

Do Markets Reward CSR Firms? Evidence From Target Beating Behavior

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ABSTRACT

This paper examines the performance consequences of missing analyst forecasts for CSR and non-CSR firms. First, we show that in the group of firms that miss analyst forecasts, comparing with non-CSR firms, CSR firms experience lower negative price revision, proxied by 3-day returns surrounding the release of the earnings announcement. Second, we find that in the group of firms that miss the target, CSR firms that have a larger proportion of long-term investors receive a lower penalty. Finally, we show that CSR firms undertake less short-sighted actions, proxied by earnings management, to achieve the target. Overall, the results suggest that CSR builds goodwill that helps to prevent negative market expectations regarding future firms' prospects and, thus, mitigate negative price revisions in the case of target missing.

Keywords: Corporate Social Responsibility, Target Beating, Analyst Forecasts, Investment Horizon.

JEL Codes: G30, M41

1 Introduction

While beating analyst forecasts is associated with managerial short-termism and myopia (Graham et al., 2005; Bhojraj et al., 2009) little is known on how corporate social responsible (CSR) shapes firms' incentives to meet and beat earnings targets. The objective of this paper is to address this question.

There is abundant empirical evidence in the accounting and finance literature suggesting that a disproportional number of firms meet or slightly beat analyst consensus earnings forecasts (MB) (Degeorge et al., 1999; Payne and Robb, 2000; Brown, 2001; Matsumoto, 2002; Burgstahler and Eames, 2006; Bhojraj et al., 2009). With regard to target beating incentives, prior literature emphasizes the role of a negative price revision¹ even for marginal target missing (Bartov et al., 2002; Bhojraj et al., 2009) as well as the moderating role of compensation (Matsunaga and Park, 2001; McAnally et al., 2008; Jia, 2013; Bennett et al., 2017) and ownership structure (Quinn, 2018). Other research highlights the role of CSR in shaping relations with stakeholders (Godfrey et al., 2009; Lev et al., 2010) and in making real economic decisions (Kim et al., 2012; Hoi et al., 2013). Nonetheless, the role of CSR in the target beating process is not yet fully understood and empirical evidence concerning the impact of CSR is minimal.

Following prior literature we define CSR as voluntary, stakeholder-oriented actions that (1) aimed to improve social and environmental conditions, (2) are not required by the law, and (3) extend beyond firm's profit maximization (Godfrey et al., 2009; Bénabou and Tirole, 2010; Liang and Renneboog, 2017). Building on this definition, we split firms into CSR and non-CSR firms. The reason why we focus on CSR firms is twofold. First, CSR firms may have different investors

¹Throughout the draft, we use negative price revision and penalty interchangeably.

that are less critical of short-term performance (Eccles et al., 2014; Serafeim, 2015). Second, high reputation of CSR firms and strong connection with stakeholders may help to prevent negative market expectations regarding future prospects (Godfrey et al., 2009; Lins et al., 2017; Shiu and Yang, 2017) and, thus, mitigate negative price revisions in the case of target missing.

The primary argument for why CSR firms may have lower penalty when they miss an earnings target is that latters appear to be more long-term oriented and thus, may attract long-term investors that are less critical of short-term goals. Eccles et al. (2014) show that CSR firms are more long-term oriented and consistently engage with stakeholders over the long-period. Serafeim (2015) argues that firms that provide integrated reporting are more likely to attract long-term investors, as the latest value information about long-term firms' prospective. Anecdotal evidence supports this view. Consider Unilever and its former CEO, Paul Polman, who is known for his vision of environment and socially responsible business. Mr. Polman announced in 2012 that he was not going to make decisions to improve short-term stock prices by stop issuing quarterly guidance.² After three years as a CEO in Unilever, the holding by speculative hedge-funds went down from 15% in 2009 to less than 5% in 2012.³

Regarding reputation motives, several empirical papers emphasize high ethical standards in CSR firms that help to improve trust with stakeholders. Prior literature suggests that corporate culture has an impact on real economic decisions including incidents of earnings management (Kim et al., 2012) and tax avoidance (Hoi et al., 2013). In their survey study, Graham et al. (2005) show that managers believe that target missing is associated with uncertainty about firms' future

²The New York Times (November 29th, 2018) <https://www.nytimes.com/2018/11/29/business/unilever-ceo-paul-polman.html>

³The Guardian (April 24th, 2012) <https://www.theguardian.com/sustainable-business/paul-polman-unilever-sustainable-living-plan>

prospects and is a signal of previously unknown problems and, thus, leads to penalty. If high reputation and stronger connections with their stakeholders help CSR firms to reduce this threat we may expect that CSR firms receive a lower penalty when they miss their earnings targets. Stein (1989), using a “signal-jamming” model, suggests that in equilibrium, the market anticipates a certain amount of earnings inflation and incorporates this information in the earnings forecast. If market participants have less concerns regarding accounting quality in CSR firms, they may react less negatively to the news about a CSR firm missing the target. This assumption is consistent with the studies on the insurance role of CSR against idiosyncratic (Godfrey et al., 2009; Shiu and Yang, 2017) and systematic (Lins et al., 2017; Albuquerque et al., 2018) risk. Specifically, using 2008-2009 financial crises as a proxy for a crisis of trust between firms and their stakeholders, Lins et al. (2017) show that CSR firms had higher stock returns than their non-CSR counterparts. In other words, the “insurance” perspective implies that high social capital maps into stronger relationship with stakeholders which has positive real effect during a crisis.

Given the above arguments, overall, we expect that CSR firms that miss earnings target have lower negative price revision because of their high reputation that maps into stronger connection with stakeholders and reduces the threat of previously hidden negative information that has impact on firms’ prospects.

Regarding the rewards for MB, prior literature provides conflicting evidence. There is a conjecture that “the market hammers the stock price when the firm fails to meet the target, but stock price is relatively insensitive to the degree to which the target is exceeded” (Graham et al. (2005), p.43). This may lead to a hypothesis that when firms beat the target the reward for this is relatively homogeneous among all firms regardless of firms’ specific characteristics including

being a CSR firm. [Bartov et al. \(2002\)](#) show that the market reward for beating the forecast is smaller by a statistically, but “economically minor” amount when earnings or expectation management were used. A potential explanation is that investors have limited ability to detect earnings management at the earnings announcement day. In contrast, [Gleason and Mills \(2008\)](#) show that markets reward for target beating is smaller if the firm only beat the forecast because it decreased tax expense as these actions are more visible to market participants at the earnings announcement date. The extend to which CSR is visible for market participants and creates a goodwill for target-beating firms is not trivial. In addition, not all CSR practices may always be valuable.⁴ Therefore, the extend to which the market reward for target beating is an open empirical question that we test in this study.

Following the research design proposed by [Bhojraj et al. \(2009\)](#) we focus primarily on two groups of firms that miss analysts forecast: firms that have high and low CSR performance. We use these two subsamples to yield the best contrast between the penalty for CSR and non-CSR “misers.” Further, we partition at the CSR level group of firms that MB the target to test whether CSR firms receive an extra reward for target beating. We get information on CSR from the KLD database, which has been used extensively in prior research to operationalize the CSR construct ([Kim et al., 2012](#); [Di Giuli and Kostovetsky, 2014](#); [Flammer, 2015](#); [Lins et al., 2017](#)).

Using the partition between CSR and non-CSR firms that miss analyst forecasts, we show that CSR firms have lower negative price revision proxied by 3-day returns surrounding the release of the earnings announcement. In the long run, we show that CSR firms outperform non-CSR counterparts within the group of “misers,” by computing buy-and-hold abnormal returns for 3, 6, and

⁴Not all CSR practices may be equally valuable for investors. For example, employee satisfaction may be valuable for investors because it leads to superior financial performance ([Edmans and Liu, 2011](#)). However, charity marathon may not be relevant for investors and, thus, do not provide the same “insurance” protection.

12 months after earnings announcement date. Further, we show that the positive effect of CSR is stronger for firms with a prevailing proportion of long-run institutional investors, measured by Brian Bushee's classification.⁵ This result is consistent with our conjecture that CSR firms have a certain type of investors that are less critical of the short-run financial performance.

For the "reputation" hypothesis we test whether CSR firms have better accounting quality, as a proxy for firms' commitment to high ethical standards in communication with their stakeholders. Consistent with Kim et al. (2012), we find that CSR firms, on average, have lower level of earnings management in both, target-missing and target-beating cases. This result is consistent with the hypothesis that commitment to high ethical standards helps CSR firms to establish stronger and trusting relationships with stakeholders which, in turn, pays off in the time when CSR firm miss the target. In this case, stakeholders have less concerns regarding firms' future prospects and, thus, penalize less for target missing. However, according to Bartov et al. (2002), higher accruals quality does not guarantee higher reward for target beating to CSR firms. We turn to the target beating case next.

With regard to target beating, we do not find evidence that CSR firms receive an extra reward for exceeding analysts' earnings expectations. This result is consistent with Lins et al. (2017) evidence that CSR pays back in a bad but not in a good time. This result indicates that the better market reaction for CSR firms is limited to the target missing, which is somewhat consistent with Graham et al. (2005) conjecture that market is less responsive for target beating. Further, this result draws attention to "insurance" role of CSR that has been previously discussed in the literature (Godfrey, 2005; Godfrey et al., 2009; Lins et al., 2017).

⁵Bushee's personal website for institutional investor classification data, <http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html>.

In this study, we examine the potential impact of CSR on the negative price revision after the firm misses the forecast. CSR reflects a firm choice, and this choice may correlate with some unobservable firm characteristics that also affect the penalty for “missers.” For instance, high CSR performance may correlate with good corporate governance and the latter may affect the severity of penalty for “missers.” We address this empirical challenge by following [Flammer and Kacperczyk \(2016\)](#) methodology and applying the enactment of constituency statutes as a plausibly exogenous shock for CSR. Using 2SLS approach with predicted values of CSR as an instrument, we find that firms with higher CSR performance, because of enactment of the law, experience lower negative price revision in the time when they miss the forecast. This result is consistent with the notion that investors in CSR firms value firms’ long-term strategy and are less critical of short-term financial targets.

Our study relates to the large body of literature on target beating behavior, which focuses on the phenomenon that the number of firms marginally beating expectations exceeds the number of firms marginally missing ([Bhojraj et al., 2009](#)). In particular, a survey study by [Graham et al. \(2005\)](#) shows that CFOs believe that the market would penalize them for missing the target even for a small margin and thus, are ready to sacrifice long-run performance in order to achieve the benchmark. However, [Skinner and Sloan \(2002\)](#) show that this penalty is not homogeneous for all firms, and in particular, growth stocks receive asymmetrically high penalty for missing the target. We contribute to this literature by providing evidence that CSR firms have lower incentives to engage in target beating behavior as their investors are less critical of short-term targets.

We also extend research on the insurance role of CSR. This literature argues that CSR provides insurance benefit against idiosyncratic risk ([Godfrey et al., 2009](#); [Shiu and Yang, 2017](#)) and

systematic risk (Albuquerque et al., 2018) as the 2008-2009 financial crisis (Lins et al., 2017). Our results highlight the insurance benefit of CSR and show how investors adjust their beliefs about “missers” prospects with differing attitudes toward CSR.

To the best of our knowledge, ours is the first paper to study whether CSR firms that miss their earnings targets receive lower market penalty. The closest study to ours is that of Dhaliwal et al. (2012), which differs fundamentally from ours. Dhaliwal et al. (2012) focus on the question of whether issuance of stand-alone CSR reports provides additional information to the market and whether this information is useful for the analysts. The authors show that firms with stand-alone CSR reports have lower analyst forecast error, concluding that non-financial CSR information reduces information asymmetry between a firm and the market. Our study focuses on the question of whether investors perceive CSR “missers” differently, thereby allowing CSR firms to undertake long-term projects.

The paper proceeds as follows. Section 2 reviews the relevant literature and develops hypothesis. Section 3 describes the data collection procedure and variable measures. Section 4 discusses main results. Section 5 provides additional tests. Finally, section 6 concludes.

2 Literature Review and Hypothesis Development

2.1 Motivation for target beating behavior

Prior literature suggests that managers undertake actions to avoid small negative earnings surprise (Degeorge et al., 1999; Burgstahler and Eames, 2006). To explain why managers attempt to meet earnings benchmarks, researchers have studied CEO compensation (Matsunaga and Park, 2001;

McAnally et al., 2008; Jia, 2013; Bennett et al., 2017) and ownership (Quinn, 2018) structure, and capital market consequences of missing benchmarks (Skinner and Sloan, 2002; Graham et al., 2005; Frankel et al., 2010).

From markets perspective, as first documented by Ball and Brown (1968), a positive relation between earnings and stock returns is well known in the literature. Further research shows that independent of the firms absolute performance and controlling for earnings management practices and expectations management, markets still reward firms for target beating and penalize for target missing (Bartov et al., 2002; Bhojraj et al., 2009). Survey research by Graham et al. (2005) suggests that CFOs believe that markets would penalize them for missing analyst forecast even for a small amount and thus, are ready to sacrifice long-run performance in order to achieve the benchmark. CFOs claim that achieving earnings target helps to build credibility with the market. Further, Frankel et al. (2010) show that missing the target increases the information demands of investors, proxied by the length and tone of earnings conference calls. This result is statistically, but not economically significant, supporting the idea that just missing the forecast entails little incremental investor-driven cost⁶. However, the magnitude and the severity may vary depending on firms' specific characteristics.

For instance, Skinner and Sloan (2002) show that asymmetrically large negative stock return for growth firms that miss the forecast is explained by analysts' optimism (i.e., their overestimation of earnings). Thus, we can hypothesize that there is a heterogeneity in terms of how markets penalize different firms for target missing. Further, we explore whether CSR firms have different penalty for target missing and at what extend it depends on investors' investment horizons.

⁶however, from the equilibrium point of view, the result means either investor-relations cost is minimal or the firms that miss the target are the only firms for which investor-relations cost is low. In other words, those firms for which this cost is high already either manipulate earnings or forecast to achieve the target.

2.2 CSR and target missing

Certain types of shareholder structure may affect the shareholders' (short- and long-term) investment behavior. For instance, [Bushee and Noe \(2000\)](#) show that firms with a prevailing percentage of "transient"⁷ investors are likely to cut R&D spending to meet earnings target, which reflects their short-sighted investment behavior. [Serafeim \(2015\)](#) shows that long-term shareholders tend to prefer to buy and hold shares in firms that provide integrated reporting,⁸ since these firms tend to provide more information about their long-term prospects. In addition, [Riedl and Smeets \(2017\)](#) argue that socially responsible investors have a longer investment horizon. Taken together, these findings may suggest that CSR firms may have a different shareholder structure which contributes to lower market penalty for target missing.

The range of results on the performance of socially responsible investments (SRI) in the existing literature varies widely,⁹ from little difference between SRI and conventional funds in the US and the UK ([Bauer et al., 2005](#)) to the finding that SRI funds underperform conventional funds in Continental Europe and Asia-Pacific ([Renneboog et al., 2008a](#)). However, SRI have experienced a strong growth in Continental Europe and Asia-Pacific ([Renneboog et al., 2008a](#)) which can reasonably suggest that some investors are willing to forgo a positive net present value in order to achieve their personal values related to social responsibility. In this vein, [El Ghouli and Karoui \(2017\)](#) show that compared to low-CSR funds, high-CSR funds have lower performance and lower performance-flow relationship. [Bollen \(2007\)](#) shows that SR funds have lower volatility, which confirms that comparing with conventional funds, investors are more loyal for poorly

⁷those holding lots of stocks with high turnover and short holding periods

⁸disclosing CSR performance has to be associated with CSR performance

⁹For extensive literature review follow [Renneboog et al. \(2008b\)](#)

performing SR funds. Potentially, good reputation and high ethical standards in CSR firms can explain the existence of more loyal investors. We discuss it next.

Godfrey (2005) argues that corporate philanthropy can generate a positive moral capital among stakeholders and, later on, this reputation can serve as an “insurance” protection. In this vein, using a set of 1384 firm-related negative events, Shiu and Yang (2017) show that accumulated social capital serves as an insurance and protects stock and bond prices of CSR firms during a time of crisis. Similarly, Lins et al. (2017) argue that when there is an overall lack of trust between firms and their stakeholders, CSR firms perform better due to accumulated social capital that prevents a drop in the level of trust. The authors show that during the 2008-2009 financial crisis, compared to non-CSR firms, CSR firms raised more debt and had higher stock returns, profitability, growth, sales per employee. According to “signal-jamming” model by Stein (1989), because the market forecast already includes a certain level of earnings manipulations, missing the target is considered as a strong signal of firms’ low future prospects and, thus, penalized by the markets. If CSR firms have stronger reputation for constraining myopia and short-termism, target-missing may signal absence of target-beating behavior, rather than poor future prospects. Consistent with this conjecture, Kim et al. (2012) show that CSR firms are associated with lower level of earnings management as an outcome of high ethical standards. Moreover, Bhojraj et al. (2009) show that firms that miss the target but do not engage in earnings management, in the long run, outperform counterparts that beat the target but engage in earnings management. Thus, we can reasonably assume that the market would assign lower penalty for target-missing for CSR firms.

Overall, if CSR firms have a shareholder structure that is biased towards long-run investment

horizons, CSR firms will be penalized less for target missing, as long-run investors are less concerned about short-run targets. Further, the reputation for high ethical standards that have impact on real economic decisions can serve as an insurance and mitigate markets' penalty for target missing to CSR firms. Given this premise, we take the logical next step of investigating the potential consequences of target missing for CSR firms and formulate the following hypothesis:

H1: *CSR firms that miss their forecast have smaller negative price revision comparing with non-CSR counterparts.*

2.3 CSR and target beating

Prior literature provides conflicting evidence on target-beating rewards for CSR firms. Survey study by [Graham et al. \(2005\)](#) shows that CFOs have conjecture that markets significantly decrease stock prices for target missing, but markets stay relatively insensitive to the extent to which firms beat the target. If markets are less sensitive to target beating, CSR may not provide extra reward for exceeding analyst forecasts. [Bartov et al. \(2002\)](#) show that market reward for beating the forecast is smaller by a statistically, but “economically minor” amount when earnings or expectation management are used. The authors argue that this minor response could be due to the models that are used to estimate expectation management. Alternatively, managers may have limited ability to detect the extent of earnings management on the earnings announcement day. In this vein, [Gleason and Mills \(2008\)](#) argue that tax expense manipulations are more visible to market participants at the earnings announcement date and thus, the reward has to be lower. The authors show that the premium for forecast beating is smaller if the firm only beats the target be-

cause of decreasing tax expense. Overall, it is not straightforward to predict from prior literature whether CSR is visible for market participants and whether the latter value CSR performance for firms that beat the target. We formulate the following as our second hypothesis:

H2: *CSR firms that meet/beat their forecast have the same positive price revision comparing with non-CSR counterparts.*

3 Data and Sample Selection

3.1 Firm-level data

We begin with CSR data that is obtained from MSCI (formerly KLD). KLD provides information about social performance along dimensions such as corporate governance, community, diversity, employee relations, environment, and product. KLD covers the largest 3000 U.S. publicly traded companies by market capitalization and is used in numerous studies to measure CSR performance (e.g., [Hong and Kostovetsky \(2012\)](#); [Kim et al. \(2012\)](#); [Flammer \(2015\)](#); [Lins et al. \(2017\)](#)).

We obtain accounting data from Compustat and financial data from CRSP. Consistent with the previous research (e.g., [Bhojraj et al. \(2009\)](#) [Kim et al. \(2012\)](#); [Lins et al. \(2017\)](#)) we remove financial firms from our sample (SIC codes 6000-6999). We obtain both forecast and reported earnings from I/B/E/S to ensure consistency ([Bhojraj et al., 2009](#)). All continuous variables are winsorized at the top and bottom 1 percent of their distributions. Although the exact number of observations depends on the specific regression, the baseline sample for which we estimate the equations contains 1045 firm-year observations for the period 2000 - 2015.

3.2 Measurement of CSR and earnings surprise

3.2.1 CSR measures

To construct continuous CSR proxy (CSR_SCORE), we follow [Kim et al. \(2012\)](#) and from strength-related measures we subtract concern-related ones among five dimensions: environment, community, employee relations, diversity, and product. In 2010 the industry-based key issue rating model was introduced to KLD. To mitigate this potential problem we scale each KLD dimension by the maximum value of this dimension in that given year.

We also use dummy variable for high CSR_SCORE such that High_CSR takes the value of one if the firm exhibits a net KLD score (CSR_SCORE) beyond the median of its industry in that given year.

3.2.2 Earnings surprise

Following prior research (e.g., [Bhojraj et al. \(2009\)](#)) we refer to firms that miss expectations (the last analyst consensus forecast before earnings announcement or target) by one or two cents as “missers,” firms that exactly meet expectations as “meeters,” and firms that beat by one or two cents as “beaters.”¹⁰ We use firms that miss or beat by only one or two cents because we are interested in maximizing the likelihood that a firm that misses (beats) would have beaten (missed) the target if it had (had not) cut some of its CSR projects. Following [Bissessur and Veenman \(2016\)](#) we use unscaled earnings surprise per share, rather than scaled earnings numbers because market participants are mainly concerned with unscaled earnings numbers.

¹⁰Our conclusions are unchanged if we use five cents threshold.

3.3 Empirical Model

To capture the relation between market penalty (reward) for target missing (target meeting and beating) and CSR, we estimate the following baseline models:

$$\begin{aligned} CAR(-1, +1) = & \beta_0 + \beta_1 CSR_SCORE_Miss + \beta_2 CSR_SCORE_Meet_Beat \\ & + \beta_3 CONTROLS + \epsilon_t, \end{aligned} \quad (1)$$

$$\begin{aligned} CAR(-1, +1) = & \beta_0 + \beta_1 High_CSR_Miss + \beta_2 High_CSR_Meet_Beat \\ & + \beta_3 Low_CSR_Miss + \beta_4 CONTROLS + \epsilon_t, \end{aligned} \quad (2)$$

$$\begin{aligned} CAR(-1, +1) = & \beta_0 + \beta_1 High_CSR_Miss + \beta_2 High_CSR_Meet_Beat \\ & + \beta_3 Low_CSR_Meet_Beat + \beta_4 CONTROLS + \epsilon_t, \end{aligned} \quad (3)$$

where $CAR(-1, +1)$ is the cumulative abnormal return over the three-day window centered on the earnings announcement date, and the abnormal return is calculated as the raw stock return minus the CRSP value-weighted market return.¹¹ CSR_SCORE_Miss is the interaction term between CSR_SCORE and the dummy variable $miss$ that equals 1 if earnings surprise is -1 or -2, and 0 if earnings surprise is 0, 1 or 2. $CSR_SCORE_Meet_Beat$ is the interaction term between CSR_SCORE and the dummy variable $meet_beat$ that equals 1 if earnings surprise is 0,

¹¹The results are similar when we use Fama-French Three Factor Model and Fama-French Four Factor Model.

1 or 2, and 0 if earnings surprise is -1 or -2. *High_CSR_Miss* (*High_CSR_Meet_Beat*) is interaction between dummy variable *High_CSR* and dummy variable *miss* (*meet_beat*); *Low_CSR_Miss* (*Low_CSR_Meet_Beat*) is interaction between dummy *Low_CSR* and dummy variable *miss* (*meet_beat*). *CONTROLS* is a set of lagged firm-level standard controls such as firm size, market-to-book, return on assets, leverage, and cash holdings. We use year and industry (two-digit SIC) fixed effects and adjust the standard errors by a two-dimensional cluster at the firm and year levels.

In eq.1, we use a continuous proxy for CSR (*CSR_SCORE*), while in eq.2 and 3, we use dummy variables *High_CSR* and *Low_CSR*. In eq.2, we test whether CSR firms that miss the target receive higher reward than non-CSR firms that meet or beat the target. In eq.3 we test whether CSR firms that miss the target receive lower penalty than non-CSR firms that miss the target. If CSR firms receive lower penalty for missing the target, we would expect lower initial stock price reaction to earnings news. Therefore, we predict that the coefficient on the interaction term between CSR proxy and *miss* will be positive ($\beta_1 > 0$).

4 Results

4.1 Descriptive statistics

In Table 1, we present descriptive statistics for selected variables. All variables are defined in Appendix A. On average, firms in our sample have more concerns than strengths (*CSR_SCORE* mean is -0.103), consistent with prior research (e.g., Kim et al. (2012)). In our baseline sample, 43% of firms are classified as high CSR (*High_CSR* mean is 0.43), which implies that they

exhibit a net KLD score beyond the median of their industry in that given year. Out of those 977 observations, 27% present an EPS figure that falls short of the expected analyst median consensus by a maximum of 2 cents. On the other hand, 73% of firm-year observation exhibit actual EPS that are equal to the analysts' consensus or at most 2 cents beyond that. Out of that 73%, 33.56% of observations lie at the analysts' consensus and 66.44% exceed such consensus by at most 2 cents. The cumulative abnormal returns are on average close to zero in the market adjusted model, the Fama-French 3 factor model, and the Fama-French 3 factor model plus momentum, whereas firms exhibit on average larger market values compared to book values, low leverage levels, high liquidity and moderately positive operating performance. Table 2 presents Pearson correlations.

4.2 Main specification

Table 3 presents the main results. The table shows 3-day returns surrounding the release of the earnings announcement, for CSR and non-CSR firms that miss or meet/beat (MB) the target. From Columns 1 to 3 we use a continuous measure of CSR (CSR_SCORE) as: STRENGTHS - CONCERNS. Miss is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just below the median analyst consensus. Miss_Beat is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just above or on the median analyst consensus. As can be seen, as firms that miss the target increase CSR the market reduces the penalty those firms would receive. From Columns 4 to 9 we use High_CSR as a measure of CSR, which is defined as a dummy variable that takes the value 1 whenever a firm shows a CSR_SCORE score that is above the industry-year median.

From columns 4 to 6 we compare firms that have a high level of CSR and miss earnings targets with firms that have low CSR but meet or beat earnings targets. This comparison represents that of [Bhojraj et al. \(2009\)](#) when they compare firms with high accrual quality that miss earnings targets and firms that MB and have low accrual quality. We find that the first group (firms that miss and have high CSR) show larger levels of $CAR[-1,1]$ compared to the second group. From columns 4 to 6 we compare firms that have a high level of CSR and miss earnings targets with firms that have low CSR and also miss earnings targets. This comparison represents our main hypothesis. As shown, the first group (firms that miss and have high CSR) show larger levels of $CAR[-1,1]$ compared to the second group, albeit this result is not very strong. In untabulated test, we we examine the future performance of CSR and non-CSR firms that miss the target. Following [Bhojraj et al. \(2009\)](#) we calculate portfolio-matched buy-and-hold abnormal returns (BHARs) for 3months after the earnings announcement date.¹² There is some evidence that CSR missers outperform non-CSR missers at the 3-month interval. Again, these results suggest that comparing with non-CSR firms, CSR-firms are more long-term oriented and thus, these firms are more likely to underperform in the short-run but outperform in the long-run.

5 Additional Analysis

5.1 Effect of long-term institutional investors and high reputation

The above results provide evidence of a lower penalty for CSR firms for missing the target. Further, we show that CSR firms do not receive an extra reward for MB the target, indicating that

¹²To compute BHARs we follow eq. 2, p.2371, in [Bhojraj et al. \(2009\)](#)

CSR pays off only in the crisis periods serving as an “insurance” protection. These results are consistent with at least two not mutually exclusive interpretations: either CSR firms have a greater percentage of long-run investors, who are less critical of short-term financial targets, or/and CSR firms have better reputation that helps to prevent markets’ negative expectation regarding firms’ future prospects.

That being said, the usefulness of CSR as an “insurance” in the short-run likely depends on the proportion of long-oriented investors who focus on the long-run performance. In particular, [Eccles et al. \(2014\)](#) show that CSR firms are more long-term oriented and implement processes that consistently engage with stakeholders over the long-term. [Edmans \(2011\)](#) shows that firms with highest employee satisfaction (as an alternative proxy for CSR) earn superior long-run returns. Consequently, we should observe that among the group of CSR firms that miss the target, firms with a greater proportion of long-oriented investors receive the lowest penalty.

We measure long-term institutional investors with Brian Bushee’s classification of “transients”, “quasi-indexers”, and “dedicated holders”, depending on the number of stocks in an investor’s portfolio and its average holding period ([Bushee and Noe, 2000](#)). To examine whether lower penalty is at least partially explained by the fact that long-term investors are less critical of short term targets, we estimate the following regressions:

$$\begin{aligned}
 CAR(-1, +1) = & \beta_0 + \beta_1 CSR_Miss_LT + \beta_2 CSR_Meet_Beat_LT \\
 & + \beta_3 CSR_Miss_ST + \beta_4 CSR_Meet_Beat_ST \\
 & + \beta_5 CONTROLS + \epsilon_t,
 \end{aligned} \tag{4}$$

$$\begin{aligned}
CAR(-1, +1) = & \beta_0 + \beta_1 High_CSR_Miss_LT + \beta_2 High_CSR_Miss_ST \\
& + \beta_3 High_CSR_Meet_Beat_LT + \beta_4 High_CSR_Meet_Beat_ST \quad (5) \\
& + \beta_5 Low_CSR_Miss_ST + \beta_6 Low_CSR_Meet_Beat_LT \\
& + \beta_7 Low_CSR_Miss_LT + \beta_8 CONTROLS + \epsilon_t,
\end{aligned}$$

$$\begin{aligned}
CAR(-1, +1) = & \beta_0 + \beta_1 High_CSR_Miss_LT + \beta_2 High_CSR_Miss_ST \\
& + \beta_3 High_CSR_Meet_Beat_LT + \beta_4 High_CSR_Meet_Beat_ST \quad (6) \\
& + \beta_5 Low_CSR_Miss_ST + \beta_6 Low_CSR_Meet_Beat_LT \\
& + \beta_7 Low_CSR_Meet_Beat_ST + \beta_8 CONTROLS + \epsilon_t,
\end{aligned}$$

where independent variables of interest are constructed as triplet interaction between CSR proxy (continuous in eq.4 and dummies in eq.5 and 6 as defined before), dummy variable *miss* or *meet_beat*, and proxy for long (*LT*) and short (*ST*) investors. All variables are defined in Appendix A. We use the same set of control variables as in eq.1-3. In eq.5, we test whether CSR firms that miss the target and have a proportion of long term investors that is above the median in a given year have higher reward than non-CSR firms that meet or beat the target but have proportion of long term investors that is below the median in a given year. In eq.6, we test whether CSR firms that miss the target and have an above-the-median proportion of long term investors in a given year have lower penalty than non-CSR firms that miss the target and have proportion of long term investors that is above the median in a given year. If lower penalty for CSR firms is (partially) explained by the fact that they have a higher proportion of long-term

investors, we expect CSR firms with majority of long-run investors to receive the lowest penalty for missing earnings target. Therefore, we predict that the coefficient of the triplet interaction will be positive ($\beta_1 > 0$).

Table 4 reports the results separately for “quasi-indexers”, and “dedicated” institutional investors. The results suggest that CSR firms that miss earnings target and have higher proportion of long-term institutional investors experience lower negative price revision than counterparts.

As pointed out above, another plausible explanation of lower penalty for CSR firms is that stakeholders have higher trust in these firms and, thus, do not consider failing the target as a signal of poor firms’ prospects. In contrast, investors may consider CSR firms that marginally miss the target as the most ethical firms because these firms do not undertake myopic actions to avoid missing the target. In practice, it is generally difficult to find a setting in which we can test the level of trust and tightness of relationship between firms and their stakeholders. However, we can test whether CSR firms that miss the target refrain from myopic actions that would help to achieve the target. For instance, [Bhojraj et al. \(2009\)](#) argue that managers engage in earnings management (EM) to avoid small negative earnings surprise. If CSR firms that miss the target have lower level of EM we can reasonably assume that adhering to transparency helps CSR firms to establish stronger connection with their stakeholders. Then, similar to [Lins et al. \(2017\)](#), we can assume that stakeholders would treat more favorable CSR firms that miss the target than non-CSR counterparts.

To estimate this relationship we use the following model:

$$EM = \beta_0 + \beta_1 High_CSR_Miss + \beta_2 High_CSR_Meet_Beat + \beta_3 Low_CSR_Miss + \beta_4 CONTROLS + \epsilon_t, \quad (7)$$

where dependent variable EM is a proxy for earnings management and is either AAC, ABS_DA, AB_EXP, AB_CFO, AB_PROD, or REM. All variables are defined in Appendix A.

Table 5 presents the results from multivariate regression analyses of discretionary accruals (columns 1 and 2) and real activities manipulation (RAM) (columns 3-6). We report results using signed and absolute value of discretionary accruals (AAC and ABS_DA, respectively). Following Roychowdhury (2006), we have three individual proxies for RAM (AB_EXP, AB_CFO, AB_PROD) and a combined proxy for RAM (REM). For the regressions of AB_EXP and RAM , the estimated coefficient for High_CSR_Miss is negative and significant. Further, High_CSR_Miss is negatively and significantly associated with abnormal production variable, AB_PROD. These findings indicate that in contrast to non-CSR firms that miss the target, CSR firms that miss the target engage in earnings management less. Overall, this result gives us indirect evidence, that CSR firms may have higher ethical standards that help to strengthen the relations with stakeholders which, in turn, helps to mitigate negative market expectations when they miss the target.

5.2 Analyst following

The above findings provide evidence of a lower negative price revision for CSR firms in the time when these firms miss the target. Further, we find that among all firms that miss the target, CSR firms with the majority of long-term institutional investors receive the lowest negative price revision. To provide more granularity in our results, we repeat our analyses depending on the number of analysts that follow a firm.

Several recent studies argue that just missing earnings target is more severe for firms with a greater number of analysts (Frankel et al., 2010; Graham et al., 2017). We use the same empirical identification as in eq.3-6, but instead of high/low proportion of long-run institutional investors we use the level of analyst following. We construct variable *High_An* (*Low_An*) as a dummy variable that takes the value 1 whenever a firm's number of analysts is higher (lower) than the median of a given year, industry and total assets' quartile. The results in Table 6 suggest that among all the firms that miss the target, CSR firms with low number of analyst following receive the lowest negative price revision.

5.3 The likelihood to miss, beat or meet analysts' targets

So far, we have argued that comparing with non-CSR firms, CSR firms are less penalized for missing earnings target. In other words, CSR firms have less incentives to engage in target beating behavior as these firms receive a lower penalty for missing. Given this result, we take the logical next step and test whether CSR firms are more (less) likely to miss (beat) the target.

The results in Table 7 show that CSR firms have higher (lower) propensity to miss (beat)

earnings target. This result is consistent with the hypothesis that CSR firms do not engage in target beating behavior.

5.4 Dividends

Thus far, the results suggest that CSR firms receive lower penalty for missing earnings target. Further, we show that CSR firms, comparing with non-CSR counterparts, have higher likelihood to miss the target. Overall, these results are consistent with the hypothesis that investors treat CSR firms differently, presumably because of different investment horizons or (and) because of their closer relations and higher trust in CSR firms.

Another possible reason for receiving lower penalty could be that CSR firms use alternative channels to establish stronger connections with investors to ensure lower penalty for missing earnings target. For instance, [Bhattacharya et al. \(1979\)](#) argue that dividends can serve as a signal of expected cash flow. Further, shareholders that constantly receive higher dividends may be less critical of earnings targets. Untabulated results show that CSR firms do not have different dividends, repurchases, and total and net payout yield. This result provides additional support for the hypothesis that CSR itself is an important determinant for investors, rather than that CSR firms have different communication channels with their stakeholders.

5.5 Instrumenting CSR with Other Constituency Acts

In this study, we examine the potential impact of CSR on negative (positive) price revision in the time when a firm misses (beats) analyst consensus forecast. The results provided above indicate that in the group of firms that misses the target, CSR firms are penalized less in terms of negative

price revision. However, finding a positive impact of CSR on negative price revision may be spurious if such a relationship is driven by unobserved firm characteristics that improve CSR performance and mitigate negative market reaction to missing the target. In other words, CSR reflects a firm choice, and this choice may correlate with some unobservable firm characteristics that also affect negative price revision. To obtain a consistent estimate of the impact of CSR on the magnitude of negative price revision, we follow [Flammer and Kacperczyk \(2016\)](#) methodology and apply 2SLS approach with predicted values of CSR as instrument.

Following [Flammer and Kacperczyk \(2016\)](#), we apply enactment of constituency statutes in 34 states between 1984-2006 as a quasi-natural experiment. This law allows managers to consider not only shareholders', but also stakeholders' interests when making business decisions. We apply a differences-in-difference approach to estimate the effect of constituency statutes on negative price revision. [Table 8](#) presents the results of this estimation. These findings confirm the previous result that in the group of firms that miss the target, CSR firms are exposed to lower negative price revision. Further, the results in even columns show that in the group of firms that miss the target, comparing with non-CSR firms, CSR firms do not receive extra rewards. This result is consistent with the hypothesis that CSR serves as an "insurance" and pays off only in the times of crisis.

6 Conclusion

This paper examines whether CSR affects penalty (reward) for missing (beating) analyst consensus forecast. Extending existing theories, we argue that first, investors in CSR firms, on average, have long-term investment horizon and thus are less critical of short-term financial performance,

including target beating. Second, CSR firms have closer relations with their stakeholders, which ensures that when CSR firms miss the target, stakeholders have less concerns regarding future prospects and, thus, penalize these firms less.

To empirically test this theoretical prediction, we compare CAR of CSR and non-CSR firms that barely miss, meet or beat analyst forecast. We show that in the group of firms that miss the target, comparing with non-CSR firms, CSR firms experience a less severe negative price revision. However, in the group of firms that MB the target, CSR firms do not receive a superior reward. This result is consistent with the hypothesis that CSR serves as an “insurance” protection and thus pays off only in times of crisis.

APPENDIX A: Variable Definitions

Variable	Variable Definitions
Dummy Variables	
<i>miss</i>	Dummy variable equals 1 if a firm miss the last analyst consensus forecast before earnings announcement (forecast, hereafter) by 1 or 2 cents and 0 if a firm exactly meet or beat the forecast by 1 or 2 cents (IBES).
<i>beat</i>	Dummy variable equals 1 if a firm beat the forecast by 1 or 2 cents and 0 if a firm exactly meet or miss the forecast by 1 or 2 cents (IBES).
<i>meet</i>	Dummy variable equals 1 if a firm exactly meets the forecast and 0 if a firm miss the forecast by 1 or 2 cents or beat the forecast by 1 or 2 cents (IBES).
<i>meet_beat</i>	Dummy variable equals 1 if a firm exactly meet or beat the forecast by 1 or 2 cents and 0 if a firm miss the forecast by 1 or 2 cents (IBES).
CSR Variables	
<i>CSR_SCORE</i>	Net score of CSR ratings, measured as total strengths minus total concerns in five social rating categories of KLD ratings data: community, diversity, employee relations, environment, and product.
<i>High_CSR</i>	Is a dummy variable equals 1 for firms that have <i>CSR_SCORE</i> that is above the median withing industry (2-digit SIC) and year and 0 otherwise.
<i>Low_CSR</i>	Is a dummy variable equals 1 for firms that have <i>CSR_SCORE</i> that is below the median withing industry (2-digit SIC) and year and 0 otherwise.

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Variable	Variable Definitions
<i>STRENGTHS</i>	Net score of CSR ratings, measured as sum of total strengths in five social rating categories of KLD ratings data: community, diversity, employee relations, environment, and product.
<i>CONCERNS</i>	Net score of CSR ratings, measured as sum of total concerns in five social rating categories of KLD ratings data: community, diversity, employee relations, environment, and product.
Earnings Management Variables	
<i>AAC</i>	Signed discretionary accruals, where discretionary accruals are computed through the cross-sectional modified Jones model adjusted for performance (Kim et al., 2012).
<i>ABS_DA</i>	Absolute value of discretionary accruals, where discretionary accruals are computed through the cross-sectional modified Jones model adjusted for performance (Kim et al., 2012).
<i>AB_CFO</i>	The level of abnormal cash flows from operations (Kim et al., 2012).
<i>AB_PROD</i>	The level of abnormal production costs, where production costs are defined as the sum of cost of goods sold and the change in inventories (Kim et al., 2012).
<i>AB_EXP</i>	The level of abnormal discretionary expenses, where discretionary expenses are the sum of R&D expenses, advertising expenses, and SG&A expenses (Kim et al., 2012).
<i>REM</i>	$REM = AB_PROD - AB_CFO$.
Control Variables	

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Variable	Variable Definitions
<i>LT</i>	Is a dummy variable equals 1 for firms that have average number of long-term investors (following Bushee and Noe (2000) we define “quasi-indexers” and “dedicated holders” as long-oriented investors) that is above the median in a given year and 0 otherwise.
<i>ST</i>	Is a dummy variable equals 1 for firms that have average number of long-term investors (following Bushee and Noe (2000) we define “quasi-indexers” and “dedicated holders” as long-oriented investors) that is below the median in a given year and 0 otherwise.
<i>High_An</i>	Is a dummy variable that takes the value 1 whenever a firm’s number of analysts is higher than the median of a given year, industry and total assets’ quartile.
<i>Low_An</i>	Is a dummy variable that takes the value 1 whenever a firm’s number of analysts is lower than the median of a given year, industry and total assets’ quartile.
<i>SIZE</i>	Natural logarithm of the market value of equity (MVE) (Kim et al., 2012).
<i>MB</i>	Market-to-book equity ratio, measured as MVE/BVE, where BVE is the book value of equity (Kim et al., 2012).
<i>ADJ_ROA</i>	Industry-adjusted ROA, where ROA is measured as income before extraordinary items, scaled by lagged total assets (Kim et al., 2012).
<i>LEV</i>	Long-term debt scaled by total assets (Kim et al., 2012).
<i>RD_INT</i>	R&D intensity (R&D expense/net sales) for the year (Kim et al., 2012).

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Variable	Variable Definitions
<i>AD_IND_INT</i>	Advertising intensity for the two-digit SIC code industry for the year (Kim et al., 2012).
<i>CH</i>	Cash holding is the ratio of cash and short-term investments to the book value of assets (Flammer, 2015).
<i>ROA</i>	Is the ratio of income before extraordinary items to the book value of assets (Flammer, 2015).
<i>ROE</i>	Is the ratio of income before extraordinary items to the lagged Common/Ordinary Equity-Total.
<i>EARN</i>	Earnings before extraordinary items/beginning total asset (Huang et al., 2013).
<i>BM</i>	Book-to-market ratio measured at the fiscal year-end (Huang et al., 2013).

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Table 1: Descriptive Statistics.

Variable	Obs.	Mean	S.D.	P_{25}	P_{50}	P_{75}
CSR_SCORE	977	-.103	.494	-.5	-.107	.143
high_CSR	977	.43	.495	0	0	1
miss_02	977	.267	.443	0	0	1
meet_02	977	.245	.43	0	0	0
beat_02	977	.488	.5	0	0	1
car	977	-.005	.076	-.044	-.003	.036
car_ff3	977	-.004	.076	-.045	-.003	.038
car_ff4	977	-.003	.076	-.045	-.003	.038
MB	972	3.588	4.144	1.685	2.696	4.448
SIZE	977	6.855	1.439	5.829	6.576	7.615
LEV	971	.15	.202	0	.055	.248
CH	977	.248	.234	.052	.176	.379
ROA	977	.041	.126	.026	.056	.092

Table 1 shows the descriptive statistics of the variables used in the main specifications of the paper. The sample is composed of 640 unique firms in an unbalanced panel that ranges from the year 2000 until the year 2013, with a maximum number of firm-year observations of 977.

Table 2: Cross-correlation table.

Variables	CSR	High_CSR	Miss	Meet	Beat	CAR[-1,1]	CAR[-1,1]_FF3	CAR[-1,1]_FF4	M2B	Size	Leverage	Cash	ROA
CSR	1.000												
High_CSR	0.618 (0.000)	1.000											
Miss	0.043 (0.017)	0.043 (0.032)	1.000										
Meet	-0.004 (0.856)	0.006 (0.783)	-0.376 (0.000)	1.000									
Beat	-0.042 (0.037)	-0.046 (0.024)	-0.624 (0.000)	-0.490 (0.000)	1.000								
CAR[-1,1]	0.024 (0.432)	0.047 (0.132)	0.024 (0.434)	-0.014 (0.653)	-0.010 (0.758)	1.000							
CAR[-1,1]_FF3	0.020 (0.519)	0.046 (0.139)	0.029 (0.350)	-0.025 (0.417)	-0.004 (0.896)	0.985 (0.000)	1.000						
CAR[-1,1]_FF4	0.016 (0.614)	0.045 (0.147)	0.030 (0.328)	-0.029 (0.347)	-0.002 (0.952)	0.981 (0.000)	0.995 (0.000)	1.000					
M2B	0.101 (0.000)	0.039 (0.054)	0.002 (0.920)	-0.020 (0.321)	0.015 (0.459)	-0.006 (0.836)	-0.016 (0.604)	-0.014 (0.653)	1.000				
Size	0.369 (0.000)	0.242 (0.000)	-0.003 (0.869)	-0.007 (0.731)	0.009 (0.657)	0.043 (0.166)	0.039 (0.208)	0.040 (0.194)	0.159 (0.000)	1.000			
Leverage	-0.005 (0.800)	0.031 (0.130)	0.033 (0.109)	0.012 (0.571)	-0.040 (0.047)	-0.012 (0.691)	-0.014 (0.648)	-0.017 (0.579)	-0.067 (0.001)	0.171 (0.000)	1.000		
Cash	-0.026 (0.199)	-0.061 (0.003)	-0.018 (0.373)	0.008 (0.701)	0.010 (0.607)	-0.045 (0.147)	-0.043 (0.167)	-0.033 (0.284)	0.221 (0.000)	-0.231 (0.000)	-0.315 (0.000)	1.000	
ROA	0.127 (0.000)	0.094 (0.000)	0.007 (0.733)	-0.028 (0.174)	0.017 (0.409)	0.093 (0.003)	0.094 (0.002)	0.091 (0.003)	0.008 (0.711)	0.260 (0.000)	-0.142 (0.000)	-0.396 (0.000)	1.000

Table 2 shows the correlation among the main variables in the study.

Table 3: The Role of CSR on Mediating the Market Reaction to Earnings Announcements

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
CSR_Miss	0.003** (2.033)	0.003** (2.163)	0.002 (1.433)						
CSR_Meet_Beat	0.001 (0.889)	0.001 (0.744)	0.001 (0.727)						
High_CSR_Miss				0.016** (2.175)	0.016** (2.160)	0.016** (2.118)	0.015* (1.914)	0.014* (1.949)	0.013 (1.648)
High_CSR_Meet_Beat				0.008 (1.304)	0.008 (1.380)	0.008 (1.438)	0.006 (0.634)	0.005 (0.573)	0.005 (0.514)
Low_CSR_Miss				0.001 (0.151)	0.003 (0.275)	0.003 (0.338)			
Low_CSR_Meet_Beat							-0.001 (-0.151)	-0.003 (-0.275)	-0.003 (-0.338)
Size	-0.003*** (-2.603)	-0.003** (-2.741)	-0.003** (-2.282)	-0.003** (-2.351)	-0.004** (-2.715)	-0.003** (-2.376)	-0.003** (-2.353)	-0.004*** (-2.716)	-0.003** (-2.377)
MB	-0.002*** (-3.053)	-0.002*** (-3.278)	-0.002*** (-3.321)	-0.002*** (-2.553)	-0.002*** (-2.604)	-0.002*** (-2.486)	-0.002*** (-2.569)	-0.002*** (-2.625)	-0.002*** (-2.543)
ROA	0.030 (1.084)	0.031 (1.084)	0.033 (1.148)	0.031 (1.126)	0.032 (1.125)	0.034 (1.183)	0.031 (1.126)	0.032 (1.125)	0.034 (1.183)
Leverage	-0.002 (-0.156)	-0.000 (-0.031)	-0.000 (-0.000)	-0.002 (-0.171)	-0.001 (-0.045)	-0.000 (-0.002)	-0.002 (-0.171)	-0.001 (-0.045)	-0.000 (-0.002)
Cash	-0.012 (-0.862)	-0.010 (-0.822)	-0.006 (-0.492)	-0.012 (-0.837)	-0.010 (-0.793)	-0.006 (-0.477)	-0.012 (-0.837)	-0.010 (-0.793)	-0.006 (-0.477)
Observations	977	977	977	977	977	977	977	977	977
Model	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4
Industry FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R2	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02

Table 3 shows the results from our main specification. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year and industry dummies and standard errors are clustered at the firm and year level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem. From Columns 1 to 3 we use a continuous measure of CSR from KLD as: Strengths - Concerns. Miss_Beat is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just below the median analyst consensus. Miss_Beat is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just above or on the median analyst consensus.

Table 4: The Role of Long-Term Institutional Investors on the Market Reaction of Earnings Announcements for High CSR firms. Table 4 shows the results from our main specification for a cross section of firms with a different levels of Long-Term Institutional Investors. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year and industry dummies and standard errors are clustered at the firm and year level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem. From Columns 1 to 3 we use a continuous measure of CSR from KLD as: Strengths - Concerns. Miss is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just below the median analyst consensus. Miss_Beat is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just above or on the median analyst consensus. High_LT is a dummy variable that takes the value 1 whenever a firm's ownership structure is composed of long-term institutional investors in a level that is higher than the median of a given year. We measure long-term institutional investors with Brian Bushee's definition of dedicated and quasi-indexer investors, i.e., those that have low turnover and low (dedicated) diversification and high (quasi-indexers) diversification.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
CSR_Miss_LT	0.003***	0.003***	0.001						
	(2.942)	(2.759)	(1.528)						
CSR_Meet_Beat_LT	0.001	0.001	0.001						
	(0.847)	(0.776)	(0.648)						
CSR_Miss_ST	0.003	0.003	0.003						
	(0.626)	(0.745)	(0.661)						
CSR_Meet_Beat_ST	0.001	0.001	0.001						
	(0.680)	(0.558)	(0.652)						
High_CSR_Miss_LT	0.026***	0.027***	0.026***	0.022***	0.022***	0.022***	0.022***	0.022***	0.017*
	(2.757)	(2.845)	(2.649)	(2.668)	(2.668)	(2.668)	(2.623)	(2.623)	(1.839)
High_CSR_Miss_ST	0.020	0.022	0.022	0.016	0.016	0.016	0.016	0.016	0.014
	(1.561)	(1.652)	(1.710)	(0.919)	(0.919)	(0.919)	(0.933)	(0.933)	(0.794)
High_CSR_Meet_Beat_LT	0.017*	0.019**	0.019*	0.013	0.013	0.013	0.014	0.014	0.011
	(1.732)	(1.982)	(1.980)	(0.832)	(0.832)	(0.832)	(0.898)	(0.898)	(0.701)
High_CSR_Meet_Beat_ST	0.009	0.010	0.011	0.005	0.005	0.005	0.004	0.004	0.002
	(1.109)	(1.230)	(1.374)	(0.380)	(0.380)	(0.380)	(0.329)	(0.329)	(0.187)
Low_CSR_Miss_ST	0.011	0.013	0.014	0.007	0.007	0.007	0.008	0.008	0.005
	(0.878)	(1.077)	(1.069)	(0.534)	(0.534)	(0.534)	(0.574)	(0.574)	(0.378)
Low_CSR_Meet_Beat_LT	0.011	0.014	0.016	0.008	0.008	0.008	0.009	0.009	0.007

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
Low_CSR_Miss_LT				(1.559)	(1.584)	(1.571)	(0.595)	(0.689)	(0.563)
				0.004	0.006	0.009			
				(0.301)	(0.446)	(0.694)			
Low_CSR_Meet_Beat_ST							-0.004	-0.006	-0.009
							(-0.301)	(-0.445)	(-0.693)
CONTROLS?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	969	969	969	969	969	969	969	969	969
Model	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4
Industry FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R2	0.02	0.02	0.02	0.02	0.03	0.03	0.02	0.03	0.03

Table 5: The difference in terms of earnings management between High CSR firms that miss analysts' targets and Low CSR firms that meet or beat analysts' targets.

	(1)	(2)	(3)	(4)	(5)	(6)
	AAC	ABS_DA	AB_EXP	AB_CFO	AB_PROD	REM
High_CSR_Miss	-0.01 (-0.65)	-0.00 (-0.61)	0.04* (2.06)	0.01 (1.46)	-0.03** (-2.13)	-0.05*** (-3.10)
High_CSR_Meet_Beat	-0.00 (-0.47)	0.00 (0.68)	0.04* (1.94)	0.01 (1.28)	-0.03*** (-3.17)	-0.05*** (-4.04)
Low_CSR_Miss	0.00 (0.75)	0.00 (0.00)	0.00 (0.26)	-0.01 (-0.85)	0.00 (0.16)	0.01 (0.34)
Size	-0.00 (-1.41)	-0.00*** (-2.97)	0.03*** (4.21)	0.00 (0.37)	-0.01*** (-3.24)	-0.01** (-2.70)
MB	-0.00 (-1.37)	0.00** (2.85)	0.00 (1.29)	0.00*** (3.50)	-0.00** (-2.84)	-0.01*** (-3.73)
ROA	0.01 (0.37)	-0.08*** (-4.51)	-0.22*** (-4.68)	0.31*** (6.37)	-0.27*** (-3.99)	-0.55*** (-5.41)
Leverage	0.01 (0.53)	-0.01 (-1.49)	0.02 (0.58)	-0.06** (-2.86)	0.04 (1.23)	0.10** (2.63)
Cash	0.02 (0.98)	0.01 (0.66)	0.07 (1.59)	-0.03 (-1.65)	-0.00 (-0.11)	0.02 (0.51)
Constant	0.03 (1.75)	0.07*** (6.76)	-0.24*** (-5.37)	0.01 (0.46)	0.09*** (3.21)	0.08* (2.12)
Observations	969	969	969	969	969	969
Industry*Year FE?	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R2	0.02	0.10	0.08	0.28	0.11	0.21

Table 4 shows the results from the following analysis: whether firms that miss (meet or beat) analysts' targets and exhibit high (low) CSR engage in earnings management. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year times industry dummies and standard errors are clustered at the firm and year level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem. **Interpretation:** firms that exhibit high CSR and miss analysts' target show lower levels of real earnings management when compared to firms that exhibit low CSR and meet or beat analysts' targets. This result holds for firms that exhibit high CSR and meet or beat analysts' target. There are no differences in terms of the level of signed or unsigned abnormal accruals among any group of firms with respect to firms that meet or beat analysts' targets and exhibit low levels of CSR. Overall, this result is consistent with [Graham et al. \(2005\)](#) survey which indicates that managers would rather take economic actions that could have negative long-term consequences (i.g. real activity manipulations, RAM) than make within-GAAP accounting choices to manage earnings (i.g. abnormal accruals).

Table 6: The Role of Analyst Following on the Market Reaction of Earnings Announcements for High CSR firms.

Table 6 shows the results from our main specification for a cross section of firms with a different levels of Analysts Following that given firm. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year and industry dummies and standard errors are clustered at the firm and year level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem. From Columns 1 to 3 we use a continuous measure of CSR from KLD as: Strengths - Concerns. Miss is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just below the median analyst consensus. Miss_Beat is a dummy variable that takes the value 1 whenever a firm reported earnings per share of maximum 2 cents just above or on the median analyst consensus. High_Anal is a dummy variable that takes the value 1 whenever a firm's number of analysts following is higher than the median of a given year, industry and total assets' quartile.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
CSR_Miss_High_An	0.002 (1.084)	0.003 (1.520)	0.002 (1.045)						
CSR_Meet_Beat_High_An	-0.000 (-0.096)	-0.000 (-0.084)	-0.000 (-0.202)						
CSR_Miss_Low_An	0.003* (1.868)	0.003 (1.577)	0.002 (1.131)						
CSR_Meet_Beat_Low_An	0.003** (2.187)	0.003* (1.767)	0.003* (2.004)						
High_CSR_Miss_High_An				0.013 (1.185)	0.013 (1.121)	0.012 (1.049)	0.010 (0.847)	0.013 (1.068)	0.012 (1.023)
High_CSR_Miss_Low_An				0.020*** (3.171)	0.016** (2.609)	0.015** (2.201)	0.017* (1.710)	0.016 (1.454)	0.014 (1.329)
High_CSR_Meet_Beat_High_An				0.001 (0.116)	0.000 (0.011)	-0.001 (-0.055)	-0.002 (-0.195)	0.000 (0.004)	-0.001 (-0.082)
High_CSR_Meet_Beat_Low_An				0.017 (1.539)	0.013 (1.234)	0.013 (1.195)	0.014* (1.691)	0.013 (1.497)	0.013 (1.474)
Low_CSR_Meet_Beat_High_An				0.003 (0.212)	0.000 (0.004)	0.000 (0.015)			
Low_CSR_Meet_Beat_Low_An				-0.001 (-0.068)	-0.003 (-0.268)	-0.004 (-0.368)	-0.004 (-0.439)	-0.003 (-0.326)	-0.004 (-0.467)
Low_CSR_Miss_High_An				0.005	0.002	0.003	0.002	0.002	0.002

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
Low_CSR_Miss.Low_An				(0.453)	(0.194)	(0.213)	(0.219)	(0.208)	(0.212)
Size	-0.003** (-2.361)	-0.003** (-2.522)	-0.003** (-2.093)	-0.003* (-1.738)	-0.003** (-2.118)	-0.003* (-1.878)	-0.003* (-1.741)	-0.003** (-2.113)	-0.003* (-1.875)
M2B	-0.002*** (-3.033)	-0.002*** (-3.291)	-0.002*** (-3.249)	-0.002*** (-2.988)	-0.002*** (-2.973)	-0.002*** (-2.963)	-0.002*** (-2.993)	-0.002*** (-2.970)	-0.002*** (-2.957)
ROA	0.031 (1.104)	0.031 (1.103)	0.034 (1.169)	0.030 (1.091)	0.032 (1.112)	0.034 (1.178)	0.030 (1.091)	0.032 (1.112)	0.034 (1.178)
Leverage	-0.001 (-0.105)	0.000 (0.001)	0.000 (0.037)	-0.001 (-0.110)	-0.000 (-0.013)	0.001 (0.040)	-0.001 (-0.110)	-0.000 (-0.013)	0.001 (0.040)
Cash	-0.012 (-0.859)	-0.010 (-0.824)	-0.007 (-0.494)	-0.011 (-0.780)	-0.010 (-0.747)	-0.006 (-0.440)	-0.011 (-0.780)	-0.010 (-0.747)	-0.006 (-0.440)
Observations	969	969	969	969	969	969	969	969	969
Model	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4	Mkt Adj	FF3	FF4
Industry FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R2	0.02	0.02	0.02	0.03	0.02	0.02	0.03	0.02	0.02

Table 7: The impact of High CSR on the propensity to miss, beat or meet analysts' targets.

	(1)	(2)	(3)	(4)	(5)	(6)
	Ordinary Least Squares			LOGIT		
	Miss	Beat	Meet	Miss	Beat	Meet
High_CSR	0.08***	-0.06**	-0.02	0.24***	-0.18**	-0.04
	(4.04)	(-2.18)	(-0.76)	(2.63)	(-2.57)	(-0.35)
Size	0.00	0.00	-0.00	-0.03	0.04	-0.02
	(0.17)	(0.03)	(-0.19)	(-1.03)	(0.82)	(-0.26)
MB	-0.00	0.00	-0.00	-0.01	0.02	-0.01
	(-1.03)	(1.68)	(-0.75)	(-1.08)	(1.48)	(-0.75)
ROA	-0.02	0.11*	-0.09	0.13	0.22	-0.48*
	(-0.19)	(1.80)	(-1.22)	(0.31)	(0.82)	(-1.74)
Leverage	0.02	-0.01	-0.02	0.31	-0.00	-0.39
	(0.32)	(-0.10)	(-0.28)	(1.11)	(-0.00)	(-1.08)
Cash	0.03	-0.07	0.04	-0.15	0.18	-0.08
	(0.46)	(-0.91)	(0.40)	(-0.60)	(0.70)	(-0.22)
Constant	0.37***	0.39***	0.24***	0.79	-1.10**	-2.20*
	(9.20)	(7.11)	(3.53)	(1.13)	(-2.29)	(-1.83)
Observations	969	969	969	969	969	969
Industry*Year FE?	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R2				0.03	0.03	0.03
Adj. R2	0.03	0.03	0.01			

Table 7 shows the results from our main specification. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year times industry dummies and standard errors are clustered at the firm and year level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem.

Table 8: Instrumenting CSR with Other Constituencies Acts

	(1)	(2)	(3)	(4)	(5)	(6)
	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]	CAR[-1,1]
Predicted_CSR	0.015*** (3.046)	-0.022*** (-4.000)	0.019*** (3.321)	-0.021*** (-4.031)	0.018*** (3.229)	-0.020*** (-3.716)
Size	-0.008** (-2.471)	0.009** (2.627)	-0.011** (-2.910)	0.008** (2.718)	-0.010** (-2.726)	0.008** (2.699)
M2B	-0.003*** (-7.222)	-0.002 (-1.597)	-0.003*** (-7.228)	-0.001 (-1.615)	-0.003*** (-7.100)	-0.002* (-1.735)
ROA	0.028* (1.894)	0.006 (0.316)	0.019 (1.256)	0.010 (0.711)	0.017 (1.237)	0.013 (0.922)
Leverage	0.016 (0.701)	-0.025*** (-2.963)	0.021 (0.919)	-0.023** (-2.660)	0.023 (0.978)	-0.022** (-2.579)
Cash	-0.022*** (-2.432)	-0.016* (-1.981)	-0.023*** (-2.529)	-0.015* (-1.964)	-0.019** (-2.291)	-0.010 (-1.361)
Observations	269	753	269	753	269	753
Miss?	Yes	No	Yes	No	Yes	No
Model	Mkt Adj	Mkt Adj	FF3	FF3	FF4	FF4
Incorporation State FE?	Yes	Yes	Yes	Yes	Yes	Yes
Year FE?	Yes	Yes	Yes	Yes	Yes	Yes
First Stage F-Stat	23.13	133	23.13	133	23.13	133
Adj. R2	0.09	0.26	0.17	0.23	0.16	0.22

Table 8 shows the results from using Other Constituencies Acts to instrument the variable CSR. Coefficients are reported with t-statistics below in parentheses. ***, ** and * imply a significance level of 1%, 5% and 10% respectively. All regressions include year and incorporation state dummies and standard errors are clustered at the incorporation state level to allow for cross-correlation and autocorrelation in the covariance matrix of standard errors. All control variables are lagged one period to avoid a bad controls problem. From Columns 1 to 6 we use a continuous measure of CSR from KLD as: Strengths - Concerns, instrumented by Other Constituencies following Flammer and Kacperczyk (2017). Odd columns represent a subsample of firms that miss earnings targets in a given year and even columns represent firms that meet or beat earnings targets.