	-0.060
	(-0.831)	(-0.805)
ROA	4.266**	4.299**
	(2.442)	(2.460)
Leverage	0.871	0.882
	(1.023)	(1.041)
Log(MarketValue)	0.689***	0.693***
	(7.165)	(7.235)
QuiTam	1.644***	1.628***
	(3.137)	(3.061)
EmpGrowth	0.007	0.008
	(0.258)	(0.271)
ExcRet	-0.473	-0.477
	(-0.965)	(-0.975)
Log (R&D)	-0.031*	-0.031*
	(-1.654)	(-1.651)
Constant	-17.979***	-18.086***
	(-8.712)	(-8.780)
Observations	1,720	1,720
Pseudo-R2	25.65%	25.59%

Table 10: Corporate Giving and CEO Forced Turnover

The table displays results from logit estimations. The dependent variable is equal to one if the CEO experiences a forced turnover, and zero otherwise. *RecentMisconduct* is an indicator variable equal to one if the fraud was filed within the past three years, and zero otherwise. All other explanatory variables are defined as in Table 3. Fama-French 10 industry and year fixed effects have been included in all estimations. The sample includes ExecuComp firms from 1994 through 2005. T-statistics of firm-clustered standard errors are provided in parentheses, below the coefficient. *, **, and *** denote significant differences from zero at the 10%, 5%, and 1% levels, respectively.

	Model 1	Model 2
RecentMisconduct	1.172***	1.165***
	(8.749)	(8.676)
Foundation5	-0.009	
	(-0.764)	
LogGivingDum		-0.158
		(-0.897)
Foundation5 x RecentMisconduct	0.035*	
	(1.848)	
LogGivingDum x RecentMisconduct		0.603**
		(2.033)
MarketToBook	-0.110**	-0.109**
	(-2.188)	(-2.185)
ROA	-2.009***	-2.010***
	(-6.076)	(-6.084)
Leverage	0.371*	0.369*
	(1.678)	(1.670)
Log(MarketValue)	-0.104***	-0.103***
	(-3.246)	(-3.261)
Sales Growth	-0.760***	-0.761***
	(-2.845)	(-2.849)
ExcRet	-0.525***	-0.525***
	(-3.298)	(-3.299)
MktRet	-1.127*	-1.125*
	(-1.670)	(-1.668)
LogCEOTenure	-0.868***	-0.868***
	(-13.582)	(-13.581)
CEO ownership	-0.626	-0.626
	(-1.299)	(-1.300)
Constant	-0.018	-0.026
	(-0.026)	(-0.039)
Observations	15,273	15,273
Pseudo-R2	17.26%	17.28%
Fixed-effects	Industry, Year	Industry, Year