

Does Corporate Ethics Help Investors Forecast Future Earnings?

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ABSTRACT: A firm's ethical behavior is commonly perceived beneficial to the firm and its investors in the literature. However, activities of corporate social responsibility (CSR) are often delivered with multiple purposes, and their expenses are aggregated with other expenditures in financial statements. These two features motivate us to hypothesize and find that investors' ability to predict future earnings of ethical firms may not be improved through observing the CSR activities. Our study suggests that CSR spending should be expressed separately from other expenses in financial reports to help investors predict the future performance of CSR firms.

Keywords: *corporate social responsibility; KLD database, CSR activities; CSR spending; future (forward) earnings response coefficients (FERC).*

Data Availability: Data are available from public sources identified in the paper.