Can Corporate Philanthropy Deflect the Harm of Wage Inequality on Customer Satisfaction and Firm Reputation?

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Abstract

Firms maintain or even raise wage inequality between top managers and their employees. Surprisingly, this happens despite the harmful effect of wage inequality on customer satisfaction and mandates to disclose wage inequality, eventually putting firm reputation at risk. Rooted in signaling theory, the authors examine whether firms use strategic signals—corporate philanthropy—to moderate the adverse impact of wage inequality on customer satisfaction and a firm's reputation risk. The empirical study uses multi-source longitudinal panel data from a cross-industry sample of U.S. firms. Results show that corporate philanthropy can cancel out the adverse impact of wage inequality on customer satisfaction and reputation risk. Investing in philanthropy may allow firms to maintain wage inequality without repercussions on customer satisfaction and firm reputation. These findings have important implications for researchers, managers, and shareholders to manage the adversities of wage inequality.

Keywords

Wage inequality, Corporate philanthropy, Customer satisfaction

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