The Influence of Corporate Social Responsibility Disclosure on Stakeholder Decision-Making

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The Influence of Corporate Social Responsibility Disclosure on Stakeholder Decision-Making

Andrew C. Stuart

A dissertation submitted in partial fulfillment of the requirements for the degree of Ph.D. in Accountancy

2017

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To my wife Rebecca and my children for their unwavering support, encouragement and patience.
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ABSTRACT

The Influence of Corporate Social Responsibility Disclosure on Stakeholder Decision-Making

Andrew C. Stuart

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Accountancy Department

As part of the Disclosure Effectiveness Initiative, the SEC is seeking public comments on whether sustainability disclosures are important to investors’ decisions. The interest in sustainability disclosures by the SEC coincides with the recent increase in companies voluntarily publishing corporate social responsibility (CSR) reports. My dissertation consists of three studies that examine CSR disclosures, with an emphasis on how disclosure influences stakeholder decision-making.

Part one reviews the CSR disclosure literature contained in accounting journals. I find an overlap between CSR disclosure issues and traditional accounting issues examined in the literature. Focusing on where the issues overlap, I separate the CSR disclosure literature into three main sections. First, I examine the characteristics and motives of companies that voluntarily report. Second, I review the studies examining CSR disclosure accuracy and the role of CSR assurance in improving perceptions of disclosure credibility. Finally, I review the studies examining stakeholder use of CSR disclosure.

Part two provides the results of an experiment that examines the influence of the type of CSR activity, independent CSR assurance and a company-specific negative event have on investors’ judgments. Our results show contingent effects not found by prior research. We confirm prior literature in finding that absent a negative event, investors’ judgments respond most positively to disclosures of strategic CSR activity that are assured. However, in the presence of a negative event, the disclosure of strategic or non-strategic CSR activity provides similar insurance-like protection against investors’ negative adjustments to their judgments, regardless of assurance.
Part three consists of two studies that provide the results of an experiment examining whether the type of CSR activity and CSR assurance interact to influence jurors’ decision-making. Study 1 finds that jurors’ affective response to the defendant is more favorable when receiving disclosure of non-strategic CSR activities. However, neither the type of CSR activity nor CSR assurance directly influence jurors’ negligence assessments. Study 2 finds that non-strategic CSR activities only provides protection against compensatory and punitive damage assessments when the disclosure is assured. Overall, findings suggest that the insurance-like protection of CSR and the influence of CSR assurance extend to the litigation setting.
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Part One

A Review of Corporate Social Responsibility Disclosure in the Accounting Literature
I: INTRODUCTION

Corporate social responsibility (CSR) performance and related voluntary disclosure is a growing area of focus for companies as society continues to increase the expectations of corporations beyond financial performance. Paralleling society’s increasing interest in the CSR activities of companies; the accounting literature shows a spike of research studies investigating CSR disclosure in recent years with many of the studies examining the same questions asked in research on traditional accounting issues. The purpose of this study is to conduct a literature review of CSR disclosure studies published in American Accounting Association (AAA) journals plus five non-AAA journals generally regarded as “top tier” by accounting academics.

A literature review focusing on CSR disclosure in the accounting literature is timely and needed for several important reasons. First, the number of companies voluntary reporting on CSR activities continues to increase and provides an important information source to stakeholders (KPMG 2015). Therefore, it is important for accounting researchers to understand CSR disclosure data sources and measurement techniques in order for the literature to continue to investigate how information is disclosed, what information is disclosed and how stakeholders view the disclosure. Second, the continued increase in companies voluntarily purchasing CSR assurance provides motivation to understand the full range of benefits associated with assurance (KPMG 2015). Prior CSR literature reviews focus on the general topic of CSR by considering CSR performance and disclosure as interchangeable. However, that approach fails to fully recognize the risk that CSR disclosures may not always accurately portray the CSR performance of a company. This literature review addresses this concern by discussing the credibility concerns of CSR disclosure and the credibility-enhancing function of CSR assurance examined...
in the literature. Finally, little is known about how different stakeholder groups interpret CSR disclosures. This review synthesizes research that investigates how various stakeholder groups consider CSR disclosure information during their decision-making processes and provides suggestions on how future research can develop further understanding of the value-relevance of CSR disclosure to various groups. This is important because companies provide voluntary CSR information in order to manage their relationship with various stakeholders and companies expect the information will influence judgment and decision-making behavior.

CSR has been researched across many disciplines, including management, marketing, economics and others. In an introduction to a *CSR Issues in Accounting* research forum, Moser and Martin (2012) provide two suggestions that would benefit the CSR accounting research literature. First, while shareholders have been the focus of the literature, accounting researchers need to be more open to the idea that both shareholders and non-shareholders drive CSR activities and related disclosure. Second, they suggest the use of experiments to complement archival research by answering questions that cannot be addressed with archival data. As shown in this literature review, accounting researchers have recently followed both of these suggestions, but there is more work to be done.

I conduct this literature review following guidelines suggested by Torraco's (2005). I find that the literature uses a variety of CSR disclosure data sources, ranging from annual reports (e.g., the 10-k and stand-alone sustainability reporting) to more timely sources of news releases and company websites. When assessing CSR disclosure, studies generally consider the extent of

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1 In a review of the CSR literature, Aguinis and Glavas (2012) find a limited number of studies investigate use of CSR information by individual stakeholders and call for future research to focus on the individual level of analysis.
2 For CSR literature reviews from the various disciplines see Aguinis and Glavas (2012) for management, Peloza and Shang (2011) for marketing and Huang and Watson (2015) for accounting.
disclosure or construct measures to proxy for disclosure quality. I find that some studies examining the voluntary CSR reporting decision investigate company characteristics common to reporting firms (e.g., size, risk), while others consider different theoretical motivations with the primary focus being legitimacy theory. Further, the literature review reveals that studies examine the use of CSR disclosure by stakeholders other than investors (e.g., analysts, consumers), but investors remain the predominant stakeholder of interest in the literature. Also, I find a range of research design methods including archival, experimental and qualitative surveys and interviews.

The remainder of this literature review is organized as follows. In Section II, I describe the methods used to locate studies relevant to this review and detail the journals considered. Section III discusses the sources of CSR disclosure and the various measures used in the literature. Section IV discusses how the literature examines the motivations for companies to voluntary report CSR information. In Section V, I discuss how the literature investigates credibility concerns and how assurance of CSR reports influences credibility. Section VI discusses how the literature investigates stakeholder perceptions and use of CSR disclosure. Finally, Section VII summarizes my findings.

II: METHODS

According to Torraco (2015), the purpose of an integrative literature review is to generate new frameworks and perspectives on a topic in order to synthesize the current understanding and provide insight on how the research can move forward. Integrative literature reviews are used to address either mature topics or new, emerging topics. As shown in this literature review, CSR disclosure in some shape or form has been studied in the accounting literature for decades. However, it cannot be considered a mature topic for two reasons. First, although the general
concept of CSR disclosure has existed for many decades in the accounting literature, there has been a significant increase recently in articles published on this topic. This trend is likely to continue as the demand for social disclosures increases (KPMG 2015). Second, data sources for CSR disclosure continue to grow and improve, providing greater opportunities for researchers to examine areas of interest. Third, the concept of CSR, as defined by society, has continued to evolve and requires further examination of the knowledge and structures found (Ghobadian, Money, and Hillenbrand 2015; Carroll and Shabana 2010; Carroll 1999).

To identify the articles captured in this review, I searched for “corporate social responsibility” on the American Accounting Association (AAA) digital library and the journal websites of five additional journals commonly considered as top accounting journals. I focus on articles, excluding book reviews and introductions to special issues. This search resulted in 181 articles (83 from AAA journals and 98 from non-AAA journals) containing the phrase “corporate social responsibility” somewhere in the body of the journal article. I completed the following steps to determine which identified articles are most relevant to this review. First, I read each abstract to determine whether CSR disclosure was the focus of the article. If this was not evident, I searched the article for CSR to determine where and how the article used the concept of CSR. After reviewing all 181 articles, I eliminated 119 of the articles whose focus was not CSR disclosure. I include the remaining 62 articles in this review. These studies are

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3 The five additional journals searched include *Journal of Accounting and Economics, Journal of Accounting Research, Accounting Organizations and Society, Contemporary Accounting Research* and *Review of Accounting Studies.*

4 I use the broader search term of “corporate social responsibility” rather than searching for “corporate social responsibility disclosure” to ensure all articles relevant to this review are captured.

5 For example, several of the eliminated articles focus on CSR performance ratings or use CSR as an example of a potential area of interest that could be considered in future studies. Others cite articles with CSR in the title, but use aspects of the study unrelated to CSR.
described in the Appendices (a separate document distributed with this paper), and Table 1.1 shows details of the publications by journal and year of publication. It is clear from the table that CSR has an increasing presence in the accounting literature. Prior to 2011, CSR was mainly confined to *Accounting, Organizations and Society*, but since then there is an increase in the breadth of journals containing CSR articles.

### III: CSR REPORTING SOURCES AND MEASURES

This section outlines the various CSR disclosure sources and techniques used in accounting research to measure and operationalize CSR reporting behavior of companies. I begin with a discussion on the sources and measures of CSR disclosure in order to provide greater context to the findings of the literature discussed in later sections. This context is needed because unlike studies focusing on the CSR performance of companies that use performance results contained in various databases, the CSR disclosure literature mainly uses content analysis of hand-collected CSR information releases.6

#### Source of Disclosures

Companies have many options when disclosing information to interested parties, ranging from news releases, voluntary reports and SEC filings. Rockness and Williams (1988) survey mutual fund managers to examine the sources of information on social responsibility they use when making investment decisions. They find fund managers predominantly review information directly from the companies or from government sources, but they also use other sources.

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6 The MSCI ESG Stats database, formerly KLD, is an example of a database of CSR performance ratings.
including industry and trade organizations, business publications, private social responsibility organizations/publications and other miscellaneous sources.

The accounting literature reviewed supports the assertion that CSR information is available in a variety of locations. I find studies using CSR information from analyst reports (Huang, Zang, and Zheng 2014), press releases (Chakravarthy, DeHaan, and Rajgopal 2014; Aerts and Cormier 2009), and private social and environmental reporting between companies and investors (Solomon, Solomon, Joseph, and Norton 2013). Further, Cohen, Holder-Webb, Nath, and Wood (2012) examine a variety of information bursts (mandatory filings, website, governance documents, product fact sheets, CSR reports, press release and “other”) from companies. Also, many studies focus on the disclosure contained in annual reports/10-ks (e.g., de Villiers and van Staden 2006; Patten 2005; Al-Tuwaijri, Christensen, and Hughes 2004; Adams and Harte 1998; Teoh and Thong 1984; Wiseman 1982; Trotman and Bradley 1981). More recently, stand-alone sustainability reports have been frequently used and are commonly accessed via the Corporate Register, who maintains a repository of CSR reports, or directly from company websites (e.g., Casey and Grenier 2015; Peters and Romi 2015; Gao, Lsic, and Zhang 2014; Dhaliwal, Li, Tsang, and Yang 2011; Simnett, Vanstraelen, and Chua 2009; Clarkson, Li, Richardson, and Vasvari 2008).

Overall, I find that companies release CSR information from a variety of sources, but the accounting literature focuses on CSR disclosures released as part of the annual reporting process or from stand-alone CSR reports. This variety of sources provides researchers and users many different options when examining the informational value of the disclosures. However, it also makes comparisons across companies difficult since there is no common standard or outlet of
information. The next section discusses how the literature addresses this issue by creating CSR disclosure measures.

**CSR Disclosure Measures**

I find that content analysis of CSR disclosures is the primary method used in the literature to measure either the extent of disclosure or the quality of disclosure. Content analysis is the most appropriate method due to the lack of a database with comparable disclosure information across a large number of companies, and allows flexibility in the type of data collected from the disclosure.\(^7\) However, content analysis is a subjective process requiring careful and consistent treatment across disclosure sources and researchers.

The extent of disclosure is historically measured by quantifying the portion of the annual report devoted to CSR disclosures. For example, Bowman and Haire (1976) count the number of lines of text devoted to CSR and divide by the total lines of text. Similarly, Trotman and Bradley (1981) determine on a line-by-line basis the percentage of total discussion focused on CSR issues. Likewise, Neu, Warsame, and Pedwell (1998) measure the level of environmental disclosure by counting the number of words related to environmental activities. One study (Adams and Harte 1998) uses content analysis not to quantify the amount of the annual report dedicated to CSR disclosures, but rather to examine the extent of gender and employment disclosures by comparing corporate annual reports of major British banking and retail companies over an extended period of time (1935-1993).

\(^7\) Krippendorff (2004) defines content analysis as “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use”. Therefore, this methodology is well-suited to analyze the text of CSR disclosures.
Occasionally, studies rely on independent data sources for company disclosure levels rather than performing content analysis. For example, Cowen, Ferreri, and Parker (1987) use the Ernst & Whinney 1978 survey of CSR disclosures present in the annual reports of Fortune 500 companies. As CSR reporting guidance became available in later decades, researchers began to use external frameworks as a way to measure the extent of CSR reporting (e.g., Ling and Mowen 2013; Clarkson et al. 2008). For example, Clarkson et al. (2008) develop an index based on the Global Reporting Initiative (GRI) *Sustainability Reporting Guidelines* aimed at assessing the level of discretionary environmental disclosure across 95 items with 79 classified as hard and 16 as soft disclosure items.

Content analysis to measure disclosure quality uses scoring methods to assess quality across various CSR dimensions. For example, Wiseman (1982) assigns one to three points to an identified set of 18 environmental disclosure topics considered essential for complete reporting. Three points are awarded when the disclosure discussed the item in monetary or quantitative terms, two points when it was specifically described and one point when discussed in general. The same technique is used in later studies expanded to additional environmental disclosure topics (e.g., Aerts and Cormier 2009; de Villiers and van Staden 2006; Al-Tuwajri et al. 2004).

Several studies suggest improvements to the Wiseman scoring method by relying on analysis of external information or future firm behavior. Roberts (1992) uses a disclosure score ranging from zero to two to represent poor, good or excellent levels of disclosure based on evaluation of corporate social disclosures from the Council on Economic Priorities (CEP). He suggests this is a more reliable measure of disclosure quality since the CEP evaluates many alternative sources of information to corroborate performance with disclosure. Richardson and
Welker (2001) consider social disclosure by using a disclosure score from the joint Society of Management Accountants of Canada and University of Quebec at Montreal for Canadian firms. Finally, Patten (2005) examines disclosure quality by examining the accuracy of projected future expenditures.

Recent content analysis uses newer methods to examine qualitative aspects of disclosure quality. Cho, Roberts, and Patten (2010) use DICTION software to assess disclosure optimism and certainty level, and Cho, Michelon, and Patten (2012) review the content of CSR reports to measure for impression management in graphs contained in the reports. Similarly, Cho, Laine, Roberts, and Rodrigue (2015) qualitatively analyze annual reports, sustainability reports, website disclosures and shareholder resolutions to compare company message and activities.

Overall, I find that CSR disclosures have been studied both in terms of the extent of disclosures and the quality of the disclosures based on content analysis of hand-collected data. The findings range from studies using very specific measures for one piece of CSR disclosure (e.g., environmental) to studies that use a proxy to represent overall company CSR disclosure practices. Further, the literature mainly focuses on the quantity of disclosures rather than disclosure quality. A recent study by Zahller, Arnold, and Roberts (2015) suggests that CSR disclosure quality as measured in the literature comprises the extent of disclosure, the inclusion of negative information, disclosure accuracy and disclosure timeliness. The studies reviewed above appear to support this idea. Until the availability of the Bloomberg ESG disclosure score, a database did not exist to allow researchers to have a measure of CSR disclosure for a large
number of companies.\textsuperscript{8} Future research should continue to consider different ways to measure CSR disclosure quality as CSR reporting practices evolve. Examining disclosure quality will continue to be important when assessing how disclosures influence stakeholder reactions. As shown above, one possible technique is to compare disclosures against commonly used reporting frameworks like the GRI as they continue to develop an increased following. Further, studies can consider how CSR assurance impacts disclosure quality.

\textbf{IV: MOTIVATIONS FOR VOLUNTARY CSR DISCLOSURE}

Traditionally, accounting researchers examine the flow of information from companies to shareholders to better understand how capital markets use this information.\textsuperscript{9} Disclosures can either be mandatory as part of the annual report or companies can supplement the annual report with voluntary disclosures. The CSR disclosure literature overlaps with traditional accounting research by examining why companies choose to voluntarily provide CSR disclosures. In the early years, CSR disclosure research was mainly concentrated on the examination of disclosures of environmental issues around pollution (e.g., Wiseman 1982; Belkaoui 1980), with social issues mostly relating to human rights issues with the Sullivan Principles (e.g., Arnold and Hammond 1994; Patten 1990). Over the years, studies have broadened to include a much more comprehensive examination of environmental and social disclosure as the availability of CSR disclosure data increased with more companies voluntarily reporting.\textsuperscript{10} Motivations for this

\textsuperscript{8} Recently, studies outside of the accounting literature have started to use Bloomberg Environmental, Social and Governance (ESG) data as a source of ESG disclosure ratings and it is anticipated this data source will start being used in accounting studies. Refer to Zuraida, Houqe, and Van Zijl (2016) for a more comprehensive description of the Bloomberg ESG disclosure score.

\textsuperscript{9} For a review on corporate disclosure studies refer to Healy and Palepu (2001) and Verrecchia (2001).

\textsuperscript{10} KPMG performed an international survey of CSR reporting in 2015 by analyzing the CSR reports of more than 3,400 companies globally, including the 250 largest global companies (G250). They found that 92% of the G250 were producing some form of CSR report, which was a 11% increase from a similar study they performed in 2008.
increase in voluntary reporting have been studied in two main ways. First, studies examine company characteristics common to those that choose to report. Second, studies examine theoretical explanations for why companies choose to voluntarily disclose CSR information.

**Characteristics of Companies That Voluntarily Disclose**

Studies examine company characteristics to investigate the type of firms that produce reports, identifying a number of characteristics that differentiate these firms. Overall, the findings suggest that larger firms (Casey and Grenier 2015; Simnett et al. 2009; Neu et al. 1998; Cowen et al. 1987; Teoh and Thong 1984; Trotman and Bradley 1981), firms with greater CSR strategic alignment (e.g., Roberts 1992; Trotman and Bradley 1981; Bowman and Haire 1976), firms with higher systematic risk (Trotman and Bradley 1981), firms with CSR corporate governance committees (Cowen et al. 1987), high cost of equity capital (Dhaliwal et al. 2011), higher audit fees (Chen, Srinidhi, Tsang, and Yu 2016), and firms in certain industries (e.g., Casey and Grenier 2015; Simnett et al. 2009; Cowen et al. 1987) are more likely to disclose. Also, studies with international samples find that the national origin of the corporation influences the reporting decision (Simnett et al. 2009; Teoh and Thong 1984). Further, Luo and Tang (2015) find that national cultural dimensions (e.g., masculinity, power distance, uncertainty) are associated with the decision to report on carbon emissions. In likely the most comprehensive firm characteristic study, Casey and Grenier (2015) find that CSR performance (positive or negative), global companies, liquidity, leverage, cost of capital, competition, and advertising intensity are predictors of CSR reporting by U.S. companies. They also find growth firms, firms in high-litigation industries and firms that raise new capital are less likely to report.

They suggest that CSR reporting has stabilized at a high level as the reporting percentage has ranged from 92% to 95% since 2011 (KPMG 2015).
Finally, studies highlight the fact that from time to time certain CSR disclosures become mandatory as governments enact disclosure requirements. Sankara, Lindberg, and Razaki (2016) and Herda and Snyder (2013) investigate Section 1502 of the Dodd-Frank Act (U.S. House of Representatives 2010) which requires companies using conflict minerals at any point in their supply chain to complete a new SEC filing requirement, Form SD and a Conflict Minerals Report (CMR).

Future research could further examine these characteristics in greater detail to better understand the motivation behind reporting. For example, Casey and Grenier (2015) find positive or negative CSR performance to be a predictor of reporting. This could be further understood by considering the different dimensions of CSR, especially within specific industries. Also, the reporting practices of companies continue to evolve with increased reporting guidance available from the Sustainability Accounting Standards Board and the Global Reporting Initiative. Future studies could examine characteristics of companies electing to follow these reporting standards. Finally, studies can investigate future government reporting requirements to understand how reporting is influenced when new legislation is passed.

**Theoretical Insights into Why Companies Disclose**

I find the majority of studies examining theoretical motivations for companies to produce voluntary CSR disclosure focus on legitimacy theory.\(^\text{11}\) Legitimacy theory suggests companies maintain legitimacy when they conform to the acceptable norms of society and are required to maintain their legitimacy in society to remain in operation. Pressure to maintain corporate legitimacy can come from internal motivations or external stakeholder pressure.

\(^{11}\) For a review of organizational legitimacy theory see Suchman (1995) or Dowling and Pfeffer (1975).
Legitimacy Theory: External Pressure to Disclose

Several articles focus on external pressure to disclose. Motivated by legitimacy theory, Neu et al. (1998) examine external pressure to report by considering whether firms disclose positive action, obfuscate negative actions, or some combination of both. They find firms increase the level of environmental disclosure when reacting to external pressure from shareholders and regulators, but decrease disclosure when criticized by environmentalist groups. They conclude that companies respond to the interests of the more important publics and not the marginal publics, which suggests power of the external group is an important factor to understanding company disclosure practices. Deegan and Blomquist (2006) consider the implications of legitimacy theory and find that companies adjust their environmental reporting practices when pressured by lobby groups. More recently, Bhimani, Silvola, and Sivabalan (2016) examine the voluntary reporting decision by early and late adopters using survey and field data. They interpret their findings using three types of isomorphism motivations explained by Dimaggio and Powell (1983): coercive, normative and mimetic.\(^{12}\) Isomorphism is related to legitimacy theory in that the characteristics of companies become aligned as a way to conform to societal norms, thus maintaining legitimacy. Bhimani et al. (2016) find that early adopters report due to coercive and normative isomorphism in order to earn financial rewards by satisfying external stakeholder demands. However, they find late adopters are driven by mimetic isomorphism since they have CSR embedded in their operations; therefore, stakeholders do not exert pressure on the company to report.

\(^{12}\) Coercive isomorphism refers to a company adopting CSR reporting due to pressures from external stakeholders, while normative isomorphism refers to norms transferring from one firm to another. Finally, mimetic isomorphism occurs when companies conform to the norms of other companies. Refer to Dimaggio and Powell (1983) for further discussion.
Two studies consider how the reporting process becomes normative in an organization. Bebbington, Kirk, and Larrinaga (2012) compare reporting regimes in Spain and the UK from 1997 to 2001 to consider how normativity is created by focusing on environmental reporting. Interestingly, they find reporting in Spain did not develop to meet the requirements of the environmental disclosure law passed in 1998. However, without a law in place, the UK developed an environmental reporting regime. They suggest the norm was constructed through the actions of large companies. The study benefits the CSR literature by suggesting that firms in the UK report because it is part of the norms of the society. Also, Contrafatto (2014) examines how social and environmental reporting (SER) became institutionalized via a case study of one Italian multinational company. This study identifies a three-step process of constructing a common meaning system, routine practice by employees in their daily routine, and reinforcement through managerial procedures and structures.

**Legitimacy Theory: Internal Motivations to Disclose**

Other studies also consider legitimacy theory, but focus on a company’s motivation for using CSR disclosures as a marketing tool to manage company and brand image. Patten (2005) examines environmentally sensitive industries to investigate whether firms disclose as a means to seek or maintain social legitimacy by considering whether current environmental disclosures accurately reflect future results. Finding a lack of value in the environmental disclosure, Patten concludes disclosures are likely to be a legitimation tool. de Villiers and van Staden (2006) use legitimacy theory to argue that a reduction in disclosures can also be explained by companies concerned about the external perceived impression of the company. In a study of South African company annual reports, they argue that companies consider general and specific environmental
disclosures separately and will reduce specific disclosures when they perceive them as threatening their legitimacy. Aerts and Cormier (2009) investigate environmental reporting by considering the expectation of managers to manage both environmental performance and the perceptions of that performance. Examining how the media portray the company, they find companies influence stakeholders’ perceptions of environmental legitimacy by issuing reactive environmental press releases and altering the extent and quality of environmental annual report disclosures. Chakravarthy et al. (2014) examine the frequency and target audience of press releases before and after a financial restatement, finding significant increases in releases during the post-restatement period aimed at investors and other stakeholder groups in order to repair reputation. As further evidence of the reputation-repair motivation for increasing their press releases, they find the most relevant stakeholder groups are targeted. Durable products firms target customers, firms with organized or highly skilled workers target employees, and firms operating in many locations target community actions. Ling and Mowen (2013) investigate company motivations for voluntary environmental disclosure with a focus on the environmentally sensitive chemical industry by looking at a corporation’s competitive strategy to determine whether strategy is driving the disclosure or whether disclosure is being used as a tool to repair brand image after a negative event. They find image- and R&D-focused companies produce more disclosure than companies without these strategies. Also, image companies are more likely to produce more disclosures when their performance is low, consistent with the brand image theory. Alternatively, R&D-focused companies are more likely to produce disclosures when performance is higher. In general, this provides evidence that environmental reporting decisions vary based on firm-specific factors and can signal information to
stakeholders of the firm. Solomon et al. (2013) also consider impression management by investigating the practice of private social and environmental reporting and find that investors perceive the information as a brand impression mechanism and not an accountability mechanism.

Two studies examine the presentation of CSR disclosures to consider whether they are used as an impression management tool. Cho et al. (2010) use legitimacy theory to hypothesize that companies will use disclosure language optimism and certainty as a tool to manage impressions of the firm. They find evidence that poor environmental performers use verbal tone and language to bias the message contained in the disclosures. Similarly, Cho et al. (2012) find impression management evidence in the graphs contained in CSR reports with reports showing both a selectivity bias in the choice of items graphed and distortion in graphing favorable to the company. Consistent with legitimacy theory, they conclude companies use CSR graphing techniques to manage the company’s impression with stakeholders.

Overall, the accounting literature examining theoretical explanations for why companies voluntarily disclose CSR information mainly considers legitimacy theory and finds that companies initiate reporting in response to external pressure from stakeholders. Further, the findings in these studies support that companies use CSR disclosure as a way to manage their perceived legitimacy among stakeholder groups. The motivation to use CSR disclosure to build and preserve organizational legitimacy can bring doubt about the credibility of the voluntary disclosures, which I discuss in Section VI.

**Beyond Legitimacy Theory: Other Motivations for Voluntary Disclosure**

Legitimacy theory is not without limitations, and the literature examines other theories to provide further insight into the reporting decision. One limitation of legitimacy theory is that it
focuses on companies’ voluntary disclosing information only out of self-interest motives in order to manage its perceived legitimacy among its stakeholders. However, this view fails to consider whether companies undertake and report on CSR initiatives out of a genuine concern for the environmental or social issue (i.e., values-drive motivations). Stakeholder theory suggests companies have a responsibility to all stakeholders of the company rather than solely focusing on shareholders (i.e., maximizing profits). Using stakeholder theory, Roberts (1992) finds firms with greater stakeholder power disclose greater amounts of information.\textsuperscript{13} Investigating the limitations of legitimacy theory to explain motivations for company reporting, Clarkson et al. (2008) rely on voluntary disclosure theory to examine the relationship between environmental disclosure and performance. Voluntary disclosure theory predicts companies use disclosures to signal their type (i.e., CSR initiatives are done out of genuine motives). They find that the extent of disclosure is positively related to environmental performance, providing support for firms using voluntary disclosure to signal their type to stakeholders. However, they also find some evidence supporting impression management motivations as weak environmental performers make soft claims around their commitment to the environment.

Cho et al. (2015) suggest that legitimacy and signaling theory present limits in understanding sustainability reporting and provide new theoretical ways to examine reporting. They position their argument from the standpoint that a gap remains between what companies say they do and their actual actions. Referring to this as “organized hypocrisy” they suggest this practice gives companies flexibility in managing conflicting stakeholder demands. They also

\textsuperscript{13} Stakeholder power refers to the stakeholder’s degree of control over required company resources (Roberts 1992). He measures stakeholder power for shareholders (percentage of ownership by management and individual shareholders owning more than 5% of outstanding shares), governmental stakeholders (dollars contributed by corporate PACs to political campaigns) and creditors (debt to equity ratio).
consider three different organizational facades: rational, progressive and reputation. They test their theoretical framework by examining the talk, decisions and actions of two oil and gas corporations during debate over drilling in the Alaskan National Wildlife Refuge. They find that within each façade a corporation’s message and activities are generally consistent; however, inconsistencies exist when comparing across facades. This provides motivation for future studies to consider the gap between a company’s actions and a company’s disclosure.

Overall, there is much evidence that supports the use of legitimacy theory to explain the reporting motivations of companies. However, Cho et al. (2015) provide motivation to move past this theory to look at a more refined breakdown of the “organizational facades” of companies. Future research should continue to investigate motivations for companies to voluntarily produce CSR disclosures, in order to examine the value-relevance of the information reported in light of the potential for companies to issue them out of self-interested motives. Future research could also examine how the impression management attempts influence various stakeholder reactions. Finally, future research could also examine the transition from voluntary to mandatory CSR disclosures like those contained in Section 1502 of the Dodd-Frank Act.

V: CREDIBILITY CONCERNS AND ASSURANCE OF CSR REPORTS

A second area where CSR disclosure research overlaps with traditional accounting research issues is consideration of disclosure accuracy. Accounting academics are interested in understanding disclosure accuracy and the role of assurance in improving the usefulness of information provided to users. As a response to the concerns of companies having self-interested

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14 Cho et al. (2015) refer to Abrahamson and Baumard (2008, 438) who define facades as “a symbolic front erected by organizational participants designed to reassure their organization’s stakeholders, of the legitimacy of the organization and its management”. 
motives for voluntary reporting, I find that the literature examines disclosure accuracy by comparing disclosure to actual performance (e.g., Clarkson et al. 2008; Patten 2005; Al-Tuwajri et al. 2004; Wiseman 1982). In an early study, Wiseman (1982) finds disclosures to be vague, incomplete, inconsistent between firms, general rather than specific in nature, and a lack of evidence of disclosures relating to actual performance. More recently, Patten (2005) finds actual CSR spending is lower than the projection in 75 percent of the sample, yet total capital expenditure projections are accurate. In sum, these studies suggest voluntary CSR disclosure can be inaccurate, further raising the concern over the usefulness of the information in decision-making.

Users notice the concern over the accuracy of CSR disclosures. Rockness and Williams (1988) survey fund managers and find that social information is difficult to obtain and incomplete. Also using survey data, Cohen, Holder-Webb, Nath, and Wood (2011) find that retail investors prefer CSR and governance information coming from external sources rather than directly from the company. Further, Solomon et al. (2013) interview UK institutional investors to understand how they perceive the social and environmental information disclosed privately to them directly from the company. They find the investors view the disclosure as the company’s attempt to disclose information they think the investors want to hear. Together, these studies suggest users are skeptical of voluntary CSR information coming directly from the company and therefore are likely to discount its usefulness to their decision-making.

The concern about a company’s motivations for voluntarily reporting of CSR information and the apparent lack of disclosure accuracy is addressed in the literature by considering the influence of CSR assurance. As CSR reporting is voluntary, CSR assurance is also a voluntary
action companies can decide to undertake for their CSR reports. In order to understand how accounting firms developed this new line of service, O’Dwyer, Owen, and Unerman (2011) perform a qualitative study to determine how accounting firms seek to establish legitimacy for sustainability assurance services. They discover that it is a process involving three important players: the client, the client’s stakeholders who use the report, and the audit firm’s internal risk department. They conclude that the firms need to establish pragmatic legitimacy with the clients but can only do so by first establishing pragmatic legitimacy with the audit firm’s internal risk department and moral legitimacy with the client’s stakeholders.

In order to understand how the accounting literature has studied this new line of service, I group the studies into four sections. First, early literature investigates common characteristics of companies that make the voluntary decision to purchase assurance of their reports. Second, a segment of the literature examines from whom companies are purchasing assurance. Third, studies consider the value added to CSR reports when assurance services are provided by examining whether assurance increases users’ perceptions of credibility. Finally, recent studies examine factors that can influence CSR assurance quality.

**Characteristics of Companies That Purchase Assurance**

Similar to the literature that examines the voluntary reporting decision, studies examine factors that influence the CSR assurance decision. For example, Simnett et al. (2009) perform an international comparison on assurance of sustainability reports, finding that companies seeking

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15 Cohen and Simnett (2015) provide a review of the CSR assurance literature.  
16 Accounting firms have a history of trying to apply auditing expertise to other settings. For example, in the 1990s the AICPA developed WebTrust assurance services to increase consumer confidence in e-commerce (Primoff 1998).
to enhance the credibility of the CSR report or enhance their company image are more likely to purchase assurance. This is primarily evident in their finding that companies in industries with higher environmental and social risks (i.e., mining, finance and utilities) have the greatest demand for report assurance. Casey and Grenier (2015) extend Simnett et al. (2009) by focusing on the U.S. assurance market, to seek understanding of why U.S. firms lag their international counterparts. Contrary to Simnett et al. (2009) they do not find support for greater demand in industries with higher environmental and social risks. One possible explanation they provide is that higher regulation placed on those industries in the U.S. is acting as a substitute tool for credibility enhancement. Additionally, Casey and Grenier (2015) find that CSR performance influences the assurance decision as companies with CSR strengths are more likely to purchase assurance. They conclude this is most likely due to the need to increase the credibility of disclosing positive information. Further, they find that companies with CSR weaknesses are also more likely to purchase assurance. They conclude this is likely due to weak CSR performers being incentivized to report positive CSR efforts, which stakeholders view skeptically.

Peters and Romi (2015) add to the literature by investigating the association between corporate governance characteristics and the assurance decision. Their focus is primarily on whether companies have established an environmental committee of the board and whether there is a chief sustainability officer (CSO). They fail to find an association between the existence of an environmental committee and CSR assurance, unless the committee is composed of environmental experts. However, they do find a positive association between the presence of a CSO and demand for CSR assurance, which is enhanced when the CSO is also an expert. These studies provide important insights into the factors influencing the assurance decision by
suggesting companies recognize when there are credibility concerns and attempt to increase the perceived credibility among users by purchasing assurance.

**Choice of Assurance Providers**

Unlike mandatory assurance of traditional financial reporting, CSR assurance is a voluntary action of the company requiring company expenditures. Therefore, unlike the financial statement audit, public companies are not bound to professional accounting firms as the only source of assurance services. Boutique consulting firms with CSR expertise and companies’ internal audit departments are potential options when determining who should provide assurance services.

The CSR disclosure literature examines each of these options by investigating factors associated with engaging each type of assurer. Simnett et al. (2009) find larger companies and companies with lower leverage are more likely to purchase assurance from a professional accounting firm. They suggest this could be due to the inability of small firms or firms with high leverage to afford the fee premium of professional accountants. Also, they find companies domiciled in stakeholder-oriented countries are more likely to choose professional accountants as their assurance provider. Interestingly, they do not find support for companies in greater need of credibility enhancement (i.e., those in mining, production or utilities industries). Casey and Grenier (2015) replicate most of the Simnett et al. (2009) findings, with the exception of larger firms not being more likely to purchase assurance from a professional accountant. When investigating how CSR performance influences the choice of assurance provider, they find that companies with strong CSR performance are more likely to purchase assurance from a professional accountant, while companies with low CSR performance are more likely to use non-
accounting assurance providers. This brings into question whether non-accounting assurance providers are able to perform high-quality assurance. Finally, Peters and Romi (2015) find companies with an environmental committee prefer hiring professional accounting firms and CSOs prefer consultants to internal auditors.

Two additional studies examine the role of internal audit by surveying or interviewing internal auditors. Gray, No, and Miller (2014) focus on internal auditors’ experiences and opinions of “green IT.” They find that internal auditors are not typically involved in green IT activities, but the majority believe they should be involved in the assurance and control monitoring of these activities. Trotman and Trotman (2015) also focus on the internal auditor’s role in environmental sustainability. The general consensus across their interviewees is that internal audit should and most likely will in the future play a role in the assurance of sustainability information due to their expertise in regulation and compliance, managing risk and reporting.

The above studies suggest there are three options available to companies when choosing an assurance provider. Future research should continue to investigate the choice of assurance provider as reporting standards become more widely used and as public accounting firms continue to grow their CSR assurance practices. Future research could also consider the differences in quality of the three providers. It is not clear which of these providers offer higher assurance quality as auditors lack CSR subject knowledge, consultants lack audit knowledge and internal auditors lack full independence. Understanding differences in quality will help inform

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17 Gray et al. (2014) define “green IT” as the environmental compliance aspects of information technology.
how users should respond to the assurance signal. In the next section I discuss studies that examine how users perceive CSR assurance.

**Users’ Perceptions of CSR Assurance**

Several studies find that users recognize when companies voluntarily disclose incentive-consistent information and rely on CSR assurance to provide a credibility-enhancing effect. For example, Pflugrath, Roebuck, and Simnett (2011) find that financial analysts recognize the incentive for companies in environmentally sensitive industries to voluntarily report on their CSR activity, which increases the credibility-enhancing effect of assurance. Also, Brown-Liburd and Zamora (2015) find that investors recognize the incentive for management to overstate their CSR activities when their pay is tied to CSR performance, as stock price assessments are only greater for high CSR investment levels when CSR assurance is also present. Similarly, Cheng, Green, and Ko (2015) find that investors recognize managements’ incentive for disclosing CSR information aligned with the company’s overall strategy as investors are more willing to invest when CSR assurance is present. In sum, these findings suggest that CSR assurance increases users’ perceptions of credibility, which influences their investment decisions.

Pflugrath et al. (2011) also examine the credibility-enhancing effect of different types of assurance providers by investigating whether financial analysts from Australia, the United States, and the United Kingdom perceive a difference in credibility of sustainability disclosures based on who provides the assurance. In the U.S. analyst group, they find that the perceived credibility of the disclosures increases to a greater extent when the assurance is provided by professional accountants. However, analysts from Australia and United Kingdom did not perceive a difference in increased credibility between professional accountants or sustainability experts. In
sum, the literature suggests that CSR assurance influences users’ perceptions of disclosure credibility, which increases the value-relevance of the information to their decision-making.

**CSR Assurance Quality**

The CSR assurance literature also examines factors that might influence CSR assurance quality. Building on the literature that examines the type of assurance provider, recent research identifies that CSR assurance is performed using multidisciplinary audit teams. For example, Kim, Green, and Johnstone (2015) investigate potential issues with audit quality arising from mixed audit teams during a greenhouse gas (GHG) assurance engagement. They find support that traditional audit participants incorrectly rely on a team member with GHG expertise. Also, Moroney and Trotman (2016) find that auditors evaluate materiality differently during sustainability audits compared to traditional financial statement materiality as qualitative factors have a greater impact.

Overall, the above studies suggest that companies choosing to purchase assurance do so, at least in part, to enhance users’ perceptions of credibility of the CSR disclosure, which is not surprising due to the credibility concerns surrounding voluntary disclosure. Future research should continue to investigate the assurance decision, including who provides the assurance as well as whether all assurance providers’ result in similar value-added results. For example, a study could examine the perceived credibility enhancement that comes from external assurance versus internal assurance. Future studies should also consider how CSR assurance engagements are conducted and what factors are associated with higher assurance quality. Also, studies could examine whether assurance provides the same level of credibility-enhancement to a company’s CSR information as firms that are listed on recognized lists such as *CR Magazine*’s list of best
corporate citizens. Further, recent studies examine disclosure quality. For example, Al-Shaer and Zaman (2016) find that companies with gender-diverse boards are associated with higher reporting quality. Also, Zahller et al. (2015) find that high disclosure quality is associated with higher perceptions of credibility. Future research can combine disclosure quality and CSR assurance to examine the incremental credibility available from CSR assurance when disclosures are high quality.

VI: STAKEHOLDER PERCEPTIONS AND USE OF CSR DISCLOSURE

The third area of overlap between traditional accounting issues and CSR disclosure is how the disclosure information is viewed by users. Developing an understanding of how CSR disclosure is perceived and used by stakeholders is important to help understand the value-relevance of the information being voluntarily disclosed. The previous sections discuss CSR disclosure by focusing on the motives and needs of the company. However, that view is limited as it does not consider how the information is used by a cross section of stakeholders. I find a range of studies examine how CSR disclosure information is used by user groups in various contexts.

Users of CSR Reports

At the time of this review, the majority of studies examining stakeholders’ use of CSR disclosure focus on the capital market participants of analysts and investors. I review and synthesize the literature by first grouping studies based on the user group investigated and then by the research method used.

Analysts
Two studies focus on the use of CSR information by analysts. Dhaliwal et al. (2011) find high CSR performers that initiate CSR reporting attract analyst coverage. Further, they find that analysts of those companies achieve lower absolute forecast errors and dispersion. In an international study, Dhaliwal, Radhakrishnan, Tsang, and Yang (2012) investigate whether financial analysts use the nonfinancial information contained in the CSR report to improve their forecast accuracy. They find companies issuing CSR reports have lower analyst forecast errors, with findings being stronger in companies that operate in countries with a greater stakeholder focus and in countries with greater financial opacity. The findings suggest that CSR reports are used as complementary information by analysts but in varying levels depending on the importance of the CSR information. In countries with higher stakeholder orientation the CSR performance is likely to have a more direct connection to financial performance and in financial opaque countries the information is used to help alleviate information transparency issues.

**Investors**

The majority of studies in this literature review focus on investors as users. Therefore, this section is broken down by the research methods used in the studies.

**Survey methods.**

Survey techniques are helpful to gain insight into investors’ demand for CSR disclosure, as well as how CSR information is used when making decisions. Two early studies investigate how mutual funds consider CSR information when making investment decisions. Buzby and Falk (1978) survey 102 mutual fund presidents to gain insight into whether the investment policies of the funds consider nine areas of social concern. They find mixed results, in that some of the nine areas are considered, but not all. However, the importance of eight out of the nine
areas was deemed to be less than the six financial items contained on the questionnaire. Similarly, Rockness and Williams (1988) find mutual fund managers value six performance factors of environmental protection, equal employment opportunity, treatment of employees, business relations with repressive regimes, product quality and innovation and defense contracting. In a pair of more recent surveys, Cohen et al. (2011) survey 750 retail investors and Cohen, Holder-Webb, and Zamora (2015) survey 228 professional investors to examine their perceptions of CSR information, and how they process information available to them when making decisions. Areas of available information include indicators of economic performance, corporate governance policies and performance, and corporate social responsibility. They find that while not as important as economic performance or governance characteristics, investors do use CSR information when analyzing investments. In supplemental questions the respondents note a desire to increase the use of nonfinancial information in the future. Together, the survey literature suggests that investors find CSR information relevant to their investment decisions, but not as important as traditional financial information. However, investors express increasing demand for CSR information in the future.

**Experimental designs.**

A second segment of the literature uses experimental methods to examine whether CSR disclosures influence investors’ behavior. For example, Belkaoui (1980) find that disclosure of pollution abatement costs effect participants’ investment decisions. Huang et al. (2014) conduct a study on whether the text in analyst reports is useful to investors beyond the information contained in the quantitative summary measures. While the study covers many different aspects of the text in the reports, one hypothesis deals with investors’ reactions to nonfinancial
information. They find that investors react more intensely when there is a greater emphasis placed on nonfinancial topics. This lends support to the idea that investors use CSR information to help remove information asymmetry problems.

Other studies examine factors that moderate investors’ reactions to CSR information. Elliott, Jackson, Peecher, and White (2014) investigate whether unintentional effects of CSR performance can impact an investor’s estimated value of the firm and whether the unintentional effect can be mitigated by explicit assessment of CSR performance. They find that participants not asked to explicitly assess CSR performance have higher (lower) valuations for strong (weak) CSR performance compared to those prompted to assess CSR performance. Cheng et al. (2015) examine whether the type of CSR activity moderates investors’ perceptions of CSR information. They find investors perceive the disclosures as more important and are more willing to invest in the company when the indicators have a high level of strategic relevance.

Two studies consider whether disclosure quality influences investors’ reactions. Basoglu and Hess (2014) find that enhanced media contained in high quality electronic business reporting increases the perceived trustworthiness of the firm and investment quality and therefore induce more favorable buy and sell intentions. Zahller et al. (2015) examine the influence of disclosure quality on nonprofessional investor decisions and finds support that companies can enhance organizational legitimacy and build social resilience to exogenous shocks impacting another company in the industry. In sum, the experimental literature suggests that CSR information influences investors’ decision-making.

Archival studies.
Archival studies are helpful as they provide information on how the market as a whole reacts to CSR information. In general, archival studies find that the market incorporates CSR information into stock prices. For example, Patten (1990) investigates market reaction to social responsibility disclosures by examining volume and stock price impacts for companies signing the Sullivan Principles versus companies that did not sign. They find that companies not signing had greater unexpected trading volume and conclude that the difference is attributed to investors using social responsibility disclosure information when making investment decisions. Further, Herremans, Akathaporn, and McInnes (1993) find investors are aware of the reputation differences between companies as evidenced by positive abnormal returns for industries involved in higher levels of social conflict. More recently, Jain, Jain, and Rezaee (2016) examine investor use of CSR information by focusing on short sellers, which represent informed investors. They find that short sellers avoid firms with high CSR performance and target firms with low performance and conclude that disclosures are perceived as value-relevant to investors. Using an international context, Subramaniam, Samuel, and Mahenthiran (2015) find that higher levels of CSR disclosures increase the liquidity of public companies listed on Malaysian stock exchange, which suggests disclosures help reduce information asymmetry.

Other studies examine whether a company’s disclosure decisions are priced by the market. Motivated by the increased attention on greenhouse gas emissions and climate change, Matsumura, Prakash, and Vera-Muñoz (2013) find that the market integrates both carbon emission levels and emissions disclosure practices into firm valuations. Firms are penalized as carbon emissions levels increase with an additional penalty when a firm does not disclose the emission level. Further, Christensen (2016) finds that companies that produce CSR reports
experience less negative market reaction following high-profile misconduct. The findings suggest that the market views the presence of CSR activities and disclosures as a signal of managerial intent. In a recent study, Chen et al. (2016) find higher-quality financial statement audits (evidenced by higher audit fees) improves the credibility of voluntary CSR disclosures. Further, the market accelerates the incorporation of future earnings into the stock price.

Finally, studies investigate how the market reacts to CSR disclosure by examining the cost of equity capital. Richardson and Welker (2001) find that investors react negatively to higher social disclosure scores, resulting in a greater cost of equity compared to firms with lower social disclosure scores. However, this relationship is moderated by financial performance of the companies, with strong performers being penalized less. They suggest this could be caused by the timeframe of their study being during a recession and investors placing more weight on economic performance; or it could be that investors perceive social activities to be value-decreasing. Either conclusion suggests that economics of the firm operations outweigh the social activity considerations of investors. Dhaliwal et al. (2011) investigate whether the cost of equity capital influences a company to initiate voluntary CSR reporting. They find that firms initiating disclosures of CSR activities experience a decrease in cost of equity capital and attract dedicated institutional investors.

In summary, studies show that investors are willing to consider CSR information when analyzing investments, but regard it as less important than financial information. The experimental literature suggests that CSR information does impact investor judgment and decision making, but as Elliott et al. (2014) shows it might not be intentional. Finally, there is overall support for the market reacting, with abnormal returns or changes in the cost of equity.
Future studies should continue to investigate the use of CSR information when analyzing investment options compared to other information used in those decisions. As socially responsible investing strategies grow, the relative importance of financial and nonfinancial information could shift. Future research could examine the use of financial and CSR information by tracking participant’s movements across information screens while performing an investment decision. Finally, future research on market reactions could examine retail versus institutional investment behavior, as well as consider specific CSR reporting requirements. For example, section 1502 of the Dodd-Frank Act requires companies to report on conflict minerals in their supply-chain. Examining how the market reacts could provide additional understanding of investor use of CSR information.

**VII: CONCLUSION**

Overall, this review of the CSR literature in top accounting journals finds a good deal of diversity. Studies use evolving measures of CSR disclosure to examine a range of topics. While the roots of CSR research extend back many decades, there appears to be an increased interest in recent years in terms of number of studies, as well as a broader range of journals.

Future research can still use Moser and Martin (2012) as a basis for the motivation to continue the work to understand the complex concept of CSR. Studies should continue to investigate the use of CSR performance and disclosure by stakeholders other than investors. For example, Bradford, Earp, Showalter, and Williams (2017) examine the GRI framework to consider whether its requirements provide useful information to consumers. Interestingly, they find a disconnect between the GRI framework and the information demands of consumers. This highlights the importance of recognizing the broader audience for CSR disclosures compared to
traditional financial reporting and the ability of accounting researchers to transfer expertise to non-capital market stakeholder groups. Additionally, while many recent studies use archival and experimental designs, qualitative methods should be used more frequently to further understand why CSR influences stakeholders.
Part Two

The Influence of Contingent Factors on Investors’ Use of Corporate Social Responsibility Disclosure (co-authored with Jean C. Bedard and Cynthia E. Clark)
I. INTRODUCTION

As part of its Disclosure Effectiveness Initiative, the SEC is seeking public comments on modernizing business and financial disclosure requirements in Regulation S-K (SEC 2016). One area of interest to the SEC is disclosure on sustainability matters, with a specific call for comments on whether sustainability disclosures are important to investors’ decisions. The interest by the SEC on the possibility of mandated sustainability disclosure coincides with the recent trend in companies voluntarily providing information to stakeholders via stand-alone corporate social responsibility (CSR) reports.\textsuperscript{18,19} Interest in CSR disclosure has grown in recent years as investors look for new information avenues that reduce information asymmetry and allow better informed capital allocation decisions. Prior research suggests CSR disclosures can influence market participants’ decisions (e.g., Cohen, Holder-Webb, and Zamora 2015; Cheng, Green, and Ko 2015; Dhaliwal, Li, Tsang, and Yang 2011). In this study, we build on research showing that CSR reporting may provide “insurance-like” protection (Godfrey 2005) against users’ reactions to a corporate negative event by investigating whether that protection is contingent on the type of CSR activity disclosed, and whether the CSR information in the disclosure is independently assured.

Research on investors’ reactions to CSR disclosure is important because public opinion on the net benefit of CSR disclosures is divided (SEC 2016). Some individuals cited in the SEC document suggest this type of disclosure is imperative for reducing

\textsuperscript{18} The most recent KPMG International Survey of Corporate Responsibility reporting cites the growth of corporate responsibility reporting from 24% in 1999 to 73% in 2015 among the largest 100 companies in 40 countries (KPMG 2015).

\textsuperscript{19} Throughout this study we use the terms voluntary CSR disclosure and CSR disclosure synonymously. Literature and practice use various terms when referring to CSR disclosure, including sustainability reporting and corporate responsibility reporting. We use the CSR term since Carroll and Shabana (2010) suggest it is the dominate term used in the academic literature.
information asymmetry and overcoming the limitations of traditional financial disclosure. Others suggest the cost of producing CSR disclosures is an unnecessary resource drain. Therefore, examining how investors view the usefulness of CSR disclosures across contingent factors helps provide information on whether and under which circumstances investors incorporate CSR information into their investment decisions.

The definition of CSR has evolved over the decades as researchers debate the role of business in society.\textsuperscript{20} For this study, we rely upon McWilliams and Siegel (2001, 117) who define CSR as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law”. Therefore, CSR activities are undertaken at the discretion of company management, and CSR disclosures are the information avenue that informs investors about these activities. Prior literature suggests CSR activity types can be categorized based on the relationship between the activity and the company’s business operations.\textsuperscript{21} Research shows that investors react more favorably to CSR disclosures when there is a strategic connection to future net cash inflows (Cheng et al. 2015). Our interest lies in whether investors’ reaction to a negative event (i.e., an event that leads to a material negative impact on at least one stakeholder group) changes based on CSR activity type.\textsuperscript{22} Following a negative event, investors might focus on CSR

\textsuperscript{20} For a history of the evolution of CSR refer to Carroll (1999) and Ghobadian, Money, and Hillenbrand (2015). Also, Dahlsrud (2006) examines 37 definitions of CSR.

\textsuperscript{21} For example, Du, Bhattacharya, and Sen (2010, 12) defines CSR fit as “the perceived congruence between a social issue and the company’s business”. Also, Aguinis and Glavas (2013, 315) suggest CSR can be classified as either embedded (i.e., “relies on an organization’s core competencies and integrates CSR within a firm’s strategy, routines, and operations”) or peripheral (i.e., “focuses on activities that are not integrated into an organization’s strategy, routines, and operations”). In the accounting literature, Cheng et al. (2015), manipulate ESG indicators, often contained in CSR reports, on whether they are aligned with the company’s overall strategy.

\textsuperscript{22} In this study, we examine the influence of a negative event reported in the business press as opposed to a negative event reported by the company. For additional information on investors’ reactions to negative events based on the source of disclosure, refer to Reimbsbach and Hahn (2015) who examine investor judgments when disclosure of a negative event comes directly from the company versus a third-party non-governmental organization.
disclosure to provide a context in which to view the financial prospects of the company. Prior literature suggests that CSR performance can signal a strong underlying corporate ethical culture (e.g., Gao, Lisic, and Zhang 2014; Koh and Tong 2013; Kim, Park, and Wier 2012), which might persuade investors to react less negatively to a crisis. Other studies find CSR performance is associated with lower future firm risk (e.g., Chang, Kim, and Li 2014; Koh, Qian, and Wang 2014; Orlitzky and Benjamin 2001) and can provide insurance-like protection from negative market reactions in times of crisis (e.g., Christensen 2016; Zahller, Arnold, and Roberts 2015; Chang et al. 2014; Godfrey, Merrill, and Hansen 2009; Godfrey 2005).23 Finally, studies show different types of CSR activities are perceived differently by the capital markets (e.g., Groening and Kanuri 2016; Godfrey et al. 2009). Taken together, we expect the presence of a negative event to interact with the CSR activity type to alter investors’ response to a negative event. Yet, we don’t know under what conditions this alteration is more or less likely to occur.

Another important area of inquiry is the effect of CSR assurance. Prior research finds that assurance of CSR disclosures influences the extent to which users place reliance on them, by increasing credibility of the disclosures (e.g., Cheng et al. 2015; Brown-Liburd and Zamora 2015; Pflugrath, Roebuck, and Simnett 2011). However, in a review of the CSR assurance literature, Cohen and Simnett (2015) highlight the value of CSR assurance may be contingent upon various factors, and they suggest the need to consider a contingency framework when examining the value of CSR assurance. Accordingly, we posit one such factor is the presence of a negative event, which prior

23 Much of this literature relies on the theoretical work of Godfrey (2005) who examines the risk management perspective of corporate philanthropy (i.e., one element of CSR). Godfrey (2005) argues companies can build moral capital that can be drawn from in times of crisis if CSR activities are discretionary, align with the values of stakeholders and do not involve an exchange of value between the company and stakeholders.
research has not considered. Prior studies suggest in general that the effect of assurance is impacted by users’ perceptions about the company’s incentives to issue the disclosure, since incentive-consistent disclosures are perceived as less credible (e.g., Cheng et al. 2015; Brown-Liburd and Zamora 2015). We predict in a negative event setting, that the influence of CSR assurance on investors’ valuation judgments depends on CSR activity type.

We test these expectations using an experiment for several reasons. First, it enables us to measure intermediate variables in a controlled manner, to shed light on the mechanisms through which investors’ judgments are made. Specifically, we examine whether investors prefer the connection to future cash inflows or look for information about future risk by seeking a signal about a company’s ethical culture, as well as how perceptions of credibility influence their decisions. This allows us to build on related archival literature to better understand why investors react in certain ways. Second, in practice CSR disclosures are lengthy and contain a mixture of disclosure topics. Using an experiment allows us to isolate specific CSR activity types to understand how investors respond in differing contexts.

To investigate how these factors interact to influence investors’ judgments, we employ a 2x2x2 experimental design. Participants were solicited from Amazon Mechanical Turk, yielding a sample of 399 usable observations. The case company is XYZ, Inc., a company that procures, processes and transports branded food products sold at national grocery stores, with mixed financial performance relative to its industry. We

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24 Dhaliwal (2012) reports the average length of CSR report of U.S. companies in their sample is 32.69 pages. Also, the G4 reporting guidelines from the global reporting initiative (GRI) recommend disclosures cover six topics including, economic, environmental, labor practices, human rights, society and product responsibility. Further, under each of these topics there are numerous subtopics (GRI 2013).
manipulate the presence of a company-specific negative event by providing participants in the negative event treatment with a press release describing the company’s involvement in a food safety recall due to cases of foodborne illness among customers. We manipulate CSR activity type as strategic or non-strategic. Following the definition of McWilliams and Siegel (2011), we operationalize strategic CSR as activity that is undertaken for the purpose of increasing market share and future net cash inflows. Alternatively, we operationalize non-strategic CSR as activity that does not allow a firm to increase market share or future net cash inflows. Participants in both CSR activity type manipulations receive information about the company’s investment in clean energy and production process equipment upgrades. In the strategic condition, the equipment upgrades are associated with a reduction in operating costs, as well as increased market share and revenue. In the non-strategic condition, disclosures state that the investments are not expected to impact operating costs, market share, or future review. Finally, we manipulate CSR assurance as either present or absent. We measure investors’ use of information using changes in their investment valuation and desirability judgments pre- and post-manipulations.

We confirm prior literature in finding that overall, the presence of a negative event reduces investors’ valuation and desirability judgments. Also consistent with prior research, we find that absent a negative event, investors react more favorably to strategic CSR activity relative to non-strategic CSR activity. While we predicted that investors might react more favorably to non-strategic CSR activity in the presence of a negative

25 We acknowledge that non-strategic CSR activities could have an impact on the company’s competitive advantage and therefore increase market share and future net cash inflows. However, the connection would be indirect and difficult for investors to incorporate in their judgments about the company. Therefore, we expect investors to perceive strategic CSR activities differently than non-strategic CSR activities.
event, based on prior archival research, this was not observed in our controlled experiment. Rather, neither CSR activity type predominated, suggesting investors have a more balanced view of CSR activity type in the presence of a negative event regardless of the negative event being attributed to either managerial lack of skill or ill-will (Godfrey et al. 2009). It is possible that following a negative event, investors view CSR as a misallocation of resources at a time when the company should focus on its core business, supporting the criticisms of CSR. This might especially be the case in our context in which the company has a mixed financial background. Alternatively, the negative event context might raise the importance of non-strategic CSR activity, but not to a level where it is preferred over strategic CSR activity.

Results also show that CSR assurance improves investors’ views of the company, and the value of assurance extends to the negative event setting. However, contrary to our prediction, CSR assurance is not found to provide incrementally greater value when a negative event is present vs. absent. Finally, we find that the presence of a negative event alters how investors view the interaction of CSR activity type and CSR assurance. When a negative event is absent, results suggest investors value more highly disclosures of strategic CSR activity that have been assured. However, when a negative event is present, results suggest both strategic and non-strategic CSR activities are valued similarly by investors, regardless of whether or not disclosure is assured.

This study contributes to the literature in several ways. First, we contribute to the literature investigating how investors use CSR disclosure by considering how the occurrence of a negative event alters investors’ perceptions of the importance of CSR connecting to future net cash inflows. Examining across characteristics of the disclosures
or the disclosing firm builds on prior literature by providing evidence on whether and under which combinations of factors investors find CSR disclosure useful to decision-making. Second, this study adds to the developing discussion on the value of CSR assurance by examining the value of CSR assurance in the negative event context. Third, this study examines whether CSR assurance adds incremental credibility beyond credibility that comes from high disclosure quality, building on Zahller et al. (2015) who examine disclosure credibility via high disclosure quality.

Our study also has implications for practice by providing information on the mechanisms influencing investors’ reactions when companies undertake strategic versus non-strategic CSR activities, as well as evidence to support when companies experience benefits from purchasing CSR assurance. Finally, our study has implications for regulators considering whether CSR disclosures should be part of mandatory reporting by providing information on how investors incorporate the disclosures into their investment decision-making.

The rest of this paper is organized as follows: Section II presents background information briefly discussing how the financial reporting research has moved from examining investor decision usefulness of financial to nonfinancial information, of which CSR disclosures are one component. Section III reviews relevant prior literature and develops the hypotheses. Section IV discusses the research design and participants. Section V presents the results and Section VI discusses conclusions, limitations and opportunities for future research.

II. BACKGROUND
Financial reporting research has come to recognize that CSR disclosure can complement traditional financial reporting (Dhaliwal, Radhakrishnan, Tsang, and Yang 2012).26 The foundation of financial reporting research is the Financial Accounting Standards Board’s (FASB) Conceptual Framework, which defines the objective of financial reporting as “…to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity” (FASB 2010, 1). According to the FASB, information is useful if it is relevant and reliable, allowing investors the information needed to project future net cash inflows in order to make efficient capital allocation decisions. Historically, investors have concentrated on using financial performance information from the company’s general purpose financial statement reports as the basis for making investment decisions. However, in recent studies researchers have considered whether and how investors use information beyond mandatory financial reporting in their decisions; e.g., voluntary disclosures containing nonfinancial information (e.g., Cohen et al. 2015; Cohen, Holder-Webb, Nath, and Wood 2012; Cohen, Holder-Webb, Nath, and Wood 2011; Beyer, Cohen, Lys, and Walther 2010; Merkl-Davies and Brennan 2007; Healy and Palepu 2001).27

The voluntary disclosure literature considers managers’ motivations for providing information to investors not required in mandatory financial reporting. Reviewing this literature, Healy and Palepu (2001) discuss forces that influence manager’s disclosure

26 Using CSR reports as a proxy for nonfinancial information, Dhaliwal et al. (2012, 752) states, “Overall, our results suggest that nonfinancial disclosure is not only associated with a better information environment, as measured by analyst forecast accuracy, but also complements financial disclosure by mitigating the negative effect of financial opacity on forecast accuracy.”

27 This study focuses on investors as one stakeholder group. However, it is important to recognize that the audience for nonfinancial reporting, especially CSR disclosure, can consist of many different stakeholder groups (e.g., consumers, employees, labor unions, investors, creditors, etc.).
choices, including capital market transactions, litigation, and management talent signaling. The commonality between these forces is that management has incentives to provide disclosures in order to reduce information asymmetry with investors and accrue business rewards. Their review concludes that greater disclosure leads to positive outcomes such as increased market liquidity, lower cost of capital and an increase in analyst following. Thus, the literature generally provides evidence that investors find voluntary nonfinancial disclosures useful when making decisions.

Disclosure of nonfinancial information can relate to a multitude of topics, but literature examining nonfinancial disclosures examines three main categories of information: economic leading indicators, governance, and CSR activities, which is our interest (Cohen et al. 2015; Cohen et al. 2011). Similar to mandatory financial performance indicators, market participants will likely perceive CSR disclosure as useful when they perceive a connection between CSR activities and future net cash inflows (Groening and Kanuri 2016; Cheng et al. 2015; Cohen et al. 2011). The management literature has focused a great deal of attention on examining the relationship between CSR and corporate financial performance, partly in an effort to make a business case for widespread CSR adoption (Carroll and Shabana 2010). Overall, the management literature provides some evidence of a positive relationship between CSR and financial performance (e.g., Margolis et al. 2009; Orlitzky, Schmidt, and Rynes 2003). This

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28 For example, companies looking to access capital markets can use voluntary disclosure to influence how investors perceive the company with the intention of reducing the cost of capital. Alternatively, risk of litigation can lead to manager’s reducing disclosure due to fear of legal action using their statements against them.

29 The management literature examining this relationship often refers to CSR as corporate social performance (i.e., CSP). Further, Margolis, Elfenbein, and Walsh (2009) suggest that despite attempts to distinguish the two terms, CSP and CSR are often used interchangeably in empirical studies.

30 In their meta-analyses of studies examining the relationship between corporate social performance and financial performance, both Margolis et al. (2009) and Orlitzky et al. (2003) conclude there is a positive
suggests market participants can use CSR disclosure as incremental information beyond traditional financial reporting when estimating future net cash inflows.\(^{31}\)

Prior literature examines whether individual market participants view CSR information as incrementally useful to mandatory financial reporting. Findings of these studies suggest that both analysts (e.g., Dhaliwal et al. 2012; Dhaliwal et al. 2011) and investors (e.g., Cohen et al. 2015; Cheng et al. 2015; Elliott, Jackson, Peecher, and White 2014; Cohen et al. 2011) consider CSR information in their decisions. Similarly, Dhaliwal et al. (2011) and Dhaliwal et al. (2012) find firms that initiate CSR reporting achieve lower absolute analyst forecast error and dispersion. Further, Dhaliwal et al. (2012) conclude that CSR reports provide complementary information to analysts. Together, these studies suggest CSR disclosure provides information that reduces information asymmetry and allows analysts to make better predictions on future financial performance.

As with analysts, prior literature also supports investors finding CSR disclosure to be useful in decision-making by examining how the financial markets react to the disclosures. For example, Dhaliwal et al. (2011) find that companies initiating voluntary CSR reporting attract dedicated institutional investors and experience a decrease in the cost of equity capital. Also, Matsumura, Prakash, and Vera-Muñoz (2014) find investors in S&P 500 firms incorporate voluntary disclosure of carbon emissions data into their decisions by finding the market reacts negatively as emissions levels increase. Both of

\(^{31}\) It is important to note that CSR disclosure is how the company signals their participation in voluntary CSR activities. This is similar to the voluntary adoption literature. For example, the XBRL literature finds early adopters provide a signal of superior corporate governance and financial performance (Premuroso and Bhattacharya 2008). Also, this signal provides market benefits with Hao, Zhang, and Fang (2014) finding a negative association between adoption and cost of equity capital. In the same way, the voluntary adoption of CSR activities and disclosure can reduce information asymmetry and provide a signal to the market.
these studies suggest the market impounds CSR information into equity prices. In an experimental setting, Elliott et al. (2014) find that CSR information influences investors’ fundamental value estimates and willingness to invest. Further, Cohen et al. (2015) and Cohen et al. (2011) use survey responses to explore whether investors use CSR information. They find that professional and nonprofessional investors consider CSR information and express an increasing interest to incorporate CSR information into future investment decisions. In summary, studies examining investor decision usefulness have moved from financial to nonfinancial information, of which CSR is a central piece. Further, the literature generally finds support that CSR information is useful to investors as it reduces information asymmetry and helps project future net cash inflows.32

III. HYPOTHESES DEVELOPMENT

Prior research discussed in Section II suggests that overall, investors find CSR disclosure useful when making decisions. The usefulness of the CSR disclosure appears to result from an improved information environment allowing for better forecasts of future net cash inflows. More recently, studies explore situations in which the influence of CSR on investor decisions varies. In the next three sections, we review literature relating to three contingent factors: the occurrence of a company-specific negative event, differences in the type of CSR activity companies undertake, and assurance of the CSR disclosure.

Negative Events and CSR; Development of H1

32 The general findings in the CSR literature are consistent with the forces that influence manager’s disclosure choices identified by Healy and Palepu (2001). Specifically, CSR disclosure can provide capital market benefits if there is a connection between CSR activities and increased future net cash inflows, which sends a signal of management ability. However, the CSR disclosure literature goes beyond these forces by considering how CSR information can send a signal about company culture separate from corporate ability. This argument is further developed in the next section.
Negative events often come with a negative financial impact to the affected company in the form of fines, litigation, reduction in sales, etc.\textsuperscript{33} The heightened risk environment from the occurrence of a negative event provides a setting where investors might use CSR disclosure in ways other than examining the connection to future net cash inflows. Instead, investors might look for a signal of the corporate ethical culture (Du et al. 2010) to determine whether to invest in a company run by management that somehow allowed a negative event to occur due to lack of skill or ill-will (Godfrey et al. 2009).\textsuperscript{34} Prior literature suggests CSR information can provide signals to investors about the ethics of a company’s corporate culture. For example, Kim et al. (2012) find that companies with positive CSR performance are less likely to engage in aggressive earnings management or be the subject of SEC investigations. After controlling for reputation and financial performance, they conclude that greater reporting transparency is driven by ethical concerns of management. Gao et al. (2014) find CEOs of companies with a positive CSR image are less likely to participate in and profit from insider trading. They suggest it is due to higher costs of engaging in activities inconsistent with a positive CSR image. Koh and Tong (2013) find higher audit fees for companies that participate in controversial activities (i.e., negative CSR performance). They conclude this is due to auditors perceiving higher business risk due to heightened concerns about managers’

\textsuperscript{33} For this study we define negative events consistent with Godfrey et al. (2009) who suggest a negative event is a negative outcome to at least one stakeholder group. Further, since we are examining investor response following a negative event we operationalize the construct by requiring the negative event to be material.

\textsuperscript{34} Du et al. (2010) refer to this signal as a signal of corporate identity as distinct from corporate ability. Further, they suggest corporate identity is enduring and influences how stakeholders’ view CSR activities. The signal of the corporate ethical culture is important to this study since it relates to the potential signal CSR can send that is unrelated to future net cash inflows, but still useful to investors.
integrity and ethics. Together this literature suggests that CSR performance information can provide insight into the ethical culture at a company.

The influence of CSR information on investors’ decisions following a negative event has also been studied by examining whether CSR can provide an insurance-like benefit that protects shareholder value (e.g., Christensen 2016; Zahller et al. 2015; Chang et al. 2014; Godfrey et al. 2009; Godfrey 2005). Much of this literature relies on the theoretical work of Godfrey (2005) who examines the risk management perspective of corporate philanthropy. Godfrey (2005) argues that CSR can build moral capital among stakeholders that companies can draw on in times of crisis. Further, he argues that companies can only build moral capital from CSR activities if they are discretionary, align with the values of stakeholders, and do not involve an exchange of value between the company and stakeholders. In other words, they must be altruistic activities that benefit society without a direct link to an increase in future financial performance. Alternatively, CSR activities that do not fit these criteria generate exchange capital, as they are viewed as a self-serving exchange benefiting the company.

Godfrey et al. (2009) test the theory by segregating CSR performance into CSR activities aimed at primary versus secondary stakeholders, finding that not all CSR

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35 In the cited studies, CSR performance is measured by indicators of CSR strengths and concerns as reported in the KLD database. The indicators are helpful in capturing when a company has a CSR strength and/or concern, but is not a continuous performance measure.

36 Godfrey (2005, 778) uses corporate philanthropy as a “discretionary manifestation of CSR”. This is consistent with the discretionary nature of the definition of CSR used in this study. Further, corporate philanthropy is similar to our non-strategic CSR manipulation (further developed in the following section) in that both involve expenditures without the expectation of value coming back to the company. However, they are different in that corporate philanthropy involves expenditures given to external parties, while non-strategic CSR involves expenditures within the company.

37 Godfrey (2005, 783) defines moral capital as “the outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm’s philanthropic activities”.

38 This is consistent with the definition of the non-strategic CSR activity type used in this study. We further develop the distinction between strategic and non-strategic CSR activity types in the next section.
activities have the same influence on investment decisions following a negative event.\textsuperscript{39} They find support for insurance-like protection coming from CSR activities aimed at secondary stakeholders and conclude this is due to the moral capital generated. Further, CSR based moral capital creates value if it helps stakeholders attribute the negative event to managerial lack of skill and not ill will. The market thus views the activities as altruistic and other-regarding (Godfrey 2005) similar to categorizing them as non-strategic. In contrast, no insurance-like protection is found for CSR activities aimed at primary stakeholders as these generate exchange capital that is seen as self-serving.

Examining investor reaction to same day news about CSR and corporate social irresponsibility (CSiR) Groening and Kanuri (2016) find investors initially react less negatively to CSiR when CSR activities are aimed at secondary stakeholders, but this protection declines as the company’s participation in these types of activities increases.\textsuperscript{40} The opposite is found for CSR activities aimed at primary stakeholders, with investors reacting less negatively when there are many CSR activities aimed at primary stakeholders. They conclude this is due to investors perceiving too many CSR activities aimed at secondary stakeholders as value-decreasing and CSR activities aimed at primary stakeholders as a commitment to positive future net cash inflows. The findings provide a mixed picture: investors look for altruistic CSR activities, but do not completely forget about the connection to future net cash inflows.

\textsuperscript{39} The term primary stakeholder refers to stakeholder groups such as shareholders, employees and consumers, while secondary stakeholder refers to the community or the environment. The major difference between the two classifications is that the company is dependent on primary stakeholders for its survival due to the economic exchange between the company and the stakeholder group. Secondary stakeholders, while lacking in power, are still influenced in some way by the firm. For more information, refer to the stakeholder framework developed by Clarkson (1995).

\textsuperscript{40} To operationalize their study, Groening and Kanuri (2016) examine same day changes to the KLD database that tracks the number of CSR strengths and CSR concerns of companies. Specifically, they categorized the addition of a strength or the deletion of a concern as CSR and the addition of a concern and deletion of a strength as CSiR.
This line of literature focuses on quantitative CSR performance indicators and does not capture the effect that CSR disclosure can have on investor reactions. Bansal and Clelland (2004) argue that companies can deflect negative reactions to poor environmental performance by expressing a commitment to the environment, which helps decouple the negative aspect from other positive aspects of the company. Therefore, considering the role of disclosure in investors’ response to negative events is a key aspect to better understanding their response. Two studies have helped further our understanding: Christensen (2016) finds that companies producing CSR reports are less likely to engage in high-profile misconduct, but among those that do, those who previously produced a CSR report experience less negative stock price reactions. Zahller et al. (2015) find high disclosure quality is associated with investors perceiving greater organizational legitimacy, which then provides social resilience from negative investor reactions following a negative event at another company in the same industry.

Overall, the literature suggests that CSR can provide insurance-like protection from negative investor reaction following a negative event. This protection comes when companies build moral capital by participating in CSR activities that are perceived by investors as altruistic, and provides investors with a signal of a company’s ethical culture. The overall conclusion is that companies producing CSR reports are influencing the perceptions of managerial intent by building a positive reputation based on their CSR activities.41 We first propose H1, a replication hypothesis predicting that in our experimental context, the presence of a negative event will reduce investors’ valuation judgments relative to the absence of a negative event.

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41 Companies producing CSR reports to manage their reputation leads to concerns over “greenwashing” (Lyon and Maxwell 2011). We discuss this concern in more detail in a later section when developing H2 that examines investors’ perceptions of the credibility of CSR disclosures.
**H1:** The presence of a negative event will decrease investors’ valuation judgments compared to the absence of a negative event.

**CSR Activity Type and Negative Events; Development of H2a and H2b**

We build on the negative event literature by considering the contingent influence of CSR activity type on investor use of CSR disclosure. Previous studies across various literature streams categorize CSR activities in order to examine the relative benefits available to companies from engaging in different activity types (e.g., Cheng et al. 2015; Aguinis and Glavas 2013; Du et al. 2010; Godfrey et al. 2009). Many of these studies categorize CSR in differing ways largely based on reasoning that some CSR activities have an easily identified connection to the company’s performance, while others appear to be unrelated.42

Strategic CSR is defined as “any ‘responsible’ activity that allows a firm to achieve a sustainable competitive advantage, regardless of motive” (McWilliams and Siegel 2010, 1481). Therefore, strategic CSR activities, by achieving a sustainable competitive advantage, are intended to increase market share and future net cash inflows. And therefore, we reason, non-strategic CSR activities are activities that do not result in a sustainable competitive advantage, and are perceived as having no direct link to market share or future net cash inflows.43 The contingent impact of CSR activity type was also considered by Cheng et al. (2015), who use an experimental setting to examine the

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42 There is not a standard classification of CSR activities in the literature. For example, in a review of the CSR communication literature, Du et al. (2010, 12) present a framework that considers the influence of “CSR fit”. CSR fit is defined as “the perceived congruence between a social issue and the company’s business”. Focusing on industrial and organizational psychology, Aguinis and Glavas (2013, 315) suggest CSR can be classified as either embedded or peripheral. They define embedded CSR as “relies on an organization’s core competencies and integrates CSR within a firm’s strategy, routines, and operations.” In contrast, peripheral CSR “focuses on activities that are not integrated into an organization’s strategy, routines, and operations.”

43 It might be argued that non-strategic CSR activities, while lacking a direct link to future financial performance, could have an indirect link. However, if so, the indirect link is difficult for investors to incorporate into their estimates of future net cash inflows.
alignment of environmental, social, and governance (ESG) indicators with the corporation’s overall strategy.\footnote{Cheng et al. (2015) focus on ESG indicators, which are often contained in voluntary CSR reports.} They employ a low risk setting by providing positive financial performance information in the company background information and by not considering the influence of a negative event. Findings suggest that when strategic alignment is high, investors perceive ESG indicators as more important and are more willing to invest in the company as opposed to when there is low strategic alignment. This suggests that in a low risk setting, investors are likely to prefer adoption of strategic CSR activities perceived as likely to increase future financial performance. Therefore, it appears that absent a negative event, investors may view the usefulness of CSR disclosure much like traditional financial disclosure.

When a negative event occurs, investors might seek a signal of the company’s ethical culture in order to make a judgment on managerial intent and the likelihood of future negative events. In general, the negative event literature reviewed above suggests investors might be influenced by a signal given by the company through CSR disclosure rather than purely analyzing the connection to future net cash inflows. However, this assumption is not without tension as Groening and Kanuri (2016) suggest investors still consider the connection between CSR activities and future net cash inflows when responding to CSiR. The findings of Godfrey et al. (2009) suggest the signal comes when CSR activities are perceived by investors as altruistic in nature and do not have a direct connection to economic benefits available to the company. Therefore, we expect investors will view non-strategic CSR activities as more useful following a negative event as they look beyond the immediate relationship between CSR and future financial performance. Similarly, we expect non-strategic CSR to provide a signal of a genuine
actor and, combined with the act of disclosing, to generate the positive moral capital necessary to provide insurance-like protection against the negative event (Godfrey et al. 2009). We thus predict the disordinal interaction illustrated in Figure 2.1, where disclosure of strategic CSR activities influences investors’ valuation judgments to a greater extent absent a negative event but investors react more favorably to non-strategic CSR activities following a negative event. Specifically, we propose the following hypotheses:

**H2a:** In the absence of a negative event, disclosure of strategic CSR activities will increase investors’ valuation judgments to a greater extent than disclosure of non-strategic CSR activities.

**H2b:** In the presence of a negative event, disclosure of non-strategic CSR activities will increase investors’ valuation judgments to a greater extent than disclosure of strategic CSR activities.

**Insert Figure 2.1 About Here**

H2a is a partial replication of Cheng et al. (2015), in examining the influence of strategic-alignment on investors’ willingness to invest in a low risk setting. We differ from their study in two important ways, as discussed in detail in the following section. First, we measure investor perceptions using a valuation judgment in order to capture investors’ perception of how the overall market will value the company. Second, their case study features strong financial performance, while we examine judgments in a company with mixed financial performance that is more representative of the average firm. H2b builds on this test by manipulating the presence of a negative event specific to the subject company. A riskier company provides an interesting context to examine investor reaction to a negative event as investors are more likely to excuse a negative
event when there is strong financial performance, and thus weaker companies are more in need of “insurance-like” protection from CSR activity (e.g., Godfrey 2005).

**CSR Assurance and Negative Events; Development of H3 and H4**

H2b, which predicts the usefulness of CSR disclosure in the presence of a negative event is derived from the value of the signal being sent from the company to investors. However, due to the voluntary nature of CSR disclosure, the company might use the signal to manage its image. Because investors might only find the signal of CSR disclosure useful if they perceive it to be credible, we also examine CSR assurance as a contingent factor that influences investors’ reactions to CSR disclosures in the context of a negative event.45

Legitimacy theory suggests companies maintain legitimacy when they conform to the acceptable norms of society and are required to maintain their legitimacy in order to continue to exist. Prior research supports the quest for legitimacy as being at least part of the motivation for companies’ reporting choices, as companies try to build or maintain their legitimacy by altering their disclosure practices due to pressure from external parties (i.e., shareholders, regulators, environmentalist and lobby groups) (e.g., Deegan and Blomquist 2006; de Villiers and van Staden 2006; Neu, Warsame, and Pedwell 1998). This motivation to attain legitimacy can cause companies to misrepresent their CSR activities, instead engaging in what the literature refers to as “greenwashing” (i.e., using

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45 In a review of the discretionary narrative disclosures literature, Merkl-Davies and Brennan (2007) discuss studies that assume the disclosures provide useful incremental information, versus those that assume disclosures are used as an opportunistic way for the company to manage its image. Studies arguing useful incremental information suggest companies can reduce information asymmetries by providing detailed narratives and explanations not contained in mandatory financial reporting, consistent with the broader voluntary disclosure literature. However, impression management concerns relate to whether management uses this information avenue as an opportunistic image management tool. While the focus of their review is primarily on narratives in annual reports, the same concerns exist for voluntary CSR disclosure.
CSR disclosures to manage company image). Several studies examine this practice. Aerts and Cormier (2009) find companies influence perceived legitimacy among stakeholders by issuing reactive environmental press releases and altering the extent and quality of environmental annual report disclosures based on media coverage. Ling and Mowen (2013) find evidence that environmental reporting decisions vary based on firm-specific factors; with image- and R&D-focused companies producing more disclosure than companies without these strategies. Cho, Roberts, and Patten (2010) find that worse environmental performers use verbal tone and language to bias the message contained in the disclosures. Similarly, Cho, Michelon, and Patten (2012) find impression management evidence in the graphs contained in CSR reports, showing both a selectivity bias in the choice of items graphed and distortion in graphing favorable to the company. Further, reasons to doubt the credibility of CSR disclosure are supported by several studies that find inconsistencies between disclosure and actual performance (e.g., Clarkson, Li, Richardson, and Vasvari 2008; Patten 2005; Al-Tuwajri, Christensen, and Hughes Li 2004; Wiseman 1982). The evidence suggests that companies can and do use voluntary CSR disclosure as an impression management tool, leading to concerns over the credibility of the information.

In response to credibility concerns, the accounting literature examines the influence of voluntary CSR assurance on how CSR disclosures are perceived. Prior research finds that investors view CSR assurance as credibility-enhancing and place greater reliance on assured CSR disclosures (e.g. Cheng et al. 2015; Brown-Liburd and

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46 Lyon and Maxwell (2011) present an economic model of “greenwashing” to investigate firms that strategically disclose information and the impact of activist groups “audit” of the disclosure. They define greenwash as “selective disclosure of positive information about a company’s environmental or social performance, without full disclosure of negative information on these dimensions, so as to create an overly positive corporate image” (Lyon and Maxwell (2011, 9)).
Therefore, we propose a replication hypothesis that in our setting, the presence of CSR assurance will increase investors’ valuation judgments compared to when CSR assurance is absent. Specifically, we propose the following:

**H3:** The independent assurance of CSR disclosures increases investors’ valuation judgments compared to when assurance is absent.

However, the effect of CSR assurance might vary in the negative event context, as investors might lose confidence in the company. For example, Chakravarthy, DeHaan, and Rajgopal (2014) suggest that restatements (one type of negative event) reduce a company’s reputation among stakeholders, as they view restatements as a violation of the company’s commitment to investors to provide reliable financial statements. This violation of one commitment can lead to skepticism about the company’s willingness to meet future commitments. Further, Elliott, Hodge, and Sedor (2011) find that investor trust mediates investment recommendations following an accounting restatement. Lost trust in management can lead to a reduction in the perceived credibility of CSR disclosures. Therefore, we expect that assurance by an independent professional will be perceived as more important in the negative event context, as investors will be more skeptical of information coming from management and look for independent assurance. Formally, we predict the following (see Figure 2.2):

**H4:** The independent assurance of CSR disclosures increases investors’ valuation judgments to a greater extent when a negative event is present compared to when a negative event is absent.

**Insert Figure 2.2 About Here**

**CSR Activity Type, CSR Assurance and Negative Events; Development of H5a and H5b**
H2a and H2b predict the presence of a negative event will alter how investors perceive the usefulness of strategic versus non-strategic CSR disclosure, while H4 predicts that the presence of a negative event will cause investors to be more skeptical of CSR disclosure and rely more on CSR assurance. However, it is unclear whether investors will place similar reliance on CSR assurance for both strategic and non-strategic CSR disclosures in the presence of a negative event. This issue is motivated by Cohen and Simnett (2015), who suggest the need to consider a contingency framework when examining the value of CSR assurance.\(^{47}\) They note several studies in the CSR assurance literature that examine factors influencing whether an assurance effect is recognized by participants. Most relevant to the current study, Cheng et al. (2015), find that CSR assurance enhances the perceived importance of strategically relevant ESG indicators, while not influencing ESG indicators lacking strategic alignment.\(^{48}\) The current study extends Cheng et al. (2015) by considering how CSR activity type and assurance interact within the negative event context. Absent a negative event, managers’ motivations for disclosure of strategic CSR activities may be perceived as self-serving by investors. If so, investors view the connection between strategic CSR activities and increased future financial performance with greater skepticism, since management has an incentive to share this information. Alternatively, disclosure of non-strategic CSR is not likely to be viewed as self-serving since management does not have an incentive to report value-decreasing activities. Therefore, consistent with the findings of Cheng et al. (2015), we

\(^{47}\) This view is consistent with Mercer’s (2004) framework examining investor response to voluntary disclosure that suggests situational incentives influence how investors perceive disclosure credibility. In the context of this study, we are examining the negative event setting as the situation where investors will perceive disclosure credibility as companies have incentives to produce voluntary disclosure.

\(^{48}\) Further examples of factors influencing whether an assurance effect is recognized comes from Pflugrath et al. (2011) who find the assurance effect exists for mining companies but not for those in the retail industry. Also, Brown-Liburd and Zamora (2015) find an assurance effect for CSR disclosures when managers have a compensation incentive to overinvest in CSR, but not in other conditions.
expect that absent a negative event, CSR assurance will influence investors’ willingness to invest to a greater extent when the disclosures detail strategic CSR activities.

However, in the presence of a negative event this view might be altered. As previously discussed, a negative event might cause investors to alter which CSR disclosures are useful to their decision-making. Non-strategic CSR activities are those that lack a direct link to future net cash inflows. Therefore, when management decides to undertake these activities, they are potentially reducing the value of the company to investors. While prior literature supports that investors are likely to see these activities as value-decreasing (e.g., Groening and Kanuri 2016; Cheng et al. 2015), they can provide a signal of the corporate ethical culture. In the presence of a negative event, if investors do find a signal about the ethical culture useful, then they could view non-strategic CSR activities being disclosed out of self-serving motives. In other words, investors will view non-strategic CSR activities as a self-serving attempt at impression management when the company is faced with a negative event. ⁴⁹ Therefore, we anticipate investors will find high quality (i.e., accurate) non-strategic CSR disclosure more useful following a negative event if it has been assured.

In the presence of a negative event, companies might also have an incentive to emphasize their strategic CSR activities in order to reassure investors of the potential increase in future net cash inflows, as a way to compensate for any financial losses incurred from the negative event. For example, Groening and Kanuri (2016) find investors react less negatively to CSiR when a company has a high level of CSR

⁴⁹ Despite CSR assurance being perceived as more important when investors view the motivation for CSR disclosure as self-serving, this might not be the case for disclosure of non-strategic CSR activities. The usefulness of non-strategic CSR is not tied to the actual activity, but rather to the underlying motivation for participating in the activity (i.e., altruism). To address this, we use non-strategic CSR activities that can be measured in verifiable terms that lend themselves to assurance.
activities focused on primary stakeholders (i.e., there is a direct connection to financial benefits accruing to the company) and conclude this is due to investors’ preference for companies to invest in activities that accrue future cash inflows. If investors recognize this incentive, they might also value the assurance of disclosures detailing strategic CSR activities following a negative event. However, based on the negative event literature reviewed above and consistent with our H2b prediction, we expect that in the presence of a negative event investors will be primarily interested in the signal of the company’s ethical culture and not with the connection to future cash inflows. Therefore, despite this tension, we expect investors to prefer assurance of non-strategic CSR activities compared to assurance of strategic CSR activities. Formally, we predict the following (see Figure 2.3):

**H5a:** In the absence of a negative event, external assurance of CSR disclosures will increase investors’ valuation judgments to a greater extent when the disclosures are strategic than when they are non-strategic.

**H5b:** In the presence of a negative event, external assurance of CSR disclosures will increase investors’ valuation judgments to a greater extent when the disclosures are non-strategic than when they are strategic.

Insert Figure 2.3 About Here

IV. RESEARCH DESIGN

**Experimental Design**

To examine investor reaction to CSR disclosure, we employ a 2x2x2 between-participants experimental design with participants taking on the role of an investor in a company. The three independent variables are negative event (present versus absent), CSR activity type (strategic versus non-strategic) and CSR assurance (present versus absent). The primary dependent variable is the change in valuation judgments regarding
an investment target after reviewing the voluntary CSR disclosure. Company characteristics are held constant across all groups in order to isolate the effects of the independent variables.

Participants

A total of 497 participants were solicited from Amazon Mechanical Turk (MTurk) and passed screening criteria to ensure they represent nonprofessional investors. Consistent with prior studies soliciting investor participants from MTurk (e.g., Koonce, Leitter, and White 2016; Koonce, Miller, and Winchel 2015; Asay, Libby, and Rennekamp 2014; Rennekamp 2012) participants met the following criteria: (1) participants are over 18 years of age; (2) participants are physically located in the United States; (3) participants have an MTurk approval rate of 95% or higher on at least 50 or more completed assignments; (4) participants consider themselves proficient in the English language; (5) participants have purchased or sold individual stocks at least three times in the past; (6) participants have familiarity reading financial statements; (7) participants have taken at least two accounting and/or finance classes.50 Participants were paid $2.00 upon completion of the experimental task.

Experimental Task

Participants are given basic background information on the company, condensed financial statements and summary financial performance data including common financial ratios (e.g., return on investment, debt to equity, etc.). Unlike prior studies that examine investor reactions when there is strong financial performance (e.g., Cheng et al.

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50 Screening criteria available on MTurk are similar to studies using other participant sources. For example, Zahller et al. (2015) use the follow screening criteria when using participants from a survey firm: (1) age (greater than 18 years), (2) nonprofessional investor status, (3) possession of an investment or retirement account, (4) at least some degree of participation in the management of that accounting, (5) comfort reading financial statements, (6) use of financial or investment media.
2015), we introduce business risk by presenting a mixed picture of financial performance. While investors are more likely to excuse a negative event from strong financial performers, a mixed picture of financial performance allows us to examine weaker companies that are more in need of the “insurance-like” protection from CSR activity (e.g., Godfrey 2005). In order to ensure that the participants recognize mixed financial performance, we explicitly state that the financial results of XYZ, Inc., a food processing and wholesale company, are mixed compared to the industry average. Similar to prior studies examining investor behavior, participants are prompted to consider this investment decision to be long-term in nature (e.g., Zahller et al. 2015). At this point, participants provide an initial valuation judgment for the common stock of the company.

Following the background and financial information and initial assessment of valuation, participants are randomly assigned to treatment groups to receive the manipulations. To minimize the risk of order effects, we randomize the order that participants in the negative event present condition receive the manipulations, with some participants receiving the negative event manipulation prior to receiving the CSR disclosure and others receiving it after. Participants are given excerpts from the XYZ’s most recent CSR report, where the CSR activity type and CSR assurance manipulations are included. Prior research suggests that investors’ reactions to CSR disclosure are influenced by the level of disclosure quality (Zahller et al. 2015). Therefore, we hold high disclosure quality constant across all treatments, including quantifiable and verifiable performance indicators, as well as both positive and negative performance (i.e.,

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51 We chose to prompt a long-term investment horizon due to the likelihood of CSR activities not having an immediate impact on financial performance.
completeness).\textsuperscript{52} Participants in the negative event treatment receive information detailing the company being involved in a negative event, as described below. After receiving the manipulations, participants again provide a valuation judgment for the common stock of the company. Next, participants rate their perceptions of the connection between the CSR activities and future net cash inflows, as well as whether the disclosure provides a signal of the company’s ethical culture. Participants then provide judgments on their perceptions of disclosure credibility. Finally, demographic and manipulation check questions are answered. See Figure 2.4 for phases of the experiment.

\textbf{Insert Figure 2.4 About Here}

\textit{CSR Activity Type Manipulation}

We manipulate the CSR activity type (\textit{CSR_ACTIVITY_TYPE}) as \textit{strategic} or \textit{non-strategic}. We operationalize \textit{strategic} CSR activities (\textit{CSR_ACTIVITY_TYPE} =1) as those that are associated with an increase in market share and future net cash inflows, while \textit{non-strategic} (\textit{CSR_ACTIVITY_TYPE} =0) lack a direct link to market share and future net cash inflows. We provide participants in the \textit{strategic} CSR condition two disclosures discussing XYZ’s commitment to CSR issues. In each of the disclosures we provide participants with a dollar value of the investment made in the CSR activity and the cost savings or revenue enhancements expected from the activities. Thus, providing a clear connection to an increase in future net cash inflows of the company. In the \textit{non-strategic} CSR condition, we provide participants with the same disclosures discussing XYZ’s commitment to CSR issues. In each of the disclosures we provide participants

\textsuperscript{52} Despite disclosure being presented to participants as accurate (quantifiable and verifiable) it does not suggest that the disclosure is credible. Therefore, an assurance effect can still influence investor use of the information. Also, “Negative performance” does not refer to a negative event, but rather to the company not reaching all CSR targets for the year.
with a dollar value of the investment made in the CSR activity. The non-strategic disclosure differs from the strategic disclosure by explicitly stating that the CSR activities do not influence market share or result in a reduction in future net cash inflows.

We adapt the strategic and non-strategic alignment manipulation used by Cheng et al. (2015) for several reasons. First, this is the established CSR activity classification in the accounting literature and allows for a cleaner comparison of our findings to prior literature in the negative event absent condition. This is important due to our inclusion of business risk via mixed financial performance ratios given prior studies hold strong financial performance constant. Second, when manipulating the type of CSR activities, we want to ensure that strategic CSR clearly relates to an increase in net future cash inflows, while non-strategic CSR does not. This allows participants the opportunity to consider whether non-strategic CSR activities are signals of altruism without confounding the results.

**CSR Assurance Manipulation**

We manipulate CSR assurance \( (CSR\_ASSURANCE) \) consistent with prior studies. Following Brown-Liburd and Zamora (2015), participants in the assurance present treatment \( (CSR\_ASSURANCE = 1) \) are provided with an assurance report which concludes that the CSR disclosure provides an accurate and complete description of the CSR activities of XYZ for that year. Following Cheng et al. (2015), participants in the assurance absent treatment \( (CSR\_ASSURANCE = 0) \) are told that XYZ Inc. chose not to engage an independent assurer for their CSR disclosures.\(^{53}\)

\(^{53}\) There are other ways to manipulate the absence of CSR assurance. For example, Brown-Liburd and Zamora (2015) omit any mention of CSR assurance. We include a statement saying there was no independent assurance for two reasons. First, to ensure the assurance absent treatment is salient to
Negative Event Manipulation

Following Zahller et al. (2015), participants in the negative event present treatment (NEGATIVE_EVENT =1) read an excerpt from the business press, rather than receiving information directly from the firm. This gives the negative event more credibility to the participants since it is coming from an independent source. The Godfrey et al. (2009) findings suggest that insurance-like protection from CSR is found when the negative event challenges the integrity of the company. Therefore, we choose a negative event that is harmful to the consumer stakeholder group to elicit concerns about the integrity of management. The business press article details a voluntary food safety recall that occurred at XYZ, Inc. following incidences of consumers becoming sick after eating their products. Further, we employ this negative event because it has both integrity and financial implications to the company. Negative financial complications are important for our study due to our interest in how investors view the connection between CSR and future net cash inflows.\(^\text{54}\) Participants in the negative event absent treatment (NEGATIVE_EVENT =0) do not receive any information about the negative event.

Measured Variables

Consistent with the discretionary disclosure literature (Koonce et al. 2016; Rennekamp 2012), the primary measured variable is a valuation judgment; participants indicate on a 101-point scale with labels of 0 (low), 50 (average) and 100 (high) what they believe is an appropriate value for the common stock of XYZ Inc.\(^\text{55}\) Asking

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\(^{54}\) Another reason for choosing a food safety issue is due to the recent press received by Chipotle and General Mills. Using a negative event recently covered in the news helps make the negative consequences more salient to participants.

\(^{55}\) There are other possible ways to measure investors’ perceptions. For example, Zahller et al. (2015) use a disinvestment measure by using a task where participants inherit shares of the firm’s stock and can
participants to provide this judgment both before ($VALUATION_1$) and after ($VALUATION_2$) receiving the manipulations allows isolation of their reactions to the treatments. Therefore, we use the change in judgments ($ΔVALUATION$) as the dependent variable when formally testing the hypotheses. We also capture a “willingness to invest” measure by asking participants their perceptions on the desirability of XYZ, Inc. as an investment opportunity (Koonce et al. 2016).\textsuperscript{56} Participants indicate their response on a 101-point scale with labels of 0 (not at all desirable), 50 (average) and 100 (very desirable) ($DESIRABILITY_1$; $DESIRABILITY_2$; $ΔDESIRABILITY$). Our primary motivation for including a “willingness to invest” measure is that participants might differ in how they perceive the task. The primary valuation judgment might elicit participants’ perceptions on how the overall market would value the investment, while the willingness to invest measurement provides an individual reaction.

In order to add to the archival literature in this space and to shed more light on the motivations behind participant responses, we also ask participants two questions on how they perceive the usefulness of CSR disclosure. To prevent order effects, we randomize the order in which participants answer the following questions. Participants are asked about their perceptions on the likelihood of CSR activities resulting in positive future financial performance. This is captured on an 11-point scale ranging from 1 (highly unlikely) to 11 (highly likely) ($FCF\_CONNECTION$). Also, participants are asked about their perceptions on whether the CSR activities provide a signal of the corporate ethical

\textsuperscript{56} This willingness to invest measurement also allows for a direct comparison to Cheng et al. (2015) who use a willingness to invest measure as their primary dependent variable.
culture. This is captured on a 11-point scale ranging from 1 (definitely does not provide a signal) to 11 (definitely does provide a signal) (ETHICS). We also measure participants’ perceptions of the credibility of the CSR disclosure. Similar to Zahller et al. (2015), we ask participants to indicate on an 11-point scale how believable they find XYZ’s CSR disclosures ranging from 1 (very doubtful) to 11 (very believable) (CREDIBILITY). Since the company has a mixed financial background, we measure participants’ perceptions of the financial health of the company relative to its industry peers on a 11-point scale ranging from 1 (very low) to 11 (very high) (FIN_HEALTH). Finally, we measure participants’ perceptions of XYZ’s motives for undertaking the CSR activities contained in the disclosures by asking participants if they think XYZ, Inc. practices CSR primarily to be a good corporate citizen (CSR_MOTIVES) on an 11-point scale ranging from 1 (highly unlikely) to 11 (highly likely).

V. RESULTS

Manipulation Checks

A total of 497 participants passed the screening requirements and completed the study. To ensure the negative event and CSR assurance manipulations had the intended effect, the experiment asked two memory manipulation check questions. First, participants were asked whether they recall receiving information on a negative event occurring at the company. Second, participants were asked if the company engaged an accounting firm as an independent assurer of the CSR disclosure. A total of 98 (19.7%) participants failed at least one of these manipulation checks and were removed from the sample.57 The manipulation failure rate is comparable with prior CSR assurance studies.

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57 A total of 61 (12.3%) participants failed the negative event recall question. Of the 61 failures, 20 occurred when participants in the negative event present treatment responded that there was no negative
(e.g., Brown-Liburd and Zamora 2015; Cheng et al. 2015). Our final sample comprises 399 participants that passed both memory checks, with cell sizes ranging from 42 to 57. To ensure the CSR assurance manipulation had the intended effect, we examine the treatment means for CREDIBILITY. Consistent with expectations, investors in the assurance present treatment perceived higher disclosure credibility (mean = 7.83) relative to investors in the assurance absent treatment (mean = 6.16; t = 6.81, one tailed p < 0.000). Results suggest the CSR assurance manipulation had the intended effect.

To ensure that the CSR activity type manipulation had the intended effect, we examine treatment means for FCF_CONNECTION and CSR_MOTIVES. As expected, participants in the strategic CSR activity treatment found it more likely that the company primarily practiced CSR to improve future net cash flows (mean = 7.05) than those in the non-strategic CSR activity treatment (mean = 5.46, t = 6.32, one-tailed p < 0.000). Also, participants in the non-strategic CSR activity treatment found it more likely that the company primarily practiced CSR to be a good corporate citizen (mean = 6.46) than those in the strategic CSR activity treatment (mean = 5.64, t = 3.265, one-tailed p = 0.001). The results suggest the CSR activity type manipulation was successful.

**Descriptive Statistics**

Of the 399 participants included in the final sample, 72 percent are between the ages of 25-44, and 54 percent are male. In addition, 54 percent of participants earned a bachelor’s degree and participants took on average 3.15 accounting and 2.73 finance event. The remaining 41 failures occurred when participants in the negative event absent treatment responded that there was a negative event. A possible explanation for this manipulation check failure is that participants perceived the mixed financial background as a negative setting. A total of 62 (12.5%) participants failed the CSR assurance recall question. Of the 62 failures, 18 occurred when participants in the assurance present treatment responded that there was no assurance. The remaining 44 failures occurred when participants in the assurance absent treatment responded that there was assurance. A possible explanation for this manipulation check failure is that participants saw the phrase CSR assurance and did not read the manipulation wording carefully to recognize assurance was absent.
courses. In terms of work experience, 28 percent have between six to ten years of professional experience with a mean of eight years of personal investing experience. The majority of the participants have professional experience as CPAs (n = 348, mean = 0.61 years), lawyers (n=338, mean = 0.20 years) and investors (n = 376, mean = 4.38 years). Further, 79 percent of participants responded that they are solely responsible for managing their investment portfolio and are likely to invest in the next 12 months (mean = 7.68) (1 = Highly unlikely, 11 = Highly likely). Participants also have a slightly optimistic overall view of the market (mean = 6.99 on a scale of 1= Pessimistic, 6 = Neutral, 11 = Optimistic). Finally, participants rate themselves slightly above average on their CSR knowledge (mean = 6.33, where 1 = Below average, 11 = Above average) and their sustainability consciousness (mean = 7.00, where 1 = Not at all conscious, 11 = Very conscious).

Table 2.1 displays summary statistics for the dependent and control variables and Table 2.2 displays the correlation matrix.

Insert Tables 2.1 and 2.2 About Here

Hypothesis Testing

Prior to testing the formal hypotheses, we examine whether the presence of CSR information provides insurance-like protection to the company following a negative event by comparing primary dependent variable means (ΔVALUATION, ΔDESIRABILITY) in the control group to the treatment groups, who receive the negative event manipulation but no information about either type of CSR. Untabulated results show that the mean change in investors’ valuation judgments for participants in the control group is -15.66 compared to -5.81 for participants who also receive the CSR manipulations. The net
difference in investors' valuations judgments of 9.84 is significant (p < 0.000). Further, the mean change in investors’ desirability judgments is -17.92 for those in the control group and -9.00 for those who also receive the CSR manipulations. The net difference in investors’ desirability judgments of 8.92 is significant (p <0.000). Thus, results suggest the presence of CSR disclosure overall provides insurance-like protection following a negative event.58

**Negative Events and CSR; Test of H1**

H1 predicts that the presence of a negative event will result in lower valuation judgments than when a negative event is absent. Table 2.3 Panel A shows that absent a negative event investors’ mean valuation judgments increase from the baseline of the pre-manipulation judgment after receiving the CSR manipulations (5.01), but decrease when a negative event is present (-5.81). Similarly, Table 2.3 Panel B shows that investors’ mean perceptions of investment desirability increase from the baseline of the pre-manipulation judgment when a negative event is absent (6.51), but decrease when a negative event in present (-9.00). Table 2.4 Panel A reports standard three-way ANCOVA models for both dependent variables. Results show that the main effect of NEGATIVE_EVENT is significant for both the change in valuation judgment (F=22.04, p<0.000) and the change in investment desirability (F=50.86, p<0.000), supporting H1. Thus, investors in our setting react to the company’s involvement in a negative event by

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58 Also, we compare control group to participants receiving disclosure of strategic or non-strategic CSR activity. Results suggest that either type of CSR activity provides an insurance-like benefit as disclosure of either type reduces investors’ negative reactions to the negative event ($\Delta VALUATION$: control vs. strategic: p<0.000; control vs. non-strategic: p<0.000; $\Delta DESIRABILITY$: control vs. strategic: p<0.000; control vs. non-strategic: p=0.005). Further, follow-up tests show no difference in investors’ negative reactions based on CSR activity type ($\Delta VALUATION$: strategic vs. non-strategic: p=0.247; $\Delta DESIRABILITY$: strategic vs. non-strategic: p=0.168). We formally test for a difference in investor reaction to CSR activity type following a negative event in H2b.
decreasing their valuation judgments and perceiving the company as a less desirable investment.

**Insert Tables 2.3 and 2.4 About Here**

**CSR Activity Type and Negative Events; Tests of H2a and H2b**

H2a predicts that in the absence of a negative event, disclosure of strategic CSR activity will increase investors’ valuation judgments to a greater extent than disclosure of non-strategic CSR activity. In contrast, H2b predicts that in the presence of a negative event, disclosure of non-strategic CSR activity will increase investors’ valuation judgments to a greater extent than disclosure of strategic CSR activity. The insignificant interactions of `NEGATIVE_EVENT` and `CSR_ACTIVITY_TYPE` on the changes in valuation judgments (Table 2.4 Panel A – Model 1) and investment desirability judgments (Table 2.4, Panel A – Model 2) suggest that the predicted interaction is not supported. We formally test H2a through planned contrasts in the sub-sample of observations that did not receive the negative event manipulation (n=187). Table 2.3 Panel A shows the mean change in valuation judgment of investors receiving disclosures of strategic CSR activity is 6.87, compared to 3.18 among those receiving disclosure of non-strategic CSR activity. Table 2.4 Panel B shows that this difference is significant (p=0.046, one-tailed). Table 2.3 Panel A shows that the mean change in desirability judgments of investors receiving disclosures of strategic CSR activity is 9.29, vs. 3.77 among those receiving disclosure of non-strategic CSR activity. Table 2.4 Panel B shows that this difference is significant (p=0.010, one-tailed), supporting H2a. This implies that, consistent with Cheng et al. (2015), absent a negative event, investors value more highly
strategic CSR activity and this influence is not altered by the company’s mixed financial performance.

We formally test H2b using planned contrasts in the sub-sample of investors receiving the negative event manipulation (n=212). Table 2.3 Panel A shows that the mean change in valuation judgments of investors receiving disclosures of non-strategic activity is -6.87, vs. -4.87 for those receiving disclosures of strategic activity. A similar pattern holds for the change in desirability judgments (-10.36 vs. -7.78). Table 2.4 Panel B reports that these differences are not significant. Thus, H2b is not supported, contrary to prior archival studies suggesting non-strategic CSR activity provides an insurance-like benefit to companies following negative events. One possible explanation is that prior archival studies do not control for performance (e.g., Groening and Kanuri 2016; Godfrey et al. 2009), thus our mixed financial background could provide a context in which non-strategic CSR is viewed as less important. Instead, investors seem to prefer a company with mixed financial performance that experienced a negative event to focus on financial recovery rather than investment in non-strategic CSR.

**CSR Assurance and Negative Events; Tests of H3 and H4**

H3 is a replication hypothesis predicting that assurance of CSR disclosures will increase investors’ valuation and desirability judgments. Table 2.3 Panel A shows that when CSR assurance is present, mean valuation judgments increase after receiving the CSR manipulations (0.55), but decrease when assurance is absent (-2.20). Similarly, Table 2.3 Panel B shows that mean perceptions of investment desirability increase when CSR assurance is present (0.88), but decrease when assurance is absent (-4.64). We test H3 using the main effect for ASSURANCE in the three-way ANCOVA models in Table
Panel A. Results show that the difference between the means is marginally significant for the change in valuation judgments (p=0.084) and significant for the change in investment desirability (p=0.002), supporting H3. Thus, results suggest that overall, CSR assurance improves investors’ view of the company in our context.

H4 predicts that assurance of CSR disclosures increases investors’ valuation judgments to a greater extent when a negative event is present versus absent. We test this ordinal hypothesis using planned comparisons. Results are reported in Table 2.5, with descriptive statistics shown in Table 2.3 Panel A and depicted in Figure 2.5. Prior to testing H4, we note differences associated with assurance within each negative event condition. Table 2.3 Panel A shows that the mean change in valuation judgment is 6.50 (3.27) when CSR disclosure is assured (not assured) in the absence of a negative event. The difference of 3.23 is significant (p=0.075, one-tailed), consistent with prior research showing that assurance improves investors’ views of companies in the absence of negative events (Cheng et al. 2015; Brown-Liburd & Zamora 2015). Table 2.3 Panel A also shows that the mean change in valuation judgment is -4.87 (-6.77) when CSR disclosure is assured (not assured) in the presence of a negative event. The net difference of 1.90 is not significant (p=0.196, one-tailed). Table 2.3 Panel B shows that the mean change in desirability judgments is 9.70 (2.77) when CSR disclosure is assured (not assured) in the absence of a negative event, while the mean change in desirability judgments is -7.19 (-10.84) when CSR disclosure is assured (not assured) in the presence of a negative event. Consistent with the mean change in valuation judgment, the difference in the mean change of desirability of 6.93 is significant (p=0.002, one-tailed) in the absence of a negative event. However, the difference in the mean change in
desirability judgment of 3.65 is marginally significant (p=0.086, one-tailed) in the presence of a negative event. Results of planned contrasts in Panel C show that the increase associated with assurance is similar across negative event conditions, and thus H4 is not supported for either dependent variable. Findings suggest CSR assurance plays an important role in increasing investors’ reactions to CSR disclosure, however it does not have greater incremental value when a negative events occur.

Insert Figure 2.5 About Here

Insert Table 2.5 About Here

CSR Activity Type, CSR Assurance and Negative Events; Tests of H5a and H5b

H5a is an ordinal hypothesis, predicting that in the absence of a negative event, CSR assurance will increase investors’ valuation judgments to a greater extent when the disclosures discuss strategic CSR activity compared to non-strategic CSR activity. In contrast, H5b predicts a different ordinal pattern, specifically that in the presence of a negative event, CSR assurance will increase investors’ valuation judgments to a greater extent when the disclosures discuss non-strategic CSR activity compared to strategic CSR activity. We test H5a in the sub-sample of observations that did not receive the negative event manipulation (n=187). Descriptive statistics are shown in Table 2.3 Panel A & B and depicted in Figure 2.6 Panel A. Table 2.3 Panel A shows the mean change in valuation judgment of investors receiving disclosures of strategic CSR activity is 8.55 when assured vs. 4.90 when not assured (difference = 3.65). Additionally, Table 2.3 Panel A shows the mean change in valuation judgment of investors receiving disclosures of non-strategic CSR activity is 4.46 when assured vs. 1.67 when not assured (difference
The planned contrast test\(^{59}\) in Table 2.6 is significant \((p=0.021,\) one-tailed), supporting H5a. Results are similar when comparing the differences in desirability judgments. Findings suggest, absent a negative event, assured and strategic CSR disclosure has the largest impact on investors’ judgments.

**Insert Figure 2.6 About Here**
**Insert Table 2.6 About Here**

We test the predicted ordinal interaction in H5b in the sub-sample of observations receiving the negative event manipulation \((n=212)\). Descriptive statistics are shown in Table 2.3 Panels A and B and depicted in Figure 2.6 Panel B. Table 2.3 Panel A shows that the mean change in valuation judgment of investors receiving disclosures of strategic CSR activity is -4.24 when assured, vs. -5.50 when not assured \(\text{difference} = 1.23\). Additionally, Table 2.3 Panel A shows that the mean change in valuation judgment of investors receiving disclosures of non-strategic CSR activity difference is -5.57 when assured, vs. -8.19 when not assured \(\text{difference} = 2.62\). The planned contrast test\(^{60}\) in Table 2.6 is not significant \((p=0.290,\) one-tailed), and so H5b is not supported. Results are similar when comparing the differences in desirability judgments. Findings suggest that the presence of a negative event does not alter investors’ views of the CSR activity type as predicted. Consistent with H2b, results suggest that investors view strategic and

\(^{59}\) We test H5a using the same contrast weights as Cheng et al. (2015): +3 for strategic/assurance present, +1 for strategic/assurance absent, -2 for non-strategic/assurance present and -2 for non-strategic/assurance absent.

\(^{60}\) We tested H5b using the following contrast weightings: -2 for strategic/assurance present, -2 for strategic/assurance absent, +3 for non-strategic/assurance present and +1 for non-strategic/assurance absent.
non-strategic CSR activity similarly in the negative event setting and the results of H5b suggests that CSR assurance does not alter this view.\textsuperscript{61}

VI. CONCLUSION, LIMITATIONS, FUTURE RESEARCH

In this study, we examine whether the presence of a negative event, CSR activity type and CSR assurance jointly influence investors’ judgments. Results indicate the presence of a negative event reduces investors’ valuation and perceptions of investment desirability judgments. Consistent with prior experimental literature and absent a negative event, we find investors react most favorably to strategic CSR activity (e.g., Cheng et al. 2015). However, contrary to prior archival literature, we find that non-strategic CSR activity fails to provide incremental insurance-like protection relative to strategic CSR in our experimental setting. Further, we find that absent a negative event CSR assurance has a positive impact on investors’ reactions to CSR disclosures, and marginal support that this effect extends to the negative event setting. Finally, results suggest that absent a negative event, disclosures of strategic CSR activity that are assured have the greatest positive influence on investors’ valuation and desirability judgments. However, in the presence of a negative event, strategic and non-strategic CSR activities have a similar influence on investors’ judgments, even when the disclosures have been assured.

Our findings suggest that the CSR activity type does not influence the amount of moral capital available to a company following a negative event. Godfrey (2005) argues that moral capital, and the associated insurance-like protection, is influenced by stakeholder evaluations of both the act and the actor. Further, he suggests that positive

\textsuperscript{61} To provide additional support that the negative event setting alters investors’ views we use the same contrast weightings used to test H5a. The planned contrast test is not significant.
acts by genuine actors are the only circumstances where positive moral capital is generated. In our setting, we expected that both strategic and non-strategic CSR would provide a signal of a positive action. However, we expected only non-strategic CSR to provide a signal of a genuine actor and, combined with the act of disclosing, to generate positive moral capital to provide insurance-like protection against the negative event. Results suggest this is not the case; both strategic and non-strategic CSR developed a similar level of moral capital, as investors’ reactions to the negative event were not different between the two treatment groups. Therefore, results suggest that strategic and non-strategic CSR activities give investors a similar signal about the actor. Thus, the CSR activity type does not alter whether investors attribute the negative event to managerial maladroitness or malevolence as suggested by Godfrey and colleagues (2009). A possible explanation for this difference could be that Godfrey (2005) argues moral capital is generated by corporate philanthropy, which is different than non-strategic CSR activities in our setting. The non-strategic CSR activities in the case relate to the company’s production processes that are likely to have some future impact on the company’s financial performance, while corporate philanthropy only involves benevolent cash outflows that decrease firm value.

These findings provide several important contributions. First, we contribute to the literature investigating investors’ use of CSR disclosure by considering how the occurrence of a negative event alters perceptions of the importance of strategic CSR, which connects to future net cash inflows. Results suggest that in the presence of a negative event, investors no longer react more favorably to strategic CSR activity relative to non-strategic CSR activity. Rather, both types of CSR activity have a similar impact on
investors’ valuation and desirability judgments. This could be due to investors viewing strategic CSR activities as no longer playing an important role in the investment decision (i.e., the negative event cancels out the strategic CSR effect).\textsuperscript{62} Alternatively, it could be due to investors perceiving non-strategic CSR activity as more important in this context (i.e., as a signal of the company’s ethical culture), but not more important than the connection between strategic CSR activity and future net cash inflows. These explanations appear consistent with the mixed financial background we gave participants and could help explain why our results differ from prior archival literature.

Second, we extend the CSR assurance literature by examining whether the value of CSR assurance is affected by the presence/absence of a negative event. We find marginal support that the value of CSR assurance extends to the negative event context, and therefore provides value to the company in a setting where investors might lose trust in management (Elliott et al. 2011). Further, this study examines whether CSR assurance adds incremental value beyond credibility that comes from the high disclosure quality featured in our experiment (i.e., the disclosure mentions both negative and positive aspects of the CSR activity; Zahller et al. 2015). We find assurance provides incremental value to high-quality CSR disclosures, suggesting companies can earn business rewards from purchasing CSR assurance even when they produce high-quality CSR disclosures.

This study has several implications for practice. Our study informs the SEC Disclosure Effectiveness Initiative by supporting that CSR disclosure provides important information to investors when negative events are both present and absent. Therefore,

\textsuperscript{62} It is not clear why both types of CSR activity have a similar influence on investors’ judgments when a negative event is present, however, further analysis of measured variables may aid in understanding this result. Anecdotally, one participant emailed the researchers after completing the experiment to provide context on their response. The participant suggested that CSR is the least of the company’s worries given the lack of financial health of the company.
voluntary CSR disclosure could help improve market efficiency by improving the information environment. Future research could examine whether this result is also the case if disclosures are mandatory. Also, our findings suggest that if companies consider investor reaction to be a main goal of CSR activity and disclosure, they should focus on strategic CSR activities. We show that disclosure of strategic CSR improves investor judgments more than non-strategic CSR activities absent a negative event and provides the same insurance-like protection as non-strategic activities in the presence of a negative event. Further, our findings suggest that CSR assurance influences investors’ judgments when a negative event is present. Thus, providing evidence that companies can improve the impact of CSR activities following a negative event by purchasing assurance.

This study has several limitations that provide opportunities for future research. First, by using MTurk participants, our study examines how nonprofessional investors react to CSR disclosures. While it is important to understand this investor group, professional investors’ reactions to CSR disclosure could differ. Future research could use archival methods to examine whether the market reaction following negative events differs based on CSR activity type and CSR assurance. Second, participants receive disclosure of either strategic or non-strategic activities. While this manipulation is important in our experimental setting, in order to isolate possible mediating factors influencing participants’ decisions, in practice companies are likely to practice both types of CSR activities. Future archival research could investigate investor reaction relative to the ratio of a company’s strategic to non-strategic CSR activity, thus providing greater insight into investors’ preference for various CSR activity types. Third, our study presents investors with an excerpt of a company’s annual CSR report. However, investors
can receive CSR information from a variety of sources (e.g., news release, company website, etc.). Further research could examine whether the influence of CSR information on investors’ judgments vary with difference information sources. Fourth, the focus of this paper is to compare investors’ reactions to CSR disclosure when a negative event is present or absent. As such, we do not study investors’ reactions to positive events, which might not be symmetrical to negative event reactions. Finally, our study examines one type of negative event (i.e., product safety failure), but the circumstances around other negative events and the frequency of those events over time could lead to different investor decisions. Future archival research could examine whether an array of negative event scenarios interact with CSR activity type and assurance to influence investor reaction. Further, investors’ reactions to the conditions that we study could vary by the financial risk of the company, which is not considered by prior research (e.g., Groening and Kanuri 2016; Godfrey et al. 2009). We hold financial risk constant in order to isolate the effect of the negative event, but future archival and experimental research could investigate whether financial risk affects the patterns we observe.
Part Three

The Influence of Corporate Social Responsibility Disclosure on Jurors’ Judgments
I: INTRODUCTION

Increasingly, companies are investing in corporate social responsibility (CSR) initiatives and voluntarily reporting on their CSR activities.\(^\text{63}\) Prior literature mainly focuses on this voluntary behavior by examining whether CSR information enhances firm value (e.g., Aguinis and Glavas 2012; Carroll and Shabana 2010; Margolis, Elfenbein, and Walsh 2009; Orlitzky, Schmidt, and Rynes 2003). A segment of the CSR research considers how CSR information can protect shareholder value following a negative event (e.g., Christensen 2016; Zahller, Arnold, and Roberts 2015; Godfrey, Merrill, and Hansen 2009; Godfrey 2005; Klein and Dawar 2004). Godfrey (2005) provides a theoretical argument suggesting CSR can provide insurance-like benefits during a corporate crisis by generating positive moral capital among communities and stakeholders. Prior literature supports Godfrey’s argument as CSR information is found to reduce negative reaction following a negative event among both consumers (e.g., Klein and Dawar 2004) and investors (Christensen 2016; Groening and Kanuri 2016; Zahller et al. 2015; Godfrey et al. 2009). However, CSR reporting discloses information that could be seen as important by a range of user groups (e.g., consumers, employees, investors, etc.). Therefore, I examine whether CSR disclosure influences jurors’ judgments. Specifically, I examine whether the type of CSR activity and CSR assurance influence jurors’ negligence and damages assessments.

\(^{63}\) According to the KPMG Survey of Corporate Responsibility Reporting 2015, 73% of the 100 largest global companies and 92% of the 250 largest global companies report on their corporate responsibility. The percentage of companies reporting has been stable since the KPMG 2011 report, but is a large increase from 2002 when 28% of the 100 largest global companies and 45% of the 250 largest global companies reported. The survey also finds the reporting rate of surveyed companies from the United States is approximately 85% (KPMG 2015).
Investigating jurors’ reactions to CSR disclosure is important for several reasons. Jurors play a pivotal role in our society following the occurrence of a negative event by being tasked with the responsibility of determining negligence and assigning associated financial penalties. Therefore, research on understanding how CSR influences jurors’ reactions could provide key insight into the insurance-like protection available to companies from their CSR activities. Second, prior literature suggests that stakeholder reactions to CSR information are not always congruent (Groening and Kanuri 2013).  

Further, the juror decision-making context is distinct from other users since there is no economic transaction between jurors and the company. Therefore, jurors’ use of CSR information might differ from other user groups as they have no incentive to consider their own self-interest.

I complete two studies to contribute to the CSR literature by examining whether CSR information can provide insurance-like protection by influencing jurors’ decision-making. In Study 1, I examine how CSR activity type (strategic versus non-strategic) and CSR assurance influence jurors’ negligence assessments, while Study 2 extends the analysis to jurors’ damage assessments.  

Jurors’ damage assessments serve two purposes. First, compensatory damages are designed to return the plaintiff to a state comparable to where they were prior to the negative event. Second, jurors can assess punitive damages to punish the defendant for their actions and deter the behavior from

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64 For example, Groening and Kanuri (2013) find that at times the market reacts positively (negatively) to CSR activities that have a negative (positive) impact on other stakeholder groups. The findings highlight the importance of investigating users’ reactions to CSR disclosure across various user groups.

65 In this study, I examine how different types of CSR activities influence jurors’ reactions by manipulating between strategic and non-strategic CSR activities. In Section II, I discuss the differences between the CSR activity types, as well as how jurors’ reactions to the different CSR activity types could diverge.

66 Negligence is commonly defined as a failure to exercise the same level of care as a reasonable person would use in the same situation (Seventh Circuit 2015). Refer to Kelley and Wendt (2001) for a review on negligence instructions given to jurors, which includes discussion on different interpretations of the legal definition of negligence.
happening again (Greene and Bornstein 2000). Examining all three assessments (negligence, compensatory damages, punitive damages) provides insight into the influence of CSR information across the entire juror decision-making process.

In Study 1, I rely on the Culpable Control Model (CCM) (Alicke 2000), in order to examine whether CSR information influences jurors’ negligence assessments. The CCM suggests that jurors make negligence assessments based on their perceptions of the defendant’s personal control over the negative event, as well as affective reactions to the details of the case. The model also proposes that jurors’ perceptions of personal control are influenced by perceptions of intentionality, foreseeability and causation, which in turn are influenced by their affective reactions to the defendant. I build on this literature by examining whether CSR information influences jurors’ judgments identified in the CCM. Further, this study builds on the CSR literature that suggests stakeholders’ attributions of CSR motives influence their reactions (e.g., consumers’ purchase intentions) (e.g., Groza, Pronschinske, and Walker 2011; Du, Bhattacharya, and Sen 2010; Ellen, Webb, and Mohr 2006; Klein and Dawar 2004), and that their perceptions of CSR motives are influenced by different CSR activity types (e.g., Groening and Kanuri 2016; Cheng, Green, and Ko 2015; Godfrey et al. 2009). Godfrey et al. (2009) attribute the divergent perceptions of CSR activity to whether stakeholders view CSR motives as other-regarding (i.e., altruistic) or self-serving. Therefore, I expect that the influence of CSR information on jurors’ negligence assessments will depend on the CSR activity type undertaken by the company. Specifically, I expect that CSR activity type will influence jurors’ affective reactions to the defendant and jurors’ perceptions of intent. The CCM
suggests these intermediate judgments should influence jurors’ perceptions of controllability, which impacts their negligence assessments.

I also study the role of independent assurance of CSR information in this context. Due to the voluntary nature of CSR disclosure, concerns exist over its credibility. Prior literature suggests companies pursue CSR initiatives out of self-interest in an attempt to develop and manage the company’s perceived organizational legitimacy. For example, studies find that companies may alter their disclosure practices based on media coverage (Aerts and Cormier 2009) and when their legitimacy is threatened (de Villiers and van Staden 2006). Other research finds that disclosures can be inconsistent with future results (Patten 2005) and that companies use impression management techniques in disclosure language (Cho, Roberts, and Patten 2010) and graphs (Cho, Michelon, and Patten 2012). Thus, users might doubt the veracity of CSR disclosures. One way for companies to enhance disclosure credibility is through assurance by independent experts; for instance, prior literature suggests that assurance can increase capital market participants’ views of CSR disclosure credibility and increase reliance on this information (e.g., Cheng et al. 2015; Brown-Libur and Zamora 2015; Pflugrath, Roebuck, and Simnett 2011; Hodge, Subramaniam, and Stewart 2009). However, prior research has not examined whether CSR assurance influences stakeholders other than capital market participants. This is important to consider because CSR assurance is a costly voluntary action that companies will only undertake if the benefits outweigh the costs. Therefore, understanding how CSR assurance influences non-capital market participants, in the litigation setting, provides key insight into the additional benefits available to companies that purchase this new form of assurance. I expect that CSR assurance will moderate jurors’ reactions to CSR
activity type by enhancing disclosure credibility. Specifically, I expect CSR assurance to interact with the CSR activity type to increase jurors’ affective reactions to the defendant and reduce jurors’ perceptions of negligence.

In order to investigate the influence of CSR information across all juror assessments, Study 2 examines its influence on compensatory and punitive damage assessments. While it is likely that there is spillover from the liability assessment (Lowe, Reckers, and Whitecotton 2002; Kadous 2000), prior literature suggests that damage assessments are influenced by factors distinct from the determinants of negligence identified in the CCM (e.g., Reffett 2010; Lowe et al. 2002; Greene, Johns, and Smith 2001; Kadous 2000). Since damages are influenced by distinct factors, it is important to examine whether CSR information provides incremental explanatory power in jurors’ damage assessments, beyond its role in explaining negligence assessments. For example, CSR information could still provide insurance-like protection by decreasing damage assessments, even if negligence assessments are not affected.

Study 2 builds on results of Lee and Sweeney (2015), who find jurors’ punitive damage assessments are influenced by CSR disclosures related to the negative event that provide additional information about how the company will address the issue going forward (i.e., reactive CSR activities). I further consider the influence of different CSR activity types, which can cause diverging stakeholder reactions (e.g., Groening and Kanuri 2016; Cheng et al. 2015; Godfrey et al. 2009). In addition, I also consider the credibility-enhancing effect of CSR assurance. Consistent with Study 1, I expect CSR activity type to influence jurors’ damage assessments due to differences in perceived
CSR motives (i.e., self-serving versus other-regarding), and CSR assurance to moderate the influence of CSR activity type on damage assessments.

To investigate how CSR information influences jurors’ judgments, I employ a 2x2 (plus control group) experimental design that manipulates CSR activity type and assurance. For Study 1, a final sample of 182 useable observations were solicited from Amazon Mechanical Turk after participants passed screening requirements to ensure they meet eligibility to serve for jury duty in the United States. The final sample for Study 2 consists of a subsample of participants from Study 1 that determined the case company to be negligent, yielding 83 useable observations. Consistent with Paper 2 of my dissertation, the case company, XYZ, Inc., procures, processes and transports branded food products sold at national grocery stores, with mixed financial performance relative to its industry. All participants receive background materials describing information about a negative event that has implications for both the company’s reputation and its financial condition, which has resulted in civil litigation being brought against the company from consumers who have fallen ill after using the company’s products.67 Consistent with prior literature examining different CSR activity types (e.g., Cheng et al. 2015), I examine the strategic nature of CSR activities. I manipulate strategic and non-strategic CSR activities by following McWilliams and Siegel (2011, 1481), who define strategic CSR as “any responsible activity that allows a firm to achieve a sustainable competitive advantage, regardless of motive”. By creating a sustainable competitive advantage, strategic CSR activity provides economic benefits to the company in the form

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67 The company information and negative event are similar to Paper 2 of this dissertation, which investigates investors’ reactions to CSR activity type and CSR assurance in the negative event context. Using a similar context across studies allows for consideration of whether and how the use of CSR information diverges between the two groups.
of increased market share and future net cash inflows. Alternatively, non-strategic CSR activity does not have a direct link to economic benefits for the company. The CSR activity type manipulations detail the company’s investment in clean energy and production process equipment upgrades. Disclosures in the strategic condition detail that the equipment upgrades are associated with a reduction in operating costs, as well as increased market share and revenue. Disclosures in the non-strategic condition detail that the investments are not expected to impact operating costs, market share, or future review. Consistent with the CSR assurance literature, I manipulate CSR assurance as either present or absent. In order to examine the influence of CSR activity type and assurance on jurors’ judgments, Study 1 measures their perceptions of negligence, as well as the intermediate judgments identified in the CCM (affective reactions to the defendant and the case, foreseeability, causation, intentionality). Participants who judge the company as negligent in Study 1 progress to Study 2 and provide compensatory and punitive damage assessments.

Consistent with expectations, non-strategic CSR activities elicit perceptions of other-regarding CSR motives and CSR assurance enhances jurors’ perceptions of disclosure credibility. As predicted, Study 1 finds that jurors’ affective response to the defendant is more favorable when receiving disclosure of non-strategic CSR activities. However, contrary to expectations, Study 1 finds neither the type of CSR activity nor CSR assurance directly influence jurors’ negligence assessments, with indirect influence working through jurors’ affective response to the defendant.  

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68 In order to examine the indirect effects of CSR activity type and CSR assurance on jurors’ negligence assessments, I plan to conduct SEM analysis in the future.
Study 2 finds that CSR activity type and assurance interact to influence the level of compensatory and punitive damage assessments. I find that jurors assess higher compensatory damages when receiving disclosure of non-strategic CSR activities that is not assured, suggesting that perceptions of disclosure credibility plays an important role in influencing juror behavior. Further, CSR activity type and CSR assurance interact to influence the level of punitive damages. Consistent with predictions, findings suggest that jurors assess lower punitive damages when receiving disclosure of non-strategic CSR activities that are assured compared to all other treatment groups. Overall, the findings suggest that CSR information can influence jurors’ behavior and provide insurance-like protection during the damage assessment phase of a trial if it is credible and elicits perceptions of other-regarding motives.

These studies contribute to the literature in several important ways. First, this research complements other studies that examine the insurance-like protection available from CSR activities among other stakeholder groups (e.g., Christensen 2016; Zahller et al. 2015; Godfrey et al. 2009). By examining jurors, these studies provide additional insight into the insurance-like protection available to companies when facing litigation. Second, Lee and Sweeney (2015) find that jurors receiving reactive environmental disclosures assess lower punitive damages compared to jurors who do not. These studies complement that research by examining how information pertaining to previous CSR activities (i.e., proactive CSR activities), of differing types that are unrelated to the specific negative event, influence jurors’ negligence and damage assessments. This is important as prior literature suggests stakeholders react differently to proactive versus reactive CSR activities due to their perceptions of organizational motives (e.g., Groza et
al. 2011). Also, Lee and Sweeney (2015) only measure punitive damages, while this research examines the influence of CSR disclosures across the entire juror decision-making process. Third, these studies extend the CSR assurance literature by examining how jurors view the credibility of CSR disclosures and the enhancement available from assurance. Prior CSR assurance studies focus on market participants (e.g., analysts and investors) and do not consider how CSR assurance can influence other potential user groups. Further, prior literature examines the benefits of CSR assurance when the company is not involved in a negative event. Examining jurors’ perceptions of CSR assurance in the litigation setting provides insight into additional benefits of CSR assurance. Fourth, this research has implications for practice by examining how the discretionary choices of companies influence jurors during the litigation process.

The rest of this paper is organized as follows: Section II presents background information on the juror decision-making process and develops the hypotheses. Section III provides details on the research design and participants for Study 1 and Section IV discusses the Study 1 results. Section V provides details on the research design and participants for Study 2 and Section VI discusses the Study 2 results. Finally, Section VII presents conclusions, limitations and opportunities for future research.

SECTION II: BACKGROUND & DEVELOPMENT OF HYPOTHESES

Jurors are responsible for listening to the evidence in a case, reconciling conflicting arguments and processing unfamiliar language, before deciding on an appropriate verdict (Winter & Greene 2008). In civil trials, jurors perform the complicated task of making a negligence assessment, and then must decide whether compensatory and punitive damages are warranted. In order for CSR information to
influence jurors’ negligence and damage award assessments, jurors must find the information relevant to their task. Prior research focusing on other stakeholders finds CSR information to be useful to consumers (e.g., Du et al. 2010), employees (e.g., Glavas 2016), and investors (e.g., Cohen, Holder-Webb, and Zamora 2015; Dhaliwal, Radhakrishnan, Tsang, and Yang 2012; Cohen, Holder-Webb, Nath, and Wood 2011; Dhaliwal, Li, Tsang, and Yang 2011). However, users of CSR information can have conflicting reactions to the same CSR activities. For example, Groening and Kanuri (2013) find that investor reaction is not always congruent with other stakeholder groups. Therefore, it is important to understand how CSR information influences jurors’ decision-making.

The juror decision setting differs from other stakeholder groups, as jurors do not participate in an exchange transaction with the company. Rather, their role is to make a judgment on negligence and assess penalties, without receiving any value in return. This difference is important as it allows jurors to make decisions without self-interested considerations. In this section, I review prior literature that examines jurors’ decision-making and develop my research hypotheses. I begin with Study 1, which focuses on jurors’ negligence assessments, before examining jurors’ damage assessments in Study 2.

**Study 1**

*Background: Jurors’ Negligence Assessments*

In order for jurors to make a negligence assessment, they must consider whether the defendant is to blame for the negative event that caused losses to the plaintiff. In considering how jurors process blame, Alicke (2000) proposes the CCM model. Figure 3.1 presents the CCM model as adapted by Backof (2015) for the auditor negligence
setting. The CCM model suggests that jurors’ evaluations of negligence are influenced not only by their direct spontaneous reaction to the case (i.e., affective reaction to the case details), but also to the perceived personal control the defendant had over the negative event. In turn, jurors’ perceptions of personal control are influenced by three intermediate judgments: causation, foreseeability and intentionality. Causation refers to the defendant’s impact on the negative event and influences jurors’ perceptions of personal control based on whether the negative event would have been averted or diminished if the defendant was not involved. Foreseeability refers to jurors’ perception on whether the negative event could have been anticipated by the defendant. Intentionality refers to whether jurors perceive the defendant had a desire for the negative event to occur. Finally, the CCM suggests that jurors’ indirect spontaneous reaction to the defendant influences their perceptions of causation, foreseeability and intentions, and therefore plays a role on their evaluations of negligence by influencing perceptions of personal control. Backof (2015) adapts the CCM to the auditor negligence setting to examine juror negligence assessments in that context. Findings generally support the CCM, with jurors’ negligence assessments being influenced by their perceptions of controllability over the audit failure. In the following section, I rely on the CCM as the theoretical basis when developing my hypotheses examining the influence of CSR information on jurors’ affective reactions to the defendant, jurors’ perceptions of intentionality and jurors’ negligence assessments.

Insert Figure 3.1 About Here

CSR Activity Type
Companies have limited resources and must decide how to allocate them in order to maximize business rewards.\(^6\) In order for companies to maximize business rewards from their CSR activities, the activities must elicit positive reactions from stakeholders. In this study, I examine the extent to which strategic and non-strategic CSR activities elicit positive reactions from jurors. In conceptualizing CSR activities that may elicit differential responses from jurors, I rely on McWilliams and Siegel (2011, 1481) who define strategic CSR as “any ‘responsible’ activity that allows a firm to achieve a sustainable competitive advantage, regardless of motive.” In other words, strategic CSR activities are responsible actions that provide an economic benefit to the company. Alternatively, non-strategic CSR activities are responsible activities that do not have a direct link to future financial performance. Prior literature finds that the types of CSR activities companies undertake can influence stakeholders’ reactions. For example, Cheng et al. (2015) use a similar classification system and find that investors perceive strategically aligned activities as more relevant and that they are more willing to invest as opposed to activities that lack strategic alignment.\(^7\)

Despite this general finding, other studies suggest that stakeholders’ perceptions of corporate motives for practicing CSR activities are also an important predictor of response (e.g., Groza et al. 2011; Du et al. 2010; Ellen et al. 2006; Klein and Dawar

\(^6\) The importance of strategically allocating limited resources to earn business rewards is especially true in the CSR context as prior literature finds CSR is an ambiguous topic with a continuously evolving definition (e.g., Ghobadian, Money, and Hillenbrand 2015; Moura-Leite and Padgett 2011; Carroll and Shabana 2010; Dahlsrud 2008; Godfrey and Hatch 2007; Carroll 1999). The ambiguous and evolving nature of CSR provides companies with a broad range of activities that can be considered as part of their CSR initiatives.

\(^7\) Other CSR type classification systems have been studied, with similar results. Du et al. (2010) argue that CSR activities can have a natural fit with the company’s business (i.e., “CSR fit”), which leads to more positive stakeholder reactions compared to CSR activities with no fit. Alternatively, Aguinis and Glavas (2013) separate CSR activities into embedded versus peripheral activities. They define embedded CSR activities as those activities that are integrated into the company’s core business operations and argue that they elicit a more positive response from stakeholder groups than peripheral activities.
Particularly, Du et al. (2010) suggest that negative views arise from stakeholder skepticism; that is, whether motives are viewed as self-serving rather than other-regarding (arising from a genuine commitment to CSR). Further, Godfrey (2005) argues that other-regarding activities can generate positive moral capital that can provide insurance-like protection during a crisis. Several studies support this assertion. For example, Klein and Dawar (2004) find that CSR actions mediate a negative impact on consumers’ brand evaluations by moderating attributions of blame in a product-harm crisis situation. Similarly, Godfrey et al. (2009) find that insurance-like protection against negative investor reaction following a corporate crisis is only available when companies practice CSR activities perceived as other-regarding. In sum, these studies suggest that perceptions of other-regarding motives generate favorable attributions towards the company, while perceptions of self-serving motives do not.

Consistent with the above literature, I anticipate that jurors will view motives for strategic CSR as self-serving since they are connected to future economic benefits for the company, and the motives for non-strategic CSR as other-regarding since there is no direct link to future financial performance. However, other studies find that reactions by stakeholders to perceived organizational motives are more complicated as both self-serving and other-regarding activities can generate positive stakeholder attributions. For example, Ellen et al. (2006) find consumers respond positively to other-regarding activities because they are perceived as values-driven (genuine commitment to CSR), but also respond positively to self-serving activities because they are perceived as strategic. Likewise, Groening and Kanuri (2016) find that investors react less negatively following a negative event when a company practices activities perceived as other-regarding.
However, this insurance-like benefit erodes as the amount of activities perceived as other-regarding increases.\textsuperscript{71} The findings suggest that perceptions of CSR motives are complex, with users preferring to see other-regarding motives, but also acknowledging that companies have legitimate self-serving motives. This creates tension as to whether jurors will react differently to strategic versus non-strategic activities.

In order for CSR information to influence jurors’ negligence assessments, there should be a connection to the intermediate judgments identified in the CCM. I propose that CSR information could influence jurors’ negligence assessments through their affective reactions to the defendant. Prior literature suggests that affective reactions are particularly important in the juror setting (Backof 2015; Kadous 2001). In order for CSR information to influence jurors’ affective reactions, the information must elicit either a positive or negative response towards the defendant. The literature cited above implies that CSR information will influence jurors’ affective reactions towards the defendant based on how they perceive the CSR motives of the company. I anticipate that jurors will perceive strategic CSR activities as self-serving and therefore these activities will elicit an unfavorable affective response toward the defendant. In contrast, I expect perceptions of other-regarding motives from disclosure of non-strategic CSR activities to elicit a favorable affective response towards the defendant since the activities should be perceived as altruistic. However, it is possible that jurors might view the disclosures of non-strategic activities as a “greenwashing” attempt, which could reduce their favorable

\textsuperscript{71} Groening and Kanuri (2016) examine investors’ reactions to same day news of company activities that provide a benefit to stakeholders (CSR) and activities that have a negative impact on stakeholders (CSiR).
affective response towards the defendant. Despite this tension, I expect perceptions of other-regarding motives from non-strategic CSR activities will elicit a more favorable affective response towards the defendant relative to disclosure of strategic CSR activities. Formally, I predict the following:

**H1:** Jurors’ affective reaction to the defendant will be more favorable when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.

CSR activity type might also influence jurors’ views of management’s intentionality; i.e., whether jurors perceive the defendant desired for the negative event to occur. Greater perceptions of intent lead to greater perceptions of controllability over the negative event and increase the likelihood of a negligent verdict. Prior studies examining the influence of CSR information on investor reactions following a negative event rely on the legal principle of *mens rea*, or the state of mind behind the company’s actions (i.e., “bad” actors are punished more severely for bad deeds than “good” actors) (Christensen 2016; Godfrey et al. 2009). Similarly, I expect CSR information to provide a signal about the defendant type (i.e., “good” or “bad”) based on how jurors perceive the motives of the company for undertaking the activity (i.e., self-serving versus other-regarding). I anticipate that jurors receiving disclosure of strategic CSR activities will perceive the company as a “bad” actor, motivated by self-interest that also led to the negative event occurring. However, I expect jurors receiving disclosures of non-strategic CSR activities will perceive other-regarding motives and therefore perceive the company as a “good” actor. Similar to H1, tension exists as jurors might perceive non-strategic CSR activities as a “greenwashing” attempt. However, consistent with prior literature that finds

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72 Lyon and Maxwell (2011) define “greenwashing” as “selective disclosure of positive information about a company’s environmental or social performance, without full disclosure of negative information on these dimensions, so as to create an overly positive corporate image” (Lyon and Maxwell (2011, 9).
stakeholders react positively to other-regarding motives, I expect jurors will give the company the benefit of the doubt and perceive less intent when a company discloses non-strategic CSR activities compared to strategic CSR activities. Formally, I predict the following:

**H2:** Jurors’ perceptions of intentionality will be lower when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.

**CSR assurance**

The CSR communication framework presented by Du et al. (2010) suggests that the credibility of the information plays an important role in how consumers and investors react. Further, prior literature finds that credibility is important in the litigation setting. For example, in an auditor negligence trial Grenier, Lowe, Reffett, and Warne (2015a) find independent experts’ recommendations influence jurors’ judgments differently depending on how jurors perceive the experts’ credibility. This study considers whether jurors’ perceptions of CSR disclosure credibility influence the negligence decision-making process by examining the credibility-enhancing effect of CSR assurance.73

One potential factor leading to skepticism of CSR disclosure is users’ perceptions of the company’s incentives for voluntarily providing CSR information. Further, Lee and Sweeney (2015) find that jurors recognize the incentives of companies to produce voluntary disclosure.74 Several studies consider the company’s incentives when examining the credibility-enhancing effect of CSR assurance. For example, Pflugrath et al. (2011) find that the credibility-enhancing effect of assurance only occurs for

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73 In general, the CSR assurance literature finds the external assurance of CSR information increases stakeholders’ perceptions of credibility of the disclosures (e.g., Brown-Liburd and Zamora 2015; Pflugrath et al. 2011; Hodge et al. 2009)

74 Lee and Sweeney (2015) examine the influence of environmental disclosures on jurors’ punitive damage assessments. I discuss their study in more detail in Study 2, which examines jurors’ damage assessments.
companies in the mining industry, and conclude that this is due to analysts perceiving that mining companies have a greater incentive to provide positive CSR information due to the environmentally sensitive nature of their industry. Also, Brown-Liburd and Zamora (2015) find that when CSR performance is tied to managerial pay, investors realize management has an incentive to overstate their CSR performance in order to reap financial incentives, thereby leading to an increase in the effect of CSR assurance. Similarly, Cheng et al. (2015) find that CSR assurance is more important to investors when the disclosures are aligned to the company’s overall strategy. In sum, this line of literature suggests that users consider the company’s incentive for issuing voluntary CSR disclosures and discount the credibility of the information when they perceive it to be incentive-consistent. Further, prior findings suggest that when receiving incentive-consistent disclosures, CSR assurance increases users’ perceptions of credibility.

H1 and H2 predict that disclosure of non-strategic CSR activities will result in jurors having more favorable attributions towards the company since they will view the company’s motives as other-regarding. I expect CSR assurance to play an important role in how jurors react to disclosure of non-strategic CSR activities. Consistent with prior literature in the investor literature that suggests CSR assurance increases the credibility of the information (e.g., Cheng et al. 2015), I expect jurors to react more favorably to non-strategic CSR disclosures when assurance is present compared to when it is absent. Specifically, I expect this stronger reaction will increase jurors’ affect towards the defendant. However, I expect jurors to perceive disclosure of strategic CSR activities to be incentive-inconsistent during litigation, since the company has no incentive to elicit perceptions of self-serving motives. Therefore, I do not expect CSR assurance to
influence jurors’ perceptions of strategic CSR activities. Together, as illustrated in Figure 3.2, I expect CSR assurance to interact with CSR activity type to moderate jurors’ reactions. Formally, I predict the following:

**H3:** External assurance of CSR disclosure will increase jurors’ affective reaction to the defendant to a greater extent when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.

**Insert Figure 3.2 About Here**

H1 and H2 predict that the CSR activity type influences jurors’ affective reactions towards the client and their perceptions of intent. However, the main interest of this study is to examine whether CSR information influences jurors’ negligence assessments. As predicted in H1, due to differences in perceived motives for undertaking CSR activities, I expect non-strategic CSR activities to generate more favorable affect towards the defendant compared to strategic CSR activities. Likewise, H2 predicts jurors receiving disclosure of non-strategic CSR activities will view the company as a “good” actor and perceive less intent relative to those receiving disclosure of strategic CSR activities. Additionally, H3 predicts that external assurance of CSR disclosures detailing non-strategic activities increases jurors’ affective reactions to the defendant, while having no effect on disclosure of strategic activities. Therefore, I expect that disclosure of non-strategic CSR activities will act through these intermediate judgments to reduce jurors’ perceptions of controllability compared to disclosure of strategic CSR activities.75 Further, I expect the decreased perceptions of controllability resulting from disclosure of non-strategic activities will reduce jurors’ perceptions of negligence relative to disclosure of strategic CSR activities. Finally, I expect CSR assurance of non-strategic CSR

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75 While I do not formally propose hypotheses to test the determinants of jurors’ perceptions of controllability identified by the CCM, other studies have established the relationship (e.g., Backof 2015).
information to reduce jurors’ negligence assessments compared to disclosures that are not assured. Formally, I predict the following ordinal interaction (see Figure 3.3):

**H4a:** Jurors’ negligence assessments will be lower when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.

**H4b:** Jurors’ negligence assessments will be lower when disclosures of non-strategic CSR activities are externally assured compared to not assured.

Insert Figure 3.3 About Here

**Study 2**

*Factors Influencing Jurors’ Damage Assessments*

After jurors determine that the defendant is negligent, they must decide on the level of damages to award to the plaintiff. Thus, I conduct Study 2 on the sub-sample of participants who indicate they believe that the defendant is negligent. I ask this group to assess damages, which come in two forms and serve two distinct purposes. First, compensatory damages are assessments that are designed to return the plaintiff to a comparable state prior to the negative event. Compensatory damages therefore consist of any economic loss that the plaintiff incurred plus some level of damages to compensate for any noneconomic loss (e.g., pain and suffering) (Greene and Bornstein 2000). Therefore, compensatory damages should be associated with the severity of the negative event (Cather, Greene, and Durham 1996). Alternatively, punitive damages are assessed in order to punish the defendant for their actions and deter the behavior from happening again (Greene and Bornstein 2000). Therefore, punitive damages should be associated with the defendant’s conduct prior to the negative event (Cather et al. 1996).

Prior literature examines the factors influencing the level of compensatory damages awarded by juries to test whether jurors follow the court’s instructions when
determining damage amounts. In a review of juror decision-making studies, Winter and Greene (2007) find that the literature consistently supports that the severity of the negative event influences the level of compensatory damages. This is consistent with the goal of compensatory damages to return the plaintiff to their pre-negative event state. However, several studies also find jurors rely on other factors when determining compensatory damages. For example, Greene et al. (2001) find the defendant’s conduct prior to a negative event influences the level of compensatory damages. More recently, Cass, Levett, and Kovera (2010) also find the severity of organizational behavior is associated with the compensatory damage awards. Likewise, Backof (2015) finds that the auditor’s workpaper documentation (i.e., the auditor’s behavior leading up to the negative event) influences the level of damage awards.

In their review, Winter and Greene (2007) suggest a “simulation heuristic” takes place during jurors’ compensatory damage assessments that involves jurors evaluating the events and constructing alternative scenarios. Likewise, Reffett (2010) relies on counterfactual reasoning theory when examining jurors’ compensatory judgments in the auditor negligence literature and finds that the level of counterfactual intensity influences damage assessments. In other words, the more jurors consider alternative scenarios that the auditor could have done to prevent the negative event, the greater compensatory damages awarded. Also in the auditor negligence literature, Lowe et al. (2002) find that the defendant’s ability to pay influences the level of damages as audit firms with “deeper pockets” are assessed higher levels of damages.

76 For additional information on the instructions jurors receive, refer to the Federal Civil Jury Instructions of the Seventh Circuit (Seventh Circuit 2015).
As described above, punitive damages are designed to punish and deter bad behavior. Therefore, the defendant’s behavior leading up to the negative event should be associated with the level of punitive damages (Cather et al. 1996). Cass et al. (2010) support this, as they find organizational behavior influences punitive awards in a sexual harassment case. In a similar context to the current study, Lee and Sweeney (2015) examine the influence of environmental disclosure on punitive damage awards. They find jurors assess lower punitive damages when a company provides disclosures discussing future abatement and control following environmental malfeasance. Additionally, they find that the environmental sensitivity of the company moderates this relationship as the reduced punitive damages are only found in companies that are in a non-environmentally sensitive industry. Further, they find that trust mediates this relationship. In sum, their findings suggest that reactive disclosures related to the negative event can influence jurors’ punitive assessments, but only when jurors perceive trust towards management.

Taken together, prior literature finds compensatory damage assessments are influenced by the negligence assessment, as well as by four distinct factors: severity of the negative event, conduct of the defendant prior to the negative event, ability of the defendant to pay and counterfactual intensity. Punitive damages are influenced by the defendant’s behavior prior to the negative event and disclosures that build jurors’ trust towards management. Figure 3.4 depicts a model of the factors influencing jurors’ assessments of compensatory and punitive damages.

Insert Figure 3.4 About Here

Hypotheses Development

Compensatory damages
As reviewed above, jurors are instructed to award compensatory damages in order to restore the plaintiff to their initial state. Therefore, the severity of the negative event (i.e., losses incurred by the defendant) should be the only factor influencing compensatory damage amounts. This suggests that CSR information should not influence jurors’ compensatory damage assessments. However, prior literature finds that jurors’ perceptions of bad conduct prior to the negative event influence compensatory damage levels (Greene et al. 2001), which suggests that jurors make a judgment about the defendant’s conduct and award greater damages against perceived “bad” actors. Consistent with the theory argued in Study 1, I expect jurors’ perceptions of the defendant to be influenced by the perceived motives of why the company practices CSR. Specifically, I expect jurors to give the company the benefit of the doubt if they view the company’s CSR motives as other-regarding and will assess lower compensatory damages when receiving disclosures of non-strategic CSR activities relative to disclosures of strategic CSR activities that are viewed as self-serving. Formally, I predict the following (see Figure 3.4):

**H5a:** Jurors’ compensatory judgments will be lower when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.

H5a predicts that the CSR activity type influences jurors’ compensatory damage assessments by providing a signal of the company’s CSR motives. Consistent with the theoretical motivation developed in Study 1, I expect jurors to view CSR activities eliciting perceptions of other-regarding CSR motives with skepticism, since the company has the incentive to use other-regarding CSR motives to manage its perceived organizational legitimacy. Therefore, I expect the presence of CSR assurance to interact
with non-strategic CSR activities to provide insurance-like protection against jurors’ compensatory damage assessments. Formally, I predict the following:

**H5b:** External assurance of CSR disclosure will decrease jurors’ compensatory damage assessments when receiving disclosure of non-strategic CSR activity, but will not influence their compensatory damage assessments when receiving disclosure of strategic CSR activity.

**Punitive Damages**

Punitive damages serve two purposes. First, punitive damages should punish the defendant for the specific negative event. Second, punitive damages should serve as a warning to deter similar negative events from happening again in the future. Lee and Sweeney (2015) find that following an environmental malfeasance, reactive environmental disclosures discussing the company’s plans for future abatement and pollution control decrease jurors’ punitive assessments. Their findings are consistent with the second purpose of punitive damages and suggest that if jurors perceive the company has taken steps to prevent a reoccurrence, they reduce their punitive damage assessments. This study builds on their findings by focusing on the punishment element of punitive damages by considering whether proactive CSR, unrelated to the negative event, can provide insurance-like protection against damage awards. Similar to Study 1, I focus on whether the CSR activity type influences jurors’ perceptions of CSR motives.

Prior literature suggests proactive CSR results in favorable stakeholder perceptions of the company (e.g., consumers’ attitudes towards the firm) (Groza et al. 2011; Wagner, Lutz, and Weitz 2009; Becker-Olsen, Cudmore, and Hill 2006). Similarly, I anticipate proactive CSR disclosures will influence jurors’ attitude towards the defendant, which in turn will influence whether they perceive the company to be a “good” or “bad” actor. Specifically, I expect jurors will view the company’s motives for
non-strategic CSR to be other-regarding and determine that the company is a “good” actor. Therefore, consistent with the legal principle of *mens rea*, I expect jurors will assess lower punitive damages when receiving information on non-strategic CSR activities compared to strategic CSR activities. As noted in Study 1, tension exists in this prediction as jurors could perceive non-strategic CSR activities as a “greenwashing” attempt and develop mistrust towards the company. However, I expect jurors will still assess lower punitive damages when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities that are viewed as self-serving. Formally, I predict the following (see Figure 3.4):

**H6a:** Jurors’ punitive judgments will be lower when receiving disclosures of non-strategic CSR activities compared to disclosures of strategic CSR activities.

Lee and Sweeney (2015) find that jurors’ perceived trust toward management mediates the relationship between environmental disclosures and punitive damage assessments. This study builds on their study by considering how the credibility of CSR disclosures influences jurors’ reactions. As developed in Study 1, I expect jurors to view non-strategic CSR activities as incentive-consistent and discount the credibility of the information. Further, I expect that CSR assurance will act as a moderator that increases jurors’ reactions to disclosure of non-strategic activities. Alternatively, I expect jurors will view strategic CSR activities as incentive-inconsistent since the connection to future economic benefits does not build moral capital that provides an insurance-like benefit (Godfrey 2005). Therefore, I do not anticipate that CSR assurance of disclosures discussing strategic CSR activities will influence jurors’ punitive damage assessments. Formally, I predict the following (see Figure 3.4):
**H6b:** External assurance of CSR disclosures will decrease jurors’ punitive damage assessments when receiving disclosure of non-strategic CSR activity, but will not influence their punitive damage assessments when receiving disclosure of strategic CSR activity.

H6a predicts the non-strategic CSR activities will influence jurors’ punitive damage assessments since they perceive other-regarding motives. H6b predicts that CSR assurance will moderate jurors’ reactions to non-strategic CSR disclosure since jurors discount the credibility of incentive-consistent disclosures. Therefore, H7 predicts that jurors’ perceptions of disclosure credibility will mediate the moderating relationship between CSR activity type, CSR assurance and punitive damages. Formally, I predict (see Figure 3.4):

**H7:** Jurors’ perceptions of CSR disclosure credibility mediate the moderation of disclosures of non-strategic CSR activities by CSR assurance in affecting punitive damages.

### III. RESEARCH DESIGN (STUDY 1)

To examine the influence of CSR disclosure on jurors’ negligence assessments, I use a 2x2 (plus control) between-participants experimental design. The two independent variables are CSR activity type (strategic versus non-strategic) and CSR assurance (present versus absent). The primary dependent variables are jurors’ affective reactions to the defendant, perceptions of intent and assessments of negligence. Characteristics of the defendant are held constant across all groups in order to isolate the effect of the independent variables on jurors’ judgments.

**Participants**

A total of 204 participants were solicited from Amazon Mechanical Turk (MTurk) and passed screening criteria consistent with the eligibility requirements to sit as a juror. Consistent with prior studies soliciting juror participants from MTurk (e.g.,
Maksymov and Nelson 2017; Brasel, Doxey, Grenier, and Reffett 2016; Grenier, Pomeroy, and Stern 2015b) participants met the following criteria: (1) participants are over 18 years of age; (2) participants are U.S. citizens; (3) participants consider themselves proficient in the English language. Consistent with prior studies soliciting investor participants from MTurk (e.g., Koonce, Leitter, and White 2016; Koonce, Miller, and Winchel 2015; Asay, Libby, and Rennekamp 2014; Rennekamp 2012), participants met the following additional criteria: (1) participants are physically located in the United States; (2) participants have an MTurk approval rate of 95% or higher on at least 50 or more completed assignments. Similar with recent MTurk juror studies, participants were paid $2.00 upon completion of the experimental task (e.g., Brasel et al. 2016; Grenier et al. 2015b).

**Experimental Task**

The experimental task involves a foodborne illness lawsuit brought against XYZ, Inc. after a nationwide recall of products due to consumers becoming ill after using their product. Participants are first given basic background information about the company. Following the background information, participants are randomly assigned to treatment groups to receive the experimental manipulations. Participants read a transcript of the lawsuit where consumers are suing XYZ, Inc. for damages after allegedly suffering sickness from using XYZ’s product. The plaintiffs claim XYZ, Inc. was negligent by not following appropriate food safety protocols. The transcript provides participants with opening and closing statements by the plaintiff and XYZ, Inc., expert testimony and juror instructions. As part of XYZ’s closing statements, participants are given excerpts from the XYZ’s most recent CSR report, where the CSR activity type and CSR assurance
manipulations are included. Participants are then asked to make negligence assessments (see measured variables below). Next, participants answer additional questions to capture all factors influencing juror decision-making shown in Figure 3.1. Finally, participants answer demographic and manipulation check questions.

**CSR Activity Type Manipulation**

CSR activity type (CSR_ACTIVITY_TYPE) is manipulated between strategic and non-strategic. Strategic CSR activities (CSR_ACTIVITY_TYPE =1) are those that result in future economic benefits to the company by helping to achieve a sustainable competitive advantage. Participants are provided with an excerpt of the company’s most recent CSR report detailing the company’s commitment to sustainable business practices. The disclosures detail the company’s investments in sustainable energy upgrades and reduction of pollution and waste in its production process. Further, the disclosures specify the dollar amount invested, the number of years the company has invested in similar activities. In order to ensure that the connection between the CSR activity and future economic benefits is salient to participants, the strategic CSR disclosures include explicit statements explaining how they are expected to contribute to positive future financial performance. Alternatively, non-strategic activities (CSR_ACTIVITY_TYPE =0) are those without a direct link to future financial performance. Participants are provided an excerpt from the company’s most recent CSR report detailing the same projects and investments contained in the strategic manipulation. In addition, to ensure that participants recognize the other-regarding nature of the non-strategic activities the case explicitly states that the activities are undertaken by the company without anticipation of any financial benefit. Both the strategic and non-strategic manipulations include cues to the importance of the
CSR activities to the company. For example, I provide details of the dollar amount invested during the most recent year, number of years participating in the cause and the total amount invested over all years of participation.

**CSR Assurance Manipulation**

CSR assurance (CSR\_ASSURANCE) is manipulated consistent with Cheng et al. (2015). The assurance present treatment (CSR\_ASSURANCE =1) includes a statement that XYZ, Inc. engaged an independent assurer and that the assurer concluded all information was fairly reported. In the assurance absent treatment (CSR\_ASSURANCE =0), participants are explicitly informed that XYZ Inc. did not engage an independent assurer for their CSR disclosures.\(^77\)

**Measured Variables**

Consistent with prior juror research (e.g., Maksymov and Nelson 2017; Brasel et al. 2016; Backof 2015) I measure jurors’ assessments of negligence in two ways. First, participants are asked to estimate the likelihood that XYZ, Inc. was negligent using a 101-point scale (0 = Not at all likely, 100 = Extremely likely) (NEGLIGENCE\_SCALE). Second, participants are asked to respond to a dichotomous measure of negligence (0 = Not negligent, 1 = Negligent) (VERDICT).

In order to consider how CSR influences jurors’ negligence assessments, I capture measures included in the CCM (Figure 3.1). Following Backof (2015), I measure the three identified intermediate judgments on 11-point scales: CAUSATION (0 = Not at all the cause, 10 = Completely the cause), FORESEEABILITY (0 = Not at all foreseeable, 10 = Completely foreseeable), and INTENTIONALITY (0 = Not at all intended, 10 =

\(^77\) Brown-Liburd and Zamora (2015) omit any mention of CSR assurance in the CSR assurance absent treatment. However, in an effort to ensure participants attend to the assurance manipulation I include an explicit statement.
Completely intended). Consistent with Backof (2015) and Alicke (2000), these three intermediate judgments load on a single factor that acts as my measure of jurors’ perceptions of controllability (CCM_CONTROL). Following Backof (2015) and Reffett (2010), to measure jurors’ direct spontaneous reaction to the case, I first measure participants’ feelings toward the defendant and plaintiffs on 11-point scales (0= Very strong negative feelings, 10= Very strong positive feelings). Next, I subtract feelings toward the plaintiffs from feelings toward the defendant, which results in the measure of spontaneous reaction to the case (-10= Very pro-plaintiff, 10= Very pro-defendant) (REACTION_CASE). Finally, I follow Backof (2015) in measuring the spontaneous reaction to the defendant by asking participants to rate their impression of the company (0= Very unfavorable, 10= Very favorable) (AFFECT_DEF) and how much blame the company deserves (0= None of the blame, 10= All of the blame) (BLAME).

To capture participants’ perceptions of the CSR motives of the company, I follow Groza et al. (2011), who measure consumer attributions. Participants respond to six questions to measure their perceptions of motives on 11-point scales (0= highly unlikely, 10= highly likely). To measure perceptions of other-regarding motives, participants are asked whether the company has a long-term interest in society, whether the company believes in the CSR cause and whether the company is trying to give something back to the community. Participants’ responses to these three questions load on a single factor that I use as my measure of perceptions of other-regarding CSR motives (OTHER REGARDING). To measure perceptions of self-serving motives, participants are asked whether the company will get more customers, will keep more of their customers and whether they hope to increase profits by supporting the CSR initiatives.
Participants’ responses to these three questions load on a single factor that I use as my measure of perceptions of self-serving CSR motives (\textit{SELF\textunderscore SERVING}). Finally, I measure participants’ perceptions on credibility of the CSR disclosure on a 11-point scale (0= Very doubtful, 10= Very believable) (\textit{CREDIBILITY}).

IV. RESULTS (STUDY 1)

Manipulation Checks

A total of 204 participants passed the screening requirements and completed Study 1. To verify that participants attended to the CSR assurance manipulation, the experimental materials asked participants whether the company engaged an independent accounting firm to audit its CSR disclosures. A total of 22 (10.8\%) of participants failed this memory check question and were removed from the sample. The final sample comprises 182 participants with cell sizes ranging from 40 to 50.

To ensure that that CSR assurance manipulation had the intended effect, the experimental materials measured jurors’ perceptions of the believability of the CSR disclosure (\textit{CREDIBILITY}). Consistent with expectations, jurors in the assurance present treatment group perceived the disclosure as more believable (mean= 7.36) than those in the assurance absent treatment (mean= 5.76; one tailed p< 0.01). The results suggest that the CSR manipulation was successful and jurors perceive the credibility enhancing effect of CSR assurance.

To ensure that the CSR activity type manipulation had the intended effect, the experimental materials asked three questions measuring participants’ perceptions of

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78 I also collected a control group of 47 participants that did not receive either of the manipulations.
79 Interestingly, jurors in the assurance absent treatment still perceived above average (i.e., greater than the midpoint of the scale) credibility of the CSR disclosures. This suggests that other contextual factors present in this case influenced jurors’ perceptions of credibility.
\end{flushleft}
other-regarding CSR motives. Participants’ responses to the three questions load on a single factor (eigenvalue 2.543) \((OTHER\_REGARDING)\). Consistent with expectations, participants in the non-strategic CSR activity treatment perceived a higher level of other-regarding CSR motives (mean= 0.18) compared to participants in the strategic CSR activity treatment (mean= -0.16; one tailed \(p= 0.009\))\(^{80}\). To further examine whether the manipulation was successful, participants were asked three questions measuring their perceptions of self-serving CSR motives. Participants’ responses load on a single factor (eigenvalue 1.389) \((SELF\_SERVING)\). Consistent with expectations, participants in the strategic CSR activity treatment perceived a higher level of self-serving CSR motives (mean= 0.15) compared to participants in the non-strategic CSR activity treatment (mean= -0.16; one tailed \(p= 0.011\)). Together, the results suggest that the CSR activity type manipulation was successful.\(^{81}\)

**Descriptive Statistics**

The final sample of 182 participants is 55 percent male, and 74 percent are between the ages of 25-44. In addition, 81 percent of the participants have never served on a jury before.\(^{82}\) In terms of education, 38 percent have a high school diploma and 35

\(^{80}\) I also performed t-tests comparing participants’ perceptions of other-regarding CSR motives for each of the three questions. For each question participants receiving non-strategic CSR disclosures perceived a higher level of other-regarding CSR motives at the 0.05 level.

\(^{81}\) To further ensure the manipulations were successful, the experimental materials asked two questions measuring participants’ perceptions of the connection between CSR activities and future financial performance, and whether the company practices CSR activities to be a good corporate citizen (both measured as \(0= \) Highly unlikely, \(10= \) Highly likely). Consistent with expectations, participants in the strategic CSR activity treatment found it more likely that the company practices CSR to improve future financial performance (mean= 7.04) than those in the non-strategic CSR activity treatment (mean= 5.48, \(t= 4.28\), one-tailed \(p < 0.01\)). Also, participants in the non-strategic CSR activity treatment found it more likely that the company practices CSR to be a good corporate citizen (mean= 5.99) than those in the strategic CSR activity treatment (mean= 4.73, \(t= 3.26\), one-tailed \(p < 0.01\)).

\(^{82}\) The high percentage of participants without prior jury service is consistent with prior studies using MTurk participants (e.g., Grenier et al. 2015b). Also, prior juror studies often rely on undergraduate students, who are not likely to have prior jury service due to limited years of eligibility. However, Kadous (2001) finds that student judgments are similar to judgments of participants selected for jury duty.
percent have a bachelor’s degree. On average, participants have taken 1.25 college-level accounting and 0.82 college-level finance courses. Participants have limited professional experience as CPAs (mean= 0.05 years), lawyers (mean= 0.10 years), or investors (mean= 0.65 years). Finally, participants rate themselves as average in their CSR knowledge (mean= 4.97, where 0= Below average, 10= Above average) and slightly above average in their sustainability consciousness (mean= 6.35, where 0= Not at all conscious, 10= Very conscious). Table 3.1 displays summary statistics for the dependent and control variables and Table 3.2 displays the correlation matrix.

Insert Tables 3.1 and 3.2 About Here

Hypothesis Testing

*CSR Activity Type and Affective Reactions; Test of H1*

H1 predicts that jurors’ affective reactions to the defendant will be more favorable when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities. Table 3.3 Panel A reports the least square means of participants’ affective reaction to the defendant is 5.92 when receiving disclosure of non-strategic CSR activities compared to 5.35 when receiving disclosure of strategic CSR activities. Table 3.3 Panel B reports the ANCOVA model that shows this difference in means is significant (F=4.27, p=0.020). Thus, H1 is supported, as consistent with expectations, jurors have a more favorable affective response to the defendant when disclosure indicates that CSR actives are non-strategic relative to strategic.

Insert Table 3.3 About Here

*CSR Activity Type and Intentionality; Test of H2*
H2 predicts that jurors’ perceptions of intentionality will be lower when receiving disclosure of non-strategic CSR activities compared to receiving disclosure of strategic CSR activities. Table 3.4 Panel A reports the least square means of participants’ perceptions of intentionality is 0.43 when receiving disclosure of non-strategic CSR activities compared to 0.49 when receiving disclosure of strategic CSR activities. Table 3.4 Panel B reports the ANCOVA model that shows the difference in means is not significant (F=0.12, p=0.725), suggesting H2 is not supported. Thus, in this setting jurors’ perceptions of intentionality do not differ when receiving disclosure of non-strategic CSR activities compared to disclosure of strategic CSR activities.83

Insert Table 3.4 About Here

**CSR Activity Type, CSR Assurance and Affective Reactions; Test of H3**

H3 predicts an ordinal interaction where CSR assurance increases jurors’ affective reaction to the defendant when receiving disclosure of non-strategic CSR activities. Table 3.3 Panel B reports the ANCOVA model that shows the interaction is significant (F=3.92, p=.049). To formally test H3, I perform contrast analysis as reported in Table 3.3 Panel C (t=1.37, p=0.171).84 Thus, the predicted ordinal interaction for H3 is not supported. To further examine the significant interaction reported in Table 3.3 and shown in Figure 3.5, I perform follow-up simple effect comparisons of the cell means. Table 3.3 Panel A shows that when receiving disclosures of non-strategic CSR activities jurors’ affective reactions are 6.27 when assurance is absent and 5.57 when assurance is present.

83 I also examine whether the CSR activity type and CSR assurance influence FORESEEABILITY and CAUSATION. I find marginal support (p= 0.055) of a CSR assurance main effect on FORESEEABILITY suggesting that jurors perceive the negative event as less foreseeable when CSR disclosure is assured. I find no influence of CSR activity type and CSR assurance on CAUSATION.

84 Contrast weights are +3 for non-strategic, assured; +1 for non-strategic, not assured; -2 for strategic, assured; -2 for strategic, not assured.
Panel C shows that this difference in means is marginally significant (t=-1.75, p= 0.082). However, assurance does not influence jurors’ affective response to strategic disclosures (p= 0.304). Further, Panel A shows that when assurance is absent jurors’ affective reactions when receiving disclosure of non-strategic CSR activities are 6.27 and 5.15 when receiving disclosure of strategic CSR activities. Panel C reports that this difference is significant (t= 2.83, p= 0.005). Thus, results suggest that jurors have the most favorable affective reaction when receiving disclosure of non-strategic CSR activities that are not assured. This is contrary to expectations and suggests that not all jurors react to the credibility-enhancing effect of assurance in the same way as capital market participants and instead consider other contextual factors when judging the credibility of disclosures.

To further analyze this unexpected result, I consider the theoretical construct underlying the assurance manipulation by splitting the sample at the mean of CREDIBILITY, and estimating the ANCOVA model shown in Table 3.3 Panel B with this new variable (PERC_CREDIBILITY) interacted with CSR_ACTIVITY_TYPE. Untabulated results show significant main effects for both CSR_ACTIVITY_TYPE (p= 0.051) and PERC_CREDIBILITY (p< 0.01). However, the interaction is not significant (p= 0.389). This suggests that participants have more favorable affective reactions to non-strategic CSR activities (mean= 5.87) relative to strategic CSR activities (mean= 5.38), and reactions are more favorable when participants perceive high disclosure credibility (mean= 6.18) relative to low disclosure credibility (mean= 4.86). Combined, results suggest that jurors in this setting are not uniform in recognizing the credibility-enhancing effect of CSR assurance and perceptions of credibility are likely influenced by other factors of the case.
Insert Figure 3.5 About Here

**CSR Activity Type, CSR Assurance and Negligence Assessments; Test of H4a and H4b**

H1 through H3 examine how CSR activity type and CSR assurance influence jurors’ intermediate judgments of the CCM model. H4a and H4b examine whether the influence of CSR on jurors’ intermediate judgments extends to their negligence assessments. H4a predicts that disclosure of non-strategic CSR activities will reduce jurors’ negligence assessments relative to disclosure of strategic CSR activities. Table 3.5 Panel A reports the least square means of participants’ perceptions of negligence is 52.66 when receiving disclosure of non-strategic CSR activities compared to 48.22 when receiving disclosure of strategic CSR activities. Table 3.5 Panel B reports the ANCOVA model that shows the difference in means is not significant (F=1.77, p=0.185), suggesting H4a is not supported. Results suggest that non-strategic CSR activities do not provide incremental protection against perceptions of negligence compared to strategic CSR activities.

**Insert Table 3.5 About Here**

H4b predicts that CSR assurance will interact with the CSR activity type, as jurors will recognize that non-strategic CSR activities are incentive-consistent and therefore have reduced perceptions of credibility. Further, the reduced perceptions of credibility will limit the insurance-like protection from non-strategic CSR activities on jurors’ negligence assessments. Table 3.5 Panel B reports the ANCOVA model that shows the interaction is not significant (F=0.01, p=0.925), suggesting H4b is not supported (see Figure 3.6 Panel A). Therefore, results suggest that even though CSR disclosure
influences jurors’ intermediate judgments identified in the CCM, the effects do not directly influence jurors’ negligence assessments.85

**Insert Figure 3.6 About Here**

In sum, results show that the manipulations had the intended effect as non-strategic CSR activities elicited higher perceptions of other-regarding CSR motives and CSR assurance elicited higher perceptions of disclosure credibility. Consistent with predictions, disclosure of non-strategic CSR activities generated more favorable affect towards the defendant relative to disclosure of strategic CSR activities. Further, CSR assurance moderates the effect of non-strategic CSR activities on jurors’ affective reactions, but not consistent with expectations. Additional analysis suggests that even though CSR assurance elicits higher perceptions of disclosure credibility, jurors also consider other credibility cues. Finally, the CCM suggests that since the manipulations are influencing intermediate judgments that impact should flow through to the jurors’ negligence assessment. However, the results suggest that the manipulations do not have a strong enough influence on the elements of the CCM model to directly influence jurors’ negligence assessment.

**V. RESEARCH DESIGN (STUDY 2)**

Study 2 extends Study 1 by examining the influence of CSR disclosure on jurors’ compensatory and punitive damage assessments. Of the 182 participants from Study 1, 83

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85 To further support examine this conclusion, I examine participants’ responses to the dichotomous variable *VERDICT* in the control group compared those in the treatment groups. In the control group 55.3 percent of participants judged the company to be negligent compared to 45.6 percent of participants in all other treatment groups. The difference is not significant (p= 0.236). Further, participants’ perception of negligence captured by the *NEGLIGENCE_SCALE* is 51.60 for control group and 50.33 for all treatment groups. The difference is not significant (p= 0.801).
determined the company was negligent and continued to Study 2.\textsuperscript{86} To examine the influence of CSR disclosure on jurors’ damage assessments, I use a 2x2 (plus control) between-participants experimental design. The two independent variables are CSR\_ACTIVITY\_TYPE activity type (strategic versus non-strategic) and CSR\_ASSURANCE (present versus absent). Characteristics of the defendant are held constant across all groups in order to isolate the effect of the independent variables on jurors’ judgments.\

\textit{Measured Variables}\

In order to determine the influence of CSR activity type and CSR assurance on jurors’ damage assessments, Study 1 participants who judge XYZ, Inc. to be negligent are asked three additional questions that assess compensatory damages and punitive damages. Compensatory damages (COMPENSATORY) are measured between $0 and $10 million, which the case materials cite as the amount of losses incurred by the plaintiffs. Following Lee and Sweeney (2015), I capture punitive damages (PUNITIVE) using an 11-point scale (0= zero times compensatory damages, 10= ten times the compensatory damages). Participants also respond to questions that measure other factors that influence damage assessments as shown in Figure 3.4. Participants rate their perceptions of the company’s behavior leading up to the negative event on an 11-point scale (0= Very bad, 10= Very good) (BEHAVIOR). Participants also rate their perceptions on the significance of the food safety recall on an 11-point scale (0= Not at all significant, 10= Very significant) (NEG\_SIGNIFICANCE). I follow Reffett (2010) and measure counterfactual intensity by asking participants how frequently they thought about what the company

\textsuperscript{86} The mean negligence assessment for participants that only complete Study 1 (n= 99) is 25.92 and the mean negligence assessment for those in that complete Study 2 (n= 83) is 79.46 and the difference is significant (p<0.000).
could have done differently to prevent the negative event on an 11-point scale (0= Never thought about it, 10= Frequently thought about it) \((COUNTER_FREQ)\), as well as the strength of their thoughts on an 11-point scale (0= Not very strong, 10= Very strong) \((COUNTER_STRENGTH)\). Also, participants provide their perceptions on the company’s ability to pay the assessed damages on an 11-point scale (0= Highly unlikely, 10= Highly likely) \((ABILITY_PAY)\). Finally, participants are asked to provide their motivation for their punitive damage assessment on an 11-point scale (0= Punishment motivated, 10= Deterrence motivated) \((DET_PUNISH)\).

VI. RESULTS (STUDY 2)

**Manipulation Checks**

To ensure participants in Study 2 attended to the CSR activity type manipulation, I compared participants’ perceptions of CSR motives across treatment groups. Consistent with Study 1, Study 2 participants perceived greater other-regarding CSR motives when receiving disclosure of non-strategic CSR (mean= -0.02) compared to those receiving disclosure of strategic CSR (mean= -0.36; one tailed p= 0.072). However, unlike Study 1 participants in Study 2 did not perceive a difference in self-serving motives when receiving disclosure of strategic CSR activities (mean= 0.24) compared to non-strategic CSR activities (mean= 0.09; one tailed p= 0.21). Also, Study 2 participants in the CSR assurance present condition perceived higher disclosure credibility (mean= 6.63) compared to participants in the assurance absent treatment (mean= 4.58; one tailed p< 0.01).

**Descriptive Statistics**
Of the final sample 61 percent are male, and 73 percent are between the ages of 25-44. In addition, 80 percent of the participants have never served on a jury before. In terms of education, 37 percent have a high school diploma and 36 percent have a bachelor’s degree. On average, participants have taken 1.19 college-level accounting and 0.86 college-level finance courses. Participants have limited professional experience as CPAs (mean= 0.11 years), lawyers (mean= 0.11 years), or investors (mean= 0.92 years). Finally, participants rate themselves as average in their CSR knowledge (mean= 4.69, where 0= Below average, 10= Above average) and slightly above average in their sustainability consciousness (mean= 6.59, where 0= Not at all conscious, 10= Very conscious). Overall, the demographics of the participants is similar with Study 1. Table 3.6 displays summary statistics for the dependent and control variables and Table 3.7 displays the correlation matrix.

Hypothesis Testing

CSR Activity Type and Compensatory Damages; Tests of H5a and H5b

H5a predicts that jurors’ compensatory damage assessments will be lower when receiving disclosure of non-strategic CSR activities compared to receiving disclosure of strategic CSR activities. Table 3.8 Panel A reports the least square means of participants receiving disclosure of non-strategic CSR activities is 7.43 compared to 7.01 for those receiving disclosure of strategic CSR activities. Table 3.8 Panel B reports the ANCOVA model that shows this difference is not significant (p= 0.387), and Panel C shows the follow-up simple effect comparison is also not significant (t=0.87; p= 0.387). The results suggest that H5a is not supported.
H5b predicts that CSR assurance will interact with CSR activity type to reduce jurors’ compensatory damage assessments when receiving disclosure of non-strategic CSR activities. Table 3.8 Panel B reports the ANCOVA model that shows a marginally significant interaction (F= 2.85; p= 0.096). To formally test H5b, I perform contrast analysis as reported in Table 3.8 Panel C (t=1.93, p= 0.058). To analyze whether the interaction follows the predicted ordinal pattern, I follow Guggenmos, Piercey, and Agoglia (2016) and examine the pattern of means, as well as the semi-omnibus F-test of the residual between-cells variance. As shown in Figure 3.7, the data do not match the hypothesized pattern. Further, the semi-omnibus F-Test is significant (p = 0.06). Thus, the predicted ordinal interaction for H5b is not supported.

To further examine the significant interaction reported in Table 3.8 and shown in Figure 3.7, I perform follow-up simple effect comparisons of the cell means. Table 3.8 Panel A shows that when receiving disclosures of non-strategic CSR activities jurors’ compensatory damage assessments are 8.35 when assurance is absent and 6.45 when assurance is present. Panel C shows that this difference in means is significant (t=2.86, p= 0.003). However, when receiving disclosures of strategic CSR activities jurors’ compensatory damage assessments are 7.17 when assurance is absent and 6.83 when assurance is present, and this difference is not significant (t= 0.58, p= 0.560). This suggests that assurance significantly influences jurors’ assessments when receiving disclosure of non-strategic CSR activities, but has no effect on assessments when jurors receive disclosure of strategic CSR activities. Further, Panel C shows that when assurance is absent the difference between compensatory damage assessments when

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87 Contrast weights are -3 for non-strategic, assured; +1 for all other treatment groups.
receiving disclosure of non-strategic CSR activities (mean= 8.35) is significantly higher than when receiving disclosure of strategic CSR activities (mean= 7.17) (t= -1.81, p= 0.074). However, when assurance is present the difference between damage assessments when receiving disclosure of non-strategic CSR activities (mean= 6.45) is not different than when receiving disclosure of strategic CSR activities (mean= 6.83) (t= 0.52; p= 0.607). Together, the results suggest that jurors recognize the company’s incentive to report non-strategic CSR activities as a means to protect its organizational legitimacy during litigation, and assess the highest compensatory damage assessments when the disclosures are not assured. Further, the value of assurance appears to be economically significant as the mean compensatory assessment is $1.90 million higher when disclosure of non-strategic activities is not assured, which is equivalent to 19 percent of the maximum compensatory assessment.

Insert Figure 3.7 About Here

**CSR Activity Type, CSR Assurance and Punitive Damage Assessments; Test of H6a and H6b**

Similar to H5a, H6a predicts that jurors’ punitive damage assessments will be lower when receiving disclosure of non-strategic CSR activities relative to receiving disclosure of strategic CSR activities. Table 3.9 Panel A reports the least square means for punitive damage assessments is 2.71 for those receiving disclosure of non-strategic CSR activities and 3.04 for those receiving disclosure of strategic CSR activities. Table 3.9 Panel B reports the ANCOVA model that shows this difference is not significant (p= 0.408). Thus, H6a is not supported.
H6b predicts that the CSR activity type will interact with CSR assurance to influence punitive damage assessments. Table 3.9 Panel B reports the ANCOVA model that shows a significant interaction ($F=4.93; p=0.029$). Table 3.9 Panel C shows the planned contrast results that support the predicted ordinal interaction ($t=2.46; p=0.008$). Further, Figure 3.8 shows that results visually support the predicted ordinal interaction, and the semi-omnibus F-test is not significant ($p=0.395$). Thus, H6b is supported. Overall, results suggest that non-strategic CSR can reduce jurors’ punitive damage assessments, but only if it is assured. Further, the reduction in punitive damage assessments appears to be economically significant, as disclosure of non-strategic activities that are not assured result in punitive assessments that are 230 percent higher compared to disclosure that is assured.88

**Insert Figure 3.8 About Here**

**Insert Table 3.9 About Here**

*Credibility as Mediator; Test of H7*

H7 predicts that jurors’ perceptions of disclosure credibility will mediate the moderating relationship between CSR activity type and CSR assurance. Therefore, I follow Muller, Judd, and Yzerbyt (2005) and estimate the following three regression models.

**Model 1**

\[
\text{Punitive Damage Award} = \beta_{10} + \beta_{11} \text{CSR Activity Type} + \beta_{12} \text{CSR Assurance} + \beta_{13} \text{CSR Activity Type} \times \text{CSR Assurance} + \epsilon_1
\]

**Model 2**

\[
\text{Perceived Disclosure Credibility} = \beta_{20} + \beta_{21} \text{CSR Activity Type} + \beta_{22} \text{CSR Assurance} + \beta_{23} \text{CSR Activity Type} \times \text{CSR Assurance} + \epsilon_2
\]

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88 The punitive damage assessment judgement is a multiplier of the compensatory damage assessment. To calculate economic significance, I multiplied the mean punitive damage assessment by the mean compensatory damage assessment before calculating the economic significance.
Model 3  
\[
Punitive \text{ Damage Award} = \beta_{30} + \beta_{31} \cdot CSR \text{ Activity Type} + \beta_{32} \cdot CSR \text{ Assurance} + \beta_{33} \cdot CSR \text{ Activity Type} \cdot CSR \text{ Assurance} + \beta_{34} \cdot Credibility + \beta_{35} \cdot Credibility \cdot CSR \text{ Assurance} + \varepsilon_3
\]

Following Muller et al. (2005), mediated moderation occurs if the following three conditions exist: (1) overall moderation of CSR activity type exists ($\beta_{13} \neq 0$ and significant); (2) both $\beta_{23}$ and $\beta_{34}$ are significant; (3) moderation of CSR activity type, $\beta_{33}$, should be smaller than $\beta_{13}$ in the case of partial mediated moderation ($\beta_{13}$ will become non-significant in the case of full mediated moderation). Table 3.10 reports the result of the three regression models. Model 1 reports the significant effect of the CSR activity type and CSR assurance interaction on jurors’ punitive damage assessments (one tailed $p = 0.015$) and Model 2 reports that the interaction is marginally significant when credibility is the dependent variable (one-tailed $p = 0.074$). Finally, Model 3 reports that the main effect of credibility is significant (one-tailed $p = 0.002$) and the CSR activity type and CSR assurance interaction is smaller. Thus, results support H7 and suggest credibility partially mediates the moderation of CSR assurance on CSR activity type.

Insert Table 3.10 About Here

The findings of Study 2 suggest that CSR activity type and CSR assurance interact to influence both compensatory and punitive damage assessments. Specifically, non-strategic CSR activities only reduce the damage assessment level when CSR assurance is present. Thus, jurors recognize a company’s incentive to disclosure non-strategic CSR activities when facing litigation and discount the disclosure, unless assurance is present. Further, the moderation is partially mediated by credibility. This finding is consistent with other juror studies that suggest credibility of the information presented to jurors is important in the trial setting.
VII. CONCLUSION

This paper examines whether CSR information influences jurors’ judgements for a non-related issue. Specifically, I examine whether the CSR activity type and CSR assurance influence jurors’ negligence, compensatory damage and punitive damage assessments. Results from Study 1 suggest that the CSR activity type and CSR assurance do elicit the theoretical constructs predicted to influence jurors’ decisions; non-strategic CSR activity is associated with greater perceptions of other-regarding CSR motives and CSR assurance is associated with greater perceptions of credibility. Further, the experimental manipulations have a direct effect on jurors’ affective reaction to the defendant. However, the experimental manipulations do not have a direct effect on jurors’ perceptions of intentionality or negligence assessments, implying that indirect effects of activity type and assurance flow through participants’ affective reactions towards the defendant. Findings are consistent with prior literature that finds CSR disclosure can provide insurance-like protection from negative reactions of consumers (e.g., Klein and Dawar 2004) and investors (e.g., Christensen 2016; Groening and Kanuri 2016; Zahller et al. 2015; Godfrey et al. 2009) following a negative event.

Results from Study 2 suggest that for those jurors believing the company to be negligent, damage assessments are influenced by CSR activity type and CSR assurance. For this subset of jurors, CSR activity type and CSR assurance interact to influence the level of compensatory damages; i.e., jurors award the highest level of compensatory damages when receiving disclosure of non-strategic CSR activities that are not assured. This is consistent with jurors recognizing the company’s incentive of disclosing non-strategic CSR activities when faced with litigation in order to increase its perceived
organizational legitimacy (i.e., a “greenwashing” attempt), and penalize the company to a greater extent. Results suggest that if a company undertakes non-strategic CSR activities, the activities will not provide protection against compensatory damages unless they are assured. Further, Study 2 finds that the highest level of insurance-like protection against punitive damages occurs when jurors receive disclosure of non-strategic CSR activities that is assured. Further, this relationship is mediated by jurors’ perceptions of credibility. This finding is contrary to literature examining other stakeholder groups that absent a negative event investors prefer strategic CSR activities (Cheng et al. 2015). This suggests that jurors are more concerned with non-strategic CSR activities (i.e., potential greenwashing attempt) than strategic CSR activities. Overall, Study 2 finds support that CSR disclosure can provide insurance-like protection during the damage assessment phase of a trial and this protection is economically significant.

Study 1 and Study 2 provide several important contributions to the literature. First, I extend the literature that relies on the CCM by finding that CSR disclosure can influence jurors’ intermediate judgments that are part of the CCM. Second, I extend the CSR literature that finds stakeholders’ perceptions of CSR motives influence their reactions by examining an additional stakeholder group. Study 1 finds that perceptions of other-regarding CSR motives is an important predictor of juror behavior. Third, this study contributes to the CSR assurance literature by examining a new stakeholder group not previously considered. Findings suggest that the credibility-enhancing benefit of CSR assurance found for investors does not extend to jurors during the negligence phase of the trial, but does when assessing damages. Further, findings suggest that CSR assurance can increase credibility in the litigation setting, not previously studied, but does not always
help litigation outcomes (i.e., negligence assessments). Thus, this study provides additional insight into the benefits of CSR assurance. Finally, this study builds on Lee and Sweeney 2015 by finding that the CSR activity type and CSR assurance influence punitive damage assessments.

These studies also provide implications to practice. First, the findings of Study 1 suggest that companies can create a more positive affective reaction for jurors by undertaking non-strategic CSR activity. This is contrary to the findings in Part II of this dissertation that suggests investors react similarly to strategic or non-strategic CSR activities following a negative event. Therefore, companies should continue non-strategic CSR activities since they can still create value for the company during litigation. This suggestion is further supported in Study 2, which finds jurors award the lowest level of punitive damages to non-strategic CSR activities that are assured. Further, the findings of Study 2 show the importance of CSR assurance in the litigation setting. Thus, companies need to consider the benefits that CSR assurance provides during litigation when determining whether the benefits of purchasing assurance outweigh the costs.

This study has several limitations that provide opportunities for future research. First, this study assumes CSR information is presented to jurors as part of the closing statements of the trial. Future research could examine whether the timing of when jurors are presented CSR information influences their reactions. Further, future research could examine whether jurors’ opinions about the CSR initiatives of a company (i.e., the company’s CSR reputation) prior to the trial influence their decision-making. Second, the current study uses a unitary trial format (all evidence is shown to jurors at one time). However, prior research suggests that a bifurcated trial format (evidence for
compensatory versus punitive damages is presented separately) influences damage assessments (e.g., Adams and Bourgeois 2006). Future research could alter the trial format to explore whether CSR information has the same effect across the various formats. Third, results suggest that jurors behave differently than investors, but it is unclear whether this difference in behavior is due to the different stakeholder group or the negative event context present in this study. Future research could manipulate the presence or absence of a negative event to examine how the negative event context influences other stakeholder groups (i.e., investors). Finally, the current study presents jurors with two disclosures from the company’s CSR report. Future research could examine whether providing jurors with larger amounts of CSR disclosures alters their reactions.
Figure 2.1  Investors’ Valuation Judgment (Expected Results of H2a and H2b)

Figure 2.2  Investors’ Valuation Judgment (Expected Results of H4)
Figure 2.3   **Investors’ Valuation Judgment**  
*(Expected Results of H5a and H5b)*

H5a: Negative Event Absent

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<th>Investors' Valuation Judgment</th>
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<th>Strategic</th>
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<td>Assurance present</td>
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H5b: Negative Event Present

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<td>Assurance present</td>
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Figure 2.4  **Phases of the Experiment**

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<th>Phase</th>
<th>Details</th>
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<td>Participants receive background information on the firm.</td>
<td>&gt; Participants provide initial valuation and desirability judgments.</td>
</tr>
<tr>
<td>&gt;</td>
<td>&gt; Participants receive the CSR disclosure containing the CSR activity type and CSR assurance manipulations.</td>
</tr>
<tr>
<td>&gt;</td>
<td>&gt; Participants make judgments of valuation, investment desirability, credibility of disclosure. They also provide perceptions of the connection between the CSR activity and future cash inflows, as well as whether the CSR disclosure provides a signal about the ethical culture of XYZ, Inc.</td>
</tr>
<tr>
<td>&gt;</td>
<td>&gt; Participants complete debriefing and demographic questions.</td>
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<tr>
<td>Participants in the negative event present condition receive the negative event press release either before or after the CSR disclosure (randomly assigned).</td>
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</table>
Figure 2.5  Graphical Representation of Results of the Interaction of Negative Event and CSR Assurance

Panel A: DV: $AVALUATION$

Panel B: DV: $ADESIRABILITY$
Figure 2.6  Graphical Representation of Results of the Interaction of Negative Event, CSR Activity Type and CSR Assurance

Panel A: Negative Event Absent

Panel B: Negative Event Present
Figure 3.1  Study 1: Model of Jurors’ Evaluations of Negligence

Notes: Figure 3.1 represents the Culpable Control Model as adapted by Backof (2015).
Figure 3.2  Study 1: Graphical Representation of Expected Interaction

H3: CSR activity type X CSR Assurance Interaction

Jurors' Affective Reactions to Defendant

Non-strategic  Strategic

Assurance absent
Assurance present

Figure 3.3  Study 1: Graphical Representation of Expected Interaction

H4a and H4b: CSR activity type X CSR Assurance Interaction

Jurors' Negligence Assessments

Non-strategic  Strategic

Assurance absent
Assurance present
Figure 3.4 Study 2: Factors Influencing Jurors’ Compensatory and Punitive Damage Assessments

Notes: Figure 3.4 represents factors identified in prior literature that influence compensatory and punitive damages. The righthand side of the diagram (shaded boxes) is adapted from Lee and Sweeney (2015) who examine the influence of the presence of environmental disclosure, industry and trust on the level of punitive damages. 

Counterfactual intensity refers to the level of thought jurors’ give to alternative scenarios where the negative event would not have occurred.

Ability to pay refers to whether the defendant as the means to make a significant damages payment.

Negligence assessment refers to the carry-over effect of the level of perceived negligence

Severity of the negative event refers to the level of losses incurred by the plaintiff.

Bad conduct prior to the negative event refers to jurors’ perceptions of the reprehensibilty of the defendants conduct leading up to the negative event.
Figure 3.5  
Study 1: Graphical Representations of Results

![Figure 3.5](image)

Figure 3.6  
Study 1: Graphical Representations of Results

![Figure 3.6](image)
Figure 3.7  Study 2: Graphical Representation of Results

H5b: CSR Activity Type X CSR Assurance

![Graph 1](image1.png)

Figure 3.8  Study 2: Graphical Representation of Results

H6b: CSR Activity Type X CSR Assurance

![Graph 2](image2.png)
Table 1.1  Summary of Reviewed Studies by Journal and Year

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**Table 2.1  Summary Statistics**

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<td>17.01</td>
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<tr>
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<td>11.00</td>
</tr>
<tr>
<td>CSR_MOTIVES</td>
<td>399</td>
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<td>6.15</td>
<td>2.53</td>
<td>1.00</td>
<td>11.00</td>
</tr>
<tr>
<td>FIN_HEALTH</td>
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<td>4.93</td>
<td>5.00</td>
<td>2.06</td>
<td>1.00</td>
<td>11.00</td>
</tr>
<tr>
<td>CREDIBILITY</td>
<td>399</td>
<td>7.03</td>
<td>7.13</td>
<td>2.60</td>
<td>1.00</td>
<td>11.00</td>
</tr>
</tbody>
</table>

**Notes:** Table 2.1 displays the dependent and control variables used in the analysis. The variables are defined as follows:

- **VALUATION_1** measures participants’ initial valuation judgments after receiving background information on the company, but before receiving the manipulations.
- **DESIRABILITY_1** measures participants’ perceptions of investment desirability after receiving background information on the company, but before receiving the manipulations.
- **VALUATION_2** measures participants’ valuation judgments after receiving the manipulations.
- **DESIRABILITY_2** measures participants’ perceptions of investment desirability after receiving the manipulations.
- **ΔVALUATION** measures the change in participants’ valuation judgments and is calculated as updated valuation less initial valuation.
- **ΔDESIRABILITY** measures the change in participants’ perceptions of investment desirability and is calculated as updated desirability less initial desirability.
- **FCF_CONNECTION** measures participants’ perceptions of the connection between the company’s CSR activities and future financial performance.
- **ETHICS** measures participants’ perceptions of the connection between the company’s CSR activities and the ethical culture of the company.
- **CSR_MOTIVES** measures participants’ perceptions of the connection between the company’s CSR activities and its desire to be a good corporate citizen.
- **FIN_HEALTH** measures participants’ perceptions of the financial health of the company.
- **CREDIBILITY** measures participants’ perceptions of CSR disclosure credibility.
## Table 2.2 Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) ΔVALUATION</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) ΔDESI RABILITY</td>
<td><strong>0.692</strong>*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(3) NEGATIVE_EVENT</td>
<td><strong>-0.316</strong>*</td>
<td>-<strong>0.393</strong>*</td>
<td>1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(4) CSR_ACTIVITY_TYPE</td>
<td>0.060</td>
<td>0.078</td>
<td>0.031</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) CSR_ASSURANCE</td>
<td><strong>0.138</strong></td>
<td><strong>0.184</strong>*</td>
<td><strong>-0.035</strong></td>
<td>-0.009</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) FCF_CONNECTION</td>
<td><strong>0.129</strong></td>
<td><strong>0.159</strong></td>
<td><strong>0.071</strong></td>
<td><strong>0.302</strong>*</td>
<td><strong>0.230</strong>*</td>
<td>1</td>
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<td></td>
<td></td>
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<tr>
<td>(7) ETHICS</td>
<td><strong>0.285</strong>*</td>
<td><strong>0.258</strong>*</td>
<td><strong>-0.188</strong>*</td>
<td><strong>-0.062</strong></td>
<td><strong>0.124</strong></td>
<td>0.011</td>
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<tr>
<td>(8) CSR_MOTIVES</td>
<td><strong>0.280</strong>*</td>
<td><strong>0.243</strong>*</td>
<td><strong>-0.213</strong>*</td>
<td><strong>-0.162</strong></td>
<td><strong>0.197</strong>*</td>
<td><strong>-0.112</strong></td>
<td><strong>0.627</strong>*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(9) FIN_HEALTH</td>
<td><strong>0.288</strong>*</td>
<td><strong>0.223</strong>*</td>
<td><strong>-0.289</strong>*</td>
<td>0.051</td>
<td><strong>0.102</strong></td>
<td><strong>0.185</strong>*</td>
<td><strong>0.259</strong>*</td>
<td><strong>0.299</strong>*</td>
<td>1</td>
</tr>
<tr>
<td>(10) CREDIBILITY</td>
<td><strong>0.307</strong>*</td>
<td><strong>0.340</strong>*</td>
<td><strong>-0.181</strong>*</td>
<td>0.021</td>
<td><strong>0.323</strong>*</td>
<td><strong>0.121</strong></td>
<td><strong>0.568</strong>*</td>
<td><strong>0.518</strong>*</td>
<td><strong>0.256</strong>*</td>
</tr>
</tbody>
</table>

**Notes:** Table 2.2 displays the correlation matrix for the dependent, independent and control variables used in the analysis. Correlations that are significant are shown in bold with significance levels defined as: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. The dependent and control variables are defined in Table 2.1. The independent variables are defined as follows:

- **NEGATIVE_EVENT** is manipulated between present (NEGATIVE_EVENT = 1) and absent (NEGATIVE_EVENT = 0)
- **CSR_ACTIVITY_TYPE** is manipulated between strategic (CSR_ACTIVITY_TYPE = 1) and non-strategic (CSR_ACTIVITY_TYPE = 0)
- **CSR_ASSURANCE** is manipulated between present (CSR_ASSURANCE = 1) and absent (CSR_ASSURANCE = 0)
Table 2.3  
Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

Panel A: Change in Valuation Judgment

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>Negative Event - Absent</th>
<th></th>
<th></th>
<th>Negative Event - Present</th>
<th></th>
<th></th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CSR Activity Type</td>
<td>Non-strategic</td>
<td>Strategic</td>
<td>Average</td>
<td>Non-strategic</td>
<td>Strategic</td>
<td>Average</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Absent</td>
<td>1.67 (2.22)</td>
<td>4.90 (2.26)</td>
<td>A 3.27</td>
<td>-8.19 (2.37)</td>
<td>-5.50 (2.20)</td>
<td>B -6.77</td>
</tr>
<tr>
<td></td>
<td></td>
<td>n=44</td>
<td>n=42</td>
<td></td>
<td>n=48</td>
<td>n=57</td>
<td>n=105</td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>4.46 (2.15)</td>
<td>8.55 (2.04)</td>
<td>C 6.50</td>
<td>-5.57 (2.30)</td>
<td>-4.24 (2.23)</td>
<td>D -4.87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>n=50</td>
<td>n=51</td>
<td></td>
<td>n=52</td>
<td>n=55</td>
<td>n=107</td>
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<tr>
<td></td>
<td>Overall</td>
<td>E 3.18 (1.51)</td>
<td>F 6.87 (1.51)</td>
<td>5.01 G</td>
<td>-6.87 (1.66)</td>
<td>-4.87 (1.56)</td>
<td>5.81 H</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>n=93</td>
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<td>n=100</td>
<td>n=112</td>
<td>n=212</td>
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</table>
Panel B: Change in Desirability Judgment

Table 2.3 (continued)

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>Negative Event - Absent</th>
<th>Negative Event - Present</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>CSR Activity Type</td>
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<tr>
<td></td>
<td>Non-strategic</td>
<td>Strategic</td>
</tr>
<tr>
<td>Absent</td>
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</tr>
<tr>
<td>CSR Assurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-strategic</td>
<td>0.30</td>
<td>5.26</td>
</tr>
<tr>
<td>Strategic</td>
<td>(2.41)</td>
<td>(2.45)</td>
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<td>n=44</td>
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<tr>
<td>Present</td>
<td>6.72</td>
<td>12.72</td>
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<tr>
<td>CSR Assurance</td>
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<td></td>
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<tr>
<td>Non-strategic</td>
<td>(5.26)</td>
<td>(2.22)</td>
</tr>
<tr>
<td>Strategic</td>
<td></td>
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<tr>
<td>n=50</td>
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<td>n=51</td>
</tr>
<tr>
<td>Overall</td>
<td>M 3.77</td>
<td>N 9.29</td>
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<tr>
<td>CSR Assurance</td>
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<td></td>
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<tr>
<td>Non-strategic</td>
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<td>(1.64)</td>
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<tr>
<td>Strategic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n=94</td>
<td></td>
<td>n=93</td>
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<tr>
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</tbody>
</table>
Table 2.4  Analysis of Covariance Model and Planned Contrasts

Panel A: Three-Way ANCOVA

<table>
<thead>
<tr>
<th>Source</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEGATIVE_EVENT (H1)</td>
<td>1</td>
<td>5306.05</td>
<td>22.04</td>
<td>0.000</td>
<td>1</td>
<td>15614.92</td>
<td>50.86</td>
<td>0.000</td>
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<tr>
<td>CSR_ACTIVITY_TYPE</td>
<td>1</td>
<td>800.96</td>
<td>3.33</td>
<td>0.069</td>
<td>1</td>
<td>1608.58</td>
<td>5.24</td>
<td>0.023</td>
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<td>CSR_ASSURANCE (H3)</td>
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<td>3.00</td>
<td>0.084</td>
<td>1</td>
<td>2993.70</td>
<td>9.75</td>
<td>0.002</td>
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<tr>
<td>NEGATIVE_EVENT * CSR_ACTIVITY_TYPE</td>
<td>1</td>
<td>41.07</td>
<td>0.17</td>
<td>0.680</td>
<td>1</td>
<td>75.77</td>
<td>0.25</td>
<td>0.620</td>
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<tr>
<td>NEGATIVE_EVENT * CSR_ASSURANCE</td>
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<td>1</td>
<td>481.43</td>
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<td>0.211</td>
</tr>
<tr>
<td>CSR_ACTIVITY_TYPE * CSR_ASSURANCE</td>
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<td>0.01</td>
<td>0.927</td>
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<td>13.21</td>
<td>0.04</td>
<td>0.836</td>
</tr>
<tr>
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<td>5.91</td>
<td>0.02</td>
<td>0.876</td>
<td>1</td>
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<td>0.07</td>
<td>0.787</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td>0.020</td>
<td>1</td>
<td>1572.50</td>
<td>5.12</td>
<td>0.024</td>
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<tr>
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<td>600.65</td>
<td>2.50</td>
<td>0.115</td>
<td>1</td>
<td>254.61</td>
<td>0.83</td>
<td>0.363</td>
</tr>
<tr>
<td>FIN_HEALTH</td>
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<td>2003.03</td>
<td>8.32</td>
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<td>1</td>
<td>378.06</td>
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<tr>
<td>Error</td>
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<td>240.72</td>
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<td>388</td>
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<td></td>
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</tbody>
</table>

Panel B: Planned Contrast Comparison; Tests of H2a and H2b

<table>
<thead>
<tr>
<th>DV</th>
<th>Planned Contrast Comparison</th>
<th>t</th>
<th>One-Tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔEVALUATION</td>
<td>H2a: Negative event absent, Strategic/Non-strategic [F &gt; E]</td>
<td>1.70</td>
<td>0.046</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>H2a: Negative event absent, Strategic/Non-strategic [N &gt; M]</td>
<td>2.34</td>
<td>0.010</td>
</tr>
<tr>
<td>ΔEVALUATION</td>
<td>H2b: Negative event present, Strategic/Non-strategic [G &gt; H]</td>
<td>-0.87</td>
<td>0.193</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>H2b: Negative event present, Strategic/Non-strategic [O &gt; P]</td>
<td>-0.96</td>
<td>0.169</td>
</tr>
</tbody>
</table>

Notes: Simple effect comparison testing H2a and H2b are performed to compare cell means in Table 2.3 Panels A and B.
Table 2.5  Planned Contrast Comparison; Test of H4

<table>
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<tr>
<th>DV</th>
<th>Planned Contrasts</th>
<th>t</th>
<th>One-Tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔVALUATION</td>
<td>Negative event absent, Assurance absent/present [C &gt; A]</td>
<td>1.44</td>
<td>0.075</td>
</tr>
<tr>
<td>ΔVALUATION</td>
<td>Negative event present, Assurance absent/present [D &gt; B]</td>
<td>0.86</td>
<td>0.196</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>Negative event absent, Assurance absent/present [K &gt; I]</td>
<td>2.86</td>
<td>0.002</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>Negative event present, Assurance absent/present [L &gt; J]</td>
<td>1.37</td>
<td>0.086</td>
</tr>
</tbody>
</table>

ΔVALUATION  H4: D-B > C-A  0.38  0.352
ΔDESIRABILITY H4: L-J > K-I  0.94  0.175

Notes: Planned contrast comparison testing H4 are performed to compare cell means in Table 2.3 Panels A and B.

Table 2.6  Planned Contrast Comparison; Tests of H5a and H5b

<table>
<thead>
<tr>
<th>DV</th>
<th>Planned Contrasts*</th>
<th>t</th>
<th>One-Tailed p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔVALUATION</td>
<td>H5a</td>
<td>2.05</td>
<td>0.021</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>H5a</td>
<td>3.03</td>
<td>0.002</td>
</tr>
<tr>
<td>ΔVALUATION</td>
<td>H5b</td>
<td>-0.55</td>
<td>0.290</td>
</tr>
<tr>
<td>ΔDESIRABILITY</td>
<td>H5b</td>
<td>-0.66</td>
<td>0.254</td>
</tr>
</tbody>
</table>

Notes:
* We test H5a using the same contrast weights as Cheng et al. (2015): +3 for strategic/assurance present, +1 for strategic/assurance absent, -2 for non-strategic/assurance present and -2 for non-strategic/assurance absent. To test H5b we use the following contrast weightings: -2 for strategic/assurance present, -2 for strategic/assurance absent, +3 for non-strategic/assurance present and +1 for non-strategic/assurance absent.
**Table 3.1** Study 1: Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of observations</th>
<th>MEAN</th>
<th>MEDIAN</th>
<th>STD</th>
<th>MIN</th>
<th>MAX</th>
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</thead>
<tbody>
<tr>
<td>NEGLIGENCE_SCALE</td>
<td>182</td>
<td>50.33</td>
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<td>30.45</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>CAUSATION</td>
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<td>5.14</td>
<td>5.00</td>
<td>3.22</td>
<td>0.00</td>
<td>10.00</td>
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<td>FORESEEABILITY</td>
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<td>2.55</td>
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<td>AFFECT_DEF</td>
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<td>10.00</td>
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<td>REACTION_CASE</td>
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<td>-9.00</td>
<td>8.00</td>
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<tr>
<td>CREDIBILITY</td>
<td>182</td>
<td>6.57</td>
<td>7.00</td>
<td>2.55</td>
<td>0.00</td>
<td>10.00</td>
</tr>
<tr>
<td>OTHER_REGARDING</td>
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<td>0.97</td>
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<td>0.04</td>
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<td>1.57</td>
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<td>CONTROLLABILITY</td>
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<td>-0.21</td>
<td>0.92</td>
<td>-1.33</td>
<td>2.34</td>
</tr>
</tbody>
</table>

**Notes:** Table 3.1 displays the dependent and control variables used in the analysis for Study 1. The variables are defined as follows:

- **NEGLIGENCE_SCALE** measures participants’ perceptions of the likelihood that the defendant was negligent on a 0 (Not at all likely) to 100 (Extremely likely) scale.
- **CAUSATION** measures participants’ perceptions of whether the company caused the negative event on a 0 (No they did not cause the illness) to 100 (Yes they did cause the illness) scale.
- **FORESEEABILITY** measures participants’ perceptions on the foreseeability of the negative event on a 0 (Not at all foreseeable) to 10 (Completely foreseeable) scale.
- **INTENTIONALITY** measures participants’ perceptions on whether the company intended for the negative event to occur on a 0 (Not at all intended) to 10 (Completely intended) scale.
- **AFFECT_DEF** measures participants’ affective reaction to the defendant on a 0 (Very unfavorable) to 10 (Very favorable) scale.
- **REACTION_CASE** is calculated by subtracting participants’ feelings towards the plaintiffs from their feelings towards the defendant. Both are measured on a 0 (Very strong negative feelings) to 10 (Very strong positive feelings) scale.
- **CREDIBILITY** measures participants’ perceptions of the believability of the CSR disclosure on a 0 (Very doubtful) to 10 (Very believable) scale.
- **OTHER_REGARDING** measures participants’ perceptions of other-regarding CSR motives. Participants were asked three questions on whether the company practices CSR because it has a long-term interest in society, believes in the cause, and is trying to give something back to the community. Each question was asked using a 0 (Highly unlikely) to 10 (Highly likely) scale. Participants’ responses load on a single factor (eigenvalue 2.543).
- **SELF_SERVING** measures participants’ perceptions of self-serving CSR motives. Participants were asked three questions on whether the company practices CSR because it is trying to get more customers, trying to keep its customers, and trying to improve its financial performance. Each question was asked using a 0 (Highly unlikely) to 10 (Highly likely) scale. Participants’ responses load on a single factor (eigenvalue 1.389).
- **CONTROLLABILITY** measures participants’ perceptions of the defendant’s control over the negative event. Consistent with prior research, participants’ perceptions of causation, foreseeability and intentionality load on a single factor (eigenvalue= 1.249).
<table>
<thead>
<tr>
<th></th>
<th>(1) NEGLIGENCE SCALE</th>
<th>(2) CSR_ACTIVITY_TYPE</th>
<th>(3) CSR_ASSURANCE</th>
<th>(4) CAUSATION</th>
<th>(5) FORESEEABILITY</th>
<th>(6) INTENTIONALITY</th>
<th>(7) AFFECT_DEF</th>
<th>(8) REACTION_CASE</th>
<th>(9) CREDIBILITY</th>
<th>(10) OTHER REGARDING</th>
<th>(11) SELF_SERVING</th>
<th>(12) CONTROLLABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) NEGLIGENCE SCALE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td>-0.067</td>
<td>0.070</td>
<td>0.006</td>
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<td>(3) CSR_ASSURANCE</td>
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<td>-0.067</td>
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<tr>
<td>(4) CAUSATION</td>
<td><strong>0.736</strong>*</td>
<td>0.070</td>
<td>0.006</td>
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<tr>
<td>(5) FORESEEABILITY</td>
<td><strong>0.539</strong>*</td>
<td>0.072</td>
<td><strong>-0.148</strong>*</td>
<td><strong>0.456</strong>*</td>
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<td></td>
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<tr>
<td>(6) INTENTIONALITY</td>
<td><strong>0.223</strong></td>
<td>0.070</td>
<td>-0.063</td>
<td><strong>0.184</strong></td>
<td><strong>0.296</strong>*</td>
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<tr>
<td>(7) AFFECT_DEF</td>
<td><strong>0.533</strong>*</td>
<td>0.155*</td>
<td><strong>0.510</strong>*</td>
<td><strong>0.271</strong>*</td>
<td>-0.201**</td>
<td>1</td>
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<tr>
<td>(8) REACTION_CASE</td>
<td><strong>0.369</strong>*</td>
<td>-0.032</td>
<td>0.092</td>
<td><strong>0.424</strong>*</td>
<td><strong>0.265</strong>*</td>
<td>-0.037</td>
<td><strong>0.473</strong>*</td>
<td>1</td>
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<tr>
<td>(9) CREDIBILITY</td>
<td><strong>0.379</strong>*</td>
<td>-0.038</td>
<td><strong>0.316</strong>*</td>
<td><strong>0.265</strong>*</td>
<td><strong>0.287</strong>*</td>
<td><strong>0.278</strong>*</td>
<td><strong>0.493</strong>*</td>
<td><strong>0.291</strong>*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(10) OTHER REGARDING</td>
<td><strong>-0.199</strong></td>
<td><strong>0.177</strong></td>
<td>0.111</td>
<td><strong>-0.229</strong></td>
<td><strong>-0.146</strong></td>
<td>0.021</td>
<td><strong>0.548</strong>*</td>
<td><strong>0.289</strong>*</td>
<td><strong>0.556</strong>*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) SELF_SERVING</td>
<td><strong>0.193</strong></td>
<td><strong>0.171</strong></td>
<td>-0.030</td>
<td>0.109</td>
<td><strong>0.160</strong></td>
<td>-0.011</td>
<td><strong>0.298</strong>*</td>
<td>-0.062</td>
<td>-0.164*</td>
<td><strong>0.368</strong>*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(12) CONTROLLABILITY</td>
<td><strong>0.589</strong>*</td>
<td>0.078</td>
<td>-0.140</td>
<td><strong>0.537</strong>*</td>
<td><strong>0.995</strong>*</td>
<td><strong>0.334</strong>*</td>
<td><strong>0.314</strong>*</td>
<td><strong>0.293</strong>*</td>
<td>-0.307***</td>
<td><strong>-0.160</strong></td>
<td><strong>0.161</strong></td>
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</table>

Notes: Table 3.2 displays the correlation matrix for the dependent, independent and control variables used in the analysis for Study 1. Correlations that are significant are shown in bold with significance levels defined as: * p < 0.05, ** p < 0.01, *** p < 0.001. The dependent and control variables are defined in Table 3.1. The independent variables are defined as follows:

- **CSR_ACTIVITY_TYPE** is manipulated between strategic (**CSR_ACTIVITY_TYPE** =1) and non-strategic (**CSR_ACTIVITY_TYPE** =0)
- **CSR_ASSURANCE** is manipulated between present (**CSR_ASSURANCE** =1) and absent (**CSR_ASSURANCE** =0)
Table 3.3  Study 1: Affective Reaction to Defendant

Panel A: Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>CSR Activity Type</th>
<th>Non-strategic</th>
<th>Strategic</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absent</td>
<td>[A]</td>
<td>6.27 (0.29)</td>
<td>5.15 (0.27)</td>
<td>5.69 (0.20)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>40</td>
<td>50</td>
<td>90</td>
</tr>
<tr>
<td>Present</td>
<td>[C]</td>
<td>5.57 (0.27)</td>
<td>5.55 (0.28)</td>
<td>5.56 (0.19)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>47</td>
<td>45</td>
<td>92</td>
</tr>
<tr>
<td>Overall</td>
<td>[E]</td>
<td>5.92 (0.20)</td>
<td>5.35 (0.19)</td>
<td>5.35 (0.19)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>87</td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>

Panel B: Analysis of Covariance

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value**</th>
</tr>
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<tbody>
<tr>
<td>CSR_ACTIVITY_TYPE (H1)</td>
<td>14.71</td>
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<td>14.71</td>
<td>4.27</td>
<td>0.040</td>
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<td>CSR_ASSURANCE</td>
<td>1.01</td>
<td>1</td>
<td>1.01</td>
<td>0.29</td>
<td>0.589</td>
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<tr>
<td>CSR_ACTIVITY_TYPE *</td>
<td>13.49</td>
<td>1</td>
<td>13.49</td>
<td>3.92</td>
<td>0.049</td>
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<tr>
<td>CSR_ASSURANCE (H3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covariates:</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>CONTROLLABILITY</td>
<td>22.29</td>
<td>1</td>
<td>22.29</td>
<td>6.48</td>
<td>0.012</td>
</tr>
<tr>
<td>REACTION_CASE</td>
<td>138.52</td>
<td>1</td>
<td>138.52</td>
<td>40.25</td>
<td>0.000</td>
</tr>
<tr>
<td>Error</td>
<td>605.74</td>
<td>176</td>
<td>3.44</td>
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</tr>
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</table>

Panel C: Planned Contrast and Follow-up Tests of H1 and H3

<table>
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<th>Source</th>
<th>df</th>
<th>t-stat</th>
<th>p-value**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned contrast*** (H3)</td>
<td>1</td>
<td>1.37</td>
<td>0.171</td>
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<tr>
<td>Simple effect comparison of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic/Non-strategic [E - F] (H1)*</td>
<td>1</td>
<td>2.05</td>
<td>0.021</td>
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<tr>
<td>Assurance Absent/Non-strategic [C - A]**</td>
<td>1</td>
<td>-1.75</td>
<td>0.082</td>
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<tr>
<td>Assurance Absent/Non-strategic [D - B]**</td>
<td>1</td>
<td>1.03</td>
<td>0.304</td>
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<tr>
<td>Non-strategic/Strategic, Assurance absent [A - B]**</td>
<td>1</td>
<td>2.83</td>
<td>0.005</td>
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<tr>
<td>Non-strategic/Strategic, Assurance present [C - D]**</td>
<td>1</td>
<td>0.06</td>
<td>0.954</td>
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</tbody>
</table>

Notes: * Expectation is directional p-value is based on one-tailed tests.  
** p-values are based on two-tailed tests.  
*** Contrast weights are +3 for non-strategic, assured; +1 for non-strategic, not assured; -2 for strategic, assured; -2 for strategic, not assured.
Table 3.4  Study 1: Intentionality Assessment

Panel A: Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>CSR Activity Type</th>
<th>Non-strategic</th>
<th>Strategic</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absent</td>
<td>[A] 0.43</td>
<td>[B] 0.55</td>
<td>(0.17)</td>
<td>40</td>
</tr>
<tr>
<td>Present</td>
<td>[C] 0.43</td>
<td>[D] 0.43</td>
<td>(0.16)</td>
<td>47</td>
</tr>
<tr>
<td>Overall</td>
<td>[E] 0.43</td>
<td>[F] 0.49</td>
<td>(0.12)</td>
<td>87</td>
</tr>
</tbody>
</table>

Panel B: Analysis of Covariance

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value**</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR_ACTIVITY_TYPE (H2)</td>
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<td>0.15</td>
<td>0.12</td>
<td>0.725</td>
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<td>0.15</td>
<td>0.13</td>
<td>0.723</td>
</tr>
<tr>
<td>CSR_ACTIVITY_TYPE *</td>
<td>0.17</td>
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<td>0.17</td>
<td>0.14</td>
<td>0.706</td>
</tr>
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<td>CSR_ASSURANCE</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Covariates:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFFECT_DEF</td>
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<td>4.07</td>
<td>3.44</td>
<td>0.065</td>
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<tr>
<td>REACTION_CASE</td>
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<td>2.71</td>
<td>2.29</td>
<td>0.132</td>
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<tr>
<td>FORESEEABILITY</td>
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<td>12.19</td>
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<td>CAUSATION</td>
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<td>0.13</td>
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<td>Error</td>
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Notes: ** p-values are based on two-tailed tests.
Table 3.5  Study 1: Negligence Assessment

Panel A: Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>Non-strategic</th>
<th>Strategic</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absent</td>
<td>[A] 52.38 (3.55)</td>
<td>[B] 47.62 (3.19)</td>
<td>49.89 (2.35)</td>
</tr>
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<td></td>
<td>40</td>
<td>50</td>
<td>90</td>
</tr>
<tr>
<td>Present</td>
<td>[C] 52.93 (3.23)</td>
<td>[D] 48.81 (3.31)</td>
<td>50.78 (2.32)</td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>45</td>
<td>92</td>
</tr>
<tr>
<td>Overall</td>
<td>[E] 52.66 (2.40)</td>
<td>[F] 48.22 (2.29)</td>
<td>52.22 (2.29)</td>
</tr>
<tr>
<td></td>
<td>87</td>
<td>95</td>
<td>95</td>
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</tbody>
</table>

Panel B: Analysis of Covariance

<table>
<thead>
<tr>
<th>Source</th>
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<th>Mean Square</th>
<th>F</th>
<th>p-value**</th>
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</thead>
<tbody>
<tr>
<td>CSR_ACTIVITY_TYPE (H4a)</td>
<td>865.32</td>
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<td>865.32</td>
<td>1.77</td>
<td>0.185</td>
</tr>
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<td>CSR_ASSURANCE</td>
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<td>33.52</td>
<td>0.07</td>
<td>0.794</td>
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<tr>
<td>CSR_ACTIVITY_TYPE * CSR_ASSURANCE (H4b)</td>
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<td>1</td>
<td>4.40</td>
<td>0.01</td>
<td>0.925</td>
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<td>Covariates:</td>
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<tr>
<td>CONTROLLABILITY</td>
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<td>63.01</td>
<td>0.000</td>
</tr>
<tr>
<td>AFFECT_DEF</td>
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<td>16414.38</td>
<td>33.58</td>
<td>0.000</td>
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<tr>
<td>REACTION_CASE</td>
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<td>466.46</td>
<td>0.95</td>
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Panel C: Planned Contrast and Follow-up Tests of H4a & H4b

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</tr>
<tr>
<td>Simple effect comparison of:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Strategic/Non-strategic [F - E] (H4a)**</td>
<td>1</td>
<td>1.33</td>
<td>0.185</td>
</tr>
</tbody>
</table>

Notes:
** p-values are based on two-tailed tests.
*** Contrast weights are -3 for non-strategic, assured; -1 for non-strategic, not assured; +2 for strategic, assured; +2 for strategic, not assured.
<table>
<thead>
<tr>
<th>Table 3.6</th>
<th>Study 2: Summary Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of observations</td>
</tr>
<tr>
<td>COMPENSATORY</td>
<td>83</td>
</tr>
<tr>
<td>PUNITIVE</td>
<td>83</td>
</tr>
<tr>
<td>COUNTER_FREQ</td>
<td>83</td>
</tr>
<tr>
<td>COUNTER_STRENGTH</td>
<td>83</td>
</tr>
<tr>
<td>ABILITY_PAY</td>
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<td>NEGLIGENCE_SCALE</td>
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</tr>
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</tr>
<tr>
<td>NEG_SEVERITY</td>
<td>83</td>
</tr>
<tr>
<td>BEHAVIOR</td>
<td>83</td>
</tr>
<tr>
<td>DET_PUNISH</td>
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<tr>
<td>CREDIBILITY</td>
<td>83</td>
</tr>
<tr>
<td>OTHER_REGARDING</td>
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<td>SELF_SERVING</td>
<td>83</td>
</tr>
<tr>
<td>CONTROLLABILITY</td>
<td>83</td>
</tr>
</tbody>
</table>

**Notes:** Table 3.6 displays the dependent and control variables used in the analysis for Study 1. The variables are defined as follows:

- COMPENSATORY measures participants’ compensatory damages assessment on a $0 to $10 million scale.
- PUNITIVE measures participants’ punitive damages assessment on a 0 to 10 (times compensatory damages) scale.
- COUNTER_FREQ measures the frequency of participants’ counterfactual thinking on a 0 (Never thought about it) to 10 (Frequently thought about it) scale.
- COUNTER_STRENGTH measures the strength of participants’ counterfactual thinking on a 0 (No serious thoughts) to 10 (Very serious thoughts) scale.
- ABILITY_PAY measures participants’ perceptions of the likelihood the defendant has the financial ability to pay the damage assessments on a 0 (Highly unlikely) to 10 (Highly likely) scale.
- NEGLIGENCE_SCALE measures participants’ perceptions of the likelihood that the defendant was negligent on a 0 (Not at all likely) to 100 (Extremely likely) scale.
- NEG_SIGNIFICANCE measures participants’ perceptions of the significance of the negative event on a 0 (Not at all significant) to 10 (Very significant).
- NEG_SEVERITY measures participants’ perceptions of the importance of the extent plaintiffs’ losses when making assessments on a 0 (Did not consider losses) to 10 (Seriously considered losses).
- BEHAVIOR measures participants’ perceptions of the behavior of the defendant leading up to the negative event on a 0 (Very bad) to 10 (Very good) scale.
- DET_PUNISH measures participants’ motivation for their punitive damage assessment on a 0 (Punishment motivated) to 10 (Deterrent motivated) scale.
- CREDIBILITY measures participants’ perceptions of the believability of the CSR disclosure on a 0 (Very doubtful) to 10 (Very believable) scale.
- OTHER_REGARDING measures participants’ perceptions of other-regarding CSR motives. Participants were asked three questions on whether the company practices CSR because it has a long-term interest in society, believes in the cause, and is trying to give something back to the community. Each question was asked using a 0 (Highly unlikely) to 10 (Highly likely) scale. Participants’ responses load on a single factor (eigenvalue 2.543).
- SELF_SERVING measures participants’ perceptions of self-serving CSR motives. Participants were asked three questions on whether the company practices CSR because it is trying to get more customers, trying to keep its customers, and trying to improve its financial performance. Each question was asked using a 0 (Highly unlikely) to 10 (Highly likely) scale. Participants’ responses load on a single factor (eigenvalue 1.389).
- CONTROLLABILITY measures participants’ perceptions of the defendant’s control over the negative event. Consistent with prior research, participants’ perceptions of causation, foreseeability and intentionality load on a single factor (eigenvalue= 1.249).
Table 3.7  Study 2: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
<th>(9)</th>
<th>(10)</th>
<th>(11)</th>
<th>(12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) COMPENSATORY</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(2) PUNITIVE</td>
<td></td>
<td>0.329**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) CSR_ACTIVITY_TYPE</td>
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<td>-0.014</td>
<td>0.109</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>(4) CSR_ASSURANCE</td>
<td></td>
<td>-0.305**</td>
<td>-0.170</td>
<td>-0.107</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(5) COUNTER_FREQ</td>
<td>0.245*</td>
<td>0.138</td>
<td>0.024</td>
<td>-0.170</td>
<td>1</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(6) COUNTER_STRENGTH</td>
<td></td>
<td>0.100</td>
<td>0.198</td>
<td>-0.086</td>
<td>-0.178</td>
<td>0.722***</td>
<td>1</td>
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<tr>
<td>(7) NEGLIGENCE_SCALE</td>
<td>0.487***</td>
<td>0.348**</td>
<td>0.062</td>
<td>-0.205</td>
<td>0.390***</td>
<td>0.253*</td>
<td>1</td>
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<td></td>
</tr>
<tr>
<td>(8) NEG_SIGNIFICANCE</td>
<td>0.242*</td>
<td>0.133</td>
<td>0.038</td>
<td>-0.115</td>
<td>0.166</td>
<td>0.102</td>
<td>0.267*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) BEHAVIOR</td>
<td></td>
<td>-0.057</td>
<td>-0.304**</td>
<td>-0.050</td>
<td>0.130</td>
<td>-0.187</td>
<td>-0.108</td>
<td>-0.244*</td>
<td>-0.053</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) DET_PUNISH</td>
<td>0.006</td>
<td>0.314**</td>
<td>-0.015</td>
<td>0.076</td>
<td>0.166</td>
<td>0.341**</td>
<td>0.096</td>
<td>0.082</td>
<td>-0.105</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) NEG_SIGNIFICANCE</td>
<td>0.153</td>
<td>-0.016</td>
<td>0.019</td>
<td>-0.038</td>
<td>0.089</td>
<td>0.041</td>
<td>0.267*</td>
<td>0.082</td>
<td>-0.117</td>
<td>0.098</td>
<td>1</td>
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<tr>
<td>(12) CREDIBILITY</td>
<td>-0.210</td>
<td>-0.380***</td>
<td>-0.154</td>
<td>0.364***</td>
<td>0.006</td>
<td>0.067</td>
<td>-0.223*</td>
<td>-0.082</td>
<td>0.520***</td>
<td>0.051</td>
<td>0.045</td>
<td>1</td>
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<tr>
<td>(13) CONTROLLABILITY</td>
<td>0.228*</td>
<td>0.111</td>
<td>0.113</td>
<td>-0.308**</td>
<td>0.360***</td>
<td>0.331**</td>
<td>0.164</td>
<td>0.035</td>
<td>-0.134</td>
<td>0.263*</td>
<td>0.119</td>
<td>-0.181</td>
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</table>

Notes: Table 3.7 displays the correlation matrix for the dependent, independent and control variables used in the analysis for Study 2. Correlations that are significant are shown in bold with significance levels defined as: * p < 0.05, ** p < 0.01, *** p < 0.001. The dependent and control variables are defined in Table 3.6. The independent variables are defined as follows:

CSR_ACTIVITY_TYPE is manipulated between strategic (CSR_ACTIVITY_TYPE =1) and non-strategic (CSR_ACTIVITY_TYPE =0)
CSR_ASSURANCE is manipulated between present (CSR_ASSURANCE =1) and absent (CSR_ASSURANCE =0)
### Table 3.8  Study 2: Compensatory Damages Assessments

#### Panel A: Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>CSR Activity Type</th>
<th>Non-strategic</th>
<th>Strategic</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Absent</td>
<td></td>
<td>8.35 (0.49)</td>
<td>7.17 (0.42)</td>
<td>7.73 (0.32)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>Present</td>
<td></td>
<td>6.45 (0.45)</td>
<td>6.83 (0.48)</td>
<td>6.65 (0.33)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>7.43 (0.33)</td>
<td>7.01 (0.31)</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>39</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

#### Panel B: Analysis of Covariance

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value**</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR_ACTIVITY_TYPE (H5a)</td>
<td>3.20</td>
<td>1</td>
<td>3.20</td>
<td>0.76</td>
<td>0.387</td>
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<tr>
<td>CSR_ASSURANCE</td>
<td>24.21</td>
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<td>24.21</td>
<td>5.74</td>
<td>0.019</td>
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<tr>
<td>CSR_ACTIVITY_TYPE *</td>
<td>12.01</td>
<td>1</td>
<td>12.01</td>
<td>2.85</td>
<td>0.096</td>
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<td>CSR_ASSURANCE (H5b)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covariates:</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>NEGLIGENCE_SCALE</td>
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<td>78.01</td>
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<td>0.000</td>
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<td>COUNTER_FREQ</td>
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<td>7.73</td>
<td>1.83</td>
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<tr>
<td>COUNTER_STRENGTH</td>
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<td>8.83</td>
<td>2.09</td>
<td>0.152</td>
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<td>Error</td>
<td>320.85</td>
<td>76</td>
<td>4.22</td>
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<td></td>
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</tbody>
</table>

#### Panel C: Follow-up Tests of H5a and H5b

<table>
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<th>Source</th>
<th>df</th>
<th>t-stat</th>
<th>p-value**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned contrast*** (H5b)</td>
<td>1</td>
<td>1.93</td>
<td>0.058</td>
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<tr>
<td>Simple effect comparison of:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Strategic/Non-strategic [E - F] (H5a)**</td>
<td>1</td>
<td>0.87</td>
<td>0.387</td>
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<tr>
<td>Assurance Absent/Present, Non-strategic [C - A]*</td>
<td>1</td>
<td>2.86</td>
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<tr>
<td>Assurance Absent/Present, Strategic [D - B]**</td>
<td>1</td>
<td>0.52</td>
<td>0.607</td>
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<tr>
<td>Non-strategic/Strategic, Assurance absent [A - B]**</td>
<td>1</td>
<td>-1.81</td>
<td>0.074</td>
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<tr>
<td>Non-strategic/Strategic, Assurance present [C - D]**</td>
<td>1</td>
<td>0.58</td>
<td>0.560</td>
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</table>

**Notes:** * Expectation is directional; p-value is based on one-tailed tests.  **p-values are based on two-tailed tests.  *** Contrast weights are -3 for non-strategic, assurance present; +1 for the other three conditions. To analyze whether the interaction follows the predicted ordinal pattern, I follow Guggenmos et al. (2016) and examine the pattern of means, as well as the semi-omnibus F-test of the residual between-cells variance. As shown in Figure 3.7, the data do not match the hypothesized pattern. Further, the semi-omnibus F-Test is significant (p = 0.006).
Table 3.9  Study 2: Punitive Damages Assessments

Panel A: Descriptive Statistics: Least Square Means, (Standard Error), Number of Observations

<table>
<thead>
<tr>
<th>CSR Assurance</th>
<th>CSR Activity Type</th>
<th>Non-strategic</th>
<th>Strategic</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(0.47)</td>
<td>(0.42)</td>
<td>(0.31)</td>
</tr>
<tr>
<td>Absent</td>
<td>[A]</td>
<td>3.44</td>
<td>2.77</td>
<td>3.09</td>
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<tr>
<td></td>
<td></td>
<td>18</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>Present</td>
<td>[C]</td>
<td>1.93</td>
<td>3.33</td>
<td>2.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.44)</td>
<td>(0.47)</td>
<td>(0.32)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Overall</td>
<td>[E]</td>
<td>2.71</td>
<td>3.04</td>
<td>2.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.32)</td>
<td>(0.30)</td>
<td>(0.29)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>39</td>
<td>44</td>
<td></td>
</tr>
</tbody>
</table>

Panel B: Analysis of Covariance

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>p-value*</th>
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<tr>
<td>CSR_ACTIVITY_TYPE (H6a)</td>
<td>2.75</td>
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<td>2.75</td>
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<td>0.408</td>
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<td>CSR_ASSURANCE</td>
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<td>4.40</td>
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<td>0.296</td>
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<tr>
<td>CSR_ACTIVITY_TYPE * CSR_ASSURANCE (H6b)</td>
<td>19.60</td>
<td>1</td>
<td>19.60</td>
<td>4.93</td>
<td>0.029</td>
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<tr>
<td>Covariates:</td>
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</tr>
<tr>
<td>NEGLIGENCE_SCALE</td>
<td>38.03</td>
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<td>38.03</td>
<td>9.56</td>
<td>0.003</td>
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<tr>
<td>BEHAVIOR</td>
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<td>25.19</td>
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<tr>
<td>DET_PUNISH</td>
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<td>35.74</td>
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<td>Neg_Significance</td>
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Panel C: Follow-up Tests of H6a and H6b

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<th>p-value*</th>
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<tr>
<td>Strategic/Non-strategic [E - F] (H6a)**</td>
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<td>0.83</td>
<td>0.408</td>
</tr>
<tr>
<td>Assurance Absent/Present, Non-strategic [C - A]*</td>
<td>1</td>
<td>2.33</td>
<td>0.012</td>
</tr>
<tr>
<td>Assurance Absent/Present, Strategic [D - B]**</td>
<td>1</td>
<td>0.85</td>
<td>0.397</td>
</tr>
<tr>
<td>Non-strategic/Strategic, Assurance absent [A - B]**</td>
<td>1</td>
<td>1.04</td>
<td>0.301</td>
</tr>
<tr>
<td>Non-strategic/Strategic, Assurance present [C - D]*</td>
<td>1</td>
<td>2.17</td>
<td>0.017</td>
</tr>
</tbody>
</table>

Notes: * Expectation is directional; p-value is based on one-tailed tests. ** p-values are based on two-tailed tests. *** Contrast weights are -3 for non-strategic, assurance present; +1 for the other three conditions. To further analyze whether an ordinal interaction exists, I follow Guggenmos et al. (2016) and examine the visual, as well as a semi-omnibus F-test of the residual between-cells variance. As shown in Figure 3.8, the data matches the hypothesized pattern. Finally, the semi-omnibus F-Test is not significant (p= 0.395).
### Table 3.10  Study 2: Mediated Moderation Analysis Results

<table>
<thead>
<tr>
<th>Model #: dependent variable</th>
<th>Independent variables</th>
<th></th>
<th></th>
<th>Credibility</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>CSR Activity Type</td>
<td>(A)</td>
<td>CSR Assurance</td>
<td>(B) (A * B)</td>
<td>Credibility</td>
</tr>
<tr>
<td>Model 1</td>
<td>Punitive damage assessment</td>
<td>-1.04 (0.301)</td>
<td>-2.33 (0.012)</td>
<td>2.22 (0.015)</td>
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</tr>
<tr>
<td>Model 2</td>
<td>Credibility</td>
<td>-1.83 (0.035)</td>
<td>1.28 (0.203)</td>
<td>1.46 (0.074)</td>
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</tr>
<tr>
<td>Model 3</td>
<td>Punitive damage assessment</td>
<td>-0.74 (0.459)</td>
<td>-1.39 (0.085)</td>
<td>1.39 (0.085)</td>
<td>-3.11 (0.002)</td>
</tr>
</tbody>
</table>

**Notes:** Table 3.10 reports the results of the mediated moderation analysis of credibility on punitive damage assessments. Significant p-values are shown in bold. For mediated moderation to occur three conditions must be met: (1) CSR assurance must moderate the influence of CSR activity type on punitive damage assessments (Model 1); (2) CSR assurance must moderate the influence of CSR activity type on credibility (Model 2); (3) Credibility must have a main effect on punitive damage assessments, and there must be a decrease in the CSR assurance moderation of the influence of CSR activity type on punitive damages (Model 3). The marginally significant moderation of CSR assurance on the influence of CSR activity type in Model 3 suggests partial mediation.
### Appendix A  Part One: Section III Literature Review Matrix

<table>
<thead>
<tr>
<th>Section</th>
<th>Citation</th>
<th>Disclosure Characteristic Examined</th>
<th>Disclosure Source</th>
<th>Disclosure Topic</th>
<th>Disclosure Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>III</td>
<td>Patten 2005</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Comparison to actual performance</td>
</tr>
<tr>
<td>III</td>
<td>Cho et al. 2010</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Qualitative aspects</td>
</tr>
<tr>
<td>III</td>
<td>Al-Tuwajiri et al. 2004</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Scoring methodology</td>
</tr>
<tr>
<td>III</td>
<td>de Villiers and Van Staden 2006</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Scoring methodology</td>
</tr>
<tr>
<td>III</td>
<td>Wiseman 1982</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Scoring methodology</td>
</tr>
<tr>
<td>III</td>
<td>Richardson and Welker 2001</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks</td>
<td>Mixed</td>
<td>Scoring methodology</td>
</tr>
<tr>
<td>III</td>
<td>Aerts and Cormier 2009</td>
<td>Disclosure quality</td>
<td>Corporate annual reports/10-ks; Press releases</td>
<td>Environmental</td>
<td>Scoring methodology</td>
</tr>
<tr>
<td>III</td>
<td>Roberts 1992</td>
<td>Disclosure quality</td>
<td>Council of Economic Priorities</td>
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<td>Scoring methodology</td>
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<tr>
<td>III</td>
<td>Solomon et al. 2013</td>
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<td>Private disclosure</td>
<td>Mixed</td>
<td>Perception of credibility</td>
</tr>
<tr>
<td>III</td>
<td>Cho et al. 2012</td>
<td>Disclosure quality</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Qualitative aspects</td>
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<tr>
<td>III</td>
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<td>Extent of disclosure</td>
<td>Analyst Reports</td>
<td>Mixed</td>
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</tr>
<tr>
<td>III</td>
<td>Bowman and Haire 1976</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Percentage of discussion</td>
</tr>
<tr>
<td>III</td>
<td>Neu et al. 1998</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Environmental</td>
<td>Percentage of discussion</td>
</tr>
<tr>
<td>III</td>
<td>Trotman and Bradley 1981</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Mixed</td>
<td>Percentage of discussion</td>
</tr>
<tr>
<td>III</td>
<td>Cohen et al. 2012</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Mixed</td>
<td>Present/absent</td>
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<tr>
<td>III</td>
<td>Adams and Harte 1998</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Social</td>
<td>Longitudinal comparison</td>
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<tr>
<td>III</td>
<td>Teoh and Thong 1984</td>
<td>Extent of disclosure</td>
<td>Corporate annual reports/10-ks</td>
<td>Social</td>
<td>Present/absent</td>
</tr>
<tr>
<td>III</td>
<td>Cowen et al. 1987</td>
<td>Extent of disclosure</td>
<td>Ernst &amp; Whinney 1978 survey of CSR disclosures</td>
<td>Mixed</td>
<td>Percentage of discussion</td>
</tr>
<tr>
<td>III</td>
<td>Chakravarthy et al. 2014</td>
<td>Extent of disclosure</td>
<td>Press Releases</td>
<td>Mixed</td>
<td>Present/absent</td>
</tr>
<tr>
<td>III</td>
<td>Clarkson et al. 2008</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Environmental</td>
<td>Comparison to GRI framework</td>
</tr>
<tr>
<td>III</td>
<td>Ling and Mowen 2013</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Environmental</td>
<td>Comparison to GRI framework</td>
</tr>
<tr>
<td>III</td>
<td>Casey and Grenier 2015</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Present/absent</td>
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<tr>
<td>III</td>
<td>Dhaliwal et al. 2011</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Present/absent</td>
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<td>III</td>
<td>Dhaliwal et al. 2012</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Present/absent</td>
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## Appendix A (continued)

<table>
<thead>
<tr>
<th>Section</th>
<th>Citation</th>
<th>Disclosure Characteristic Examined</th>
<th>Disclosure Source</th>
<th>Disclosure Topic</th>
<th>Disclosure Measure</th>
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<tbody>
<tr>
<td>III</td>
<td>Peters and Romi 2015</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Present/absent</td>
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<tr>
<td>III</td>
<td>Simnett et al. 2009</td>
<td>Extent of disclosure</td>
<td>Stand-alone CSR reports</td>
<td>Mixed</td>
<td>Present/absent</td>
</tr>
<tr>
<td>III</td>
<td>Rockness and Williams 1988</td>
<td>Extent of disclosure</td>
<td>Various</td>
<td>Mixed</td>
<td>Present/absent</td>
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</table>
### Appendix B  Part One: Sections IV-VI Literature Review Matrix

<table>
<thead>
<tr>
<th>Section(s)</th>
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<th>Theoretical or Practical Framework</th>
<th>Purpose</th>
<th>Sample/Participants</th>
<th>Method</th>
<th>Contribution / Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>IV</td>
<td>Arnold and Hammond 1994</td>
<td>Role of CSR disclosure in ideological debates</td>
<td>Examines the ideological role accounting and social disclosure played in the South African divestment debates in the US during the 1970s and 1980s</td>
<td>US companies signing the Sullivan Principles</td>
<td>Case-Study</td>
<td>Provides history of social responsibility disclosure related to the Sullivan Principles Social disclosures can be used as a legitimation tool on both sides of a social issue debate</td>
</tr>
<tr>
<td>IV</td>
<td>Bowman and Haire 1976</td>
<td>Voluntary reporting characteristics</td>
<td>Examines the usefulness of annual report disclosure related to intensity and nature of CSR activities</td>
<td>82 food-processing corporations in 1973</td>
<td>Qualitative Content Analysis</td>
<td>Identifies company characteristics positively associated with voluntary reporting (CSR strategic alignment)</td>
</tr>
<tr>
<td>IV</td>
<td>Cowen et al. 1987</td>
<td>Voluntary reporting characteristics</td>
<td>Examines the relationship between corporate characteristics and CSR disclosures</td>
<td>Fortune 500 companies</td>
<td>Archival</td>
<td>Identifies company characteristics positively associated with voluntary reporting (size, CSR corporate governance committees, industry)</td>
</tr>
<tr>
<td>IV</td>
<td>Luo and Tang 2016</td>
<td>Voluntary reporting characteristics</td>
<td>Examines national cultural factors on propensity to issue carbon disclosures</td>
<td>1,762 firms from 33 countries</td>
<td>Archival</td>
<td>National cultural factors (masculinity, power distance, uncertainty avoidance) influence propensity to issue carbon disclosures</td>
</tr>
<tr>
<td>IV</td>
<td>Teoh and Thong 1984</td>
<td>Voluntary reporting characteristics</td>
<td>Examines aspects of CSR reporting in a developing country</td>
<td>Interviews with senior management at 100 Malaysian companies</td>
<td>Qualitative Interview</td>
<td>Identifies company characteristics positively associated with voluntary reporting (size, national origin of company)</td>
</tr>
<tr>
<td>IV</td>
<td>Trotman and Bradley 1981</td>
<td>Voluntary reporting characteristics</td>
<td>Investigates company characteristics associated with CSR disclosures</td>
<td>207 companies listed on the Australian stock exchange with 83 having social disclosures</td>
<td>Archival</td>
<td>Identifies company characteristics positively associated with voluntary reporting (size, higher systematic risk, CSR strategic alignment)</td>
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### Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
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<tbody>
<tr>
<td>IV, V</td>
<td>Simnett et al. 2009</td>
<td>Voluntary reporting characteristics; CSR assurance decision; Choice of CSR assurance provider</td>
<td>Examines the international voluntary CSR assurance market</td>
<td>2,113 companies from 31 countries that produced sustainability reports between 2002-2004</td>
<td>Archival</td>
<td>Identifies company characteristics positively associated with voluntary reporting (size, national origin of company, industry); Companies seeking to enhance the credibility of CSR reports are more likely to have their reports assured; Identifies company characteristics associated with choice of assurance provider (size, leverage, country stakeholder-orientation)</td>
</tr>
<tr>
<td>IV, V</td>
<td>Casey and Grenier 2015</td>
<td>Voluntary reporting characteristics; CSR assurance decision; Choice of CSR assurance provider</td>
<td>Comprehensive investigation of the CSR assurance market in the US</td>
<td>2,649 CSR reports from US firms from 1993 to 2010</td>
<td>Archival</td>
<td>Identifies company characteristics associated with voluntary reporting (size, company industry, CSR performance, global companies, liquidity, leverage, cost of capital, competition, advertising intensity); CSR assurance demand is influenced by CSR performance; Identifies company characteristics associated with choice of CSR assurance provider with strong CSR performers choosing professional accountant and weak CSR performers choosing non-accounting provider</td>
</tr>
<tr>
<td>IV, VI</td>
<td>Chen et al. 2016</td>
<td>Voluntary reporting characteristics; Investor use of disclosure</td>
<td>Examines whether a commitment to higher-quality financial audit influences investor use of CSR disclosures</td>
<td>12,429 firm-year observations from 2000-2008 consisting of 731 stand-alone CSR reports</td>
<td>Archival</td>
<td>Identifies company characteristics associated with voluntary reporting (higher audit fees); Find that CSR reports issued by firms committing to high audit fees accelerate the incorporation of future earnings information into current stock price</td>
</tr>
</tbody>
</table>
### Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
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<tbody>
<tr>
<td>IV, VI</td>
<td>Dhaliwal et al. 2011</td>
<td>Voluntary reporting characteristics and analyst use of disclosure</td>
<td>Investigates the association between CSR disclosure and the cost of equity capital</td>
<td>213 first-time stand-alone CSR reports</td>
<td>Archival</td>
<td>Identifies company characteristics associated with voluntary reporting (high cost of equity capital); Firms with a high cost of equity capital realize a reduction in the cost of equity capital after initiating CSR disclosure; Lower analyst forecast errors and dispersion for firms issuing CSR reports</td>
</tr>
<tr>
<td>IV</td>
<td>Herda and Snyder 2013</td>
<td>Voluntary reporting motivations</td>
<td>Investigates SEC requirement of audits of conflict minerals</td>
<td>Review of section 1502 of the Dodd-Frank Act</td>
<td>Case Study</td>
<td>Details the opportunities and challenges of the first CSR information required to be reported and audited</td>
</tr>
<tr>
<td>IV</td>
<td>Sankara et al. 2016</td>
<td>Voluntary reporting motivations</td>
<td>Investigates SEC requirement of audits of conflict minerals</td>
<td>Review of section 1502 of the Dodd-Frank Act</td>
<td>Case Study</td>
<td>Investigate extent companies have complied with requirement, as well as considers future audit issues</td>
</tr>
<tr>
<td>IV</td>
<td>Roberts 1992</td>
<td>Voluntary reporting characteristics and motivations; Stakeholder theory</td>
<td>Tests stakeholder theory to explain social responsibility disclosure behavior</td>
<td>130 major corporations investigated by the Council on Economic Priorities (CEP) from 1984-1986</td>
<td>Archival</td>
<td>Identifies company characteristics associated with voluntary reporting (CSR strategic alignment); Consistent with stakeholder theory, stakeholder power influences CSR disclosure level</td>
</tr>
</tbody>
</table>
### Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>IV</td>
<td>Neu et al. 1998</td>
<td>Voluntary reporting characteristics and motivations; Legitimacy theory</td>
<td>Examines the role and functioning of environmental disclosures in the annual report</td>
<td>33 Canadian public companies in environmentally sensitive industries from 1982 to 1991</td>
<td>Archival</td>
<td>Identifies company characteristics positively associated with voluntary reporting (size); Consistent with legitimacy theory, external pressure from financial stakeholders, regulators, environmentalists and general society influences the level of environmental disclosure</td>
</tr>
<tr>
<td>IV</td>
<td>Ling and Mowen 2013</td>
<td>Voluntary reporting characteristics and motivations; Legitimacy theory</td>
<td>Investigates the relationship between corporate competitive strategy and voluntary environmental disclosure</td>
<td>120 US public chemical companies</td>
<td>Archival</td>
<td>Identifies company characteristics associated with voluntary reporting (CSR strategic alignment); Corporate strategy influences how disclosure is used for impression management with companies using brand image and research and development strategies associated with higher levels of environmental disclosure</td>
</tr>
<tr>
<td>IV</td>
<td>Bhimani et al. 2016</td>
<td>Voluntary reporting motivations; Legitimacy theory, Isomorphism</td>
<td>Examines CSR reporting motivations for early and late adopters</td>
<td>80 survey responses; field data from five companies</td>
<td>Survey, Qualitative Interviews</td>
<td>Support that early adopters of CSR reporting are influenced by external stakeholder pressure. Late adopters of CSR reporting are influenced by memetic isomorphism</td>
</tr>
<tr>
<td>IV</td>
<td>Deegan and Blomquist 2006</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Examines the influence of lobby groups on corporations CSR reporting</td>
<td>Companies operating within the Australian minerals industry</td>
<td>Case Study</td>
<td>Consistent with legitimacy theory, external pressure from lobby groups influences the level of environmental disclosure</td>
</tr>
<tr>
<td>IV, V</td>
<td>Patten 2005</td>
<td>Voluntary reporting motivations; Legitimacy theory; Disclosure credibility</td>
<td>Examines environmental disclosure quality by comparing projections of future spending for pollution to actual future expenditures</td>
<td>119 US companies from the chemical, petroleum, metals processing, and paper industries from 1993 to 2002</td>
<td>Archival</td>
<td>Support for impression management motivation for disclosure due to projected pollution abatement expenditures may be more misleading than meaningful</td>
</tr>
</tbody>
</table>
### Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
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<tbody>
<tr>
<td>IV</td>
<td>de Villiers and Van Staden 2006</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Examines environmental disclosure trends of South African companies from 1994-2002</td>
<td>140 corporate annual reports</td>
<td>Qualitative - Content Analysis</td>
<td>Evidence for companies using CSR disclosure for legitimacy reasons including a reduction in environmental disclosures, especially specific disclosures compared to general disclosures over time</td>
</tr>
<tr>
<td>IV</td>
<td>Aerts and Cormier 2009</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Explores the impact of environmental disclosures as legitimation tools</td>
<td>158 non-financial North American firms from 2002</td>
<td>Archival</td>
<td>Companies influence perceived environmental legitimacy by issuing reactive press releases and altering extent and quality of annual report environmental disclosures</td>
</tr>
<tr>
<td>IV</td>
<td>Cho et al. 2010</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Investigates if there are self-serving biases in the language and verbal tone of environmental disclosures</td>
<td>190 S&amp;P 500 firms from 2002</td>
<td>Archival</td>
<td>Worse environmental performers use language and verbal tone to bias the message presented in 10-k environmental disclosures</td>
</tr>
<tr>
<td>IV</td>
<td>Cho et al. 2012</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Examine whether corporations use graphs in their sustainability reports as impression management tools to present a more favorable view of their performance.</td>
<td>77 stand-alone CSR reports issued in the US in 2006</td>
<td>Archival</td>
<td>Selectivity bias in items graphed and graph distortion suggests graphs in CSR reports are used for impression management</td>
</tr>
<tr>
<td>IV, VI</td>
<td>Chakravarty et al. 2014</td>
<td>Voluntary reporting motivations; Legitimacy theory</td>
<td>Examine if companies to repair their reputations after a reporting scandal</td>
<td>94 restating firms from the US</td>
<td>Archival</td>
<td>Companies increase reputation-building actions toward capital and non-capital-provider stakeholders following restatements; Positive abnormal returns suggest investors see the reputation-building actions as value-increasing</td>
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</table>
### Appendix B (continued)

<table>
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<tr>
<th>Section(s)</th>
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<th>Contribution / Key Findings</th>
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<tr>
<td>IV, V, VI</td>
<td>Solomon et al. 2013</td>
<td>Voluntary reporting motivations; Legitimacy theory; Investor perception of disclosure</td>
<td>Examines private social and environmental reporting between companies and investors</td>
<td>Interviews with senior management at 20 leading UK investment institutions</td>
<td>Qualitative Interview</td>
<td>Companies use private social and environmental reporting to investors as an impression management tool; Investors do not perceive disclosure as credible and discount the information</td>
</tr>
<tr>
<td>IV</td>
<td>Clarkson et al. 2008</td>
<td>Voluntary reporting motivations; Voluntary disclosure theory</td>
<td>Examines the link between environmental performance and environmental disclosure</td>
<td>191 firms from pulp and paper, chemicals, oil and gas, metals and mining and utility industries from 2003</td>
<td>Archival</td>
<td>Consistent with voluntary disclosure theory, finds support for superior environmental reporters using disclosure as a signal of firm type to stakeholders</td>
</tr>
<tr>
<td>IV</td>
<td>Cho et al. 2015</td>
<td>Voluntary reporting motivations; Organized hypocrisy</td>
<td>Examines new theory beyond signaling and legitimacy theories to better understand voluntary corporate sustainability reporting</td>
<td>Two large US based multinational oil and gas corporations</td>
<td>Case-study</td>
<td>Organizations have multiple facades with corporate messages and activities consistent within each façade, but inconsistencies found when comparing across facades</td>
</tr>
<tr>
<td>IV</td>
<td>Bebbington et al. 2012</td>
<td>Reporting norms</td>
<td>Examines the production of normativity with respect to environmental reporting regimes, in Spain and the UK, from 1997 to 2001.</td>
<td>Electricity companies in Spain and the UK between 1997 and 2001</td>
<td>Case Study</td>
<td>Societal norms rather than legislation is needed to establish CSR reporting norm</td>
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<tr>
<td>IV</td>
<td>Contrafatto 2014</td>
<td>Reporting norms</td>
<td>Investigates how CSR reporting became institutionalized in an Italian multinational company</td>
<td>Italian multinational company</td>
<td>Case Study</td>
<td>Institutionalized reporting came from 1) construction of a common meaning system 2) practicalisation of rules and routines 3) reinforcement through organizational procedures and structures</td>
</tr>
<tr>
<td>Section(s)</td>
<td>Citation</td>
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<tr>
<td>V</td>
<td>Wiseman 1982</td>
<td>Disclosure credibility</td>
<td>Examines the quality of voluntary environmental disclosures made in annual reports</td>
<td>26 of the largest companies in the steel, oil, and pulp and paper industries</td>
<td>Archival</td>
<td>Corporate environmental disclosures are incomplete and not associated with actual environmental performance</td>
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<tr>
<td>V footnote</td>
<td>Cohen and Simnett 2015</td>
<td>CSR assurance decision; Choice of CSR assurance provider</td>
<td>Review the CSR assurance literature and provide suggestions for future research</td>
<td>CSR assurance literature</td>
<td>Review</td>
<td>Reviews CSR assurance literature with suggestions for future research</td>
</tr>
<tr>
<td>V</td>
<td>Peters and Romi 2015</td>
<td>CSR assurance decision; Choice of CSR assurance provider</td>
<td>Investigates corporate governance impact on the decision to purchase sustainability assurance and choice of assurance provider</td>
<td>912 US sustainability reports issued from 2002 through 2010.</td>
<td>Archival</td>
<td>The presence of a corporate sustainability officers (CSO) is positively associated with CSR report assurance and the association increases when the CSO is a sustainability expert; Expert CSOs prefer assurance from consultants; An environmental committee with a director that is a sustainability expert is positively associated with sustainability assurance and prefers to use professional accounting firms as assurer</td>
</tr>
<tr>
<td>V</td>
<td>Gray et al. 2013</td>
<td>Disclosure credibility and CSR assurance</td>
<td>Examines internal audits role in environmental compliances of information technology</td>
<td>372 internal auditors from the US or Canada</td>
<td>Survey</td>
<td>Internal auditors believe they should be more involved in green IT activities including providing assurance</td>
</tr>
<tr>
<td>Section(s)</td>
<td>Citation</td>
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<tr>
<td>V</td>
<td>Trotman and Trotman 2015</td>
<td>Disclosure credibility and CSR assurance</td>
<td>Investigates the present and future role of internal audit in the assurance of greenhouse gas emissions reporting</td>
<td>29 Australian senior audit committee members, senior accountants, internal auditors and partners from major accounting firms</td>
<td>Qualitative Interview</td>
<td>Internal auditors believe they should be involved in the assurance of greenhouse gas reporting</td>
</tr>
<tr>
<td>V</td>
<td>O'Dwyer et al. 2011</td>
<td>Credibility and CSR assurance; Legitimacy theory</td>
<td>Analyzes the legitimation process of public accounting firms when constructing CSR assurance lines of service</td>
<td>Interviews of partners, managers and seniors from Big 4 firms in Europe</td>
<td>Qualitative Interview</td>
<td>In order to build CSR assurance legitimacy, the accounting firms needed to convince the client, non-client users of CSR reports and the accounting firm's internal risk department of the benefits of CSR assurance</td>
</tr>
<tr>
<td>V</td>
<td>Brown-Liburd and Zamora 2015</td>
<td>Disclosure credibility and CSR assurance; Mercer's 2004 Framework</td>
<td>Examines the role of CSR assurance on investors' judgments</td>
<td>116 investors</td>
<td>Experiment</td>
<td>CSR assurance is a credibility signal to investors</td>
</tr>
<tr>
<td>V</td>
<td>Pflugrath et al. 2011</td>
<td>Disclosure credibility and CSR assurance</td>
<td>Examines perceptions of credibility of CSR reports of financial analysts from Australia, UK and US depending on whether they are assured and by the type of assurance provider</td>
<td>106 analysts from Australia, UK and US</td>
<td>Experiment</td>
<td>Credibility of CSR reports is greater when it is assured; US analysts prefer professional accountant while Australia and UK analysts perceive little difference in credibility between assurance providers</td>
</tr>
<tr>
<td>V</td>
<td>Kim et al. 2016</td>
<td>CSR assurance quality</td>
<td>Examines decision-making of multidisciplinary CSR audit teams</td>
<td>119 financial auditors from Big 4 accounting firms</td>
<td>Experiment</td>
<td>Participants incorrectly rely on CSR expert explanations</td>
</tr>
</tbody>
</table>
## Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
<th>Citation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>V</td>
<td>Moroney and Trotman 2016</td>
<td>CSR assurance quality</td>
<td>Examines materiality judgments during CSR audits</td>
<td>82 auditors from Big 4 accounting firms</td>
<td>Experiment</td>
<td>Qualitative factors have a greater impact on CSR audits compared to financial audits</td>
</tr>
<tr>
<td>V, VI</td>
<td>Cheng et al. 2015</td>
<td>Disclosure credibility and CSR assurance</td>
<td>Examines non-professional investor reactions to strategic relevance and assurance of sustainability indicators</td>
<td>128 graduate students</td>
<td>Experiment</td>
<td>Investors perceive ESG indicators as more important and are more willing to invest when there is high strategic relevance and CSR assurance increases the reaction.</td>
</tr>
<tr>
<td>V, VI</td>
<td>Cohen et al. 2011</td>
<td>Disclosure credibility; Investor perceptions and use of disclosures</td>
<td>Examines retail investors perceptions of economic performance, corporate governance and CSR</td>
<td>750 retail investors</td>
<td>Survey</td>
<td>Investors prefer to receive CSR information from a third-party source; Retail investors care most about economic performance, then corporate governance, followed by CSR</td>
</tr>
<tr>
<td>V, VI</td>
<td>Rockness and Williams 1988</td>
<td>Disclosure credibility; Investor perceptions and use of disclosures</td>
<td>Descriptive study of the investment policies, criteria for investments, information sources and portfolios of socially responsible mutual funds in the US</td>
<td>8 mutual funds identified as socially responsible investments</td>
<td>Qualitative Interview</td>
<td>Fund managers find CSR disclosures difficult to obtain and incomplete; Six common performance factors considered by the funds: environmental protection, equal employment opportunity, treatment of employees, business relations with repressive regimes, product quality and innovation and defense contracting</td>
</tr>
<tr>
<td>VI</td>
<td>Buzby and Falk 1978</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examine how mutual funds use social responsibility disclosure when making investment decisions</td>
<td>102 mutual fund presidents</td>
<td>Survey</td>
<td>Majority of funds had investment policies which considered social activities, but relative importance was less than financial information</td>
</tr>
<tr>
<td>Section(s)</td>
<td>Citation</td>
<td>Theoretical or Practical Framework</td>
<td>Purpose</td>
<td>Sample/Participants</td>
<td>Method</td>
<td>Contribution / Key Findings</td>
</tr>
<tr>
<td>------------</td>
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<td>----------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>VI</td>
<td>Basoglu and Hess 2014</td>
<td>Investor perceptions and use of disclosures; signaling theory</td>
<td>Investigates how nonfinancial information disclosed via electronic business reporting influences investor perceptions and purchase intentions</td>
<td>125 undergraduate students</td>
<td>Experiment</td>
<td>High quality nonfinancial content in electronic business reporting influences perceptions of trustworthiness and perceived investment quality</td>
</tr>
<tr>
<td>VI</td>
<td>Belkaoui 1980</td>
<td>Investor perceptions and use of disclosures; linguistic relativity paradigm</td>
<td>Examines how socio-economic accounting information influences the investment decision</td>
<td>225 participants including: undergraduate students, senior bank officers and accountants</td>
<td>Experiment</td>
<td>Disclosure of pollution abatement information influences the investment decisions of bankers and accountants</td>
</tr>
<tr>
<td>VI</td>
<td>Christensen 2016</td>
<td>Investor use of disclosures</td>
<td>Examines whether CSR reporting influences investors’ perceptions of managerial intent following high-profile misconduct</td>
<td>2,097 stand-alone CSR reports published by 476 companies</td>
<td>Archival</td>
<td>Issuance of CSR report provides protection against negative stock market reaction following a high-profile misconduct</td>
</tr>
<tr>
<td>VI</td>
<td>Dhaliwal et al. 2012</td>
<td>Analyst use of disclosures</td>
<td>Investigates the association between CSR disclosure and analyst accuracy</td>
<td>7,108 stand-alone CSR reports published by 1,297 unique companies from 1994 to 2007 from 31 different countries</td>
<td>Archival</td>
<td>Issuance of CSR report is associated with lower analyst forecast error and the relationship is stronger for stakeholder-oriented countries; Issuance of CSR report plays a complementary role to financial disclosure</td>
</tr>
<tr>
<td>Section(s)</td>
<td>Citation</td>
<td>Theoretical or Practical Framework</td>
<td>Purpose</td>
<td>Sample/Participants</td>
<td>Method</td>
<td>Contribution / Key Findings</td>
</tr>
<tr>
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</tr>
<tr>
<td>VI</td>
<td>Matsumura et al. 2014</td>
<td>Investor perceptions and use of disclosures</td>
<td>Investigates market response to voluntary carbon emissions disclosure</td>
<td>S&amp;P 500 firms from 2006 to 2008 that disclosed carbon emissions data to the Carbon Disclosure Project</td>
<td>Archival</td>
<td>Capital markets integrate both carbon emissions data and the act of voluntary disclosure of this information into firm valuations</td>
</tr>
<tr>
<td>VI</td>
<td>Subramanian et al. 2015</td>
<td>Investor perceptions and use of disclosures</td>
<td>Investigates the influence of CSR disclosures are stock liquidity</td>
<td>194 most actively traded companies listed on Malaysian stock exchange in 2009</td>
<td>Archival</td>
<td>Higher disclosure levels increases liquidity</td>
</tr>
<tr>
<td>VI</td>
<td>Elliott et al. 2014</td>
<td>Investor perceptions and use of disclosures; Affect-as-information theory</td>
<td>Investigates intentional versus unintentional effects of CSR on investors' estimates of fundamental value</td>
<td>88 graduate business students</td>
<td>Experiment</td>
<td>Investors' fundamental value estimates are unintentionally influenced by CSR performance disclosure</td>
</tr>
<tr>
<td>VI</td>
<td>Herremans et al. 1993</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examine the links between CSR and economic performance</td>
<td>96 firms from manufacturing industries from 1982-1987</td>
<td>Archival</td>
<td>Companies with better CSR reputations have positive abnormal returns compared to companies with weak CSR reputations</td>
</tr>
<tr>
<td>VI</td>
<td>Huang et al. 2012</td>
<td>Investor perceptions and use of disclosures</td>
<td>Investigates the usefulness of nonfinancial information contained in analyst reports</td>
<td>Analyst reports for S&amp;P 500 firms from 1995-2008</td>
<td>Archival</td>
<td>Analyst text is more useful when it places emphasis on nonfinancial topics including CSR information</td>
</tr>
<tr>
<td>VI</td>
<td>Cohen et al. 2015</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examines professional investors’ perceptions of CSR information</td>
<td>228 professional investors</td>
<td>Survey</td>
<td>Professional investors care most about economic performance, then corporate governance, followed by CSR</td>
</tr>
</tbody>
</table>
## Appendix B (continued)

<table>
<thead>
<tr>
<th>Section(s)</th>
<th>Citation</th>
<th>Theoretical or Practical Framework</th>
<th>Purpose</th>
<th>Sample/Participants</th>
<th>Method</th>
<th>Contribution / Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>VI</td>
<td>Jain et al. 2016</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examines whether short sellers consider CSR performance and disclosure when making investment decisions</td>
<td>19,566 firm-years with 3,131 unique firms from 2004-2012</td>
<td>Archival</td>
<td>Find short sellers consider CSR information when making investment decisions. Strong CSR performers are less likely to be sold short</td>
</tr>
<tr>
<td>VI</td>
<td>Patten 1990</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examines how investors use social responsibility disclosure by examining market reaction to companies agreeing to the Sullivan Principles</td>
<td>37 firms that publicly disclosed the signing of the Sullivan Principles</td>
<td>Archival</td>
<td>Market reaction to Sullivan Principles disclosure suggests investors use social disclosure when making investment decisions</td>
</tr>
<tr>
<td>VI</td>
<td>Richards on and Welker 2001</td>
<td>Investor perceptions and use of disclosures</td>
<td>Examines the relationship between financial and social disclosure and the cost of equity capital</td>
<td>225 firm year observations from 87 different Canadian companies from 1990-1992</td>
<td>Archival</td>
<td>Positive relationship between social disclosures and the cost of equity capital and the positive relationship is moderated by firm financial performance with more successful firms being less penalized for social disclosures</td>
</tr>
<tr>
<td>VI</td>
<td>Zahller et al. 2015</td>
<td>Investor perceptions and use of disclosures; organizational legitimacy, social resilience</td>
<td>Tests a theory of social resilience to exogenous shocks with high-quality CSR disclosure promoting the perception of organizational legitimacy</td>
<td>100 experienced nonprofessional investors</td>
<td>Experiment</td>
<td>Investors perceive higher organizational legitimacy when CSR disclosure quality is high; Increased legitimacy provides organizational resilience to an intra-industry exogenous shock</td>
</tr>
<tr>
<td>VII</td>
<td>Bradford et al. 2017</td>
<td>Consumer use of disclosure</td>
<td>Examines the GRI reporting framework to consider whether it provides useful information to consumers</td>
<td>15 companies following GRI reporting framework</td>
<td>Qualitative – Content Analysis</td>
<td>GRI reporting framework does not provide information that aligns with consumers’ interests</td>
</tr>
</tbody>
</table>
Block 1: General Instructions & Informed Consent

General Instructions

Thank you in advance for your participation in this study. The purpose of the study is to examine investors’ judgments based on a hypothetical situation. **We are seeking your responses to this situation; there are no right or wrong answers.** Although actual investment decisions may be more complex, we ask that you base your judgments solely on the information provided in the case materials.

Your participation is completely voluntary and there are no foreseeable physical risks or discomforts if you choose to participate in this study. All responses are anonymous. The study should take approximately 15-20 minutes to complete. None of the questions will require you to identify yourself. Please note that there will be comprehension checks in the survey to verify that you carefully read and understood the materials.

You will be pre-screened based on your responses to four questions.

- If your answers indicate that you do not meet the required criteria to participate in the study, then you will be redirected to Amazon Mechanical Turk's website and will not be paid.

- If you do meet the required criteria and choose to participate in the study, then you must answer **ALL** of the questions completely and within the allotted time in order to be paid for your participation. You will be paid $2.00 for completing the task.

To verify your participation in the study, you will be required to enter your Amazon Mechanical Turk Worker ID **AND** a randomly generated code at the end of the survey, which will be used to confirm payment claims. Therefore, you must enter your Amazon Mechanical Turk Worker ID and the randomly generated code at the end of the study to be paid.

Institutional Review Board (IRB) Approval

Our university’s Institutional Review Board (IRB) has reviewed this study. The IRB determined that this study fulfills the human research subject protections obligations required by state and federal law and university policies. If you have any questions, concerns, or reports regarding your rights as a participant of research, please contact me at (csr.research10@gmail.com).

Your Consent:

I have read this form and the research study has been explained to me. If I have questions, I have been told whom to contact. By clicking on the “>>” on the lower right-hand corner of this screen, I am indicating that I am 18 years of age or older, I have read
Appendix C (continued)

and understood the information presented above, I have decided to participate in the study described above, and I consent to the procedures described above.

To continue, please click on the “>>” on the lower right-hand corner of this screen.

Block 2: Screening Criteria in Qualtrics

(Note: The screening criteria shown below are administered in Qualtrics after participants have already passed initial screening requirements in Mechanical Turk. The initial requirements include: (1) participants are over 18 years of age; (2) participants are physically located in the United States; (3) participants have an AMT approval rate of 95% or higher on at least 50 or more completed assignments. If MTurkers do not meet the initial screening requirements, they are not able to view the survey request on Mechanical Turk website.)

Next you will be asked 4 screening questions.
As a reminder, if your answers indicate that you do not meet the required criteria to participate in the study, then you will be redirected to Amazon Mechanical Turk's website and will not be paid.

1. **Have you purchased or sold individual stocks at least three times in the past?**
   - ☐ Yes
   - ☐ No

2. **Do you have experience reading financial statements?**
   - ☐ Yes
   - ☐ No

3. **Do you consider yourself proficient in the English language?**
   - ☐ Yes
   - ☐ No

4. **Have you taken at least two college-level accounting and/or finance classes?**
   - ☐ Yes
   - ☐ No

Block 3: Background Information & Initial Valuation Judgments

Assume you are an investor with a long-term investment horizon who is considering an investment in the common stock of XYZ, Inc.

Background Information about XYZ, Inc.
XYZ, Inc. is a U.S. publicly-traded company that has been in operation for over 50 years in the food products industry. Its core business operations involve procuring, processing
Appendix C (continued)

and transporting an array of branded food products that are sold by large national grocery store chains. XYZ, Inc. prides itself on maintaining positive long-term relationships with farmers who source its products, and enjoys high brand recognition across U.S. households. Financial results over the past three years have been mixed relative to industry peers. Condensed financial information and key financial statistics are shown below.

### Condensed Financial Information

<table>
<thead>
<tr>
<th>XYZ, Inc. 3-Year Trend ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2015</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Total current assets</td>
</tr>
<tr>
<td>Fixed assets, net</td>
</tr>
<tr>
<td>Investments</td>
</tr>
<tr>
<td>Intangible assets</td>
</tr>
<tr>
<td>Total current liabilities</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
</tr>
<tr>
<td>Total shareholder's equity</td>
</tr>
<tr>
<td>Net sales</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Income from operations</td>
</tr>
<tr>
<td>Net income</td>
</tr>
</tbody>
</table>

### Key Statistics

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th>XYZ, Inc.</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings/Share Growth (Last 5 Years)</td>
<td>0.51%</td>
<td>3.94%</td>
</tr>
<tr>
<td>Revenue % Change From Prior Year</td>
<td>-6.05%</td>
<td>24.24%</td>
</tr>
<tr>
<td>Return on Investment (Prior 12 Months)</td>
<td>10.55%</td>
<td>6.45%</td>
</tr>
<tr>
<td>Profit Margin (Most Recent Quarter)</td>
<td>9.66%</td>
<td>7.80%</td>
</tr>
<tr>
<td>Total Debt/Equity</td>
<td>181.22%</td>
<td>93.86%</td>
</tr>
<tr>
<td>Share Price/Earnings</td>
<td>23.48</td>
<td>24.21</td>
</tr>
<tr>
<td>Estimate of Future Earnings per Share Long Term Growth (3-5 Years)</td>
<td>6.66%</td>
<td>8.35%</td>
</tr>
</tbody>
</table>

Based on the information available for XYZ, Inc., please answer the following questions.

(Note: All scale measurements will appear to participants as sliders.)
Appendix C (continued)

1. On a scale of 0-100 how would you value the common stock of XYZ, Inc. relative to its industry?

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>50</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low</td>
<td>Average</td>
<td>Very High</td>
<td></td>
</tr>
</tbody>
</table>

2. On a scale of 0-100 how desirable is XYZ, Inc. as an investment opportunity?

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>50</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all desirable</td>
<td>Average</td>
<td>Very Desirable</td>
<td></td>
</tr>
</tbody>
</table>

**Block 4: CSR Activity Type Manipulation**

*(Note: In order to control for possible order effects, the order participants receive Block 4 and Block 6 is randomized so that some participants receive the negative event information prior to the CSR disclosure and assurance manipulations.)*

*(Note: The underlined text highlights differences between the strategic and non-strategic CSR conditions.)*

In recent years, XYZ, Inc. has invested in a corporate social responsibility (CSR) agenda. The following disclosures were included in its most recent CSR report.

**Strategic Manipulation**

“XYZ, Inc. seeks to demonstrate our commitment to a sustainable environment by annually upgrading our source of energy to more sustainable options. Although we initially committed to spending $10 million to install solar panels that could provide 50% of our electricity needs, thus far we have spent $5 million. The expenditures to date are expected to reduce our operating costs by $7 million (1.4% of net income) per year for each of the next three years due to anticipated rising prices of traditional electricity sources.

XYZ, Inc. is committed to doing its part in maintaining a healthy environment for all. Accordingly, during the past year we continued our long-term commitment to the environment by investing over $10 million in our production process in order to reduce pollution and waste in our value chain. This marks the fifth straight year we have made significant investments to enhance the sustainability of our production process. Changes include upgrading to equipment that reduces emissions and replacing 20% of our packaging materials with environmentally friendly options. We anticipate that this investment will decrease production costs by $2 million (0.5% of net income) per year.
Appendix C (continued)

In addition to reducing future operating costs, we expect that due to consumer preferences for sustainably produced products, these two investments will allow us to increase our market share and future profitability.”

Non-Strategic Manipulation

“XYZ, Inc. seeks to demonstrate our commitment to a sustainable environment by annually upgrading our source of energy to more sustainable options. Although we initially committed to spending $10 million to install solar panels that could provide 50% of our electricity needs, thus far we have spent $5 million. The expenditures to date are not expected to have any direct impact on our operating costs.

XYZ, Inc. is committed to doing its part in maintaining a healthy environment for all. Accordingly, during the past year we continued our long-term commitment to the environment by investing over $10 million in our production process in order to reduce pollution and waste in our value chain. This marks the fifth straight year we have made significant investments to enhance the sustainability of our production process. Changes include upgrading to equipment that reduces emissions and replacing 20% of our packaging materials with environmentally friendly options. We do not anticipate that this investment will have any direct impact on our production costs.

We do not anticipate that these two investments will have any direct impact on our market share and future profitability.”

Block 5: CSR Assurance Manipulations

CSR Assurance Present Manipulation

Assurance Report on Nonfinancial Information

XYZ, Inc. engaged a professional accounting firm with expertise in evaluating corporate social responsibility reporting to provide assurance on the accuracy of reported information. Following is the accounting firm’s report and conclusion.

Professional Accounting Firm’s Report

To the Shareholders of XYZ, Inc.
We have reviewed the nonfinancial information contained in the corporate social responsibility report for the year ended December 31, 2016 detailed above. The directors are responsible for the preparation and presentation of the nonfinancial information and the information contained therein. We have conducted an independent review of the nonfinancial information to provide a conclusion to the shareholders. This review included such tests and procedures as we considered necessary in the circumstances. These procedures have been undertaken to determine whether the nonfinancial information has been properly collected, summarized and reported.
Conclusion
Based on our review, we conclude that in all material respects the nonfinancial indicators were properly collected, summarized, and reported.

**CSR Assurance Absent Manipulation**

XYZ, Inc. did not engage a professional accounting firm to provide assurance on the accuracy of the nonfinancial information contained in the corporate social responsibility report for the year ended December 31, 2016 detailed above.

### Block 6: Negative Event Manipulation

**Negative Event Present Manipulation**

Recently, a respected business newspaper reported that XYZ, Inc. is recalling one of its food products due to food safety concerns. The following is an excerpt from the article.

“XYZ, Inc. recently announced a voluntary recall of one of its food products due to a possible connection to an illness outbreak impacting at least 50 people across 15 states. The recall involves over ten million pounds of product with an estimated retail value of $20 million. In addition, XYZ, Inc. has shut down two of its factories as it works to find the source of the contaminant and take corrective action. The factory shutdown is estimated to result in approximately $10 million of additional lost sales (i.e., beyond the recall). To date, total costs incurred by XYZ, Inc. for the negative event are 6% of net income, a significant amount. Additional risk of future lawsuits coming from those that became ill also exists.”

**Negative Event Absent Manipulation**

No information about negative events is given to the participants in this treatment.

### Block 7: CSR Activity Type & CSR Assurance Manipulation Checks

```
MC #1: Did XYZ, Inc. engage a professional accounting firm to provide assurance on the accuracy of its corporate social responsibility disclosures?
☐ Yes
☐ No
```
Appendix C (continued)

MC #2: In your opinion, does XYZ Inc. practice corporate social responsibility primarily to improve its financial performance?

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly unlikely</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Highly likely</td>
</tr>
</tbody>
</table>

(Note: MC #2 measures participants’ perceptions of the connection between CSR and future net cash inflows. We expect that participants receiving disclosure of strategic activities will have a statistically higher mean compared to those receiving disclosure of non-strategic activities.)

**Block 8: Post-Manipulation Judgments**

After considering the additional information about XYZ, Inc. please answer the following questions.

1. On a scale of 0-100 how would you value the common stock of XYZ, Inc. relative to its industry?

<table>
<thead>
<tr>
<th>0</th>
<th>50</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low</td>
<td>Average</td>
<td>Very High</td>
</tr>
</tbody>
</table>

2. On a scale of 0-100 how desirable is XYZ, Inc. as an investment opportunity?

<table>
<thead>
<tr>
<th>0</th>
<th>50</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all desirable</td>
<td>Average</td>
<td>Very Desirable</td>
</tr>
</tbody>
</table>

(Note: We will randomize the order in which participants receive questions 3-8 below. An additional attention check question (question 8 below) will be randomly presented within this set of questions. Each question will be presented on a separate screen so participants cannot go back and change their answer after reading additional questions.)

3. In your opinion, does XYZ, Inc.’s investments in its two corporate social responsibility projects (solar panels and equipment that reduces pollution and waste) provide a signal about the company’s ethical culture?
### Appendix C (continued)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>5</th>
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<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitely does not</td>
<td>Definitely does</td>
<td></td>
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</tbody>
</table>

4. How believable do you find XYZ, Inc.’s disclosures about its two corporate social responsibility investments?

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<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>_____ Very doubtful</td>
<td>Very believable</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

5. In your opinion, does XYZ Inc. practice corporate social responsibility primarily to be a good corporate citizen?

<table>
<thead>
<tr>
<th>1</th>
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<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly unlikely</td>
<td>Highly likely</td>
<td></td>
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</tr>
</tbody>
</table>

6. Did XYZ, Inc. expect to gain a competitive advantage by investing in solar panels and equipment that reduces pollution and waste?

- [ ] Yes
- [ ] No

7. In your opinion, what is XYZ’s financial health compared to industry peers?

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
<th>6</th>
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<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>Average</td>
<td>Very high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Note: Question 8 below is an attention check question designed to gauge the attentiveness of the AMT participant pool. Participants must read the entire paragraph in order to correctly answer the question.)
Appendix C (continued)

8. Recent research on decision making shows that choices are affected by context. Differences in how people feel, their previous knowledge and experience, and their environment can affect choices. To help us understand how people make decisions, it is important that participants in studies actually take the time to read the directions; if not, some results may not tell us very much about decision making in the real world. To show that you have read the instructions, please ignore the question below about how you are feeling and instead drag the slider to fifty-eight.

Please drag the slider to describe your current level of happiness.

```
0 10 20 30 40 50 60 70 80 90 100
Very unhappy                     Very happy
```

**Block 9: Negative Event Manipulation Check**

MC #3: Did XYZ, Inc. recall one of its products due to food safety concerns?
- □ Yes
- □ No

*(Note: If participants answer yes to question MC #3, they will be asked to answer question MC #3a. If they answer no, they will go directly to question 4.)*

MC #3a: In your opinion, how significant was the food safety recall to XYZ, Inc.?

```
1 2 3 4 5 6 7 8 9 10 11
Not at all Significant                     Very significant
```

**Block 10: Demographic Questions**

1. What is your age?
- □ 18-24 years old
- □ 25-34 years old
- □ 35-44 years old
- □ 45-54 years old
- □ 55-64 years old
- □ 65-44 years old
- □ 75 years or older
Appendix C (continued)

2. What is your gender?
   - Female
   - Male
   - Prefer not to answer

3. What is your occupation? __________

4. How many years of work experience do you have?
   - 0-5 years of experience
   - 6-10 years of experience
   - 11-15 years of experience
   - 16-20 years of experience
   - 21-25 years of experience
   - 26-30 years of experience
   - More than 30 years of experience

5. If you have experience in the following professions, please indicate how many years.
   - CPA __________
   - Lawyer __________
   - Investor __________

6. What is your education level?
   - Some high school, no diploma
   - High school graduate
   - Associate degree
   - Bachelor’s degree
   - Graduate degree

7. How many college-level accounting classes have you taken? __________

8. How many college-level finance classes have you taken? __________

9. How would you rate your knowledge of corporate social responsibility?
   1  2  3  4  5  6  7  8  9  10  11
   Below average        Average         Above average
Appendix C (continued)

10. Are you solely responsible for managing your investment portfolio?
☐ Yes
☐ No

11. How many years of investing experience do you have? _______________

12. How likely are you to invest in individual stocks in the next 12 months?

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<tr>
<td>Highly unlikely</td>
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<td>Highly likely</td>
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13. In general, what is your view of the stock market?

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<th>11</th>
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<tbody>
<tr>
<td>Pessimistic</td>
<td>Neutral</td>
<td>Optimistic</td>
<td></td>
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14. In your opinion, how conscious of sustainability issues are you?

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<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all conscious</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Very conscious</td>
<td></td>
</tr>
</tbody>
</table>

**Block 11: Amazon Mechanical Turk ID & End of Survey**

**Participation Verification:**
As mentioned in the instructions, you must enter your Mechanical Turk Worker ID **AND**
a randomly generated survey code to verify your participation in the study. These items
will be used to confirm payment claims.

Please enter your Worker ID below. Your random survey code will be generated and
presented on the following screen. You will enter this survey code in the Mechanical
Turk window.

Amazon Mechanical Turk Worker ID: ___________________

Thank you for participating.

Your survey code is:

XXXXXXX

To receive payment for participating, click “Accept HIT” in the Mechanical Turk
window, enter this survey code, then click “Submit”.

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Appendix D  Part Three: Research Instrument

Block 1: General Instructions & Informed Consent

General Instructions

Thank you in advance for your participation in this study. The purpose of the study is to examine jurors’ judgments based on a hypothetical situation. **I am seeking your responses to this situation; there are no right or wrong answers.** Although actual juror decisions may be more complex, I ask that you base your judgments solely on the information provided in the case materials.

Your participation is completely voluntary and there are no foreseeable physical risks or discomforts if you choose to participate in this study. All responses are anonymous. The study should take approximately 15-20 minutes to complete. None of the questions will require you to identify yourself. Please note that there will be comprehension checks in the survey to verify that you are carefully reading and understanding the materials.

You will be pre-screened based on your responses to two questions.

- If your answers indicate that you do not meet the required criteria to participate in the study, then you will be redirected to Amazon Mechanical Turk's website and will not be paid.
- If you do meet the required criteria and choose to participate in the study, then you must answer **ALL** of the questions completely and within the allotted time in order to be paid for your participation. You will be paid $1.00 for completing the task.

**To verify your participation in the study, you will be required to enter your Amazon Mechanical Turk Worker ID **AND** a randomly generated code at the end of the survey, which will be used to confirm payment claims.** Therefore, you must enter your Amazon Mechanical Turk Worker ID and the randomly generated code at the end of the study to be paid.

Institutional Review Board (IRB) Approval

My university’s Institutional Review Board (IRB) has reviewed this study. The IRB determined that this study fulfills the human research subject protections obligations required by state and federal law and university policies. If you have any questions, concerns, or reports regarding your rights as a participant of research, please contact me at (csr.research10@gmail.com).

Your Consent:

I have read this form and the research study has been explained to me. If I have questions, I have been told whom to contact. By clicking on the “>>” on the lower right-hand corner of this screen, I am indicating that I am 18 years of age or older, I have read and understood the information presented above, I have decided to participate in the study described above, and I consent to the procedures described above.

To continue, please click on the “>>” on the lower right-hand corner of this screen.
Appendix D (continued)

Block 2: Screening Criteria in Qualtrics

(Note: The screening criteria shown below are administered in Qualtrics after participants have already passed initial screening requirements in Mechanical Turk. The initial requirements include: (1) participants are over 18 years of age; (2) participants are physically located in the United States; (3) participants have an AMT approval rate of 95% or higher on at least 50 or more completed assignments. If MTurkers do not meet the initial screening requirements, they are not able to view the survey request on the Mechanical Turk website.)

Next you will be asked 2 screening questions.
As a reminder, if your answers indicate that you do not meet the required criteria to participate in the study, then you will be redirected to Amazon Mechanical Turk’s website and will not be paid.

1. Do you consider yourself proficient in the English language?
   - [ ] Yes
   - [ ] No

Block 3a: Instructions

Instructions: In this case, you will first read background information, including financial information, about a fictitious company. Next, you will assume the role of a juror in a court case involving a corporation and injured consumers. In your role as a juror, you will read a summary of the trial testimony and answer questions regarding your opinions related to the case. **It is important that you read all case materials carefully and answer the included questions thoughtfully & honestly.** Throughout the case you will answer the following three types of questions:

- **Review Questions** reflect whether you read and understand the presented material. These questions will not be difficult if you read the materials carefully.
- **Case Questions** ask you for your judgments about the outcomes described in the case.
- **Wrap-Up Questions** ask you some miscellaneous and demographic questions.

You are allowed to review previous pages of the case when answering the review and case questions.

**IMPORTANT:**
**YOU MUST ANSWER AT LEAST 90% OF THE REVIEW QUESTIONS CORRECTLY IN ORDER TO BE COMPENSATED.**
Appendix D (continued)

Review Question

In order to be compensated, I must answer at least
- 60% of the review questions correctly.
- 75% of the review questions correctly.
- 90% of the review questions correctly.

Block 3b: Background Information

The following is background information on XYZ, Inc.

Background Information about XYZ, Inc.
XYZ, Inc. is a U.S. publicly-traded company that has been in operation for over 50 years in the food products industry. Its core business operations involve procuring, processing and transporting an array of branded food products that are sold by large national grocery store chains. XYZ, Inc. prides itself on maintaining positive long-term relationships with farmers who source its products and enjoys high brand recognition across U.S. households. Financial results over the past three years have been mixed relative to industry peers.

Condensed Financial Information

<table>
<thead>
<tr>
<th>XYZ, Inc.</th>
<th>3-Year Trend ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12/31/2015</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$3,937</td>
</tr>
<tr>
<td>Fixed assets, net</td>
<td>3,744</td>
</tr>
<tr>
<td>Investments</td>
<td>519</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13,513</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>5,015</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>10,545</td>
</tr>
<tr>
<td>Total shareholder's equity</td>
<td>6,153</td>
</tr>
<tr>
<td>Net sales</td>
<td>$6,563</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,574</td>
</tr>
<tr>
<td>Income from operations</td>
<td>847</td>
</tr>
<tr>
<td>Net income</td>
<td>497</td>
</tr>
</tbody>
</table>
Appendix D (continued)

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th>XYZ, Inc.</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings/Share Growth (Last 5 Years)</td>
<td>0.51%</td>
<td>3.94%</td>
</tr>
<tr>
<td>Revenue % Change From Prior Year</td>
<td>-6.05%</td>
<td>24.24%</td>
</tr>
<tr>
<td>Return on Investment (Prior 12 Months)</td>
<td>10.55%</td>
<td>6.45%</td>
</tr>
<tr>
<td>Profit Margin (Most Recent Quarter)</td>
<td>9.66%</td>
<td>7.80%</td>
</tr>
<tr>
<td>Total Debt/Equity</td>
<td>181.22%</td>
<td>93.86%</td>
</tr>
<tr>
<td>Share Price/Earnings</td>
<td>23.48</td>
<td>24.21</td>
</tr>
<tr>
<td>Estimate of Future Earnings per Share Long Term Growth (3-5 Years)</td>
<td>6.66%</td>
<td>8.35%</td>
</tr>
</tbody>
</table>

**Review Question**

(Note: The following question will be asked of participants after reading the background information. If they answer correctly, they move on to the next part of the survey. If they answer incorrectly, they are returned to the background information to read it again.)

What is XYZ’s financial health compared to its industry peers?

☐ High
☐ Mixed
☐ Low

**Block 4: Introduction of the Negative Event**

Recently, a respected business newspaper reported that XYZ, Inc. is recalling one of its food products due to food safety concerns. The following is an excerpt from the article.

“XYZ, Inc. recently announced a voluntary recall of one of its food products due to a possible connection to an illness outbreak impacting at least 50 people across 15 states. The recall involves over ten million pounds of product with an estimated retail value of $20 million. In addition, XYZ, Inc. has shut down two of its factories as it works to find the potential source of the contaminant and take corrective actions. The factory shutdown is estimated to result in approximately $10 million of additional lost sales (i.e., beyond the recall). To date, total costs incurred by XYZ, Inc. for this event are 6% of net income, a significant amount. Additional risk of future lawsuits coming from those that became ill also exists.”

**Review Questions**

Did XYZ, Inc. voluntarily recall one of its food products due to a foodborne illness outbreak?
- True
- False
Appendix D (continued)

Are the total costs incurred by XYZ, Inc. for the voluntarily recall a significant loss for the company?
- True
- False

As mentioned in the article, XYZ, Inc. now finds itself as a defendant in a lawsuit filed by consumers who became ill after consuming XYZ’s product. **Assume you have been selected to serve as a juror for a foodborne illness litigation trial against XYZ, Inc.** After reviewing the case materials, you will be asked to provide typical juror assessments.

**IMPORTANT:** Over the next several pages, the transcript from the lawsuit filed by consumers against XYZ, Inc. will be presented. Please carefully read the transcript as you will be asked to answer review questions and make several judgments about XYZ’s level of liability.

**Block 5: Trial Transcript – Opening Statements**

**Summary, Case #196BE**

**Complaint:** The plaintiffs, injured consumers, allege that the defendant, XYZ, Inc., was negligent in following food safety regulations.

**Answer:** The defendant, XYZ, Inc., responds that it complied with all food safety regulations and therefore was not negligent.

**Plaintiffs’ Opening Statement:**

The attorney for the Plaintiffs, injured consumers, outlines key arguments for the case and details why the Plaintiffs believes XYZ, Inc. was negligent and should be held responsible for their losses.

“We are here today to decide if the defendant, XYZ, Inc., was negligent in its food safety protocols leading to the foodborne illnesses of our clients. The plaintiffs we are representing were all diagnosed with E.Coli (bacterial infection of the intestines), and continue to require medical treatment and monitoring. Lab results confirm that each of our clients contracted the same strain of bacteria, which matches with the source of the outbreak. We will provide compelling testimony from public health authorities that investigated the outbreak of illnesses to provide a link of the illnesses to XYZ, Inc. Our clients are hardworking and honest citizens who have been unfairly harmed by XYZ’s products. At the conclusion of this trial, we hope you will find in favor of our clients that XYZ, Inc. was negligent in its food safety protocols.”
Appendix D (continued)

Review Question

The Plaintiffs argue that XYZ, Inc. was negligent.

- True
- False

XYZ’s Opening Statement:

The attorney for the Defendant, XYZ, Inc., outlines key arguments for the case and details why the Defendant believes XYZ, Inc. was not negligent and should not be held responsible for the Plaintiffs’ losses.

“It is true that we are here today to determine whether our client, XYZ, Inc. was negligent in its food safety protocols. The plaintiff must prove its allegations by a preponderance of the evidence. This means that it must show that the charges are more probably true than not true. The Plaintiffs cannot do so. The safety protocols in place at all of XYZ’s factory locations closely follow the strict legal regulations. However, even 100 percent adherence to the legal regulations does not reduce the possibility of foodborne illness to zero. We will provide expert testimony to show that XYZ, Inc. has the proper protocols in place and were consistently following them at the time of the outbreak. In addition, our experts will explain that foodborne illnesses are often the result of consumer cooking errors compounded by other underlying medical conditions. XYZ, Inc. is a nationally recognized brand that has been safely providing food products to consumers for decades. At the conclusion of this trial, we hope that you will find in favor of XYZ, Inc.”

Review Question

The defendant argues that XYZ, Inc. follows all legal regulations and was, therefore, not negligent.

- True
- False

Block 6: Trial Transcript – Expert Testimony

Plaintiffs’ Expert Testimony:

**Mr. Robert Kesler, Witness for the Plaintiffs:** After the foodborne illnesses were reported, public health authorities began an investigation to determine the source of the illnesses. The Plaintiffs’ lawyer calls an expert witness from the public health authority to the stand.
Appendix D (continued)

“After investigating the recent E.Coli outbreak, we have been able to trace the source back to XYZ, Inc. We are certain of our findings since the strain of E.Coli bacteria infecting customers matches the strain found at one of XYZ’s factories. Matching the strain of bacteria is an important step to determining the source of the outbreak. Further, our review of the safety protocols in place at XYZ’s factory shows the possibility that bacteria contamination could occur at two separate points in the production process.”

Review Question

The public health authorities traced the E.Coli outbreak to one of XYZ’s factories.

- True
- False

The public health authorities identified two possible points in XYZ’s production process where the bacteria contamination could have occurred.

- True
- False

Defendant’s Expert Testimony:

Professor Irene Evans, Expert Witness for the Defendants

XYZ, Inc. calls a food safety expert witness to the stand.

“Foodborne illnesses are often very difficult to trace to the original source due to often lengthy incubation periods. These lengthy incubation periods provide many different possibilities of original sources of the illness. In addition, many foodborne illnesses are caused by improper food handling by the consumer. This can be caused by undercooking food items or not properly sanitizing the food preparation areas. Further, due to prior food safety concerns, most products, including those of XYZ, Inc. come with adequate warning statements on the products. It is also important to recognize that food safety protocols are not 100% effective, but decrease the risk of illness to a very small percentage. We reviewed XYZ’s protocols and found them to be in compliance with legal requirements.”

Review Question

The food safety expert testified that improper food handling by the consumer is often a cause of foodborne illness.

- True
- False
Appendix D (continued)

The food safety expert testified that following all legal safety protocols does not eliminate all risk of bacterial contamination.

- True
- False

Block 7: Trial Transcript – Closing Statements – Control Group

Plaintiffs’ Closing Statement:

The attorney for the plaintiffs, injured consumers, reviews the key arguments for the case and summarizes why the plaintiffs believe XYZ, Inc. was negligent and should be held responsible for their losses.

“You have just heard the testimony from the public health authorities that states convincing evidence that XYZ, Inc. was the source of the foodborne illness experienced by our clients. The public health authorities established a connection between the E.Coli bacteria infecting our clients and the bacteria found at XYZ’s factory. Further, they identified two points in XYZ’s production process where the contamination could have occurred. XYZ, Inc. did not exercise due care and diligence in the food production process, resulting in products unsafe for consumption. This illness has caused significant losses to our clients, both in monetary and nonmonetary amounts. We estimate monetary losses to be approximately $7 million from medical bills and lost wages due to time out of work. Nonmonetary losses are estimated to be an additional $3 million due to emotional strain on our clients. We hope that you find XYZ, Inc. was negligent and award our clients appropriate damages.”

Defendant’s Closing Statement:

The attorney for the Defendant, XYZ, Inc., reviews the key arguments for the case and summarizes why the Defendant believes XYZ, Inc. was not negligent and should not be held responsible for the Plaintiffs’ losses.

“You have just heard the testimony of experts suggesting that the cause of foodborne illnesses, such as E.Coli, can come from a multitude of sources and has a long incubation period. Further, XYZ, Inc. followed all legal safety protocols in its production process and provided adequate safe handling warnings on the label of its products. It is your job to evaluate whether XYZ, Inc. was negligent. For XYZ, Inc. to found liable for the losses, the Plaintiffs must provide a preponderance of evidence to show that the charges of negligence are more probably true than not true. As shared by the food safety expert, we believed XYZ, Inc. practiced reasonable care in its food production process by following legal safety protocols.

XYZ, Inc. is a company of strong ethical culture that cares deeply about its customers. Our client has great sympathy for the struggles of the plaintiffs and wishes
them a speedy recovery. However, our client carefully followed all safety protocols required by law. We hope that you will find in favor of XYZ, Inc.”

Block 7a: Trial Transcript – Closing Statements – Treatment Groups

Plaintiffs’ Closing Statement:
The attorney for the Plaintiffs, injured consumers, reviews the key arguments for the case and summarizes why the Plaintiffs believe XYZ, Inc. was negligent and should be held responsible for their losses.

“You have just heard the testimony from the public health authorities that states convincing evidence that XYZ, Inc. was the source of the foodborne illness experienced by our clients. The public health authorities established a connection between the E.Coli bacteria infecting our clients and the bacteria found at XYZ’s factory. Further, they identified two points in the production process where the contamination could have occurred. XYZ, Inc. did not exercise due care and diligence in the food production process, resulting in products unsafe for consumption. This illness has caused significant losses to our clients, both in monetary and nonmonetary amounts. We estimate monetary losses to be approximately $7 million from medical bills and lost wages due to time out of work. Nonmonetary losses are estimated to be an additional $3 million due to emotional strain on our clients. We hope that you find XYZ, Inc. was negligent and award our clients appropriate damages.”

Defendant’s Closing Statement:
The attorney for the Defendant, XYZ, Inc., reviews the key arguments for the case and summarizes why the Defendant believes XYZ, Inc. was not negligent and should not be held responsible for the Plaintiffs’ losses.

“You have just heard the testimony of experts suggesting that the cause of foodborne illnesses, such as E.Coli, can come from a multitude of sources and has a long incubation period. Further, XYZ, Inc. followed all legal safety protocols in its production process and provided adequate safe handling warnings on the label of its products. It is your job to evaluate whether XYZ, Inc. was negligent. For XYZ, Inc. to found liable for the losses, the Plaintiffs must provide a preponderance of evidence proving that XYZ, Inc. was negligent. As shared by the food safety expert, we believed XYZ, Inc. practiced reasonable care in its food production process by following legal safety protocols.

XYZ, Inc. is a company of strong ethical culture that cares deeply about its customers. XYZ, Inc. is committed to operating its business as a positive corporate citizen, as evidenced by its corporate social responsibility track record. Here are a few examples from its most recent corporate social responsibility report.”
Appendix D (continued)

(Note: The defendant’s closing statement contains both manipulations. Participants will randomly receive either the strategic or non-strategic disclosures. The underlined text highlights differences between the strategic and non-strategic CSR conditions.)

**Strategic Manipulation**

“XYZ, Inc. seeks to demonstrate our commitment to a sustainable environment by annually upgrading our source of energy to more sustainable options. Although we initially committed to spending $10 million to install solar panels that could provide 50% of our electricity needs, thus far we have spent $5 million. The expenditures to date are expected to reduce our operating costs by $7 million (1.4% of net income) per year for each of the next three years due to anticipated rising prices of traditional electricity sources.

XYZ, Inc. is committed to doing its part in maintaining a healthy environment for all. Accordingly, during the past year we continued our long-term commitment to the environment by investing over $10 million in our production process in order to reduce pollution and waste in our value chain. This marks the fifth straight year we have made significant investments to enhance the sustainability of our production process. Changes include upgrading to equipment that reduces emissions and replacing 20% of our packaging materials with environmentally friendly options. We anticipate that this investment will decrease production costs by $2 million (0.5% of net income) per year.

In addition to reducing future operating costs, we expect that due to consumer preferences for sustainably produced products, these two investments will allow us to increase our market share and future profitability.”

**Non-Strategic Manipulation**

“XYZ, Inc. seeks to demonstrate our commitment to a sustainable environment by annually upgrading our source of energy to more sustainable options. Although we initially committed to spending $10 million to install solar panels that could provide 50% of our electricity needs, thus far we have spent $5 million. The expenditures to date are not expected to have any direct impact on our operating costs.

XYZ, Inc. is committed to doing its part in maintaining a healthy environment for all. Accordingly, during the past year we continued our long-term commitment to the environment by investing over $10 million in our production process in order to reduce pollution and waste in our value chain. This marks the fifth straight year we have made significant investments to enhance the sustainability of our production process. Changes include upgrading to equipment that reduces emissions and replacing 20% of our packaging materials with environmentally friendly options. We do not anticipate that this investment will have any direct impact on our production costs.
Appendix D (continued)

We do not anticipate that these two investments will have any direct impact on our market share and future profitability.”

CSR Assurance Manipulations

(Note: Participants will be randomly assigned to either the assurance present or assurance absent treatments.)

CSR Assurance Present Manipulation

XYZ, Inc. engaged the assurance service of a professional accounting firm with expertise in evaluating corporate social responsibility reporting to provide assurance on the accuracy of the nonfinancial information contained in the corporate social responsibility report detailed above. The accounting firm concluded that in all material respects the nonfinancial indicators (including CSR measures) were properly collected, summarized, and reported.

CSR Assurance Absent Manipulation

XYZ, Inc. did not engage a professional accounting firm to provide assurance on the accuracy of the nonfinancial information contained in the corporate social responsibility report detailed above.

“As you can see, XYZ, Inc. takes corporate social responsibility seriously. Our client has great sympathy for the struggles of the plaintiffs and wishes them a speedy recovery. However, our client carefully followed all safety protocols required by law and cares deeply about its stakeholders. We hope that you will find in favor of XYZ, Inc.”

Block 8: Judge’s Instructions to the Jury

Before allowing the jury to deliberate and determine a verdict, the Judge provides instructions to the jury.

It is your responsibility to determine the facts from the evidence presented to you. You will use these facts and the law given in these instructions to decide the case. You should consider the evidence in light of your own observations and experiences in life. You may draw any reasonable inferences from the proven facts. You must not, however, draw any inference from the number of witnesses who testified on one side or the other. In addition, keep in mind that statements made by attorneys are not evidence.

The burden of proof lies with the plaintiffs. The level of proof required is the preponderance of the evidence, which means that the charges of negligence are more probably true than not true. In order to be successful on a claim of professional negligence, the plaintiffs must prove by a preponderance of the evidence that XYZ, Inc.
committed wrongful acts that caused harm to the plaintiffs. You should consider whether the XYZ, Inc. used reasonable care in its production process. If you decide that the defendant, XYZ, Inc., did exercise reasonable care, you must find in its favor. If you decide that XYZ, Inc. did not exercise reasonable care, you must find for the plaintiffs.

**Review Question**

It is my responsibility to determine the facts from the evidence presented to me. Statements made by attorneys are not evidence.

- True
- False

**Block 9: Jurors’ Judgments**

The following questions are intended to assess your views of XYZ, Inc.’s level of liability for the plaintiffs’ alleged losses. There are no right or wrong answers - these questions ask for your personal views. Please answer the following response questions about the case openly and honestly.

Assume that you are a juror on this case. Would you find XYZ, Inc. negligent in their production processes?

1. On a scale of 0-100 how likely is it that XYZ, Inc. was negligent?
   - 0 Not at all likely
   - 50 Neither likely or unlikely
   - 100 Extremely likely

2. In your opinion, would you find XYZ, Inc. negligent or not negligent?
   - [ ] Negligent
   - [ ] Not Negligent

3. How confident are you in your verdict?
   - 0 Positive I would Find XYZ, Inc. NOT Negligent
   - 50 Not Sure
   - 100 Positive I would Find XYZ, Inc. Negligent

*(Note: if participants select negligent on question 2, they will be asked to provide compensatory and punitive damages, as well as intermediate judgments in questions 3-6 below as part of Study 2. Since participants are completing additional questions, they will be paid bonus compensation in addition to the $1 payment made to participants only completing Study 1.)*
Appendix D (continued)

Since you found XYZ, Inc. negligent in this case, you must determine the amount of money that will reasonably and fairly compensate the plaintiffs for their $10,000,000 loss resulting from their E. Coli sickness. The amount of money that you determine must be based on the principle of proportional liability. The principle of proportional liability states that jurors must consider the extent to which XYZ, Inc. was responsible for the sickness relative to the plaintiffs. For example, assume that a jury in a lawsuit determined the plaintiffs lost $10,000,000 due to their injuries. Then, the jury judged that the company’s management was 60% responsible and the plaintiffs were 40% responsible for the injuries. The jury would require the company to pay the plaintiffs $6,000,000 (=$10,000,000 X 60%); or, if the jury determined that the company was 80% responsible, the company would be required to pay $8,000,000, and so on.

4. What level of compensatory damages, if any, you would be willing to require that XYZ, Inc. pay the plaintiffs?

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<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
</table>
|$ (millions)$

Punitive damages are designed to punish past bad behavior and deter future bad behavior, and are typically based on the level of compensatory damages. Please answer the following question to assess punitive damages.

5. What level of punitive damages should be awarded to the plaintiffs?

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<thead>
<tr>
<th></th>
<th>0</th>
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<tbody>
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<td>Zero times the compensatory damages</td>
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<td>Ten times the compensatory damages</td>
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6. In your opinion, how likely is it that XYZ Inc. has the financial ability to pay the compensatory and punitive damages you assessed?

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<tbody>
<tr>
<td>Highly unlikely</td>
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<td>Highly likely</td>
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7. Would you rate your motivation for the level of punitive damages you assessed against XYZ, Inc. to be punishment for the foodborne illnesses or as a deterrent against future food safety issues?

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<tr>
<td>Punishment motivated</td>
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<tr>
<td>Deterrence motivated</td>
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</tbody>
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192
Appendix D (continued)

(Note: All participants will receive the following questions. I will randomize the order in which participants receive the questions below. An additional attention check question (question 15 below) will be randomly presented within this set of questions. Each question will be presented on a separate screen so participants cannot go back and change their answer after reading additional questions.)

8. In your opinion, did XYZ, Inc. cause the foodborne illnesses?

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</table>

- No they did not cause the illness
- Yes they did cause the illness

9. In your opinion, how foreseeable was the foodborne illness?

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</tbody>
</table>

- Not at all foreseeable
- Completely foreseeable

10. In your opinion, did XYZ, Inc. intend for the foodborne illnesses to occur?

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</table>

- Not at all intended
- Completely intended

11. While reading the case and making your judgments, did you experience negative feelings (e.g. anger or disgust) or positive feelings (e.g. sympathy or compassion) towards XYZ, Inc.?

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</tbody>
</table>

- Very strong negative feelings
- No feelings
- Very strong positive feelings

12. While reading the case and making your judgments, did you experience negative feelings (e.g. anger or disgust) or positive feelings (e.g. sympathy or compassion) towards the plaintiffs?

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</table>

- Very strong negative feelings
- No feelings
- Very strong positive feelings
### Appendix D (continued)

13. What is your impression of XYZ, Inc.?

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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Very unfavorable</td>
<td>Very favorable</td>
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</table>

14. How much blame does XYZ, Inc. deserve for the foodborne illnesses?

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<th>7</th>
<th>8</th>
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<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>None of the blame</td>
<td>All of the blame</td>
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</table>

15. How would you rate XYZ’s behavior leading up to the negative event?

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</thead>
<tbody>
<tr>
<td>Very bad</td>
<td>Very good</td>
<td></td>
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</table>

16. Recent research on decision making shows that choices are affected by context. Differences in how people feel, their previous knowledge and experience, and their environment can affect choices. To help us understand how people make decisions, it is important that participants in studies actually take the time to read the directions; if not, some results may not tell us very much about decision making in the real world. To show that you have read the instructions, please ignore the question below about how you are feeling and instead drag the slider to fifty-eight.

Please drag the slider to describe your current level of happiness.

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>70</th>
<th>80</th>
<th>90</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very unhappy</td>
<td>Very happy</td>
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</tbody>
</table>

17a. On a scale between 0 and 10, please indicate how frequently, while making your judgments, you thought about actions XYZ, Inc. could have taken or done differently that may have allowed them to prevent selling contaminated products (0 indicates you did not think at all about it and 10 indicates you frequently thought about it).

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>1</th>
<th>2</th>
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<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never thought about it</td>
<td>Frequently thought about it</td>
<td></td>
<td></td>
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</tbody>
</table>
### Appendix D (continued)

<table>
<thead>
<tr>
<th>17b. On a scale between 0 and 10, please indicate the “strength”, of your thoughts about what XYZ, Inc. could have done differently that may have allowed them to prevent selling contaminated products (0 indicates you had no serious thoughts about it and 10 indicates you thought very seriously about it).</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>Never thought about it</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>17c. Please indicate the extent to which you considered the plaintiffs’ losses in making your decisions of XYZ’s negligence.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>Did not consider losses</td>
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</tbody>
</table>

(Note: The questions below (18-24) relate to the CSR activities of XYZ, Inc. Therefore, they will not be shown to participants in the control group.)

<table>
<thead>
<tr>
<th>18. How believable do you find XYZ, Inc.’s disclosures about its two corporate social responsibility investments?</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>_____ Very doubtful</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>19. In your opinion, does XYZ Inc. practice corporate social responsibility primarily to be a good corporate citizen?</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>Highly unlikely</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>20. In your opinion, does XYZ Inc. practice corporate social responsibility because they have a long-term interest in society?</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>Highly unlikely</td>
</tr>
</tbody>
</table>
Appendix D (continued)

21. In your opinion, does XYZ Inc. practice corporate social responsibility because they believe in the cause?

0 1 2 3 4 5 6 7 8 9 10

Highly unlikely  Highly likely

22. In your opinion, does XYZ Inc. practice corporate social responsibility because they are trying to give something back to the community?

0 1 2 3 4 5 6 7 8 9 10

Highly unlikely  Highly likely

23. In your opinion, does XYZ Inc. practice corporate social responsibility primarily to get more customers?

0 1 2 3 4 5 6 7 8 9 10

Highly unlikely  Highly likely

24. In your opinion, does XYZ Inc. practice corporate social responsibility primarily to keep its customers?

0 1 2 3 4 5 6 7 8 9 10

Highly unlikely  Highly likely

**Block 10: Manipulation Checks**

25. Did XYZ, Inc. engage an independent accounting firm to provide assurance on the accuracy of its corporate social responsibility disclosures?

☐ Yes
☐ No

26. In your opinion, does XYZ Inc. practice corporate social responsibility primarily to improve its financial performance?
Appendix D (continued)

<table>
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<tbody>
<tr>
<td>Highly unlikely</td>
<td>Highly likely</td>
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27. In your opinion, how significant was the food safety recall to XYZ, Inc.?

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<tbody>
<tr>
<td>Not at all significant</td>
<td>Very significant</td>
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Block 11: Demographic Questions

28. What is your age?

- [ ] 18-24 years old
- [ ] 25-34 years old
- [ ] 35-44 years old
- [ ] 45-54 years old
- [ ] 55-64 years old
- [ ] 65-74 years old
- [ ] 75 years or older

29. What is your gender?

- [ ] Female
- [ ] Male
- [ ] Prefer not to answer

30. What is your occupation? ____________

31. How many years of work experience do you have?

- [ ] 0-5 years
- [ ] 6-10 years
- [ ] 11-15 years
- [ ] 16-20 years
- [ ] 21-25 years
- [ ] 26-30 years
- [ ] 30 or more years
Appendix D (continued)

32. What is your education level?
   - [ ] Some high school, no diploma
   - [ ] High school graduate
   - [ ] Associate degree
   - [ ] Bachelor’s degree
   - [ ] Graduate degree

(Note: the following two questions will be answered using sliders ranging from 0-15)

33. How many college-level accounting classes have you taken?
34. How many college-level finance classes have you taken?

35. How would you rate your knowledge of corporate social responsibility?
   1  2  3  4  5  6  7  8  9  10  11
   Below average  Average  Above average

36. In your opinion, how conscious of sustainability issues are you?
   1  2  3  4  5  6  7  8  9  10  11
   Not at all conscious  Highly conscious

37. Have you previously served on a jury?
   - [ ] Yes
   - [ ] No

38. Do you have any prior work experience in the following areas?
   - [ ] CPA
   - [ ] Lawyer
   - [ ] Investor
Appendix D (continued)

Block 12: Amazon Mechanical Turk ID & End of Survey

**Participation Verification:**
As mentioned in the instructions, you must enter your Mechanical Turk Worker ID **AND** a randomly generated survey code to verify your participation in the study. These items will be used to confirm payment claims.

Please enter your Worker ID below. Your random survey code will be generated and presented on the following screen. You will enter this survey code in the Mechanical Turk window.

Amazon Mechanical Turk Worker ID: ___________________
Thank you for participating.
Your survey code is:
XXXXXXX

To receive payment for participating, click “Accept HIT” in the Mechanical Turk window, enter this survey code, then click “Submit”.


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mediation is moderated. Journal of personality and social psychology 89 (6):852.

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VITA

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This manuscript was typed by the author.