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Abstract

This article analyzes the relationship between corporate social responsibility (CSR) decoupling and financial market outcomes. CSR decoupling refers to the gap between CSR disclosure and CSR performance. More specifically, we analyze the effect of CSR decoupling on analysts' forecast errors, cost of capital, and access to finance. We also examine the moderating effect of forecast errors on relationships between CSR decoupling and cost of capital and access to finance. For a sample of U.S. firms consisting of 7,681 firm-year observations for the period 2006–2015, our empirical evidence supports the idea that a wider gap results in higher analysts' forecast errors, a greater cost of capital, and reduced access to finance. In addition, our results show that forecast errors enhance the effect of the CSR decoupling on cost of capital and access to financial resources. We also note that external monitoring, in the form of greater analysts' coverage, reduces CSR decoupling.

Keywords

cost of capital, CSR, decoupling, forecast errors, KZ index

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Understanding the relationship between corporate social responsibility (CSR) and financial performance (FP) has been a popular topic in the business literature for last four decades. Recent reviews show that the relationship between CSR and FP is positive and statistically significant but economically modest at the firm level. However, it is neutral or insignificant at the portfolio and index level (see, for instance, Brooks & Oikonomou, 2018; Friede et al., 2015). This is somewhat oxymoronic and shows that more work is needed in this area. In line with Orlitzky (2013), we argue that the possible reason for the fragmentation in existing results, on one hand, could be the difficulty for investors in understanding the true engagement of firms in CSR and, on the other hand, firms' hypocritical practices concerning CSR. Moreover, the factors through which CSR affects financial market outcomes need further research (Zhao & Murrell, 2016). To deal with these related issues, this article tries to provide a more nuanced understanding of the relationship between CSR and financial market outcomes by taking into consideration the misalignment of CSR-related disclosure and performance as well as including a relevant contingent factor that can better explain the relationship. We reflect on these two points below.

First, the literature shows that CSR reduces information asymmetry between a firm's managers and its stakeholders (Cho et al., 2013). However, managers are often engaged in the deceitful behavior of creating organizational facades for signaling purposes (Cho et al., 2015). Tashman et al. (2019) refer to such practices as CSR decoupling and measure it as an absolute gap between CSR disclosure and CSR performance. The studies of Hawn and Ioannou (2016), Jamali et al. (2017), Graafland and Smid (2019), Sauerwald and Su (2019), and Tashman and colleagues (2019) are the major contributions in this regard which accentuate the need to mind the gap. Still, to date, we know very little about the financial market reaction to such CSR-related corporate behavior. This article fills this gap and examines the financial market-related outcomes of CSR decoupling.

Second, accounting and financial market literature acknowledge that financial analysts play a role of information catalysts and external monitors. Dhaliwal et al. (2012) argue that analysts are the route for responsible companies to achieve economic benefit from their CSR investments. They produce favorable recommendations for responsible firms (Luo et al., 2015). In this respect, Dhaliwal and colleagues (2012) note that CSR information helps analysts produce accurate estimates. Recently, Qian et al. (2019) argue that analysts monitor CSR-related firm behavior and help materialize the link between CSR and FP.

Despite the indications about the value relevance of CSR (Friede et al., 2015) and the detrimental effect of CSR decoupling (Hawn & Ioannou,

2016), the effect of CSR decoupling on analysts' forecast and other financial market outcomes as well as the role of analysts in reducing the CSR gap remain unexplored. Therefore, we test the effect of the CSR gap¹ on forecast errors, cost of capital, and access to finance. We also study the monitoring role of financial analysts by analyzing the effect of their coverage on the CSR gap. Finally, we test the effect of the CSR gap on cost and financial access in the presence of forecast errors.

The analysis of 7,681 firm-year observations of the data of U.S. firms for the period 2006–2015 confirms our proposed relationships. This study contributes to the CSR literature and complements the main argument of stakeholder theory. We confirm that the alignment of external and internal CSR practices is financially rewarding and financial analysts can play a monitoring role. By studying a novel relationship between the accuracy of CSR reporting, the accuracy of analysts' forecast, and market outcomes, we contribute to the work of Hawn and Ioannou (2016) and Sauerwald and Su (2019). In doing so, we heed the call of Qian and colleagues (2019) to “explore the possible dynamics relating analyst coverage, a firm's actual social performance, and its disclosures” (p. 13). Our work has implications for stakeholders, in general, and shareholders, in particular. It suggests that they should be cautious and select better-monitored firms for investments.

In the next section, we review the relevant literature and present hypotheses. The methods section describes our research design. The results section presents our empirical findings followed by the discussion conclusion and future research directions.

Literature Review and Hypothesis Development

Recently, responsible investment has gained popularity globally as the emphasis has shifted from shareholder value creation to stakeholder orientation. With this shift, informed investment decisions need credible CSR information. Bowen (1953), an early contributor to the field, referred to CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (p. 6). It is the “firm's consideration of, and response to, issues beyond narrow economic, technical, and legal requirements” (Davis, 1973, p. 312) and consists of the firm's “clearly articulated and communicated policies and practices” (Matten & Moon, 2008). Although CSR as a concept has been evolving since the early 1950s (Carroll, 2008), overall these definitions reflect that a firm's responsibility goes beyond stockholders toward more diverse societal groups who have a stake in the firm. This is the underlying premise of the stakeholder theory, which

encourages effective relationship management with stakeholders by meeting their needs (Freeman, 1984). The theory argues that corporations that take into consideration the objectives of a wider variety of stakeholders perform better in the long term (Jensen, 2001). From this standpoint, CSR practices can be seen as part of the “dialogue between the company and its stakeholders” (Gray et al., 1995, p. 53) and can help firms gain stakeholder support and improve their chances of survival (Branco & Rodrigues, 2008).

Although, CSR is not directly related to the FP of firms, management researchers generally agree that it pays to be green (K. H. Kim et al., 2018; Margolis et al., 2009; Waddock & Graves, 1997). For instance, Friede and colleagues’s (2015) review of more than 2,000 studies reveals that 90% of studies show a nonnegative relationship, the majority of which yield positive results with an average correlation of 0.15. However, their further examination of this link among portfolio versus nonportfolio studies reveals that portfolio studies show a neutral or mixed relationship. They argue that environmental, social, and governance (ESG) portfolios should exhibit a comparatively lower level of association with FP. This argument supports the findings of Revelli and Viviani (2015) that socially responsible investing (SRI) does not significantly outperform its conventional counterparts; in other words, that there is no real benefit associated with such investments. These results confirm that CSR shows a positive and statistically significant yet economically modest association with FP at the firm level, while the association at the portfolio or index level is neutral or statistically insignificant. Brooks and Oikonomou (2018) make these points clear in their review. This is somewhat puzzling and warrants more work.

Existing research often relies on oversimplistic linear models and there is also a lack of understanding of the conditions when CSR and shareholder value are linked (Zhao & Murrell, 2016). Furthermore, studies do not differentiate among different types of firms’ strategic actions related to CSR (Hawn & Ioannou, 2016). Firms behave differently in different circumstances and may even engage in hypocritical practices under the contradictory requirements and pressures of stakeholders and investors (Cho et al., 2015; Luo et al., 2017). Therefore, our research aims to test the relationship between CSR and financial market outcomes by considering the misalignment between various CSR responses and a key underlying factor.

CSR Performance, CSR Disclosure, and CSR Decoupling

Recently, Hawn and Ioannou (2016) argue that CSR is not a “monolithic construct.” They mention that firms undertake two distinct forms of CSR

actions to respond to institutional pressures for being responsible and transparent. Internal actions are firms' inward-looking real practices to meet the needs of internal stakeholders and may include actions such as the adoption of CSR policies. CSR performance reflects a firm's internal actions and is referred to as the measurement of a firm's CSR activities and its socially responsible behavior (Hinze & Sump, 2019). External actions generally focus on communication patterns and visible initiatives that firms adopt to seek endorsement and legitimacy of a firm's actions in the eyes of public or external actors. The most notable external action is a firm's CSR reporting (Dhaliwal et al., 2012).

The two actions are interconnected. Although disclosure is not equal to actual performance, good reporting promotes good behavior (Christensen et al., 2013). It allows key stakeholders to evaluate a firm's CSR efforts and reward positive actions or apply pressure to mitigate negative actions (Tashman et al., 2019). The United Nations Conference on Trade and Development (2011) states,

Markets function best when they have access to sufficient information to properly assess governance. Good information helps the markets ascertain the degree to which companies respond to shareholder needs; it reveals risks and shows the quality of future cash flows. (p. ix)

However, this is not always the case. With the shift of investor attention from pure economic profit to sustainable profit, managers face the contradictory demands (Cho et al., 2015) of being sustainable in the long term and profitable in the short term. Similarly, firms' proclamations of enhanced engagement in CSR can elevate stakeholder expectations, which intensifies the pressure to be responsible in all corporate practices (Christensen et al., 2013). These claims can further increase the multitude of pressures by attracting the attention of pressure groups toward firms' policies and practices. This motivates managers to mask their unsustainable corporate behavior or selectively disclose ethical behavior (Lyon & Maxwell, 2011).

Reporting incomplete, biased, or selective information is possible because firms' CSR disclosure practices, to a large degree, are voluntary and unregulated² in many countries, such as the United States and Australia. This creates a gap between a firm's internal and external actions; that is, a gap between CSR performance and CSR disclosure (Tashman et al., 2019), which is referred to as CSR decoupling. The term decoupling in organization studies was coined by Weick (1976) as a *loose coupling* between policies and organizational actions that challenges the traditional approach of tight integration.

Decoupling enables firms “to maintain standardized, legitimating, formal structures while their activities vary in response to practical considerations” (Meyer & Rowan, 1977, p. 357). Meyer and Rowan (1977) indicate that firms disconnect formal policies and actual practices in the context of institutional pressures. MacLean and Behnam (2010) argue that decoupling is detrimental as it results in a legitimacy façade that enables the institutionalization of misconduct and leads to a loss of external legitimacy.

It is important to note that firms’ responses to stakeholder pressures are not always the same in terms of CSR. Ideally, a firm should align both CSR actions and create no gap. However, it may prioritize one action over the other. Recently, researchers indicate that firms adopt different strategies under different situations. Crilly and colleagues (2012) point out that the gap between practice and policy is the result of two different strategies. The information asymmetry created by managers provides them the opportunity to follow their personal interests and motivates them to fake CSR actions, conceal noncompliance, and adopt symbolic behavior. CSR reports offer the opportunity to paint a rosy picture of a firm’s CSR image (Hawn & Ioannou, 2016). This is consistent with the firm’s greenwashing practices (Delmas & Burbano, 2011; Lyon & Maxwell, 2011; Ramus & Montiel, 2005; Walker & Wan, 2012).

An example of faking strategy could be the British Petroleum’s (BP) “Greenpeace” campaign, which was a triumph of a symbolic act over a substantive act. BP made more efforts to show the intentions than actually implement the renewable energy strategy. Similarly, Hyundai and Kia, South Korean companies, overstated the gas mileage for their 1.2 million vehicles (Gelles, 2015). An alternative explanation is given by Winn and Angell (2000), who classify firms as *unrealized greening firms* when the top management shows a strong commitment to environmental issues but internal actions, such as product R&D, lack a proactive approach to implementation. Unrealized greening is “an ‘intermediary stage’ for firms in the process of ramping up to implementation” (p. 1131). The purpose of CSR faking is to seek external endorsement by overstating their practices in their reports.

According to Crilly and colleagues (2012), decoupling may also emerge from “variation [in practices] *within* a firm rather than from coordinated decision making at the top” (p. 1431). The competing and rapidly changing expectations of stakeholders press firms to adopt incompatible policies that cannot be implemented simultaneously (Meyer & Rowan, 1977). In an ambiguous situation, top executives may delegate authority to local managers, who then seek distinctive solutions for their individual units. Imperfect learning makes it hard to replicate the solutions deemed appropriate for other

units in the firm (Winter & Szulanski, 2001). This phenomenon of decoupling is referred to as muddling through (Crilly et al., 2012).

Others indicate a strategy of decoupling where firms focus more on internal than external actions. Winn & Angell (2000) refer to firms as *emergent green firms* when they use a proactive approach to implement environmental systems in the absence of top management's commitment to environmental policies. They argue that these firms take a bottom-up approach in the face of contrasting external expectations and therefore middle-level managers take responsibility for the environment in all their processes, generate environmental innovations, and regularly monitor their environmental performance without requiring a formal policy commitment by the leadership. If firms choose to stay silent about their good environmental performance, they are referred to as *silent green firms* (Delmas & Burbano, 2011). Silent or emergent green firms tend to understate their CSR activities in their reports. Although understating activities may sound like a selfless behavior, it is equally as harmful as overstating activities. Among the top 10 mistakes in CSR communication, Triple Pundit (2012) mentions it at the top of the list. When firms make internal structural changes to integrate CSR but do not report it enough, they lose credibility and transparency and, as a result, fail to gain the full benefit of their activities. Hence, the market value is negatively affected by such mistakes (Hawn & Ioannou, 2016).

In this article, we consider both overstatement and understatement as distinct forms of decoupling and advocate that decoupling, either intentional or emergent, is dangerous. We provide a brief description of related terms in Table 1. It shows that the majority of these concepts, like CSR faking, organizational facades, and organizational hypocrisy, reflect symbolism in general, but decoupling also includes emerging or silent activities that are the result of inconsistent stakeholder expectations.

Although CSR disclosure and CSR performance are intertwined, a firm may choose one strategy over the other for signaling purposes (Wickert et al., 2016). This preference of one strategy over the other can be implemented within a single CSR dimension or across various dimensions. Recently, Luo, and colleagues (2017) argued that firms may adopt extensive reporting of overall CSR-related activities for signaling purposes or produce low-quality reporting to accommodate competing institutional demands. In the context of corporate disclosure, decoupling has been defined as issuing low-quality reports (Marquis & Qian, 2013). Along with this, Hawn and Ioannou (2016), Sauerwald and Su (2019), and Tashman and colleagues (2019) operationalize a global measure of CSR decoupling as an overall misalignment of all the CSR disclosure dimensions concerning all CSR performance dimensions. We follow the same logic and operationalization.

Table 1. Main Concepts and Terminologies in the Literature.

Concepts/ terminologies	Definitions
Organizational hypocrisy	“A response to a world in which values, ideas, or people are in conflict—a way in which individuals and organizations handle such [conflicting demands of stakeholders]” (Brunsson, 2007, p. 113). It is a “way of handling conflicts by reflecting them in inconsistencies among talk, decisions, and actions” (Brunsson, 2007, p. 115).
Organizational facade	“A symbolic front erected by organizational participants designed to reassure their organizational stakeholders of the legitimacy of the organization and its management” (Abrahamson & Baumard, 2008). Talk, decision, and actions are counter-coupled (Lipson, 2007).
CSR decoupling (or CSR gap) ^a	CSR decoupling is the “degree of misalignment between a firm’s CSR reporting and CSR performance” (Tashman et al., 2019, p. 158). It is “the gap between <i>how</i> firms communicate about CSR and <i>what</i> firms do in terms of CSR” (Sauerwald & Su, 2019). Complete decoupling is “a condition of full divergence” that reflects a “purely ceremonial CSR” (Graafland & Smid, 2019, p. 231).
Greenwashing	“Symbolic information emanating from within an organization without substantive actions. Or, in other words, discrepancy between the green talk and green walk.” (Walker & Wan, 2012, p. 10). It is “the intersection of two firm behaviors: poor environmental performance and positive communication about environmental performance” and negatively affects investor and consumer confidence (Delmas & Burbano, 2011).
CSR faking	While the greenwashing literature focuses only on environmental dimension of CSR, CSR faking includes all aspects of social responsibility. In our study and in line with other researchers, CSR faking is reflected by a firm’s overstatement of CSR performance in its disclosure (Hawn & Ioannou, 2016; Tashman et al., 2019). It is an intentional firm’s response in the presence of information asymmetry (Crilly et al., 2012). However, it also resembles <i>Unrealized Greening</i> (Winn & Angell, 2000) and <i>Greenwashing</i> (Delmas & Burbano, 2011).
Silent Green	Silent green firms are firms with good environmental performance that do not communicate about their environmental performance (Delmas & Burbano, 2011). A negative gap exists when firms <i>unknowingly</i> create a gap between current external actions (for instance, issuance of CSR reports) and prior internal actions (for instance, CSR performance) (Hawn & Ioannou, 2016). In corporate greening literature, this resembles <i>Emergent Active Greening</i> (Winn & Angell, 2000) and <i>Silent Green Firms</i> .

Note. Often symbolism vs. substance and talk vs. walk are used in the literature to reflect similar conditions. CSR = corporate social responsibility.

The Role of Financial Analysts in the Financial Markets

Financial analysts are knowledgeable experts who conduct research and provide intelligence on firms' performance (Wiersema & Zhang, 2011). They forecast firms' future performance and provide investment recommendations by rating target stocks (Luo et al., 2015). Their research is useful for investment decisions by banks, investment companies, pension funds, and individual investors. Based on the taxonomy of Ramnath et al. (2008), Hinze and Sump (2019) differentiated among four outcomes of analysts' research: analyst coverage, forecast accuracy, investment recommendations, and analysts' perceptions of a firm's CSR.

In general, analyst coverage is measured as the number of analysts following a company. It is assumed that a higher number of analysts can improve firm value and provide information to a broader investor base. Meanwhile, forecast accuracy indicates the level of uncertainty related to future earnings of the firm and is often measured in terms of forecast errors or dispersion. This means that analysts' confidence in a stock can boost investor confidence by reducing uncertainty (Cohen & Simnett, 2014). Their investment recommendations are published as buy, sell, or hold recommendations, which provide useful advice to investors. Analysts have means and motivations to act as market-level governance (Shi et al., 2017). They are able to improve financial transparency by monitoring the corporate information provision process (Dyck et al., 2010). They have opportunities to interact directly with management. Ignoring these powerful market actors does not favor the firm, as their negative ratings can sometimes initiate dismissal of top management (Wiersema & Zhang, 2011).

Financial Analysts, the CSR Gap, and Forecast Error

More than two decades ago, sustainability information was not relevant for financial analysts' assessments (Deegan & Rankin, 1997); however, a positive shift was noticed by the turn of the century. It started becoming a key criterion for many analysts despite the fact that they had to face data availability and quality issues at that time. Luo and colleagues (2015) indicate that the majority of analysts revealed that they do not want to recommend a stock with CSR risks to investors, even if the firm's FP is promising. On the other hand, there are studies that reflect another picture and show that CSR reporting and disclosure is of little value to analysts (Slack & Tsalavoutas, 2018). This shows that research on the relationship between financial analysts and CSR is burgeoning, but the results are fragmented so far. The possible reasons are use of

various theoretical frameworks and different types of CSR actions and financial analysts' outcomes (Hinze & Sump, 2019).

We argue that CSR information becomes value relevant for analysts if it is reliable and credible. Gao et al. (2016) support this argument and show that a firm with high-quality CSR disclosure attracts a higher number of analysts, especially when its CSR performance is also high. The voluntary disclosure of CSR information itself reflects the firm's confidence in its CSR performance. Dhaliwal and colleagues (2011, 2012) indicate that CSR information is useful because it increases certainty and reduces information asymmetry related to factors affecting the firm value, which in turn reduces market noise and market volatility. This shows that credible CSR information is positively perceived by analysts, who use it as an input in their recommendations (Luo et al., 2015) and in their forecasting process. It improves their earnings forecast accuracy (Cormier & Magnan, 2014; Dhaliwal et al., 2012).

In a nutshell, good CSR information can help financial analysts do their job well and reduce errors in the future earnings forecast. If this is so, financial analysts would also like to confirm and assess the goodness of the reported information. A high number of analysts following a firm suggests a higher level of monitoring. If a firm fails to walk the CSR talk, financial analysts can play a vital role to catalyze this complex information (Hockerts & Moir, 2004), thereby determining the nature of the relationship between CSR and financial market reaction. This suggests that if a firm is followed by a sizable number of analysts, the disclosure-performance gap can be reduced because erroneous CSR-related information can result in incorrect forecasts. In light of all available evidence, it is reasonable to assume that financial analysts perform monitoring function as well as help the firm realize the economic benefits of ethical business conduct. Therefore, we hypothesize the following:

Hypothesis 1 (H1): Greater analyst coverage reduces the gap between CSR disclosure and CSR performance.

Hypothesis 2 (H2): The gap between CSR disclosure and CSR performance positively affects analysts' forecast error.

The CSR Gap and Financial Market Outcomes

The above discussion suggests that it pays to walk-the-talk, and it is relevant to study the accuracy of CSR reporting in relation to market response. In the presence of full and transparent information, the financial market functions well, and positive outcomes can be achieved. In this article, we focus on two financial market outcomes because of their importance: namely, cost of

capital and access to finance. While cost of capital plays a key role in financing and general operational decisions (Dhaliwal et al., 2011), access to capital plays a vital role in strategic investments (Stein, 2003) and affects subsequent stock market performance (Lamont et al., 2001). The presence of financial constraints means that there is a friction in the market that can prevent a firm from undertaking any profitable investment project. Cost of capital is the required rate of return of finance providers. There are many studies that examine the relationship between CSR reporting or performance and cost of capital (see, e.g., Botosan & Plumlee, 2002; Dhaliwal et al., 2011; Diamond & Verrecchia, 1991; El Ghouli et al., 2011) and between CSR and access to finance (see, for instance, Cheng et al., 2014; Flammer, 2013). There is a consensus that quality information is associated with low cost of capital and low financial constraints.

Accurate CSR information reduces forecast errors and information asymmetry by turning private information into public information and informing the uninformed stakeholders (Diamond & Verrecchia, 1991; Y. Kim et al., 2014). The increased availability of voluntary information offers a better understanding of the economic risk for investors and creditors and thus reduces the cost of capital and increases access to finance for the company (Mazumdar & Sengupta, 2005). Likewise, Diamond and Verrecchia (1991) noted that more information disclosure is linked to lower cost of capital as it decreases adverse selection and estimation risks (Botosan & Plumlee, 2005; Dhaliwal et al., 2011). Similarly, Flammer (2013) shows that CSR firms can get more investments from investors, and Cheng and colleagues (2014) confirm that high CSR performing firms can easily access finance in capital markets because of more extended and credible CSR disclosure. Thereon, it is reasonable to expect that reduced forecast errors and cost of capital and improved access to financing are significant in firms that promote transparent corporate reporting because they increase the precision of investors' expectations and reduce noise associated with stock performance information.

But if firms decouple CSR practices and disclosure, market efficiency is compromised. The market becomes dysfunctional due to increased information asymmetry. Investors become skeptical and price-protect themselves. They are less likely to trade, which results in market illiquidity. Based on this, we hypothesize the following:

Hypothesis 3 (H3): The gap between CSR disclosure and CSR performance significantly increases a firm's cost of capital.

Hypothesis 4 (H4): The gap between CSR disclosure and CSR performance significantly reduces a firm's access to finances.

To develop a better understanding about the relationship between CSR and financial market outcomes, this study focuses on the role of financial analysts as external monitors of a firm's CSR behavior and their forecast as an indication of their trust in a specific stock. These agents can become suspicious, can detect falsifications in a firm's information (Dyck et al., 2010; Yu, 2008), and try to correct the market. This means that analysts are a means to establish a link between CSR and cost of equity and access to finance (Jo & Harjoto, 2014). Existing research confirms that when high CSR performance firms issue CSR reports, analysts are more likely to follow those firms (Dhaliwal et al., 2011; Gao et al., 2016). Such firms are able to achieve lower forecast errors due to aligned information (Dhaliwal et al., 2012). On the other hand, the errors caused by noisy CSR information can worsen the problem of higher cost of capital and financial constraints for a firm that decouples CSR. Based on the above discussion, we expect that irresponsible firms with decoupled CSR face more difficulties in accessing financial resources and face higher cost of capital. This relationship is strengthened in the presence of analysts' forecast error. Based on the monitoring perspective, we therefore examine the contingent role of analysts' forecast error and hypothesize following relationships:

Hypothesis 5 (H5): Analysts' forecast error moderates the relationship between the CSR gap and cost of capital.

Hypothesis 6 (H6): Analysts' forecast error moderates the relationship between the CSR gap and access to finances.

Method

Data

The data for this study are the result of information available in four databases for the period of 2006 to 2015. The stepwise process is as follows: First, we collected economic and financial data from Compustat. Second, we matched financial data with CSR performance data from Kinder, Lydenberg, and Domini (hereinafter, KLD) STATS.³ The KLD database collects information on CSR performance for more than 3,000 companies across the United States. Third, we matched this data with the CSR disclosure from the Bloomberg database, which provides scores on ESG disclosure. Finally, we matched the data from Institutional Brokers Estimate System (IBES).⁴ After matching these data from four sources, we removed the firms with missing any of the required information. A final sample of 7,681 firm-year observations⁵ spanning 10 years (2006–2015) was available to test our hypotheses. The sample was unbalanced because not all companies were

represented in all years and in all databases. Companies that had filed for bankruptcy and merged were deleted to avoid changes in values and strategies.

Variables Measurement

CSR gap. Following Tashman and colleagues (2019), our aim is to examine the CSR gap between CSR disclosure and CSR performance. Hawn and Ioannou (2016) suggest a similar approach. They argue that it is possible to classify CSR performance as internal actions that are more oriented toward firms' practices. Similarly, they consider disclosure as external actions that are more oriented toward reporting CSR information to external information users. For the operationalization of CSR gap, we follow a similar approach and measure the CSR gap as an absolute difference between external and internal CSR actions. In line with the idea of Sauerwald and Su (2019) and Tashman and colleagues (2019), this is referred to as CSR decoupling. While greenwashing firms show a positive gap that indicates firms underperform but use tactics to fake, silent green firms have a negative gap that indicates firms perform better than they actually disclose (cf. Delmas & Burbano, 2011).

CSR performance was drawn from the KLD Stats database, considered one of the most reliable databases for CSR performance⁶ (Graves & Waddock, 1994). KLD evaluates a category of qualitative measures (community relations, diversity, employee relations, environmental performance, human rights, product quality, and governance) and rates each indicator with strengths and concerns. Each area has a set of strengths and concerns. The scale of strengths and concerns is 0, 1, and 2. The highest value for a strength and also for a concern is 2 in each dimension. The use of "strengths" and "concerns" regarding these dimensions of CSR performance determines whether a company is worthy of being judged socially responsible.

For calculating CSR performance as a global score and because of the lack of any generally accepted guide for weighting each item, we assign equal importance and weights to each item following prior studies (e.g., Waldman et al., 2006) and the process established by Waddock and Graves (1997). We sum the strengths and concerns along each of these dimensions for each company for constructing our proxy "KLDscore." Following El Ghoul and colleagues (2011), we then compute the sum of a firm's strengths minus the sum of its concerns. Thus, the scale of the single CSR performance score takes values between -2 to $+2$.

For CSR disclosure, we used the Bloomberg database. Bloomberg transforms the firm's CSR disclosure into one number: a disclosure score from 0.1 to 100. The ESG score is evaluated in terms of the data that are relevant to the

specific industry in which the firm operates. This makes the data more informative and value relevant to use and compare across various industries. The ESG score ranges from 0.1 to 100 based on 219 raw data points that Bloomberg collects, taking as the basis the Global Reporting Initiative (GRI) requirements about ESG disclosure; that is, ESG is a proxy about disclosure quality, taking as data sources sustainability reports, annual reports, press releases, and third-party research. The ESG score does not measure performance, but transparency. Investors, analysts, and other stakeholders can use this score for evaluating how well firms are committed to transparency and accountability about CSR issues.

Once we had the measure of the internal KLDscore and external ESG CSR actions, we normalized each one on a 0 to 1 scale to calculate the CSR gap and ensure that both components have the same measurement units (Tashman et al., 2019). After this, we obtained the CSR gap as the difference between current external to prior internal actions; that is, as the difference between the ESG and KLDscore. Hawn and Ioannou (2016) suggest that it takes at least a year's time for firms to translate the CSR performance into CSR disclosure.⁷ We used the same approach and calculated the absolute difference between external and internal actions. Higher values of our CSR gap measure imply that a company engages more in CSR decoupling (Tashman et al., 2019).

Analysts' forecast error and analysts' coverage. As a forecast property indicator, we measure "Forecast_Error_EPS"⁸ as the average of the absolute errors of all forecasts made in the current year for target earnings per share scaled by the stock price at the beginning of the current year (Dhaliwal et al., 2012). To test the monitoring role of analysts, we follow Simpson (2010), Dhaliwal and colleagues (2012), Cormier and Magnan (2014), and Adhikari (2016) to calculate analysts' coverage ("An_Coverage"), a measure of the natural logarithm of the number of analysts following the firm through a year. For both forecast error and analysts' coverage, we gather data from IBES.

Cost of capital. The dependent variable, cost of capital "COC," is an ex ante indicator of cost of equity (Francis et al., 2008). Following this recommendation and Francis and colleagues (2008), El Ghouli and colleagues (2011), among others, we use the PEG (price/earnings to growth) ratio as a measure of the cost of equity capital, COC. As previously detailed, it is based on the model proposed by Easton (2004) and operationalized by Ohlson and Juettner-Nauroth (2005) and is formulated as follows:

$$\text{COC} = \sqrt{\frac{\text{eps}_1}{P_0} \times g_2},$$

where P_0 is the current price per share, date $t = 0$; eps_1 is the expected earnings per share, date $t(t \geq 1)$; dps_1 is the expected dividend per share, date $t(t \geq 1)$; and $g_2 = \% \Delta eps_2 \rightarrow \% \Delta eps_2 = (eps_2 - eps_1) / eps_1$ under the assumption that the dividends per share (dps) are equal to 0 (any payout) as the Ohlson and Juettner-Nauroth model supports the idea that g_2 is not dependent on the dividend policy—specifically, $\widehat{\partial g_2} / \partial dps_1 = 0$.

As a robust measure of cost of capital, we use the firm’s after-tax weighted-average cost of capital, as used by Sharfman and Fernando (2008). This rate is named “WACC” and can be expressed as

$$WACC = \left(\frac{E}{D + E} \right) r_E + \left(\frac{D}{D + E} \right) r_D (1 - T),$$

where E is the market value of the firm’s equity; D is the market value of the firm’s debt; r_E is the firm’s cost of equity capital; r_D is the firm’s cost of debt capital; and T is the firm’s rate of corporate taxation. The cost of equity capital, “ r_E ” is estimated using the Capital Asset Pricing Model (CAPM) (Sharpe, 1964), which equates the cost of equity of a firm to the risk-free interest rate plus the firm’s beta times the market risk premium. The cost of debt, “ r_D ,” is the firm’s marginal cost of borrowing.

Access to finance. To measure the access to finance, we use “KZ index” (Kaplan & Zingales, 1997). We use their regression coefficients to construct the index in every year and for each firm as a result of a linear combination of five ratios: cash flow to total capital, market to book ratio, debt to total capital, dividends to total capital, and cash holding to total capital. We calculate the KZ index following Cheng and colleagues (2014), as follows:

$$KZindex = -1.002 \frac{CF_{it}}{A_{it-1}} - 39.638 \frac{DIV_{it}}{A_{it-1}} - 1.315 \frac{C_{it}}{A_{it-1}} + 3.139 LEV_{it} + 0.283 Q_{it},$$

where CF is cash flow, A is total assets, DIV is cash dividends, C is cash balances, LEV is leverage, and Q is the market value of equity. Note that higher values of the KZ index imply that the firm is more capital constrained. Alternatively, “SA index” based on Hadlock and Pierce (2010) was calculated using following equation:

$$SAindex = -(0.737 \times Size) + (0.043 \times Size^2) - (0.040 \times Age).$$

Control variables. We also included a set of variables in the analysis to account for possible alternative explanations and to avoid biased results. These control variables are included in our regression models in accordance with previous studies that examine CSR, forecast error, cost of capital, and access to finance. These controls include “Firm_Size,” measured as the natural logarithm of total assets. The literature suggests that availability of more resources to larger firms enables them to invest more in CSR; at the same time, these firms have favorable estimates and recommendations from the analysts (Dhaliwal et al., 2012; Simpson, 2010). “ROA” is measured as the return-on-assets ratio (Cormier & Magnan, 2014). Similarly, more profitable firms may rely less on CSR performance to create a better reputation in the financial markets and attract more attention from analysts (Adhikari, 2016). “Loss” is measured as an indicator variable that takes the value 1 if a firm reports negative earnings in the year and 0 otherwise. This measure is relevant to control as loss may reduce the probability a firm will invest more in CSR activities (Dhaliwal et al., 2012). “LTD_CE” is measured as the long-term debt divided by common equity (Dhaliwal et al., 2012; Simpson, 2010); “Change_Earnings,” measured as the absolute value of the change in earnings from the prior year, scaled by total assets; “Total_Accruals,” measured as the total accruals calculated using the Jones (1991) model (Simpson, 2010); “Market_cap,” measured as the market to book ratio (Simpson, 2010); “Industry_Conc,” measured through the Herfindahl index (Simpson, 2010); “Ownership_Conc,” measured as the ratio of institutionally held shares with voting rights to total shares outstanding, multiplied by 100 (Simpson, 2010); “Asset_in_place,” measured as the ratio of tangible fixed assets to total assets (Simpson, 2010); “R&D,” measured as the research and development expense divided by total net sales (Harjoto & Jo, 2015); “StdCFO,” measured as the standard deviation of cash flow from operations (Timbate & Park, 2018); “Sales,” measured as the natural logarithm of total sales; and “Growth_Sales,” measured as the difference between sales in t_1 and sales in t_2 , divided by sales in t_2 (Simpson, 2010). Finally, to control for variation across time and industry, we include year and industry dummies. “Industry” is a dummy variable that represents the different sectors of activity in which the companies of the sample operate. “Year” is a dummy variable that represents the years of the sample.

Results

Descriptive Results

Tables 2 and 3 report descriptive statistics and correlation matrix of all the study variables except the industry and year dummies. Regarding the main

Table 2. Descriptive Statistics and Correlation Matrixes: Mean and Standard Deviation of Variables Used in Regressions.

Variables	M	SD
CSR_gap	0.392	0.125
An_Coverage	9.000	6.986
Forecast_Error_EPS ^a	1.113	3.154
Forecast_Error_I	0.046	0.187
COC	0.025	0.109
WACC	0.027	0.070
KZ_index	0.017	0.485
SA_index	-5.164	1.770
Firm_Size	7.533	1.792
ROA	0.002	1.005
Loss	0.138	0.345
LTD_CE	0.790	26.105
Change_earnings	1.930	240.437
Total_accruals	-254.638	2,927.496
Market_cap	6,823.705	23,996.410
Industry_Conc	0.107	0.169
Ownership_Conc	5.881	2.202
Asset_in_place	0.827	0.201
R&D	4.853	255.996
Std.CFO	0.010	0.009
Sales	6.869	1.852
Growth_Sales	11.08	30.03

Note. CSR = corporate social responsibility; COC = cost of capital; WACC = firm's after-tax weighted-average cost of capital; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development; Std.CFO = standard deviation of cash flow from operations.

^a“Forecast_Error_EPS” and “Forecast_Error_I” are winsorized variables.

variables, CSR gap shows a mean value around 0.392, revealing a significant gap between CSR disclosure and CSR performance. Moreover, on average, around nine analysts are following a firm by year. Forecast error has a positive mean value of 1.113. The cost of equity capital and access to finance show mean values around 0.025 and 0.017, respectively. With respect to the control variables, for example, firm size is around 7.5 (expressed in millions of dollars), and firms operate around 10% of industry concentration measured by the Herfindhal index. Panel B reports the correlation matrix that shows low or moderate correlation among variables; in no case are high values obtained for the coefficients between the dependent and independent variables or among the independent variables.⁹

Table 3. Descriptive Statistics and Correlation Matrixes: Bivariate Correlations.

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
CSR_gap	1.000																			
An_Coverage	0.014	1.000																		
Forecast_error	-0.044	-0.067	1.000																	
COC	0.012	-0.050	0.293	1.000																
KZ_index	0.002	0.046	0.025	0.000	1.000															
Firm_Size	0.033	0.519	-0.060	-0.054	0.056	1.000														
ROA	-0.032	0.027	0.382	-0.070	0.012	0.095	1.000													
Loss	0.033	-0.113	-0.251	0.066	-0.009	-0.332	-0.120	1.000												
LTD_CE	-0.010	0.001	-0.004	-0.003	0.000	0.019	0.000	0.004	1.000											
Change_earnings	-0.010	-0.004	0.093	-0.002	-0.080	0.012	0.000	-0.003	0.000	1.000										
Total_accruals	-0.022	-0.130	0.002	0.004	-0.237	-0.186	-0.007	0.015	-0.002	-0.013	1.000									
Market_cap	0.007	0.438	0.044	-0.029	0.295	0.471	0.019	-0.095	0.000	0.009	-0.265	1.000								
Industry_Conc	-0.018	-0.156	0.018	0.021	-0.013	-0.163	-0.012	0.090	0.015	-0.002	0.024	-0.085	1.000							
Ownership_	-0.019	-0.087	0.013	0.075	-0.115	-0.164	0.012	-0.018	-0.018	0.008	0.109	-0.115	0.155	1.000						
Conc																				
Asset_in_place	0.018	-0.124	-0.368	0.034	-0.007	-0.036	0.005	0.138	-0.017	-0.001	0.009	-0.065	0.050	0.057	1.000					
R&D	0.006	-0.002	-0.018	0.008	-0.005	-0.016	-0.062	0.041	0.000	0.000	0.001	-0.005	0.000	-0.010	0.018	1.000				
Std.CFO	-0.085	0.222	0.157	-0.201	0.114	0.017	-0.029	0.220	-0.045	0.088	-0.023	0.155	0.006	-0.001	-0.035	0.137	1.000			
Sales	-0.041	0.368	0.003	0.018	0.456	-0.063	0.359	-0.246	-0.027	0.034	-0.766	0.657	0.083	-0.080	0.044	-0.051	-0.001	1.000		
Growth_Sales	-0.057	-0.036	0.120	-0.101	-0.018	0.367	0.019	-0.048	-0.071	0.294	0.046	0.002	-0.038	-0.001	-0.103	-0.010	0.152	-0.001	1.000	

Note. CSR = corporate social responsibility; COC = cost of capital; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development; Std.CFO = standard deviation of cash flow from operations.

Analysts' Coverage, CSR Gap, and Forecast Error

In what follows, we present the results of the generalized method of moments (GMM) regression models used to test our proposed relationships.¹⁰ We used Stata software to run regressions. For each explanatory variable of GMM regressions, we report the coefficient and the standard error associated with it. In addition, we provide the Arellano-Bond test for AR(2) in first differences and the Hansen test of overidentification restrictions.¹¹

Table 4 contains the empirical evidence obtained from Models 1 and 2. First, the results of Model 1 show that *An_Coverage* is negatively and significantly related to *CSR_gap* ($\delta_1 = -0.002, p = .000$). This confirms that greater analysts' coverage negatively affects the CSR gap. Although H1 is supported, the coefficient value is excessively low, which limits the statistical significance of the results. Analysts' coverage decreases the CSR gap but with limited effect.

Second, the results of Model 2 show that the CSR gap is positively related to *Forecast_error_EPS* ($\delta_1 = 0.037, p = .000$). As proposed in H2, a wider CSR gap increases analysts' forecast error. The possible reason for this positive relationship could be the noisy CSR information resulting from the CSR gap. Other interesting results concern the effect of analysts' coverage in Model 2. *An_Coverage* is negatively and significantly related to *Forecast_error_EPS* ($\delta_2 = -0.001, p = .000$). Generally, one can expect a positive relationship between more analysts following a firm and a greater forecast dispersion, but the monitoring perspective can justify our observed outcome—more monitoring may catalyze the information better and improve the information environment, resulting in lower forecast error. In other words, we support the contention that analysts are a stakeholder group able to ensure the trustworthiness of information, which results in lower forecast error.¹²

Third, Tables 5 and 6 present the results of the relationships between CSR gap and cost of capital and access to finance. Our results in Model 3 show that the CSR gap is positively and significantly related to cost of capital COC ($\delta_1 = 0.325, p = .000$) and WACC as a robust measure of cost of capital ($\delta_1 = 0.033, p = .000$). This means a larger misalignment of CSR disclosure and CSR performance results in higher cost of capital. Hence, H3 is supported. Similarly, Model 4 shows that the CSR gap is positively and significantly linked to the financial constraints *KZ_index* indicator ($\delta_1 = 0.161, p = .000$) and *SA_index* ($\delta_1 = 0.180, p = .000$). This means firms face more difficulties in accessing finance if their CSR disclosure is not aligned with CSR performance, thus supporting our H4. Furthermore, the results show greater analysts' coverage helps firms win investor confidence, resulting in lower cost of capital and greater access to finance.

Table 4. Analysts Coverage, CSR Gap, and Forecast Error.

Variables	Model 1 "CSR_gap"		Model 2 "Forecast_Error_EPS"		Model 2 "Forecast_Error_I"	
	Coef.	SE	Coef.	SE	Coef.	SE
Main variables						
CSR_gap			0.037***	0.003	0.763***	0.173
An_Coverage	-0.002***	0.000	-0.001***	0.000	-0.248***	0.005
Control variables						
Firm_size	-0.057***	0.001	-0.093***	0.001	-1.461***	0.076
ROA	0.016***	0.002	1.296***	0.002	-9.526***	0.164
Loss			0.098***	0.001	-4.708***	0.085
LTD_CE	0.001***	0.000	-0.004***	0.000	0.097***	0.004
Change_earnings			0.000***	0.000	0.119***	0.003
Total_accruals			0.000***	0.000	-0.001***	0.000
Market_cap	0.001***	0.000	0.000***	0.000	0.000***	0.000
Industry_Conc	-0.004***	0.001	-0.022***	0.000	0.717***	0.038
Ownership_Conc	-0.015	0.009	0.010***	0.002	1.659***	0.191
Asset_in_place	-0.123***	0.010	-0.348***	0.003	6.876***	0.220
R&D	-0.003***	0.000	0.057***	0.001	1.215***	0.079
Std.CFO	0.001***	0.000				
Sales	0.001***	0.000				
Growth_Sales	0.000	0.000				
Controlled by year and industry						
AR(2) Arellano-Bond test		Pr > z = 0.290		Pr > z = 0.230		Pr > z = 0.256
Hansen test		Prob > χ^2 = 1.000		Prob > χ^2 = 1.000		Prob > χ^2 = 1.000

Note. Sample: 7,681 observations in 2006–2015. CSR = corporate social responsibility. CSR = corporate social responsibility; COC = cost of capital; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development; Std.CFO = standard deviation of cash flow from operations. *, **, and *** represent statistical significance at 90%, 95%, and 99%, respectively.

Table 5. The Impact of CSR Gap on Cost of Capital and Access to Finance: Cost of Capital.

Variables	Model 3 “COC”		Model 3 “WACC”	
	Coef.	SE	Coef.	SE
Main variables				
CSR_gap	0.325***	0.024	0.033***	0.002
An_Coverage	-0.002***	0.000	-0.001***	0.000
Control variables				
Firm_size	0.271***	0.013	0.027***	0.001
ROA	0.040***	0.011	0.004***	0.001
Loss	0.029***	0.005	0.003***	0.001
LTD_CE	0.002***	0.000	0.000***	0.000
Change_earnings	-0.001***	0.000	0.000***	0.000
Total_accruals	0.000***	0.000	0.000***	0.000
Market_cap	0.000***	0.000	0.000***	0.000
Industry_Conc	-0.003	0.004	0.000	0.000
Ownership_Conc	0.099***	0.025	0.010***	0.003
Asset_in_place	-0.583***	0.051	-0.058***	0.005
R&D	-0.013	0.013	-0.001	0.001
Controlled by year and industry				
AR(2) Arellano-Bond test	Pr > z = 0.918		Pr > z = 0.987	
Hansen test	Prob > χ^2 = 1.000		Prob > χ^2 = 1.000	

Note. CSR = corporate social responsibility; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development.

*, **, and *** represent statistical significance at 90%, 95%, and 99%, respectively.

Above findings clearly suggest that financial analysts are important market participants who bridge the firm with investors through their information processing services.

The Moderating Effect of Analysts’ Forecast Error

In Table 7, we examine the moderating role of analysts’ forecast errors on the relationship between CSR gap and cost of capital (Model 5) and between CSR gap and access to finance (Model 6).

Here again, we observe the positive impact of CSR_gap on COC ($\delta_1 = 0.325$, $p = .000$) and KZ_index ($\delta_1 = 0.292$, $p = .000$). A wider disclosure-performance gap results in greater cost of capital and poor access to finance. Regarding the impact of forecast error, this indicator also shows a positive impact on COC ($\delta_2 = 0.324$, $p = .000$) and KZ_index ($\delta_2 = 0.093$, $p = .000$).

Table 6. The Impact of CSR Gap on Cost of Capital and Access to Finance: Access to Finance.

Variables	Model 4 “KZ_index”		Model 4 “SA_index”	
	Coef.	SE	Coef.	SE
Main variables				
CSR_gap	0.161***	0.006	0.180***	0.006
An_Coverage	-0.008***	0.000	-0.009***	0.000
Control variables				
Firm_size	-0.149***	0.002	-0.148***	0.002
ROA	-0.095**	0.003	-0.096***	0.003
Loss	0.028***	0.001	0.027***	0.001
LTD_CE	0.000	0.000	0.000	0.000
Change_earnings	-0.001***	0.000	-0.001***	0.000
Total_accruals	0.000***	0.000	0.000***	0.000
Market_cap	0.000***	0.000	0.000***	0.000
Industry_Conc	-0.007***	0.000	-0.007***	0.000
Ownership_Conc	0.040***	0.005	0.039***	0.005
Asset_in_place	0.057***	0.006	0.056***	0.007
R&D	0.069***	0.003	0.075***	0.003
Controlled by year and industry				
AR(2) Arellano-Bond test	Pr > z = 0.636		Pr > z = 0.535	
Hansen test	Prob > χ^2 = 1.000		Prob > χ^2 = 1.000	

Note. CSR = corporate social responsibility; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development.

*, **, and *** represent statistical significance at 90%, 95%, and 99%, respectively.

Thus, an increase of forecast errors decreases the accuracy of information, which can lead to a poor understanding about risk and return for investors and creditors. This translates into higher cost of capital and lower access to finance.

The interaction between CSR gap and forecast error, CSR_gap*Forecast_error_EPS, shows a significant moderating effect on both the original relationships: CSR gap-COC and CSR gap-access to finance. This indicator clearly shows a positive and significant effect on COC ($\delta_3 = 0.984$, $p = .000$) and KZ_index ($\delta_3 = 0.445$, $p = .000$). Operating with coefficients, we support the argument that the greater cost of capital as a result of CSR gap is higher when forecast error is greater ($\delta_1 = 0.325 + \delta_3 = 0.984 = 1.309$) than when forecast error is not considered ($\delta_1 = 0.325$). Similarly, the greater cost of access to finance as a result of CSR gap is higher when forecast error is greater ($\delta_1 = 0.292 + \delta_3 = 0.445 = 0.737$) than when forecast error is not

Table 7. The Moderating Role of Forecast Error.

Variables	Panel A. Cost of capital			Panel B. Access to finance		
	Model 5 "COC"			Model 6 "KZ_index"		
	Coef.	SE	Elasticities $\partial(y)/\partial(\ln x)$	Coef.	SE	Elasticities $\partial(y)/\partial(\ln x)$
Main variables						
CSR_gap	0.325***	0.011	0.083	0.292***	0.004	0.111
Forecast_Error_EPS	0.324***	0.007	0.083	0.093***	0.003	0.002
CSR_gap* Forecast_Error_EPS	0.984***	0.020	0.252	0.445***	0.009	0.003
An_Coverage	-0.014***	0.000	-0.004	-0.018***	0.000	-0.210
Control variables						
Firm_size	0.445***	0.007	0.114	-0.351***	0.002	-2.917
ROA	0.023**	0.010	0.006	0.022***	0.001	0.001
Loss	0.017***	0.002	0.004	0.009***	0.000	0.000
LTD_CE	-0.003***	0.000	-0.001	-0.001***	0.000	-0.001
Change_earnings	-0.004***	0.000	-0.001	0.002***	0.000	0.000
Total_accruals	0.000***	0.000	0.000	0.000***	0.000	0.026
Market_cap	0.000***	0.000	0.000	0.000***	0.000	0.022
Industry_Conc	0.005***	0.001	0.001	-0.008***	0.000	-0.039
Ownership_Conc	0.091***	0.010	0.023	0.036***	0.003	0.002
Asset_in_place	-0.464***	0.018	-0.119	-0.082***	0.004	-0.062
R&D	0.031***	0.005	0.008	-0.143***	0.002	-0.007
Controlled by year and industry						
AR(2) Arellano-Bond test	Pr > z = 0.421			Pr > z = 0.339		
Hansen test	Prob > χ^2 = 1.000			Prob > χ^2 = 1.000		

Note. COC = cost of capital; CSR = corporate social responsibility; ROA = return-on-assets; LTD_CE = long-term debt divided by common equity; R&D = research and development.
 *, **, and *** represent statistical significance at 90%, 95% and 99%, respectively.

considered ($\delta_1 = 0.292$). Moreover, to ensure the economic significance of our results, we examine the elasticity values of each indicator and the following can be inferred. First, we observe an increase of around 8.3% in cost of capital and around 11.1% in capital constraints with an increase of one standard deviation in the CSR gap. Second, we also observe an increase of around 8.3% and 2% on cost of capital and capital constraints, respectively, when forecast error increases by one standard deviation. Third, the economic effect of CSR gap on cost of capital and capital constraints is incremented by 25.2% and 0.3% when forecast error increases by one standard deviation.

From the above, we clearly support our proposed H5 and H6 about the moderating role of forecast errors on the impact of CSR gap on both cost of capital and access to finance.¹³ Overall, the main evidence of this research is that errors in the forecasts of financial analysts caused by the CSR gap enlarge the positive effect of CSR gap on capital cost and financial constraints.

Robustness Checks

As a robustness check, we retrieve the gap data from Thomson Reuters ASSET4 and construct the original gap measure used by Hawn and Ioannou (2016).¹⁴ The results of the robustness analysis are summarized in Table 8. Models 1 to 6 are re-estimated for the new explanatory variable “E_I_gap.” The results are qualitatively the same as those in Tables 4 to 7. In Panel A, Model 1 shows that An_Coverage is negatively and significantly related to E_I_gap ($\delta_1 = -0.001, p = .000$). We again document that greater analysts’ coverage negatively affects the CSR gap. Moreover, Model 2 shows that the CSR gap is positively related to Forecast_error_EPS ($\delta_1 = 1.744, p = .000$) and to Forecast_Error_1 as a robust measure ($\delta_1 = 1.504, p = .000$); thus, this gap positively affects analysts’ forecast error.

Panels B and C, for alternative cost of capital and access to finance measures, report that CSR gap positively affects cost of capital and capital constraints, respectively. More specifically, results in Model 3 again confirm that CSR gap is positively and significantly related to cost of capital COC ($\delta_1 = 4.995, p = .000$) and WACC as a robust measure of cost of capital ($\delta_1 = 0.500, p = .000$). In addition, results in Model 4 show that CSR gap is positively and significantly linked to the financial constraints KZ_index indicator ($\delta_1 = 2.482, p = .000$) and SA_index ($\delta_1 = 7.756, p < .05$).

Finally, Panel D shows evidence of the moderating effect of forecast error on the impact of CSR gap on financial market outcomes. With respect to Model 5, results again show the positive impact of E_I_gap on COC ($\delta_1 = 6.104, p = .000$) and a positive and significant effect of the interaction

Table 8. Robustness Checks.

Panel A. The impact of analysts' coverage on CSR gap and their impacts on analysts forecast error						
Variables	Model 1 "E_I_gap"		Model 2 "Forecast_Error_EPS"		Model 2 "Forecast_Error_I"	
	Coef.	SE	Coef.	SE	Coef.	SE
Main variables						
E_I_gap			1.744***	0.629	1.504***	0.500
An_Coverage	-0.001***	0.000	-0.689***	0.106	-0.638***	0.102
Control variables						
Included						
Controlled by year and industry						
AR(2) Arellano-Bond test	Pr > z = 0.636		Pr > z = 0.913		Pr > z = 0.823	
Hansen test	Prob > χ^2 = 1.000		Prob > χ^2 = 1.000		Prob > χ^2 = 1.000	
Panel B. Cost of capital						
Variables	Model 3 "COC"		Model 3 "WACC"			
	Coef.	SE	Coef.	SE	Coef.	SE
Main variables						
E_I_gap		0.273	0.500***	0.027		
An_Coverage	-0.010***	0.001	-0.001***	0.000		
Control Variables						
Included						
Controlled by year and industry						
AR(2) Arellano-Bond test	Pr > z = 0.718		Pr > z = 0.620		Pr > z = 1.000	
Hansen test	Prob > χ^2 = 1.000		Prob > χ^2 = 1.000			

(continued)

Table 8. (continued)

Panel C. Access to finance		Model 4 "KZ_index"		Model 4 "SA_index"	
Variables	Coef.	SE	Coef.	SE	
Main variables					
E_J_gap	2.482***	0.719	7.756**	1.561	
An_Coverage	-0.097***	0.002	-0.251***	0.005	
Control Variables		Included			Included
Controlled by year and industry					
AR(2) Arellano-Bond test		Pr > z = 0.379			Pr > z = 0.359
Hansen test		Prob > χ^2 = 1.000			Prob > χ^2 = 1.000
Panel D. Cost of capital					
Model 5 "COC"					
Variables	Coef.	SE	Elasticities $\partial(y)/\partial(\ln x)$	SE	Elasticities $\partial(y)/\partial(\ln x)$
Main variables					
E_J_gap	6.104***	0.206	0.003	0.072	0.001
Forecast_Error_EPS	0.000***	0.000	0.002	0.000	0.000
E_J_gap* Forecast_Error_EPS	4.443***	0.466	0.003	0.153	0.001
An_Coverage	-0.013***	0.000	-0.019	0.000	-0.135
Control variables	Included			Included	
Controlled by year and industry					
AR(2) Arellano-Bond test		Pr > z = 0.125			Pr > z = 0.184
Hansen test		Prob > χ^2 = 1.000			Prob > χ^2 = 1.000

Note. Sample of robustness checks: 7,681 observations in 2006–2015. Due to space limitations, we included the main results of robustness check only. Full-length tables are available upon request from authors.
 *, **, and *** represent statistical significance at 90%, 95%, and 99%, respectively.

between this gap and forecast error $E_I_gap * Forecast_error_EPS$ on COC ($\delta_3 = 4.443, p = .000$). While operating with coefficients, we note that a higher forecast error strengthens the existing positive relationship between the CSR gap and cost of capital ($\delta_1 = 6.104 + \delta_3 = 4.443 = 10.547$) than when the forecast error is not taken into consideration ($\delta_1 = 6.104$). The results of Model 6 also support the positive impact of E_I_gap on KZ_index ($\delta_1 = 4.040, p = .000$) and a positive and significant effect of the interaction $E_I_gap * Forecast_error_EPS$ on KZ_index ($\delta_3 = 1.645, p = .000$). Operating with coefficients, we support the idea that the greater cost of access to finance as a result of CSR gap is higher when the forecast error is moderating the relationship ($\delta_1 = 4.040 + \delta_3 = 1.645 = 5.505$) than when the forecast error is not considered ($\delta_1 = 4.040$). Overall, these results suggest that the cost of capital is increased and access to capital resources is constrained even more in the presence of analysts' forecast error for firms who create a CSR gap.

Examining the economic significance of our robust results by employing E_I_gap as an alternative proxy, we examine the elasticity values of each indicator and find the following. First, we observe an increase of around 0.3% in cost of capital and around 0.1% in capital constraints with a one standard deviation increase in the CSR gap. Second, the economic effect of E_I_gap on cost of capital and capital constraints is incremented by 0.3% and 0.1% when forecast error increases by one standard deviation.

Discussion of Results

This article examines three closely related issues: First, it explores the role of financial analysts in discouraging corporate practices of decoupling CSR disclosure from CSR performance. Second, the article explores the effect of CSR gap on financial market-related outcomes. Third, it examines the moderating effect of forecast error on previous relationships between the CSR gap and cost of capital and access to finance. The results show that analysts can play a crucial role in reducing the gap between disclosure and performance and that if firms create a CSR gap, it destroys their value and depreciates stakeholder confidence. A CSR gap therefore results in higher analysts' forecast error, higher cost of capital, and grueling access to finances. The article also provides evidence about the moderating role of forecast errors. Errors in the forecasts of financial analysts caused by noisy information strengthen the effect of the CSR gap on cost of capital and on access to finance.

Our results strengthen the idea that firms' CSR engagement could be associated with decoupling strategies. This creates a gap between a firm's

external and internal actions; in other words, a gap between CSR performance and CSR disclosure (Cho et al., 2015; Hawn & Ioannou, 2016; Tashman et al., 2019). It is important to note that firms' responses to stakeholder pressures are not always the same. Based on our results, we can say that the information asymmetry created by managers to pursue their personal interests motivates them to fake CSR actions. On the other hand, firms may tend to understate their CSR activities in their sustainability reports in the face of uncertainty and competing expectation. The first type of firms can be referred to as greenwashing firms while the later type resembles with silent green firms (Delmas & Burbano, 2011). In either case, we show that CSR can become value-destroying for the firm.

In line with the disclosure theory, we support the idea that withholding or manipulating CSR information carries no benefit and results in poor market-related outcomes. Our results are in congruence with those reported by Branco and Rodrigues (2008), Dhaliwal and colleagues (2011), El Ghouli and colleagues (2011), and Cheng and colleagues (2014), among others. Similar to reporting FP, firms need to inform stakeholders about the level of CSR performance in their reports and through other means. Less transparent CSR disclosure can create information noise in the financial markets (Orlitzky, 2013) and increasing cost of capital.

It is then relevant and important that financial analysts play their role and that their forecast accuracy should assure the accuracy of CSR information. Our results highlight the fact that analysts are important market-level monitors who induce true CSR commitment and reduce the risk of CSR decoupling, thereby protecting the interests of present and future investors. These results provide further support for the previous evidence of Dhaliwal and colleagues (2012) regarding the role of analysts in the financial markets as information catalysts who play a pivotal role for firms to gain access to financial resources. However, CSR decoupling can negatively affect analysts' confidence in a firm and thus impede firms' easy and cheaper access to finance (Cheng et al., 2014). The deceitful practices can also endanger the firm's relationship with its stakeholders and therefore can reduce their chances of survival in the financial markets and society.

More specifically, forecast error widens the gap between a firm and financial resources. As important evidence, analysts' forecast error plays a powerful role in explaining the effect of the CSR gap on cost of capital and access to finance. On the basis of these results, we contribute to the value relevance debate of CSR information. We show that, on one hand, CSR information is value relevant for financial analysts and, on the other hand, forecasts provided by financial analysts can help materialize the link between a firm's CSR practices and financial market outcomes.

Concluding Remarks

While earlier studies largely agree that it pays to be green, there is a need to look at the contingent factors as well as the consequences of a firm's alignment of its CSR disclosure and performance. We reveal that it pays to walk the talk by aligning CSR external and internal actions. We argue that financial analysts play a key role, and the accuracy of financial analysts' forecasts and the accuracy of firms' CSR information are linked. Therefore, we contribute to the existing literature by testing relationships among financial analysts, CSR decoupling, and financial market outcomes. By confirming the monitoring role of analysts, we address the existing fragmentation concerning analysts' coverage and CSR relationship. Qian and colleagues (2019) suggested that in the absence of analysts' coverage, firms may adopt aggressive disclosure strategies that can result in extensive CSR-related disclosure. They suggest to explore this phenomenon. Our article responds to this call and provides empirical evidence. Our study also complements and extends the work of Hawn and Ioannou (2016) by establishing that the CSR gap is value-destroying and results in higher analysts' forecast error, cost of capital, and financial constraints. We further extend the work of Sauerwald and Su (2019) by creating a link between external monitoring and CSR decoupling. We show that higher financial analyst coverage can reduce the gap between external and internal strategic CSR actions.

Based on the legitimacy and stakeholder perspective, we suggest that CSR performance and CSR disclosure, if aligned, can achieve higher legitimacy and satisfy the demands of internal as well as external stakeholders, including investors and financial markets. We argue that markets punish firms when they prefer any action over the other. For instance, if they overstate their performance in CSR reports, they are referred as greenwashing firms, but if they understate their performance, they lose credibility in the markets. The external stakeholders and market participants are unable to acknowledge the full value of their sustainability initiatives and practices; the information is no more transparent.

This article also offers practical implications. The main implication concerns the conclusion that should be drawn by shareholders and other stakeholders that firms may decouple CSR activities for many different reasons. We therefore caution them that the information asymmetry may result in CSR faking while conflicting stakeholder expectations may result in muddling or silent greening practices. The existence of a CSR gap may reduce the quality of their investment decisions. Under such circumstances, the results provide a useful indication that the CSR reports of better-monitored firms, that is, followed by more financial analysts, may provide better input for investment decisions.

The results of this study should be interpreted carefully as this research is subject to certain limitations. The main limitation is that the sample is restricted to U.S. firms. Although results could be generalizable to developed countries, it is also necessary to determine the relationships analyzed in an international context. Moreover, future research could examine the impact of a CSR gap on additional outcomes (for instance, a more precise measure of shareholder perceptions about the informational value of CSR reporting). Future studies may also consider the time lag that may exist between the implementation of an internal CSR policy and its result in the form of performance.

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Notes

1. In this article, we use “CSR decoupling” and “CSR gap” synonymously.
2. However, the European Union’s Directive 2014/95/EU of 22 October 2014 requires European firms to report on a range of CSR-related issues (European Commission, 2014).
3. KLD Stats is an annual data set of positive and negative environmental, social, and governance (ESG) performance indicators applied to a universe of publicly traded companies.
4. IBES Estimates provide estimate data at the sector level using rigorous quality control methods. IBES covers 22,000 firms globally located in 90 countries. The data provided by IBES are available in more than 260 measures, including EPS, recommendations, and industry-specific KPIs such as oil production per day.

5. The loss of observations corresponds to the fusion of information available in four databases: Compustat, KLD Stats, Bloomberg, and IBES.
6. KLD compiles its data from a wide number of sources (e.g., government and nongovernmental organizations, global media publications, firm annual reports and disclosures, or regulatory filings, among others). KLD scaling process constitutes a unique source of information on a wide range of social, environmental, and governance attributes (Graves & Waddock, 1994).
7. Sensitive analysis was proposed by examining disclosure and performance in the same year; nonsignificant differences were obtained when compared with the evidence here reported. Similarly, additional results also do not confirm the existence of different results in terms of negative or positive values of CSRgap. The market reacts similarly to decoupling CSR, either for a greater disclosure than performance or vice versa.
8. To account for outliers, we winsorize Forecast_Error_EPS and Forecast_Error_1 (robustness check measure) at the 0.5% tails. The results are robust for both variables with or without winsorizing.
9. We have analyzed the bivariate correlations between CSR performance and CSR gap, which are not high or significant. Concretely, the coefficient of the bivariate correlation between both variables is 0.1128, which confirms the absence of multicollinearity between both measures.
10. In addition, we run a battery of sensitivity tests to examine whether our main evidence is robust to alternative measures; for forecast error, "Forecast_error_2"; for cost of capital, the WACC rate; and for access to finance or capital constraints, the SA_index. Results are robust for those alternative measures.
11. The former is a test of second-order serial correlation in the first-differenced residuals, asymptotically distributed as $N(0, 1)$ under the null hypothesis that there is no serial correlation of the error terms; the second is a test of the validity of the overidentifying restrictions for the GMM estimator, asymptotically distributed as chi-square, under the null hypothesis that the overidentifying restrictions are valid.
12. Results of Models 2, 5, and 6 are robust for Forecast_Error_1 as forecast error indicator.
13. Despite the limited significance of analysts' coverage in previous models, by examining elasticities, we observe that increasing analysts' coverage by one standard deviation decreases cost of capital and capital constraints by approximately 0.4% and 21%, respectively.
14. Hawn and Ioannou (2016) constructed the gap measure as the absolute gap between the score of 24 external and 21 internal actions. Their measure is based on data from Thomson Reuters' ASSET4. This database provides a wide range of information about a firm's engagement in CSR. The authors selected 120 data points (out of a possible maximum of 900 per company), which are considered to be a "Strategic Framework" and represent the entirety of the focal firm's internal and external CSR orientation. After applying decision criteria and the Cronbach Alpha test, 24 external and 21 internal performance data points were selected for construction of the gap measure.

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