THE IMPACT ON FIRM VALUE FROM THE ANNOUNCEMENT OF CORPORATE CONTRIBUTIONS TO PLANNED PARENTHOOD

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ABSTRACT

Our research is the first event study to assess if there is an effect on shareholder wealth from a media announcement of corporate contributions to Planned Parenthood. The results of our study find a statistically significant positive reaction. Our conclusion is that companies who have clear corporate core values and who align their values with their shareholders when designing philanthropic policy will increase firm value with the announcement of support of Planned Parenthood. This finding is very important as it is evidence that it is essential for executives to establish strong corporate core values and to align their philanthropic policies accordingly.

Keywords: *Event Study, Corporate Philanthropy, Corporate Social Responsibility, Planned Parenthood, Abortion, Alignment Theory*

1. INTRODUCTION

Philanthropic corporate contributions are a very visible means of signaling company values which may align or diverge from stakeholders and investors. It is a form of virtue signaling identified by Gray, Sutterlin, Siegrist and Arval (2020). A misaligned or inappropriate donation by publicly traded companies can turn into a public relations catastrophe (Godfrey, 2005). This potential outcome is essential to assess and has motivated many firms toward the engagement of consultants to enhance corporate navigation of strategies directing philanthropic giving (Sibary, 2006). Some of the most hotly contested societal debates in recent years have forced managers to evaluate corporate contributions to organizations. Executives in the retail industry involved with manufacturing and/or selling guns have experienced negative publicity motivating undesirable changes (Alexander and Thomas, 2018). Endowment funds and public pension funds have been forced by stakeholders to value climate change strategies, reevaluating their investment in fossil fuels (Richardson, 2017). Support of the #MeToo or “Black Lives Matter” movements have created new opportunities (or quandaries) for companies to consider. No topic is more contested nationally than abortion and corporate managers have had to explore the effect of contributions to Planned Parenthood and its potential impact on firm value (Wulfson, 2001). Empirical studies find mixed results.

Alignment theory proposes that when the actions of a company are in accordance with its stakeholder values, then the collaborative corporate culture benefits firm value. An opportunity to test this theory occurs when a company’s management decision to make philanthropic contributions to Planned Parenthood is announced to the investing public. In this study we find the first date of the announcement of a company making contributions to Planned Parenthood is from an expose by 2ndVote, a conservative organization tracking corporate social and financial activism. Corporate philanthropic activism is one of the strongest signals of support for a social, political, or environmental issue today. We employ a traditional standard single index event model to test the significance of the reaction of investors to news of corporate philanthropic activism promoting Planned Parenthood. We find statistically significant positive benefits to firm value. We also use a newer, more advanced event study method, the Fama-French 3 Factor model (FF3), as a robustness check and find strong statistical confirmation. The evidence shows that corporate philanthropic activism promoting Planned Parenthood benefits firm value. These findings support alignment theory of corporate stakeholders.