We examine the link between corporate social responsibility (CSR) and financial reporting quality and find a positive relationship.

- We find that firms with higher CSR are associated with higher accuracy of financial forecasts, fewer earnings surprises, and greater coverage by financial analysts.

- Additional analyses reveal that firms with lower agency concerns, higher customer awareness, more long-term institutional investors, and fewer financial constraints have a stronger positive relationship between CSR and financial reporting quality.

- Findings provide support for the stakeholder value maximization view of CSR.

**Data and Methodology**
- Construct measures of financial reporting quality (FRO) using variables obtained from I/B/E/S, Compustat and CRSP.
  - Accuracy of financial forecasts
  - Percentile-ranked forecast accuracy rank
  - Unexpected earnings reported by the firm
  - Number of analysts who issue forecasts for a firm
  - CSR measure based on CSR strengths / concerns indicators from the MSCI ESG KLD database adjusted for scale.
- Model: $\text{FRO}_t = \beta_0 + \beta_1 \text{CSR}_{t-1} + \beta_2 \text{X}_{t-1} + \epsilon_t$.
- Controls $\text{X}_{t-1}$ include: Market-to-Book value, log of Assets, Leverage, ROA, R&D, Firm Age, and Institutional Ownership.
- Firm and year fixed-effects regression analysis.

**Baseline Results**
- Firms with higher levels of CSR are associated with higher accuracy of financial forecasts, fewer earnings surprises, and greater coverage by financial analysts.
- We conduct several analyses to address potential endogeneity. Our findings remain consistent with the baseline results in the instrumented variables approach.
- Decomposition of CSR measures shows that a firm’s financial reporting quality becomes better with both higher levels and larger increases in CSR.

**Factors Affecting the Relationship between CSR and Financial Reporting Quality**
We perform subsample analyses to examine how the relationship between CSR and financial reporting quality is affected by agency problems, customer awareness, institutional ownership, and financial constraints. All models include controls and fixed effects.

<table>
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<th>Ind. variables are lagged</th>
<th>Accuracy</th>
<th>Accuracy_Rank</th>
<th>Earnings_Surprise</th>
<th>Analyst_Num</th>
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<td>CSR (lagged)</td>
<td>0.032**</td>
<td>0.015**</td>
<td>-0.002*</td>
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<td>(2.25)</td>
<td>(2.17)</td>
<td>(-1.75)</td>
<td>(3.35)</td>
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<td>Controls</td>
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**Economic Implications of CSR and Financial Reporting Quality for Firms**
- We further perform subsample analyses to examine how financial reporting quality affects the information environment and firm risk for firms with different levels of CSR.
- Findings suggest that high CSR firms are more likely to experience a significant negative relationship between financial reporting and return volatility which proxies for risk. This enhances the benefits of reporting quality for these firms.
- We find some evidence that greater transparency in financial reporting decreases information asymmetry for high CSR firms.
- Full paper available at SSRN and ASSA program.
- Comments are welcome.