

How Useful Are CSR-related Expenditures in Predicting Future Earnings?

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ABSTRACT: The traditional view toward corporate social responsibility (CSR) activities is that they are a source of new information about future performance. We contradict this view by argument that expenditures on CSR activities are difficult to be properly disclosure, because they are not required to be reported in a separate account of financial statements. Consistent with this argument, our study documents a significant, positive association between CSR activities and expenses of selling, general and administrative for most of ratings from Kinder, Lydenburg, and Domini (KLD). Our results show that ratings for both positive indicators (strengths) and negative indicators (concerns) garble accounting earnings information as measured by the future earnings response coefficient (FERC), which is the association between current-year stock returns and next-year corporate earnings, based on Collins et al. (1994). Collectively, our findings have important implications for academics and practitioners to notice the need of specific accounting regulations for CSR activities.

Keywords: *corporate social responsibility; KLD data, CSR disclosures; CSR expenditures; future (forward) earnings response coefficients (FERC)*