Narrative Conservatism

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Abstract

Extant accounting literature documents the existance of conditional conservatism in numerical disclosures, i.e. earnings reflecting bad news in a more timely manner than good news. However, little is known about the level of conservatism in narrative disclosure. In this paper, we study whether corporate narrative disclosure is more responsive to bad news than good news. News is proxied by market returns and narrative responsiveness is defined in terms of text content and filing timeliness. Using a sample of 10-Q and 8-K filings automatically retrieved from the SEC EDGAR database, with a time coverage from 1993 to 2020, we find that narrative disclosure is longer, more consistent with news, and timelier in response to bad news comparing to good news, consistent with narrative disclosure being conservative. We contribute to the literature on accounting conservatism by providing evidence on asymmetric responsiveness to good news and bad news in narrative disclosure.

Keywords: *narrative disclosure; conditional conservatism; timeliness; tone*

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1 Introduction

The rest of the paper structures as follows: Section 2 develops theoretical framework. Section 3 explains empirical models and data selection. Section 4 presents main results. Section 5 performs robustness checks and Section 6 concludes.

2 Theoretical Framework

2.1 Content

H1: Narrative disclosure is longer in response to bad news comparing to good news.

H2: Narrative disclosure is more consistent with news in response to bad news comparing to good news.

2.2 Timeliness

H3: Narrative disclosure is timelier in response to bad news comparing to good news.

3 Research Design

3.1 News proxy: Market Returns

3.2 Textual properties

$$EARN_{i,t} = \alpha_i + \omega_t + \beta_1 RET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 RET_{i,t} \times NEG_{i,t} + \epsilon_{i,t} \quad (1)$$

3.3 Data

4 Results

4.1 Summary Statistics

4.2 Main Results

5 Robustness Checks

5.1 ABTONE

6 Conclusions

7 Appendix

7.1 Appendix A: 10-Q and 8-K parsing

7.2 Appendix B: Financial Variable Definition

Variable	Definition
EARN	Quarterly earnings, defined as quarterly earnings before extraordinary items (Compustat data item IBQ) scaled by beginning-of-quarter total assets (Compustat data item ATQ)
ΔEARN	Change in quarterly earnings, defined as current quarterly earnings minus one-quarter-lagged earnings
LEV	Leverage ratio, defined as beginning-of-quarter short term debt (Compustat data item DLCQ) plus beginning-of-quarter long term debt (Compustat data item DLTTQ) scaled by beginning-of-quarter total assets (Compustat data item ATQ)
MTB	Market-to-book ratio, defined as beginning-of-quarter market value of equity, calculated as common share price (Compustat data item PRCCQ) times common shares outstanding (Compustat data item CSHOQ) divided by beginning-of-quarter book value of equity (Compustat data item CEQQ)
SIZE	Firm size, defined as the natural logarithm of market value of equity, calculated as common share price (Compustat data item PRCCQ) times common shares outstanding (Compustat data item CSHOQ)
RET	Quarterly market-adjusted stock return, defined as buy-and-hold stock return (CRSP data item RET) over the fiscal quarter adjusted by the value-weighted stock return (CRSP data item VWRETD) over the same period
NEG	Indicator for negative quarterly return, which is set to 1 when market-adjusted stock return (RET) is negative and 0 otherwise
AF	Analyst forecast, defined as analyst consensus forecast for one-year-ahead earnings per share, scaled by stock price per share at the end of the fiscal quarter (Compustat data item PRCCQ)
AFE	Analyst forecast error, defined as I/B/E/S earnings per share minus the median of the most recent analysts' forecasts, deflated by stock price per share at the end of the fiscal quarter (Compustat data item PRCCQ)
BUSSEG	Business segment, defined as the natural logarithm of one plus number of business segments, or one if item is missing from Compustat
GEOSEG	Geographical segment, defined as the natural logarithm of one plus number of geographical segments, or one if item is missing from Compustat
AGE	Firm age, defined as the natural logarithm of one plus number of days elapsed since the first entry date of the firm into CRSP monthly database
STD_EARN	Standard deviation of earnings, calculated over the last five quarters
STD_RET	Standard deviation of market-adjusted stock return (RET) over all months in the quarter
LOSS	Indicator for loss, which is set to 1 when earnings (EARN) is negative and 0 otherwise
ΔRET	Change in daily market-adjusted stock return, defined as current daily market-adjusted stock return minus one-day-lagged daily market-adjusted stock return
BN	Indicator for daily bad news, which is set to 1(0) if the daily negative(positive) change in market-adjusted stock return is three times larger than the firm's annual average decrease(increase) in daily return.

7.3 Appendix C: Textual Variable Definition

Variable	Definition
NW	Number of words, defined as the natural logarithm of one plus the count of total words (nw)
nw	Raw count of total words
TONE	Tone, defined as number of net positive words per thousand total words, calculated as total number of positive words minus total number of negative words minus total number of negations and multiply by one thousand
TLAG	Time lag, defined as number of days elapsed between the news release date (CRSP entry date) and document filing date (EDGAR filing date)
ABTONE	Abnormal tone, calculated as the residual of the cross-sectional tone model (Eq. 3) in Huang et al. (2014)

7.4 Online Appendix

Tables of untabulated results can be accessed via this link:

References

Xuan Huang, Siew Hong Teoh, and Yinglei Zhang. Tone Management. *The Accounting Review*, 89(3):1083–1113, May 2014. ISSN 0001-4826, 1558-7967. doi: 10.2308/accr-50684.

Table 1: Constituency Statute' Enactment Years (1975 - 2013)

State	Enactment date	Before	After	Total
AZ	07/22/1987	57	89	146
CT	06/07/1988	207	307	514
FL	06/27/1989	443	756	1199
GA	07/01/1989	292	518	810
HI	06/07/1989	39	52	91
IA	12/31/1989	95	130	225
ID	03/22/1988	13	26	39
IL	08/23/1985	139	277	416
IN	04/01/1986	261	519	780
KY	07/15/1988	49	74	123
LA	07/10/1988	77	114	191
MA	07/18/1989	687	969	1656
MD	06/01/1999	432	352	784
ME	09/19/1985	74	101	175
MN	06/01/1987	472	1,013	1485
MO	05/06/1986	165	306	471
MS	07/01/1990	2	23	25
NC	10/01/1993	262	250	512
NE	04/08/1988	50	32	82
NJ	02/04/1989	597	809	1406
NM	04/09/1987	30	47	77
NV	10/01/1991	419	564	983
NY	07/23/1987	1,351	1,999	3350
OH	10/10/1984	574	1,351	1925
OR	03/05/1989	134	223	357
PA	04/27/1990	883	1,144	2027
RI	07/03/1990	66	110	176
SD	07/01/1990	27	45	72
TN	03/11/1988	105	219	324
TX	01/01/2006	594	241	835
VA	03/31/1988	341	594	935
VT	04/16/1998	58	28	86
WI	06/13/1987	299	559	858
WY	01/01/1990	32	52	84
Total		9,326	13,893	23,219

This table presents the enactment dates and number of observations before and after enactment for 34 states out of 35 states that have adopted constituency statutes. North Dakota is excluded because of missing observations before or after law enactment date. Nebraska enacted constituency statute from 1988 to 1995 and from 2007 untill present.

Table 2: Basu Summary Statistics (1975-2013)

Panel A. Firm-year Observations Before Constituency Statute Law Enactment (N=9,326)

	mean	median	std. dev.	max	min	p1	p25	p75	p99
EARN	0.088	0.098	0.151	0.378	-1.034	-0.524	0.049	0.163	0.378
RET	0.032	0.023	0.338	1.419	-1.194	-0.817	-0.156	0.194	1.086
NEG	0.466	0.000	0.499	1.000	0.000	0.000	0.000	1.000	1.000
SIZE	4.310	4.144	1.953	10.388	0.623	0.623	2.841	5.636	9.264
BTM	0.882	0.773	0.576	3.256	-0.980	0.054	0.481	1.153	3.010
LEV	0.692	0.348	0.972	7.773	0.000	0.000	0.093	0.934	5.024

Panel B. Firm-year Observations After Constituency Statutes Law Enactment (N=13,893)

	mean	median	std. dev	max	min	p1	p25	p75	p99
EARN	0.025	0.060	0.162	0.378	-1.034	-0.820	0.023	0.086	0.290
RET	0.013	-0.005	0.351	1.419	-1.194	-0.924	-0.173	0.180	1.156
NEG	0.509	1.000	0.500	1.000	0.000	0.000	0.000	1.000	1.000
SIZE	5.589	5.628	2.261	10.388	0.623	0.790	3.875	7.245	10.388
BTM	0.682	0.574	0.548	3.256	-0.980	-0.581	0.359	0.851	2.909
LEV	0.568	0.260	0.953	7.773	0.000	0.000	0.068	0.685	5.293

Panel C. Variable Difference Before and After Contituency Statute Law Enactment

	mean difference	t-statistic
EARN	-0.06***	-29.76
RET	-0.02***	-4.18
NEG	0.04***	6.47
SIZE	1.28***	44.61
BTM	-0.20***	-26.79
LEV	-0.12***	-9.60

This table reports summary statistics for key variables used in Basu measure, separated into two time periods: before (Panel A) and after (Panel B) constituency statute enactment. Panel C demonstrates the differences in mean value between pre-enactment and post-enactment period for all key variables, and the significance of mean differences. EARN, RET, SIZE, BTM and LEV are winsorized at 1 and 99 percentiles. All variables are defined in Appendix B. *, **, and *** indicate significance at 10%, 5% and 1% confidence level respectively.

Table 3: Effect of Constituency Statue Enactments on Conservatism, Three Periods

$$EARN_{i,t} = \alpha_i + \omega_t + \beta_1 RET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 RET_{i,t} \times NEG_{i,t} + \epsilon_{i,t} \quad (1)$$

$$EARN_{i,t} = \alpha_i + \omega_t + \beta_1 RET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 RET_{i,t} \times NEG_{i,t} + POST_{i,t} \times (\beta_4 + \beta_5 RET_{i,t} + \beta_6 NEG_{i,t} + \beta_7 RET_{i,t} \times NEG_{i,t}) + \epsilon_{i,t} \quad (2)$$

$$\beta_j = \sum_K \delta_{j,k} State_k + \sum_M \theta_{j,m} Year_m \qquad j = 1, 2, 3 \quad (3)$$

Dependent Variable: EARN	Baseline Basu	DiD: 1975-2013		1984-1992		1985-1990	
	I	II	III	IV	V	VI	VII
			Incorp. = State		Incorp. = State		Incorp. = State
RET	0.0603***						
	6.82						
NEG	0.0019						
	0.70						
RET × NEG	0.1171***						
	10.07						
POST		-0.006	0.0067	-0.0204	-0.0029	-0.0098	0.0213
		-0.93	0.87	-1.46	-0.15	-0.68	1.06
POST × RET		-0.0114	-0.0334	0.0896	0.0508	0.0762	-0.0312
		-0.37	-1.07	1.18	0.49	0.87	-0.26
POST × NEG		0.0035	0.0091	-0.0012	-0.0092	-0.0133	-0.0377
		0.35	0.90	-0.07	-0.45	-0.47	-1.38
POST × RET × NEG		0.1041*	0.1961***	0.0109	0.0055	0.0421	0.0833
		2.05	4.37	0.09	0.04	0.36	0.60
Constant	0.1597***	0.0644**	0.0571**	0.0277	0.0171	0.0442**	0.0127
	17.27	3.45	2.77	1.53	0.87	2.80	0.64
Year Fixed Effects (Main)	YES	YES	YES	YES	YES	YES	YES
Firm Fixed Effects (Main)	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects (Basu Coefficients)	NO	YES	YES	YES	YES	YES	YES
State Fixed Effects (Basu Coefficients)	NO	YES	YES	YES	YES	YES	YES
S.E. Clustered by States	YES	YES	YES	YES	YES	YES	YES
Observations	23,219	23,219	17,347	7,202	5,314	4,806	3,514
Adj. R-square	0.2970	0.3108	0.3229	0.3645	0.3716	0.3916	0.3950

This table reports results of baseline Basu measure (Equation 1) over full sample period (Column I), and DiD results (Equation 2 and 3) in three sample periods: 1975 - 2013 (Column II, III), 1984 - 1992 (Column IV, V) and 1985 - 1990 (Column VI, VII). Column III, Column V and Column VII show the DiD results using only firms that headquarter in their state of incorporation. All variables are defined in Appendix B. EARN and RET are winsorized at 1 and 99 percentiles. All regressions control for firm and year fixed effects. DiD regressions control for Basu coefficient fixed effects. Standard errors are clustered at state of incorporation level.

Table 4: DiD: Effect of Constituency Statue Enactments on Conservatism, Rolling Windows

$$EARN_{i,t} = \alpha_i + \omega_t + \beta_1 RET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 RET_{i,t} \times NEG_{i,t} + Dummy_{i,t} \times (\beta_4 + \beta_5 RET_{i,t} + \beta_6 NEG_{i,t} + \beta_7 RET_{i,t} \times NEG_{i,t}) + \epsilon_{i,t}$$

Dep. Var. EARN	I -1/+1 Full	II -1/+1 Incorp.= State	III -2/+2 Full	IV -2/+2 Incorp.= State	V -3/+3 Full	VI -3/+3 Incorp.= State
Dummy × RET× NEG	0.1717	0.1257	0.1622*	0.1291	0.1358**	0.1266*
	2.02	1.26	2.24	1.65	2.93	2.71
Dummy	-0.0149	0.0124	0.0187	0.0396	0.0005	0.016
	-0.92	0.71	1.01	1.61	0.04	0.94
Dummy×RET	0.024	-0.0052	0.0056	0.0015	-0.0079	-0.0131
	0.47	-0.08	0.16	0.03	-0.29	-0.32
Dummy×NEG	-0.0042	-0.0269	0.0085	-0.0035	0.007	-0.0005
	-0.15	-0.68	0.68	-0.23	0.59	-0.03
Constant	0.0235	0.0394*	0.0900***	0.1014***	0.1364***	0.1368***
	1.42	2.29	4.12	4.74	11.45	10.80
Year Fixed Effects (Main)	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects (Main)	Yes	Yes	Yes	Yes	Yes	Yes
S.E. Clustered by States	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,220	1,612	4,241	3,093	6,134	4,492
Adj. R-squared	0.4286	0.4169	0.3923	0.3686	0.3655	0.3543

This table reports results of rolling window analysis of conservatism (measured by Basu model) in three subsamples that consist of firm-year observations within one-year (-1/+1), two-years (-2/+2) and three-years (-3/+3) window before and after constituency statute enactments in all states that have adopted the law as of 2013. Column II, Column IV and Column VI show the rolling window results using only firms that headquarter in their state of incorporation. *Dummy* is an indicator variable that takes 1 if this firm-year observation is recorded after law enactment, and 0 if before law enactment. The rest of variables are defined in Appendix B. EARN and RET are winsorized at 1 and 99 percentiles. All regressions control for year and firm fixed effects. Standard errors are clustered at state of incorporation level. *, **, and *** indicate significance at 10%, 5% and 1% confidence level, respectively. t-statistics are reported below coefficients.

Table 5: Mechanism (1975 - 2013)

$$EARN_{i,t} = \alpha_i + \omega_t + \beta_1 RET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 RET_{i,t} \times NEG_{i,t} + POST_{i,t} \times (\beta_4 + \beta_5 RET_{i,t} + \beta_6 NEG_{i,t} + \beta_7 RET_{i,t} \times NEG_{i,t}) + MEC \times (\beta_8 RET_{i,t} + \beta_9 NEG_{i,t} + \beta_{10} REG_{i,t} \times NEG_{i,t}) + MEC \times POST_{i,t} \times (\beta_{11} + \beta_{12} RET_{i,t} + \beta_{13} NEG_{i,t} + \beta_{14} RET_{i,t} \times NEG_{i,t}) + \epsilon_{i,t} \quad (4)$$

Dep. Var. EARN	DCD1	DCD2	MA
POST	0.0003	-0.0056	-0.0160*
	0.05	-0.86	-2.15
POST× RET	0.0112	-0.0150	0.0254
	0.38	-0.47	0.81
POST×NEG	0.0000	-0.0022	0.0129
	0.00	-0.22	1.13
POST×RET×NEG	-0.0657	0.0316	0.0709
	-1.43	0.61	1.23
MEC×RET	0.0103	0.0158	0.7419***
	0.59	1.84	4.53
MEC×NEG	-0.0039	-0.0024	0.1201**
	-0.36	-0.37	2.98
MEC×RET×NEG	-0.1059*	-0.0700*	-1.5956***
	-2.46	-2.34	-4.21
MEC×POST	-0.0100	-0.0220*	0.1592***
	-1.31	-2.47	6.14
MEC×POST×RET	-0.0581*	-0.0562***	-0.7353***
	-2.33	-3.61	-3.84
MEC×POST×NEG	0.0023	-0.0105	-0.1559**
	0.18	-0.79	-2.80
MEC×POST×RET×NEG	0.2854***	0.1751***	1.1218*
	7.74	4.90	2.65
Constant	0.0609**	0.0599**	0.0742***
	3.17	2.88	3.73
Year Fixed Effects (Main)	YES	YES	YES
Firm Fixed Effects (Main)	YES	YES	YES
Year Fixed Effects (Basu Coefficients)	YES	YES	YES
State Fixed Effects (Basu Coefficients)	YES	YES	YES
S.E. Clustered by States	YES	YES	YES
Observations	23219	23219	18277
Adj. R-squared	0.318	0.3334	0.2836

This table reports results of Equation (4): earnings on baseline Basu factors (i.e., NEG, RET, NEG $\times$ RET) and their interactions with POST dummy and three mechanism variables (DCD1, DCD2 and MA). All variables are defined in Appendix B. EARN and RET are winsorized at 1 and 99 percentiles. All regressions control for main firm and year fixed effects and Basu coefficient fixed effects. Standard errors are clustered at state of incorporation level. The Basu coefficient fixed effects absorb slope coefficients in baseline Basu model so they are omitted. *, **, and *** indicate significance at 10%, 5% and 1% confidence level respectively. T-statistics are reported below coefficients.

Table 6: KLD Indexes (1995 - 2013)

Panel A. KLD Summary Statistics

	N	mean	median	std. dev.	max	min	p1	p25	p75	p99
KLD_STR	12341	0.476	0	1.060	12	0	0	0	1	5
KLD_CON	13922	1.011	1	1.518	13	0	0	0	1	7
KLD_TOTAL	12341	-0.515	0	1.403	8	-9	-5	-1	0	3
Enviroment	15800	0.137	0	0.427	4	0	0	0	0	2
Community	15624	0.147	0	0.476	5	0	0	0	0	2
Product	15624	0.071	0	0.272	3	0	0	0	0	1
Emloyee relation	12341	0.241	0	0.571	5	0	0	0	0	2
Human rights	12986	0.003	0	0.054	1	0	0	0	0	0

Panel B. KLD Indexes Correlation Matrix

	KLD_STR	KLD_CON	KLD_TOTAL	Env.	Com.	Prod.	Emp.	Hum.
KLD_STR	1.000							
KLD_CON	0.425	1.000						
KLD_TOTAL	0.309	-0.730	1.000					
Enviroment	0.655	0.331	0.122	1.000				
Community	0.662	0.305	0.174	0.264	1.000			
Product	0.500	0.116	0.235	0.204	0.149	1.000		
Employee relation	0.801	0.307	0.282	0.306	0.287	0.256	1.000	
Human rights	0.145	0.043	0.062	0.023	0.117	0.031	0.064	1.000

This table reports summary statistics (Panel A) and correlation matrix (Panel B) of KLD indexes from 1995 to 2013. All indexes are defined in Appendix C.

Table 7: Association between KLD Indexes and Conservatism , Measured by C_Score (1995 - 2013)

$$Conservatism_{i,t} = a_i + b_t + c \times KLD\_INDEX + d \times X_{i,t} + \epsilon_{i,t} \qquad (8)$$

Dependent Variable: C_Score	I	II	III	IV	V	VI	VII
KLD_STR	0.0030***						
	4.95						
KLD_TOTAL		-0.0011*					
		-2.07					
Environment			-0.0019				
			-1.93				
Community				-0.0020*			
				-2.45			
Product					0.0060*		
					2.42		
Employee Relation						0.0028**	
						3.47	
Human Rights							-0.0059
							-0.80
SIZE	-0.0094***	-0.0093***	-0.0114***	-0.0108***	-0.0108***	-0.0095***	-0.0102***
	-8.41	-8.11	-9.34	-8.64	-8.74	-8.18	-8.77
MTB	0.0052***	0.0052***	0.0055***	0.0053***	0.0054***	0.0052***	0.0058***
	26.27	26.17	15.15	18.34	18.19	26.28	28.29
LEV	0.061***	0.061***	0.0576***	0.0574***	0.0574***	0.0610***	0.0580***
	24.19	23.88	26.32	26.55	26.48	23.99	22.85
Constant	0.2287***	0.2287***	0.0176	0.0148	0.0136	0.2295***	0.1523***
	30.31	29.85	1.96	1.57	1.43	29.76	22.15
Year fixed effects	YES	YES	YES	YES	YES	YES	YES
Firm Fixed Effects	YES	YES	YES	YES	YES	YES	YES
S.E. Clustered by States	YES	YES	YES	YES	YES	YES	YES
Observations	10483	10483	13920	13742	13742	10483	11087
Adj. R-square	0.7778	0.7776	0.778	0.7752	0.7753	0.7776	0.7708

This table reports results of Equation (8): OLS regression model of conservatism (measured by C_Score) on KLD indexes. All KLD indexes are defined in Appendix c. All regressions control for firm and year fixed effects. Standard errors are clustered at state of incorporation level. *, **, and *** indicate significance at 10%, 5% and 1% confidence level respectively. T-statistics are reported below coefficients.

Table 8: DiD: Effect of Constituency Statute Enactments on C_Score, Three Periods

$$Conservatism_{i,t} = a_i + b_t + c \times POST_{i,t} + d \times X_{i,t} + \epsilon_{i,t} \quad (9)$$

Dep. Var. C_Score	1975 - 2013	1984 - 1992	1985 - 1990
	I	II	III
POST	0.0046	0.0073*	0.0112*
	1.56	2.17	2.51
SIZE	-0.0150***	-0.0355***	-0.0441***
	-8.27	-12.94	-8.83
MTB	-0.0018	-0.0051***	-0.0044*
	-1.64	-5.83	-2.73
LEV	0.0633***	0.0329***	0.0218***
	23.07	10.45	3.99
Constant	0.0824***	0.1695***	0.2749***
	8.98	12.68	11.41
Year Fixed Effects	YES	YES	YES
Firm Fixed Effects	YES	YES	YES
S.E. Clustered by States	YES	YES	YES
Observations	22570	6965	4644
Adj. R-square	0.5016	0.5482	0.5194

This table reports DiD regression (Equation 9) results in three sample periods: 1975 - 2013 (Column I), 1984 - 1992 (Column II) and 1985 - 1990 (Column III). All variables are defined in Appendix B. SIZE, MTB and LEV are winsorized at 1 and 99 percentiles. All regressions control for firm and year fixed effects. Standard errors are clustered at state of incorporation level. *, **, and *** indicate significance at 10%, 5% and 1% confidence level respectively. T-statistics are reported below coefficients.

Table 9: DiD: Effect of Constituency Statute Enactments on C_Score, Rolling Windows

$$Conservatism_{i,t} = a_i + b_t + c \times Dummy_{i,t} + d \times X_{i,t} + \epsilon_{i,t}$$

Dep. Var. C_SCORE	I	II	III
	-1/+1	-2/+2	-3/+3
Dummy	0.0223***	0.011	0.0083
	5.89	1.09	1.36
SIZE	-0.0387**	-0.0303***	-0.0318***
	-3.03	-5.74	-6.92
MTB	-0.0032	-0.0049**	-0.0041**
	-1.02	-3.26	-3.56
LEV	0.0164	0.0319**	0.0341***
	0.74	2.92	5.13
Constant	0.2184***	0.2130***	0.1846***
	3.80	8.03	8.11
Year Fixed Effects	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
S.E. Clustered by States	Yes	Yes	Yes
Observations	2,144	4,105	5,941
Adj. R-squared	0.6858	0.7176	0.6896

This table reports results of rolling window analysis of conservatism (measured by C_Score) in three subsamples that consist of firm-year observations within one-year (-1/+1), two-years (-2/+2) and three-years (-3/+3) window before and after constituency statute enactments in all states that have adopted the law as of 2013. *Dummy* is an indicator variable that takes 1 if this firm-year observation is recorded after law enactment, and 0 if before law enactment. The rest of variables are defined in Appendix B. SIZE, MTB and LEV are winsorized at 1 and 99 percentiles. All regressions control for year and firm fixed effects. Standard errors are clustered at state of incorporation level. *, **, and *** indicate significance at 10%, 5% and 1% confidence level, respectively. t-statistics are reported below coefficients.