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Causal Effect of Analyst Following on Corporate Social Responsibility

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ABSTRACT

I examine the influence of sell-side financial analysts on corporate social responsibility (CSR), and find that firms with greater analyst coverage tend to be less socially responsible. To establish causality, I employ a difference-in-differences (DiD) technique, using brokerage closures and mergers as exogenous shocks to analyst coverage, as well as an instrumental variables approach. Both identification strategies suggest that analyst coverage has a negative causal effect on CSR. My findings are consistent with the view that spending on CSR is a manifestation of an agency problem, and that financial analysts curb such discretionary spending by disciplining managers.

JEL classification: D21, G24, M14

Keywords: Analyst following, Monitoring, Corporate social responsibility (CSR)

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