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Give More, Spill More
Oil Industry Study Shows Negative Impact of Philanthropy

A new study on the negative impact of philanthropy found that the more philanthropic a petroleum company is the more likely it is to have oil spills.

The research published this week (September 15, 2018) in the Strategic Management Journal(SMJ) was conducted by Jiao Luo, Aseem Kaul, and Haram Seo, all of the Carlson School of Management, University of Minnesota. Borrowing a line from Macbeth, the study is called *Winning us with trifles: Adverse selection in the use of philanthropy as insurance.*

Firms that donate to social causes develop a reputation for being socially responsible. But, ask the authors, are philanthropic firms truly more responsible?

Prior research has shown that philanthropy serves as a form of reputation insurance: firms that undertake philanthropy accrue a moral reputation, which helps protect them when adverse events occur or negative information about the firm comes to light, because stakeholders are more apt to give the benefit of the doubt to firms they judge to be responsible or trustworthy.

“While prior work clearly establishes the potential for philanthropy to provide insurance-like benefits, the central assumption driving this effect—that philanthropic firms are more responsible, and therefore worthy of society’s trust—remains largely unexamined. This is a serious omission." write the authors. “We argue that firms that donate more may be more likely to do harm—those that expect to do harm later are likely to give more now, and those that know their reputation protects them may become less careful."

The researchers developed and tested a formal model of reputation insurance, focusing on the U.S. petroleum industry and oil spills from 2004 to 2011.

“Several factors make this a good context for our purpose,” write the authors. “First, oil spills are a frequent occurrence in the United States—our sample period saw an average of 883 spills a year, involving a total of 1.10 million barrels of oil spilled every year. . . Relatedly, U.S. oil companies are also among the most actively engaged in corporate philanthropy, with the firms in our sample donating a total of $105 million annually during our study period.”

Their findings confirmed the value of reputation insurance in that philanthropy diminishes the stock market’s negative relation to oil spills.

“However, we also find a positive association between a firm’s philanthropic donations and the subsequent amount and number of its oil spills, i.e., firms that give more, spill more,” write the authors. “Further analysis shows that the increase in spills is limited to those under the firm's control, such as those due to operator errors or equipment failures. It also shows that this effect is stronger where firms face less scrutiny, such as in states that are more politically polarized, or those that voted Republican in 2008."

The **Strategic Management Journal** (**SMJ**) is the official journal of the **Strategic Management Society (SMS)** and published by Wiley. The SMS is comprised of 3,000 academics, business practitioners, and consultants from 80 countries and focuses on the development and dissemination of insights on the strategic management process. SMJ, which publishes 13 issues per year, is consistently rated one of the top publications in the management area and publishes papers that are selected through a rigorous double-blind review process.

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