Narrative Conservatism

Beatriz García Osma, Juan Manuel García Lara, and Fengzhi Zhu*

Department of Business Administration, Universidad Carlos III de Madrid, Spain

Dated: April 29, 2020

Abstract

I study whether firms' level of corporate social responsibility (CSR) affects their speed of response to gains and losses in financial reports, i.e. conditional conservatism. Using a natural experiment of staggered constituency statute enactments in the U.S. during 1980s, which allow managers to consider stakeholder interest in decision-making and thus improves CSR overall, I find that conservatism increases after CSR improvement. Such increase in conservatism is more significant in firms with strong debt-contracting demand and high managerial ability, consistent with debt being the main resource of conservatism and managerial style playing a role in determining CSR and conservatism. The results are robust to various alternative sample selections, variable measurements and model specifications. This study contributes to the linkage between CSR and conservatism literature by using a unique setting to document a positive causal impact of CSR on conservatism. Furthermore, this paper adds to the discussion on social influence of constituency statutes by providing a novel accounting viewpoint.

Keywords: *corporate social responsibility; conditional conservatism; constituency statutes; trust*

*Email: fzhu@emp.uc3m.es

1 Introduction

The rest of the paper structures as follows: Section 2 describes theoretical framework. Section 3 explains empirical models and data construction. Section 4 presents main results. Section 5 performs robustness checks. Section 6 concludes. Li (2010)

2 Theoretical Framework

H1: Firms' conditional conservatism decreases as CSR increases.

H2: Firms' conditional conservatism increases as CSR increases.

3 Research Design

3.1 News proxy: Market Returns

3.2 Text 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 Other news proxy

6 Conclusions

7 Appendix

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

7.2 Appendix B: Financial Variable Definition

Variable	Definition
BTM	Book to market ratio: book value of equity (Compustat CEQ) divided by market value of equity (Compustat PRCC_F $\times$ Compustat CSHO), as of current fiscal year.
CASH	Cash holdings: cash and short-term investments (Compustat CHE) to the book value of total assets (Compustat AT), as of current fiscal year.
DCD	Debt-contracting demand defined in two ways. (1) DCD1: a dummy variable that takes 1 if a firm experience an increase in average leverage ratio between the pre-enactment and post-enactment period (LEV_POST $>$ LEV_PRE), and 0 otherwise. (2) DCD2: The difference between average leverage ratios of the pre-enactment and post-enactment period (LEV_POST - LEV_PRE).
EARN	Earnings: income before extraordinary items (Compustat IB) divided by lagged market value of equity (Compustat PRCC_F $\times$ Compustat CSHO).
LEV	Leverage ratio: short term debt (Compustat DLC) plus long term debt (Compustat DLTT) divided by market value of equity, as of current fiscal year.
MA	Managerial ability: an index of managerial ability constructed by Demerjian et al. (2012).
MTB	Market to book ratio: inverse of BTM.
NEG	Dummy variable for bad news, which takes 1 when market -adjusted stock return (RET) is negative and is 0 otherwise.
POST	Dummy variable for firm-year observation subject to constituency statute, which takes 1 when a firm-year observation appears after the year in which the constituency statute is enacted in the firm's state of incorporation, and is 0 otherwise.
RET	Adjusted market return: sum of monthly buy-and-hold stock return (CRSP RET) over the fiscal year (starting from the fourth month of the fiscal year) minus the sum of monthly value-weighted stock return (CRSP VWRETD) over the same period.
ROA	Return on assets: operating income before depreciation (Compustat OIBDP) divided by total assets (Compustat AT), as of current fiscal year.
SIZE	Firm size: natural log of market value of equity (Compustat PRCC_F $\times$ Compustat CSHO), as of current fiscal year.
TOBINSQ	Tobins' q: market value of total assets, which equals to book value of total assets (Compustat AT) plus market value of equity (Compustat PRCC_F $\times$ Compustat CSHO) minus the sum of the book value of common stock (Compustat CEQ) and balance sheet deferred taxes (Compustat TXDB), divided by book value of total assets (Compustat AT), as of current fiscal year.

7.3 Appendix C: Text Variable Definition

Indexes	Definition
KLD_TOTAL	Total number of strengths minus total number of concerns (KLD_STR - KLD_CON)
KLD_STR	Number of strengths across all five dimensions (env_str + com_str + pro_str + emp_str + hum_str)
KLD_CON	Number of concerns across all five dimensions (env_con + com_con + pro_con + emp_con + hum_con)
com_str	Total number of community strengths, including 6 subcategories: Charitable Giving, Innovative Giving, Non-US Charitable Giving, Support for Housing, Support for Education, and Other Strength.
com_con	Total number of community concerns, including 4 subcategories: Investment Controversies, Negative Economic, Tax Disputes, and Other Concern.
div_str	Total number of diversity strengths, including 6 subcategories: Promotion, Work/Life Benefits, Women & Minority Contracting, Employment of the Disabled, Gay & Lesbian Policies, and Other Strength.
div_con	Total number of diversity concerns, including 2 subcategories: Controversies, and Other Concern.
env_str	Total number of environment strengths, including 5 subcategories: Beneficial Products and Services, Pollution Prevention, Recycling, Clean Energy, and Other Strength.
env_con	Total number of environment concerns, including 7 subcategories: Hazardous Waste, Regulatory Problems, Ozone Depleting Chemicals, Substantial Emissions, Agricultural Chemicals, Climate Change, and Other Concern.
emp_str	Total number of employee relations strengths, including 6 subcategories: Union Relations, Cash Profit Sharing, Employee Involvement, Retirement Benefits Strength, Health and Safety Strength, and Other Strength.
emp_con	Total number of employee relations concerns, including 4 subcategories: Union Relations, Health and Safety Concern, Work force Reductions and Retirement Benefits Concern.
hum_str	Total number of human rights strengths, including 2 subcategories: Indigenous Peoples Relations and Labor Rights.
hum_con	Total number of human rights concerns, including 4 subcategories: Burma Concern, Labor Rights, Indigenous Peoples Relations, and Other Concern.
pro_str	Total number of product strengths, including 4 subcategories: Quality, R&D/Innovation, Benefits to Economically Disadvantaged, and Other
pro_con	Total number of product concerns, including 4 subcategories: Product Safety, Marketing/Contracting, Antitrust, and Other Concern.

7.4 Online Appendix

Tables of untabulated results can be accessed via this website:

References

Peter Demerjian, Baruch Lev, and Sarah McVay. Quantifying Managerial Ability: A New Measure and Validity Tests. *Management Science*, 58(7):1229–1248, July 2012. ISSN 0025-1909, 1526-5501. doi: 10.1287/mnsc.1110.1487.

Feng Li. Textual Analysis of Corporate Disclosures: A Survey of the Literature. *Journal of Accounting Literature*, 29: 143–165, 2010.

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.