

Corporate Social Responsibility and Lawsuit Risk and Settlement

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Introduction

Accounting scholars' interest in corporate social responsibility (CSR) has grown significantly in recent years. In fact, CSR has grown to be a significant field of study (Malik, 2015). Carroll (1979) defined CSR as societal obligations that encompass moral, legal, and ethical standards. The stakeholder view is an essential concept of CSR that holds that businesses have a duty to meet the needs and interests of all parties involved, including customers, suppliers, employees, investors, local communities, and government agencies (Freeman, 1984; Jones, 1995; Roberts and Mahoney, 2004). Under this view, when businesses treat their stakeholders well, those stakeholders will return the favor by supporting those businesses more. Research has shown over and over again that companies that practice CSR achieve a number of advantages and positive results, including increased market value (Malik, 2015) and reduced cost of capital (Dhaliwal, Li, Tsang, and Yang, 2014). Kim, Park, and Wier (2012) contend, in line with the stakeholder perspective, that CSR companies uphold the highest moral standards and participate in morally recognizable corporate conduct. Collectively, CSR firms treat stakeholders well and do the right things. A large amount of research has looked at the effects and consequences of social responsibility and has shown that taking part in CSR initiatives may have positive effects.

Despite the surge of attention on the impact of being socially responsible, there is little empirical evidence on how CSR influences a firm's legal outcomes (i.e., the probability of lawsuits) and the magnitude of lawsuit outcomes (i.e., settlement gain or loss). Common types of corporate lawsuits encompass intellectual property disputes, breach of contract cases, conflicts with employees, partnership disputes, and product-related issues. Our study directs its focus towards settlement outcomes for two primary reasons: firstly, over 98% of lawsuits culminate in settlements,¹ and secondly, special items exclusively report settlement outcomes. It is intuitively plausible that CSR-compliant firms are less prone to involvement in lawsuits and are more inclined to secure favorable settlement outcomes, characterized by either larger gains or smaller losses, owing to their reputation as reputable entities maintaining positive relationships with stakeholders. Furthermore, anecdotal evidence suggests that reputable companies, particularly those embracing CSR principles, are less susceptible to litigation. However, empirical evidence supporting these assertions is scarce. This dearth of empirical evidence regarding the legal consequences of adopting socially responsible practices motivates us to conduct our study.

The purpose of this study is to examine the impact of CSR on corporate lawsuit characteristics (i.e., the probability of lawsuit and the magnitude of lawsuit settlement). To perform the empirical analysis, we rely on the account of lawsuit settlement (SETP, Compustat Item #372) in the special items, which is nonrecurring in nature and is reported as a component of other income within income from continuing operations on an income statement. A company can either report a settlement gain (i.e., usually the plaintiff in a lawsuit) or a loss (i.e., usually the defendant in a lawsuit). Drawing on the stakeholder view and building on prior research and anecdotal evidence, we posit that CSR firms are less likely to be involved in lawsuits and more likely to receive favorable settlement outcomes (if they are involved).

Using a large panel sample with 21,761 observations from 1994 to 2019 with a large percentage being manufacturing firms, we find a significant negative relation between CSR performance and the probability of lawsuit, which suggests that socially responsible firms are less likely to be involved in lawsuits. We also find that the significant negative relation becomes weaker for firms with more cash, consistent with the anecdotal evidence that firms with more money are likely to be sued. Next, using a panel sample with 4,307 observations reporting settlement gain or loss from 1994 to 2019, we find a significant

¹ <https://www.andrewmayers.com/blog/why-should-i-settle-my-lawsuit-.cfm#:~:text=Depending%20on%20the%20source%20of,the%20need%20for%20a%20trial>

positive relation between CSR and the magnitude of settlement, which suggests that socially responsible firms are more likely to receive favorable outcomes (i.e., larger settlement gain or smaller settlement loss). Additionally, we find that the significant relation between CSR and the settlement amount is largely driven by firms with settlement loss (i.e., firms being sued). Overall, empirical evidence strongly supports the hypotheses.

To ensure the robustness of the primary findings and curtail concerns about endogeneity issues, we perform a battery of additional tests such as using alternative CSR measures and alternative sample periods, performing a changes analysis, using lagged CSR measures, and performing a two-stage OLS regression analysis (2SLS). We still obtain similar results, supporting the hypotheses. In addition, we examine the impact of individual CSR components on lawsuit characteristics and find that several components including governance, environment, diversity and product play an important role in this study.

This study makes several important contributions. First, it contributes to the CSR literature on the impact and consequences of being socially responsible and the financial accounting literature on the special items. This study provides empirical evidence not only that supports the stakeholder view of CSR but also is consistent with anecdotal evidence and general expectations. To the best of our knowledge, this is perhaps the first empirical study that directly links CSR to legal outcomes from the accounting perspective (i.e., using a component in the special items). Second, the research on special items is limited, according to Johnson, Lopez, and Sanchez (2011), who also call for more studies to look at related topics. By using the component (lawsuit outcome) of the special items, this study may draw more attention to special items. For example, companies have an incentive to employ special items in the context of managing earnings, according to McVay (2006). Therefore, this study may raise questions such as “do companies strategically settle lawsuits for earnings management?” Collectively, our study not only answers the call in Johnson et al. (2011) but also raises new research questions about special items. Third, this study also holds practical implications. For instance, investors might contemplate investing in CSR-oriented firms as these companies are deemed relatively secure, given their commitment to ethical conduct and transparency. Moreover, managers may find it advantageous to increase their involvement in CSR initiatives to garner greater societal benefits and favorable outcomes. Particularly for risk-averse managers, engaging in CSR activities could serve as an effective means to mitigate legal risks.

The remainder of this paper is organized as follows. Section 2 outlines prior research on CSR and formulates hypotheses. Section 3 delves into the research design, encompassing sample selection, descriptive statistics, empirical specifications, and correlations. Section 4 and Section 5 report primary results and additional test results, respectively. Section 6 concludes this study.

Literature Review and Hypotheses Development

Corporate Social Responsibility

CSR has been defined in a number of ways. We use Carroll's (1979) definition of CSR, “social responsibility of business that encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”, which is in agreement with Kim, Li, and Li (2014). There are two main groups into which the literature on CSR may be divided. The first category looks at how CSR initiatives affect the performance and outcomes of companies. The second category looks into variables that may affect a company's performance and CSR initiatives.

In the first category, a large body of studies examines the association between CSR performance and firm financial performance. Although some early studies (e.g., Ullman, 1985; Aupperle, Carroll, and Hartfield, 1985; Wood and Jones, 1995) do not find a significant association, many other studies document a significant positive association between social performance and financial performance of a firm. Research has indicated that companies exhibiting robust social performance are also likely to exhibit robust financial performance (e.g., McGuire, Sundgren, and Schnessweis, 1988; Smith, 1994; Porter and Van der Linde, 1995; Waddock and Graves, 1997; Berman, Wicks, Kotha, and Jones, 1999; Margolis and Walsh, 2003; Smith, 2003; Orlitzky, Schmidt, and Rynes, 2003; Carmeli, Gilat, and Waldman, 2007; Beurden and Gossling, 2008; Brammer and Millington, 2008). According to Beurden and Gossling (2008), many scholars accept the notion that socially responsible firms demonstrate strong operating performance. Nevertheless, other studies (e.g., Branco and Rodrigues, 2006) also highlight the uncertainty surrounding the link between financial and social performance, and whether financial performance drives social performance. Furthermore, Branco and Rodrigues (2006) contend that the reputation effect of CSR is primarily responsible for the positive impact of CSR on financial performance, and that the

ability of financially sound companies to allocate more resources to CSR activities is a major contributing factor to the positive impact of financial performance on CSR.

Numerous studies explore the influence of CSR on various aspects and outcomes within firms. For instance, research suggests that CSR can boost a company's value (Malik, 2015; Jo and Harjoto, 2011; Deng, Kang, and Low, 2013), affect executive compensation structures (Mahoney and Thorne, 2006), improve bond credit ratings (Jiraporn, Jiraporn, Boeprasert, and Chang, 2014; Attig, Ghouli, Guedhami, and Suh, 2013), increase both the quantity and value of cash reserves (Cheung, 2016; Arouri and Pijourlet, 2017), enhance earnings quality (Kim et al., 2012), reduce information asymmetry (Cho, Lee, and Pfeiffer, 2013), mitigate tax evasion (Lanis and Richardson, 2015; Hoi, Wu, and Zhang, 2013), decrease firm risks (Godfrey, Merrill, and Hansen, 2009), lower the cost of capital (Dhaliwal et al., 2014; Dhaliwal, Li, Tsang, and Yang, 2011), improve the accuracy of analyst forecasts (Dhaliwal, Radhakrishnan, Tsang, and Yang, 2012), influence seasoned equity offerings (Dutordoir, Strong, and Sun, 2018), reduce the costs of debt financing (Ye and Zhang, 2011), and decrease the likelihood of stock market crashes (Kim et al., 2014). Similar to our study, Barnett, Hartmann, and Salomon (2018) find that firms with greater CSR are less likely to be sued.

In the second category, prior research attempts to uncover factors that can influence a firm's CSR activities and performance. For example, Ioannou and Serafeim (2012) and Liang and Renneboog (2017) suggest that a nation's political system and legal origin can influence a company's CSR performance. Roush, Mahoney, and Thorne (2012) find that a firm's CSR efforts may be influenced by its size and public pressure. Studies by Godos-Diez, Fernandez-Gago, and Martinez-Campillo (2011), Attig and Cleary (2015), and Chatjuthamard, Jiraporn, Tong, and Singh (2016) indicate that management qualities and specific manager personal traits play a crucial role in a company's CSR initiatives. Chen, Zhou, and Zhu (2019) discover that CEO tenure affects the extent of CSR activities they engage in. According to McCarthy, Oliver, and Song (2017), CEOs who are more self-assured participate in fewer CSR initiatives. Bouslah, Linares-Zegarra, M'Zali, and Scholtens (2018) suggest that CEOs who take risks are more inclined to engage in irresponsible CSR initiatives. Sun and Gunia (2018) find that a company's CSR actions are significantly influenced by the availability of resources. Companies are more likely to reduce irresponsible CSR actions and enhance overall CSR performance when they have sufficient financial resources. According to Chiang, Shang, and Sun (2017), companies with a plus or minus specification in their bond ratings tend to undertake fewer irresponsible CSR initiatives. Jo and Harjoto (2012) find that CSR performance is positively influenced by good corporate governance. Additionally, Jizi, Salama, Dixon, and Strating (2014) discover that higher levels of CSR disclosure can be attributed to strong corporate governance. According to Wu, Lin, and Liu (2016), businesses are more likely to improve their CSR performance if they are located in counties with higher rates of older citizens or higher rates of religious adherents. Sun, Walkup, and Wu (2019) document that companies with a large backlog of sales orders engage in fewer responsible CSR initiatives.

Moser and Martin (2012), concentrating on CSR research in the accounting field, discover that early research embraces the traditional shareholder perspective of CSR, which contends that businesses ought to participate in CSR initiatives only when doing so can optimize shareholder value (e.g., Friedman, 1970; Shank, Manullang, and Hill, 2005; Karnani, 2010; Dhaliwal et al., 2011). Moser and Martin (2012) continue on to argue that it is critical that accounting scholars embrace the stakeholder view of CSR, which contends that a company's profitability and performance in the modern world are heavily impacted by its stakeholders. Using a stakeholder perspective can help accounting research by posing fresh, significant queries. Thus, in line with Martin and Moser (2012), we embrace the stakeholder perspective in this research.

Hypotheses Development

A company's recognition and fulfillment of the interests of its stakeholders, such as its suppliers, consumers, workers, local communities, and government agencies, is vital, according to the stakeholder perspective on CSR. Companies are formed by society. According to this perspective, companies that serve their stakeholders and the community well will eventually receive the same treatment. Because CSR companies and their stakeholders have positive interactions, stakeholders may provide high CSR firms benefits and competitive advantages. A strong CSR corporation is less likely to face legal action or be sued itself if it can build and maintain positive relationships with both internal and external stakeholders. On the other hand, ethics is a crucial aspect of the stakeholder perspective. Previous studies (Carroll, 1979; Donaldson and Preston, 1995; Jones, 1995), for example, indicate that socially conscious companies frequently act honorably and dependably. Such conduct suggests that CSR companies should have comparatively minimal legal risks, which would reduce the likelihood

of them being involved in lawsuits. Taken together, the above arguments posit a negative relation between CSR performance and the probability of lawsuit. We propose the following hypothesis.

H1: CSR firms are less likely to be involved in lawsuits.

In a similar vein, the stakeholder view and prior empirical research document that CSR firms often receive favorable benefits from the society because stakeholders value and support CSR firms. For example, Jiraporn et al. (2014) find that CSR firms receive higher bond credit ratings. Dhaliwal et al. (2014) show that firms actively engaging in CSR activities experience lower cost of capital. Ye and Zhang (2011) suggest that U.S. banks value and support socially responsible companies. If CSR firms receive favorable outcomes and benefits, we expect that these firms may receive favorable settlement outcomes (e.g., larger settlement gain or smaller settlement loss). We propose the following hypothesis.

H2: CSR firms are more likely to receive favorable lawsuit settlement outcomes.

Research Design

Measuring CSR Performance

Building upon previous research on CSR (e.g., Kim et al., 2012; Hoi et al., 2013), we utilize CSR rating data sourced from MSCI's ESG database.² MSCI is an independent rating agency renowned for its assessment of CSR performance. The MSCI ESG database offers evaluations in two main categories: positive ratings (termed strengths) and negative ratings (termed concerns) across seven CSR components. These components encompass community relations, corporate governance, diversity, employee relations, environment, human rights, and product. For instance, within the employee relations component, positive aspects include labor union relationships, no-layoff policies, profit sharing programs, employee engagement initiatives, retirement benefits, occupational health and safety measures, and additional areas of strength. Conversely, negative aspects encompass union disputes, concerns regarding health and safety issues, workforce downsizing, retirement benefit concerns, and additional areas of concerns. For a comprehensive overview of CSR strengths and concerns for each component, please refer to Appendix 2.

Using the CSR data from the MSCI's ESG database, prior research (e.g., Graves and Waddock, 1994; Griffin and Mahon, 1997; Waddock and Graves, 1997; Johnson and Greening, 1999; Deckop, Merriman, and Gupta, 2006; Nelling and Webb, 2009; Dhaliwal et al., 2011; Dhaliwal et al., 2012; Kim et al., 2012; Dhaliwal et al., 2014; Lanis and Richardson, 2015) constructs a net CSR score by subtracting total concerns from total strengths in the CSR components. As an example, we use the following equation to show the construction process.

$$\text{CSR} = (\text{Total strengths of Community Relations} - \text{Total concerns of Community Relations}) + (\text{Total strengths of Corporate Governance} - \text{Total concerns of Corporate Governance}) + (\text{Total strengths of Diversity} - \text{Total concerns of Diversity}) + (\text{Total strengths of Employee Relations} - \text{Total concerns of Employee Relations}) + (\text{Total strengths of Environment} - \text{Total concerns of Environment}) + (\text{Total strengths of Human Rights} - \text{Total concerns of Human Rights}) + (\text{Total strengths of Product} - \text{Total concerns of Product}) \quad [\text{Equation 1}]$$

Some studies including Walls, Berrone, and Phan (2012) argue that in order to gain a better understanding of the positive and negative CSR dimensions, it is beneficial to use the two measures (total strengths and total concerns) separately. Therefore, we also construct the following two CSR measures, namely CSR_STRENGTH and CSR_CONCERN, for an additional analysis in this study. CSR_STRENGTH (CSR_CONCERN) is the total score of the positive CSR ratings (the negative CSR ratings).

$$\text{CSR_STRENGTH} = \text{Total strengths of Community Relations} + \text{Total strengths of Corporate Governance} + \text{Total strengths of Diversity} + \text{Total strengths of Employee Relations} + \text{Total strengths of Environment} + \text{Total strengths of Human Rights} + \text{Total strengths of Product} \quad [\text{Equation 2}]$$

$$\text{CSR_CONCERN} = \text{Total concerns of Community Relations} + \text{Total concerns of Corporate Governance} + \text{Total concerns of Diversity} + \text{Total concerns of Employee Relations} + \text{Total concerns of Environment} + \text{Total concerns of Human Rights} + \text{Total concerns of Product} \quad [\text{Equation 3}]$$

² Morgan Stanley Capital International (MSCI); Environmental, Social and Governance (ESG).

Prior research suggests that the CSR data from the MSCI's ESG database is robust and valid (e.g., Sharfman, 1996; Waddock and Graves, 1997; Chand, 2006; Callan and Thomas, 2009). For instance, Sharfman (1996) investigates the reliability of each component of corporate social responsibility and finds that, in addition to being reliable, the CSR data has a good correlation with other CSR metrics, such as Fortune magazine's assessments of companies' reputations.³ Furthermore, we believe the concept of CSR is accurately reflected in the CSR data utilized in this study, such as environment, diversity, community, employee, and product data. For example, Holmes and Watts (2000) suggest that the concept of CSR relates to a firm's commitment to sustainable economic development (e.g., environmental issues) and working with employees and local communities. According to Branco and Rodrigues (2006), the concept of CSR encompasses matters like protecting the environment, managing human resources, promoting diversity and safety at work, and fostering relationships with nearby communities.

Empirical Specification

To investigate the impact of CSR on the probability of lawsuit and the magnitude of lawsuit settlement, we use the following equation to test the hypotheses.

$$\begin{aligned} \text{Corporate Lawsuit}_{i,t} = & \beta_0 + \beta_1 \text{CSR}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{MTB}_{i,t} + \beta_4 \text{LEV}_{i,t} + \beta_5 \text{ROA}_{i,t} + \beta_6 \text{CASHFL}_{i,t} + \beta_7 \text{LOSS}_{i,t} + \beta_8 \text{ZSCORE}_{i,t} \\ & + \beta_9 \text{TOBINQ}_{i,t} + \beta_{10} \text{FIRMAGE}_{i,t} + \beta_{11} \text{ASSETAGE}_{i,t} + \beta_{12} \text{MGR_ABILITY}_{i,t} + \beta_{13} \text{ACCRUAL}_{i,t} + \\ & \beta_{14} \text{SALE_VOL}_{i,t} + \beta_{15} \text{SPE_ITEM}_{i,t} + \beta_{16} \text{BIG4}_{i,t} + \beta_{17} \text{HIGH_RISK}_{i,t} + \text{Industry Indicators} + \text{Year Indicators} + \varepsilon_{i,t} \end{aligned}$$

[Equation 4]

The dependent variable (Corporate Lawsuit) alternatively represents the probability of lawsuit (LAWSUIT) and the magnitude of lawsuit settlement (LAWSUIT_GL). Specifically, LAWSUIT is an indicator variable that equals one if a firm is involved in (at least) one lawsuit in a given year. LAWSUIT_GL is the magnitude of settlement gain or loss, scaled by total firm assets. The primary independent variable of interest (CSR) is the net CSR score, which is calculated using Equation 1. To the extent that higher CSR firms are less likely to be involved in a lawsuit (H1), we expect a negative and significant coefficient on CSR. Regarding H2, to the extent that higher CSR firms are more likely to receive favorable outcomes in lawsuit settlements, we expect a positive and significant coefficient on CSR.

We incorporate various control factors that could potentially influence both the likelihood and magnitude of corporate lawsuits. Specifically, we include performance-related variables such as total firm assets (SIZE), market-to-book ratio (MTB), leverage ratio (LEV), return on assets (ROA), operating cash flows (CASHFL), whether the observation reports a loss (LOSS), Altman Z score (ZSCORE), and Tobin's Q (TOBINQ). As settlement magnitude is a component of special items, we include control for the size of special items (SEP_ITEM). Anecdotal evidence suggests that older firms are more prone to litigation compared to newer ones; thus, we account for the age of firms (FIRMAGE). Considering that the effect of CSR may vary between businesses with younger and older assets, we follow Cochran and Wood (1984) and control for the age of long-term assets (ASSETAGE). Additionally, following Nichols and Sun (2020), we incorporate managerial characteristics such as managerial ability (MGR_ABILITY) and managerial incentives for opportunistic behavior (ACCRUAL). ACCRUAL is assessed using performance-matched discretionary accruals (Kothari, Leone, and Wasley, 2005). We also consider external business risks (SALE_VOL) and industry-specific litigation risks (HIGH_RISK). HIGH_RISK is an indicator variable set to one if a firm operates in an industry with high litigation risks (SIC: 2833–2836; 3570–3577; 3600–3674; 7371–7379; or 8731–8734) and zero otherwise. Finally, we include a control variable indicating whether a firm utilizes a BIG4 auditor (BIG4).

When testing H1, we use the logistic regression because the dependent variable is an indicator variable (LAWSUIT). We use exponential beta in logistic regression as the independent coefficient. When testing H2, we use clustered standard errors OLS regression. In line with earlier studies (e.g., Petersen, 2009), we employ two-way clustering by firm and year. To lessen the impact of outliers, all of the continuous variables in Equation 4 are winsorized between the 1% and 99% percentiles. Equation 4 additionally includes year and industry indicators (based on the French 48 and Fama industry classification). Please refer to Appendix 3 for detailed variable definitions.

Sample Selection and Descriptive Statistics

³ <https://adfontesmedia.com/fortune-bias-and-reliability/>

The sample selection process begins with the CSR data from the MSCI's ESG database from 1994 to 2019 (53,168 observations). We obtain financial statement data from the Compustat database and the managerial ability data from Professor Demerjian's website.⁴ We merge the above datasets, delete 28,295 observations with insufficient data to construct the independent variable of interest and control variables, and further remove 3,112 observations in highly regulated industries (i.e., SIC 4000–4999; 6000–6999). The final sample consists of 21,761 observations, representing 2,437 unique public firms in the United States. Please refer to Panel A of Table 1 for the detailed sample selection process.

Panel B of Table 1 reports the sample distribution by fiscal year. There are 199 observations in 1994, 447 observations in 2004, and 1,447 observations in 2014. Panel C of Table 1 displays the sample distribution by industry, which is based on the first two digits of the SIC code. In terms of the number of observations, the most and second most represented industries are business services (SIC = 73; 2,634 observations) and chemicals (SIC = 28; 2,612 observations), respectively. The third most represented industry is electronic equipment (SIC = 36; 2,044 observations). [See Table 1, pg. 31]

Table 2 presents the sample descriptive statistics. Panel A of Table 2 shows the number of observations, mean, standard deviation, the 25th percentile, median, and the 75th percentile of the key variables for the full sample (Observations = 21,761). The mean value of LAWSUIT is 0.198, indicating that approximately 19.8% of the entire sample reports lawsuit settlement. In other words, about 19.8% of the sample are involved in lawsuits. The mean and median values of CSR are -0.019 and 0.000, respectively. The mean values of MTB, LEV, ROA, ZSCORE, and TOBINQ are 3.426, 0.178, 0.033, 4.850, and 2.173, respectively, which suggests that the sample firms demonstrate normal operating performance. Panel B of Table 2 reports the means for observations with lawsuit settlement (i.e., the lawsuit sample with 4,307 observations) and observations without lawsuit settlement (i.e., the no lawsuit sample with 17,454 observations), and the difference in those means and the statistical significance of the difference. The mean value of CSR for the no lawsuit sample (0.003) is greater than that for the lawsuit sample (-0.108), and the difference (0.003 vs. -0.108) is significant (p-value = 0.001). This suggests that high CSR firms are less likely to be involved in lawsuit, relative to low CSR firms. Panel C of Table 2 further provides the descriptive statistics for the lawsuit sample. [See Table 2, pg. 33]

Correlation Matrix

Panel A and Panel B of Table 3 report the Pearson and Spearman correlation coefficients and related p-values among key variables for the full sample (observations = 21,761) and the lawsuit sample (observations = 4,307), respectively. In Panel A, the Pearson (Spearman) coefficient between the probability of lawsuit and CSR is -0.017 (-0.027) with a p-value of 0.010 (of less than 0.0001), which suggests a negative and significant correlation between CSR and LAWSUIT. This evidence lends initial support to H1. In Panel B, the magnitude of lawsuit settlement (LAWSUIT_GL) is significantly and positively correlated with CSR, suggesting that higher CSR performance is correlated with larger settlement gain or smaller loss. This finding is consistent with H2. In both panels, most of the control variables are significantly correlated with both CSR and LAWSUIT (probability and magnitude), highlighting the importance of testing the hypotheses in a multivariate setting. [See Table 3, pg. 35]

Primary Findings

Table 4 presents the primary findings of this study. Specifically, Panel A reports results of testing H1 by regressing LAWSUIT on CSR and other control variables in Equation 4. In Column 1, we use the net CSR score (CSR). The coefficient on CSR is -0.04 with a chi-square of 35.681 and p-value of less than 0.0001, indicating a negative and significant relation between CSR and LAWSUIT. This evidence suggests that firms with higher CSR performance are less likely to be involved in lawsuits. Thus, H1 is strongly supported. Panel A also shows that the coefficients on SIZE, ROA, LOSS, and FIRMAGE are significant positive and those on LEV, ZSCORE, TOBINQ, ASSETAGE, SALE_VOL, and SPE_ITEM are significant negative. Overall, the above findings are in line with general expectations. For example, the significant positive relation between FIRMAGE and LAWSUIT suggests that older firms are more likely to be sued, relative to newer firms.

For completeness, we use total CSR strengths (i.e., CSR_STRENGTH) and total CSR concerns (i.e., CSR_CONCERN) as the primary independent variables of interest in Column 2. The coefficient on CSR_STRENGTH is -0.02 with a chi-square of 4.530 with a p-value of 0.033 and on CSR_CONCERN is 0.11 with a chi-square of 72.527 with a p-value of less than 0.0001, which suggests that LAWSUIT is positively related to irresponsible CSR activities and negatively related to

⁴ <https://peterdemerjian.weebly.com/managerialability.html>

responsible CSR activities. This evidence not only complements and strengthens the findings in Column 1 but also suggests that the findings are possibly driven by irresponsible CSR performance.

Panel A of Table 4 also presents the variance inflation factor (VIF) values for each variable. All VIF values are relatively small, indicating that multicollinearity is not a significant concern. The findings in Panel A hold some economic significance. For instance, according to the results in Column 1, a one-unit increase in CSR corresponds to a 0.04-unit decrease in the predicted value of LAWSUIT. Similarly, based on the results in Column 2, a standard deviation increase in CSR_CONCERN is associated with a 0.11% increase in the predicted value of LAWSUIT.

Panel B of Table 4 reports results of testing H2 by regressing LAWSUIT_GL on CSR and other control variables. Using the lawsuit sample (observations = 4,307), Column 1 shows that CSR is positively and significantly related to LAWSUIT_GL (t-value = 3.33; p-value = 0.001), suggesting that higher CSR firms are more likely to receive favorable outcomes in lawsuit settlement (i.e., larger settlement gain or smaller settlement loss). Thus, H2 is strongly supported. Column 2 displays that the relation between LAWSUIT_GL and CSR_STRENGTH (CSR_CONCERN) is significantly positive (negative), complementing and strengthening the results in Column 1 of Panel B. We also examine and find multicollinearity should not be a major concern in testing H2, based on the small VIF values in Panel B. [See Table 4, pg. 37]

Additional Tests

Alternative CSR Measures

Prior research including Kim et al. (2012) suggests excluding the corporate governance and the human rights components from the net CSR score because the former focuses on a firm's governance mechanism and the latter does not have sufficient data. Following Kim et al. (2012), we re-construct the net CSR score using only five components (CSR_ALT). The equation is as follows.

$$\text{CSR_ALT} = (\text{Total strengths of Community Relations} - \text{Total concerns of Community Relations}) + (\text{Total strengths of Diversity} - \text{Total concerns of Diversity}) + (\text{Total strengths of Employee Relations} - \text{Total concerns of Employee Relations}) + (\text{Total strengths of Environment} - \text{Total concerns of Environment}) + (\text{Total strengths of Product} - \text{Total concerns of Product}) \quad [\text{Equation 5}]$$

We also construct another alternative CSR variable (H_CSR), which equals one if an observation's net CSR score (CSR) is above the median and zero otherwise. Using CSR_ALT and H_CSR, I re-estimate the baseline regression model and report results in Table 5. When the dependent variable is LAWSUIT, Column 1 and Column 2 report a significant and negative coefficient on CSR_ALT and H_CSR, respectively, which is consistent with H1. When the dependent variable is LAWSUIT_GL, Column 3 and Column 4 display a significant and positive coefficient on CSR_ALT and H_CSR, respectively, supporting H2. Taken together, results of Table 5 suggest that the primary findings are robust to alternative CSR measures. [See Table 5, pg. 39]

Alternative Sample Periods

In this test, we examine whether the primary findings are robust across different sample periods. In other words, this test can explore whether changes in macroeconomic conditions influence the relation between CSR and lawsuit characteristics. I divide the sample into two subsamples (1994–2005 and 2006–2019), and re-estimate Equation 4 for each subsample. Column 1 and 2 report the results of testing H1 for the first period and the second period, respectively. Both columns show a significant and negative relation between CSR and LAWSUIT. Similarly, Column 3 and 4 present the results of testing H2. Both columns show that CSR is positively and significantly related to LAWSUIT_GL, suggesting that higher CSR firms are more likely to receive favorable outcomes in lawsuit settlements. Taken together, results of this test suggest that the primary findings of this study are robust over time. [See Table 6, pg. 40]

Using Lagged CSR Measures

In testing H1 (CSR and the likelihood of lawsuit), we use the CSR score in the year of lawsuit settlement as the primary independent variable of interest in the baseline equation. Ideally, we should use the CSR score in the year of lawsuit filed. However, it is difficult to collect data on when a specific lawsuit is filed and thereby the time gap between the date of lawsuit filed and the date of lawsuit settled is difficult to be determined in this study. Anecdotal evidence shows that (on average)

it takes 6 months to 18 months to settle a lawsuit, given over 98% of lawsuits do not go to trial. Hence, it is necessary to examine the relation between the CSR performance in prior periods and the probability of lawsuit. We employ three lagged CSR measures, namely LAG_CSR1, LAG_CSR2, and LAG_CSR3. LAG_CSR1 is the net CSR score in year $t-1$, while LAG_CSR2 (LAG_CSR3) is the net CSR score in year $t-2$ (year $t-3$). As shown in Table 7, the coefficients on all three lagged measures are significantly negative, indicating that CSR performance in prior periods is negatively related to the probability of lawsuit. This evidence not only provides additional support to H1 by mitigating concerns about reverse causality in this study but also curtails the concerns about the time gap between the lawsuit filing date and the lawsuit settlement date. [See Table 7, pg. 41]

Changes Analysis

A firm's legal matters can be influenced by many factors. It is possible that some unknown factors that influence the CSR performance and lawsuit characteristics simultaneously are driving the primary findings. To curtail concerns about the omitted correlated variables, we perform a changes analysis, which regresses the changes in dependent variables (i.e., $\Delta\text{LAWSUIT}$ and $\Delta\text{LAWSUIT_GL}$) from year $t-1$ to year t on the corresponding changes in the primary independent variable of interest (i.e., ΔCSR) and in control variables from year $t-1$ to year t . Specifically, $\Delta\text{LAWSUIT}$ is the yearly change in the likelihood of lawsuit from year $t-1$ to year t . This variable takes one of the three possible values, namely -1, 0 or 1. $\Delta\text{LAWSUIT_GL}$ is the yearly change in the magnitude of lawsuit settlement from year $t-1$ to year t . ΔCSR is the yearly change in the net CSR performance from year $t-1$ to year t .

Column 1 of Table 8 reports the results of regressing $\Delta\text{LAWSUIT}$ on ΔCSR and changes in control variables. The coefficient on ΔCSR is -0.006 with a t -value of -2.41 and a p -value of 0.016, suggesting that an increase (a decrease) in CSR can lead to a decrease (an increase) in the probability of lawsuit. Column 2 shows that ΔCSR is positively and significantly related to $\Delta\text{LAWSUIT_GL}$, implying that an increase (a decrease) in CSR can lead to an increase (a decrease) in the magnitude of lawsuit settlement. Taken together, results of the changes analysis provide additional evidence to suggest that the differences in the level of lawsuit characteristics can be largely attributed to the varying level of CSR performance, consistent with both hypotheses. [See Table 8, pg. 42]

Two-Stage OLS Regression Analysis (2SLS)

In testing H2, it is likely that firms receiving favorable settlement outcomes are naturally good companies in the context of CSR. In line with previous studies on CSR (e.g., Jiraporn et al., 2014), we employ a two-stage OLS regression analysis (2SLS) to address concerns regarding reverse causality. In the first stage of 2SLS, we compute instrumental CSR values by averaging the CSR scores of neighboring firms, specifically those within the same first three digits of the zip code. Jiraporn et al. (2014) propose that a firm's CSR practices are often influenced by those of its geographic peers, given the high observability of CSR activities. In the second stage, we estimate the baseline regression model using the instrumental CSR variable derived from the first stage. Table 9 presents the results of 2SLS. As shown in Column 2 of Table 9, the coefficient on CSR_Instrumental is positive and significant. Thus, the findings suggest that CSR performance plays an important role in the lawsuit settlement outcomes. [See Table 9, pg. 43]

Settlement Gain Group vs. Settlement Loss Group

The lawsuit sample (observations = 4,307) consists of two groups: observations with settlement gain (i.e., usually the plaintiff in a lawsuit) and observations with settlement loss (i.e., usually the defendant in a lawsuit). To investigate whether the relation between CSR and LAWSUIT_GL holds for each group, we re-estimate the baseline regression model (Equation 4) for each group and report results in Table 10. As shown in Column 1 of Table 10, the relation between CSR and LAWSUIT_GL is insignificant for the gain group. Column 2 reports that the above relation is significantly positive for the loss group, consistent with H2. The above findings suggest that the primary results supporting H2 are largely driven by firms with settlement loss or firms that are the defendants in lawsuits. [See Table 10, pg. 44]

Firms with High Cash Holdings vs. Firms with Low Cash Holdings

Based on anecdotal evidence indicating that firms with higher cash reserves are more susceptible to lawsuits, we anticipate that the significant negative relation between CSR and LAWSUIT weakens for firms with greater cash reserves. Based on the level of corporate cash holdings, we median split the full sample (observations = 21,761) into two subsamples: observations with high cash holdings vs. observations with low cash holdings, and re-estimate the baseline regression model

for each subsample. Column 1 of Table 11 shows that the coefficient on CSR is -0.037 with a chi-square of 17.24 for the high cash subsample. Column 2 displays that the coefficient on CSR is -0.066 with a chi-square of 14.64 for the low cash subsample. We further perform a coefficient comparison test (-0.037 vs. -0.066) and find that the difference between these two coefficients is statistically significant (F-stat. = 16.63; p-value < 0.0001), which suggests that -0.037 is significantly larger than -0.066. This is consistent with the anecdotal evidence and general expectations that firms with more money are more likely to be sued or involved in a lawsuit, relative to firms with less cash. [See Table 11, pg. 45]

Manufacturing Firms vs. Service Firms

In this test, we divide the full sample into two subsamples: manufacturing firms and service firms, and re-estimate the baseline regression model for each subsample. Column 1 of Table 12 shows that the coefficient on CSR is -0.039 with a chi-square of 19.74 for manufacturing firms. Column 2 displays that the coefficient on CSR is -0.057 with a chi-square of 19.51 for service firms. We further perform a coefficient comparison test (-0.039 vs. -0.057) and find that the difference between these two coefficients is statistically significant (F-stat. = 14.45; p-value < 0.0001), which suggests that -0.039 is significantly larger than -0.057. This suggests that our primary findings are less pronounced in manufacturing firms. [See Table 12, pg. 46]

Individual CSR Components

For completeness, we also examine the impact of individual CSR components on lawsuit characteristics in testing H1 and H2. Specifically, we regress LAWSUIT and LAWSUIT_GL on the net score of each individual CSR component and control variables. As shown in Column 1 of Table 13, the coefficients on governance, environment, and product are significantly negative in testing H1, suggesting that these three CSR components play an important role in the relation between CSR and LAWSUIT. Column 2 reports that the coefficients on governance, diversity, and product are significantly positive in testing H2, suggesting that these three CSR components greatly influence the relation between CSR and LAWSUIT_GL. [See Table 13, pg. 47]

Conclusion

In this study, the lawsuit settlement component in the special items on the income statement is utilized to explore the relation between CSR and the likelihood and magnitude of lawsuits. Employing logistic regression, the analysis reveals that socially responsible firms are less likely to face lawsuits. Our empirical findings suggest that a one-unit increase in the CSR score is linked to a 4% decrease in the probability of a lawsuit. However, this effect weakens for firms with higher cash reserves. We also find that our primary findings are less pronounced in manufacturing firms. Furthermore, among firms experiencing settlement gains or losses, socially responsible firms tend to receive more favorable outcomes, particularly evident among firms facing settlement losses.

This study contributes to both CSR literature, offering insights into the impact of CSR on various firm outcomes, and accounting literature, particularly regarding special items. Notably, it represents one of the first empirical attempts to connect CSR with lawsuit characteristics from an accounting standpoint. The findings align with the stakeholder view of CSR, emphasizing its potential benefits for firms. Moreover, the evidence suggests that CSR practices can serve as a means to mitigate legal risks.

Nevertheless, the study has several limitations. First, the sample comprises large U.S. firms rated by the MSCI's ESG database, raising questions about the generalizability of the findings to smaller firms. Second, the lawsuit settlement amounts are often aggregated, and the study lacks data on the specifics of lawsuits, hindering the examination of CSR's impact on distinct types of lawsuits. Third, including highly regulated firms with SIC codes 4000–4999 and 6000–6999 in our sample is another limitation that may impact the generalizability of the results. Last, CSR ratings serve as approximations of CSR performance, suggesting that more precise measures could potentially yield stronger results. Addressing these limitations could be a focus for future research endeavors.

Appendix 1 Lawsuit Settlement in Special Items

Panel A: Lawsuit settlement in income statement

Income Statement Year Ended March 31, 2018	
Sales	\$ 1,000,000
Cost of goods sold	<u>550,000</u>
Gross profit	450,000
Research and development expense	100,000
Selling, general and admin. expenses	<u>150,000</u>
Operating income	200,000
Other income (expense):	
Special item - Lawsuit settlement	(125,000)
Special item – Loss from flood	(25,000)
Interest income	50,000
Interest expense	<u>(25,000)</u>
Income from continuing operations before taxes	75,000
Income tax provision	<u>18,750</u>
Income from continuing operations	56,250
Gain from discontinued operations (net of tax)	<u>110,250</u>
Net Income	<u>\$ 166,500</u>

Panel B: A real company example

Comcast Corporation Form 10-K
For fiscal year ended December 31, 2018
(page 75 – Item e)

We use Adjusted EBITDA as the measure of profit or loss for our operating segments. Adjusted EBITDA is defined as net income attributable to Comcast Corporation before net (income) loss attributable to noncontrolling interests and redeemable subsidiary preferred stock, income tax benefit (expense), investment and other income (loss), net, interest expense, depreciation and amortization expense, and other operating gains and losses (such as impairment charges related to fixed and intangible assets and gains or losses on the sale of long-lived assets), if any. **From time to time we may exclude from Adjusted EBITDA the impact of certain events, gains, losses or other charges (such as significant legal settlements) that affect the period-to-period comparability of our operating performance.** Our reconciliation of the aggregate amount of Adjusted EBITDA for our reportable segments to consolidated income before income taxes is presented in the table below.

Year ended December 31 (in millions)	2018	2017	2016
Adjusted EBITDA	\$ 30,165	\$ 27,956	\$ 26,257
Adjustment for legal settlement	(125)	(250)	—
Adjustment for Sky transaction-related costs	(355)	—	—
Depreciation	(8,281)	(7,914)	(7,464)
Amortization	(2,736)	(2,216)	(1,962)
Other operating gains	341,442	—	—
Interest expense	(3,542)	(3,086)	(2,942)
Investment and other income (loss), net	(225)	421	437
Income before income taxes	\$ 15,242	\$ 15,353	\$ 14,326

Appendix 2: CSR Data Description (publicly available at www.msci.com)

CSR Components	CSR Strengths Items (Positive Items)	CSR Concerns Items (Negative Items)
Community relations	Charitable contributions Creative philanthropy Housing assistance Educational support International philanthropy Volunteering initiatives Additional areas of strength	Controversial investments Adverse economic effects Taxation conflicts Additional areas of concern
Diversity	Chief Executive Officer (CEO) Promotional practices Board oversight Work-life balance initiatives Diversity in contracting Hiring of individuals with disabilities Policies supporting LGBTQ+ individuals Additional areas of excellence	Disputes Underrepresentation Additional issues
Employee relations	Labor union relationships Guaranteed job security Profit-sharing programs Employee engagement initiatives Retirement benefits Occupational health and safety measures Additional areas of strength	Labor union disputes Concerns regarding health and safety Workforce downsizing Concerns about retirement benefits Additional areas of concern
Environment	Eco-friendly products Pollution reduction efforts Recycling initiatives Adoption of clean energy Effective management of property, plant, and equipment Implementation of efficient management systems Additional areas of strength	Toxic waste management Compliance issues with regulations Usage of ozone-depleting substances Significant emissions Use of agricultural chemicals Impacts of climate change Additional areas of concern
Product	High-quality products Innovative research and development Positive impact on economically disadvantaged individuals Additional areas of strength	Safety standards for products Marketing and contracting issues Antitrust regulations Additional areas of concern
Corporate governance	Restricted compensation practices Robust ownership structure Transparency in operations Accountability in political engagements Strength in advocating public policies Additional areas of strength	Excessive compensation practices Ownership uncertainties Accounting discrepancies Transparency issues Accountability gaps in political engagements Concerns regarding public policy influence Additional areas of concern
Human rights	Positive track record in South Africa Relations with indigenous communities Strong protection of labor rights Additional areas of strength	South Africa Northern Ireland Mexico Concerns regarding Burma Concerns regarding labor rights Concerns regarding relations with indigenous peoples Additional areas of concern

Appendix 3: Variable Definitions

Variable		Definition
LAWSUIT	=	an indicator variable that equals one if a firm reports lawsuit settlement (SETP) in the special items on an income statement and zero otherwise;
LAWSUIT_GL	=	the magnitude of lawsuit settlement (SETP) scaled by total firm assets (AT);
CSR	=	(Total strengths of Community Relations – Total concerns of Community Relations) + (Total strengths of Corporate Governance – Total concerns of Corporate Governance) + (Total strengths of Diversity – Total concerns of Diversity) + (Total strengths of Employee Relations – Total concerns of Employee Relations) + (Total strengths of Environment – Total concerns of Environment) + (Total strengths of Human Rights – Total concerns of Human Rights) + (Total strengths of Product – Total concerns of Product);
CSR_STRENGTH	=	Total strengths of Community Relations + Total strengths of Corporate Governance + Total strengths of Diversity + Total strengths of Employee Relations + Total strengths of Environment + Total strengths of Human Rights + Total strengths of Product;
CSR_CONCERN	=	Total concerns of Community Relations + Total concerns of Corporate Governance + Total concerns of Diversity + Total concerns of Employee Relations + Total concerns of Environment + Total concerns of Human Rights + Total concerns of Product;
SIZE	=	natural log of total assets (AT);
MTB	=	market value of common shares [(CSHO) × (PRCC_F)] divided by total book value of common shares (CEQ);
LEV	=	long-term liabilities (DLTT) divided by total assets (AT);
ROA	=	income before extraordinary items (IB) scaled by total assets (AT);
CASHFL	=	cash flows from operating activities (OANCF) scaled by total assets (AT);
LOSS	=	one if a firm reports a loss otherwise zero;
ZSCORE	=	$3.3 \times [\text{net income (NI)}/\text{total assets (AT)}] + \text{sales (SALE)}/\text{total assets (AT)} + 0.6 \times \{\text{market value of common shares } [(CSHO) \times (PRCC_F)]/\text{total liabilities (LT)}\} + 1.2 \times \text{working capital } [\text{current assets (ACT)} - \text{current liabilities (LCT)}]/\text{total assets (AT)} + 1.4 \times \text{retained earnings (RE)} / \text{total assets (AT)};$
TOBINQ	=	total assets (AT) + market value of common shares (CSHO × PRCC_F) – stockholder equity (SEQ) – deferred taxes (TXDB), scaled by total assets (AT);

Appendix 3: Variable Definitions

FIRMAGE	=	natural log of the number of year since a firm was included in the Compustat database;
ASSETAGE	=	the ratio of net property, plant and equipment (PPENT) to gross property, plant and equipment (PPEGT);
MGR_ABILITY	=	decile ranks of raw managerial ability scores (Demerjian, Lev, McVay, 2012) from Professor Demerjian's website;
ACCRUAL	=	performance-matched discretionary accruals;
SALE_VOL	=	five-year rolling sales volatility;
SPE_ITEM	=	the magnitude of special items (SPI) scaled by total assets (AT);
BIG4	=	one if a firm uses a BIG 4 auditor and zero otherwise;
HIGH_RISK	=	one if a firm is in an industry with high litigation risks (SIC: 2833-2836; 3570-3577; 3600-3674; 7371-7379; or 8731-8734) and zero otherwise;
CSR_ALT	=	(Total strengths of Community Relations – Total concerns of Community Relations) + (Total strengths of Diversity – Total concerns of Diversity) + (Total strengths of Employee Relations – Total concerns of Employee Relations) + (Total strengths of Environment – Total concerns of Environment) + (Total strengths of Product – Total concerns of Product)
H_CSR	=	one if an observation's net CSR score (CSR) is above the median and zero otherwise;
LAG_CSR1	=	CSR in year t-1;
LAG_CSR2	=	CSR in year t-2;
LAG_CSR3	=	CSR in year t-3;
ΔLAWSUIT	=	LAWSUIT in year t - LAWSUIT in year t-1;
ΔLAWSUIT_GL	=	LAWSUIT_GL in year t - LAWSUIT_GL in year t-1;
ΔCSR	=	CSR in year t - CSR in year t-1;
ΔSIZE	=	SIZE in year t - SIZE in year t-1;
ΔMTB	=	MTB in year t - MTB in year t-1;
ΔLEV	=	LEV in year t - LEV in year t-1;
ΔROA	=	ROA in year t - ROA in year t-1;
ΔCASHFL	=	CASHFL in year t - CASHFL in year t-1;
ΔLOSS	=	LOSS in year t - LOSS in year t-1;
ΔZSCORE	=	ZSCORE in year t - ZSCORE in year t-1;
ΔTOBINQ	=	TOBINQ in year t - TOBINQ in year t-1;
ΔFIRMAGE	=	FIRMAGE in year t - FIRMAGE in year t-1;
ΔASSETAGE	=	ASSETAGE in year t - ASSETAGE in year t-1;
ΔMGR_ABILITY	=	MGR_ABILITY in year t - MGR_ABILITY in year t-1;
ΔACCRUAL	=	ACCRUAL in year t - ACCRUAL in year t-1;
ΔSALE_VOL	=	SALE_VOL in year t - SALE_VOL in year t-1;
ΔSPE_ITEM	=	SPE_ITEM in year t - SPE_ITEM in year t-1;
ΔBIG4	=	BIG4 in year t - BIG4 in year t-1;

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**Table 1: Corporate Social Responsibility and Lawsuit Risk and Settlement
Sample Selection and Distribution**

Panel A: Sample selection process

	Observations
CSR data from MSCI's ESG database (1994–2019)	53,168
Less: Observations with insufficient data to construct independent variable of interest and control variables	(28,295)
Less: Observations in highly regulated industries (SIC 4000–4999 and 6000–6999)	(3,112)
Number of firm-year observations	21,761
Number of unique firms	2,437

Panel B: Sample distribution by year

Year	Number of Observations	Percentage	Cumulative Percentage
1994	199	0.91%	0.91%
1995	204	0.94%	1.85%
1996	205	0.94%	2.79%
1997	205	0.94%	3.74%
1998	207	0.95%	4.69%
1999	216	0.99%	5.68%
2000	229	1.05%	6.73%
2001	233	1.07%	7.80%
2002	246	1.13%	8.93%
2003	269	1.24%	10.17%
2004	447	2.05%	12.22%
2005	471	2.16%	14.39%
2006	1,218	5.60%	19.99%
2007	1,282	5.89%	25.88%
2008	1,247	5.73%	31.61%
2009	1,262	5.80%	37.41%
2010	1,239	5.69%	43.10%
2011	1,358	6.24%	49.34%
2012	1,440	6.62%	55.96%
2013	1,502	6.90%	62.86%
2014	1,447	6.65%	69.51%
2015	1,443	6.63%	76.14%
2016	1,361	6.25%	82.40%
2017	1,421	6.53%	88.93%
2018	1,223	5.62%	94.55%
2019	1,187	5.45%	100.00%
	21,761	100.00%	

Table 1: Corporate Social Responsibility and Lawsuit Risk and Settlement
Sample Selection and Distribution

Panel C: Sample distribution by industry

SIC	Description	Obs.	%	Firms	%	SIC	Description	Obs.	%	Firms	%
1	Agricultural Crops	45	0.21%	5	0.21%	36	Electronic Equipment	2,044	9.39%	237	9.73%
2	Agricultural Livestock	11	0.05%	1	0.04%	37	Transportation Equipment	705	3.24%	68	2.79%
7	Agricultural Services	14	0.06%	1	0.04%	38	Measuring Instruments	1,753	8.06%	204	8.37%
10	Metal Mining	127	0.58%	11	0.45%	39	Miscellaneous Manufacturing	249	1.14%	21	0.86%
12	Coal Mining	47	0.22%	6	0.25%	50	Durable Goods Wholesale	584	2.68%	54	2.22%
13	Oil & Gas Extraction	978	4.49%	111	4.55%	51	Nondurable Goods Wholesale	364	1.67%	37	1.52%
14	Mining	71	0.33%	7	0.29%	52	Building Materials	75	0.34%	4	0.16%
15	Building Construction	11	0.05%	1	0.04%	53	General Merchandise Stores	285	1.31%	19	0.78%
16	Heavy Construction	145	0.67%	15	0.62%	54	Food Stores	152	0.70%	18	0.74%
17	Special Construction	66	0.30%	6	0.25%	55	Automotive Dealers	256	1.18%	21	0.86%
20	Food	786	3.61%	71	2.91%	56	Apparel Stores	407	1.87%	40	1.64%
21	Tobacco	43	0.20%	4	0.16%	57	Furniture Stores	117	0.54%	14	0.57%
22	Textile Mill	55	0.25%	6	0.25%	58	Eating & Drinking Places	420	1.93%	45	1.85%
23	Apparel	275	1.26%	26	1.07%	59	Miscellaneous Retail	463	2.13%	53	2.17%
24	Lumber	151	0.69%	13	0.53%	70	Hotels	61	0.28%	6	0.25%
25	Furniture	232	1.07%	18	0.74%	72	Personal Services	89	0.41%	8	0.33%
26	Paper	323	1.48%	29	1.19%	73	Business Services	2,634	12.10%	394	16.17%
27	Printing	349	1.60%	32	1.31%	75	Auto Repair Services	61	0.28%	5	0.21%
28	Chemicals	2,612	12.00%	318	13.05%	78	Motion Pictures	82	0.38%	10	0.41%
29	Petroleum Refining	146	0.67%	17	0.70%	79	Amusement	229	1.05%	26	1.07%
30	Rubber	281	1.29%	23	0.94%	80	Health Services	429	1.97%	59	2.42%
31	Leather	127	0.58%	16	0.66%	81	Legal Services	10	0.05%	1	0.04%
32	Stone Clay Glass	136	0.62%	15	0.62%	82	Educational Services	110	0.51%	17	0.70%
33	Primary Metal	359	1.65%	35	1.44%	83	Social Services	42	0.19%	5	0.21%
34	Fabricated Metal	465	2.14%	38	1.56%	87	Engineering & Accounting	463	2.13%	58	2.38%
35	Industrial Machinery	1,763	8.10%	179	7.35%	99	Nonclassified Establishments	59	0.27%	9	0.37%
						Total					
						21,761 100.00% 2,437 100.00%					

Table 2: Corporate Social Responsibility and Lawsuit Risk and Settlement
Sample Descriptive Statistics

Panel A: Full sample (Observations = 21,761)

Variable	Obs.	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
LAWSUIT	21,761	0.198	0.398	0.000	0.000	0.000
CSR	21,761	-0.019	2.544	-1.000	0.000	1.000
SIZE	21,761	7.201	1.579	6.025	7.101	8.280
MTB	21,761	3.426	5.025	1.586	2.502	4.018
LEV	21,761	0.178	0.178	0.005	0.147	0.278
ROA	21,761	0.033	0.126	0.014	0.052	0.090
CASHFL	21,761	0.096	0.103	0.059	0.101	0.148
LOSS	21,761	0.203	0.402	0.000	0.000	0.000
ZSCORE	21,761	4.850	5.084	2.259	3.624	5.785
TOBINQ	21,761	2.173	1.404	1.304	1.732	2.504
FIRMAGE	21,761	3.140	0.617	2.639	3.091	3.714
ASSETAGE	21,761	0.478	0.153	0.373	0.470	0.580
MGR_ABLITY	21,761	0.560	0.296	0.300	0.600	0.800
ACCRUAL	21,761	0.057	0.057	0.018	0.041	0.075
SALE_VOL	21,761	0.744	0.546	0.356	0.602	0.974
SPE_ITEM	21,761	-0.015	0.050	-0.013	-0.002	0.000
BIG4	21,761	0.905	0.293	1.000	1.000	1.000
HIGH_RISK	21,761	0.250	0.433	0.000	0.000	0.000

Panel B: Observations with lawsuit (Obs. = 4,307) vs. Observations with no lawsuit (Obs. =17,454)

	LAWSUIT = 1		LAWSUIT = 0			
Variable	Obs.	Mean	Obs.	Mean	Diff. in Mean	p-value
CSR	4,307	-0.108	17,454	0.003	-0.111***	0.001
SIZE	4,307	7.610	17,454	7.100	0.510***	<0.0001
MTB	4,307	3.170	17,454	3.489	-0.319***	0.000
LEV	4,307	0.196	17,454	0.174	0.022***	<0.0001
ROA	4,307	0.032	17,454	0.033	-0.001	0.592
CASHFL	4,307	0.095	17,454	0.096	-0.001	0.545
LOSS	4,307	0.213	17,454	0.201	0.012*	0.070
ZSCORE	4,307	4.085	17,454	5.039	-0.954***	<0.0001
TOBINQ	4,307	1.944	17,454	2.230	-0.286***	<0.0001
FIRMAGE	4,307	3.224	17,454	3.119	0.105***	<0.0001
ASSETAGE	4,307	0.474	17,454	0.480	-0.006**	0.029
MGR_ABLITY	4,307	0.549	17,454	0.563	-0.014***	0.006
ACCRUAL	4,307	0.053	17,454	0.058	-0.005***	<0.0001
SALE_VOL	4,307	0.674	17,454	0.761	-0.087***	<0.0001
SPE_ITEM	4,307	-0.018	17,454	-0.014	-0.004***	<0.0001
BIG4	4,307	0.928	17,454	0.899	0.029***	<0.0001
HIGH_RISK	4,307	0.236	17,454	0.253	-0.017**	0.019

Table 2: Corporate Social Responsibility and Lawsuit Risk and Settlement
Sample Descriptive Statistics

Panel C: Lawsuit sample (Obs. = 4,307; LAWSUIT = 1)

Variable	Obs.	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
LAWSUIT_GL	4,307	-0.002	0.021	-0.004	0.000	0.003
CSR	4,307	-0.108	2.867	-2.000	0.000	1.000
SIZE	4,307	7.617	1.560	6.492	7.510	8.725
MTB	4,307	3.198	7.341	1.539	2.360	3.688
LEV	4,307	0.196	0.177	0.036	0.172	0.291
ROA	4,307	0.032	0.107	0.011	0.047	0.081
CASHFL	4,307	0.096	0.081	0.056	0.095	0.138
LOSS	4,307	0.213	0.409	0.000	0.000	0.000
ZSCORE	4,307	4.065	4.059	2.023	3.222	4.950
TOBINQ	4,307	1.938	1.117	1.269	1.621	2.205
FIRMAGE	4,307	3.224	0.627	2.708	3.178	3.829
ASSETAGE	4,307	0.474	0.147	0.371	0.466	0.568
MGR_ABLITY	4,307	0.549	0.296	0.300	0.500	0.800
ACCRUAL	4,307	0.053	0.052	0.017	0.039	0.072
SALE_VOL	4,307	0.673	0.501	0.311	0.541	0.894
SPE_ITEM	4,307	-0.018	0.056	-0.021	-0.006	0.000
BIG4	4,307	0.928	0.258	1.000	1.000	1.000
HIGH_RISK	4,307	0.236	0.425	0.000	0.000	0.000

This table outlines the quantities of observations, combined averages, standard deviations, 25th percentile, median, and 75th percentile for the dependent variables, the independent variable of interest, and control variables. Specifically, Panel A provides descriptive statistics for the entire sample, consisting of 21,761 observations. Panel B displays the variable averages for two subsets (observations with lawsuits and those without) alongside the statistical significance of mean disparities. Panel C presents descriptive statistics for the subset with lawsuits, comprising 4,307 observations. All continuous variables undergo winsorization at the 1% and 99% percentiles. For comprehensive variable definitions, please consult Appendix 1.

Table 3: Corporate Social Responsibility and Lawsuit Risk and Settlement
Correlation Matrix

Panel A: Full sample (Obs. = 21,761)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1 LAWSUIT		-0.027	0.127	-0.042	0.062	-0.045	-0.042	0.012	-0.084	-0.075	0.068	-0.017	-0.019	-0.026	-0.069	-0.084	0.040	-0.016
<i>p-value</i>		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.070	<.0001	<.0001	<.0001	0.011	0.006	0.000	<.0001	<.0001	<.0001	0.019
2 CSR	-0.017		0.176	0.160	0.008	0.117	0.121	-0.070	0.100	0.161	0.130	-0.020	0.089	0.009	-0.088	-0.043	0.085	0.055
<i>p-value</i>	0.010		<.0001	<.0001	0.216	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.004	<.0001	0.162	<.0001	<.0001	<.0001	<.0001
3 SIZE	0.129	0.227		0.050	0.427	0.121	0.107	-0.214	-0.244	-0.123	0.438	0.241	0.085	-0.188	-0.191	-0.082	0.291	-0.160
<i>p-value</i>	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
4 MTB	-0.025	0.099	0.006		-0.064	0.375	0.309	-0.149	0.356	0.824	-0.028	0.025	0.207	0.130	0.023	0.089	0.047	0.121
<i>p-value</i>	0.000	<.0001	0.344		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.000	<.0001	<.0001	0.001	<.0001	<.0001	<.0001
5 LEV	0.049	-0.008	0.296	-0.031		-0.205	-0.132	0.043	-0.620	-0.234	0.168	0.202	-0.143	-0.145	-0.113	-0.152	0.148	-0.211
<i>p-value</i>	<.0001	0.236	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
6 ROA	-0.004	0.093	0.220	0.065	-0.136		0.659	-0.685	0.580	0.464	0.136	0.064	0.289	-0.010	-0.090	0.354	0.000	-0.099
<i>p-value</i>	0.592	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.139	<.0001	<.0001	0.950	<.0001
7 CASHFL	-0.004	0.110	0.202	0.074	-0.100	0.688		-0.426	0.415	0.378	0.054	0.058	0.249	0.160	-0.058	0.150	0.014	-0.065
<i>p-value</i>	0.545	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.046	<.0001
8 LOSS	0.012	-0.080	-0.217	-0.024	0.100	-0.678	-0.470		-0.345	-0.147	-0.177	-0.091	-0.152	0.136	0.147	-0.290	-0.039	0.173
<i>p-value</i>	0.070	<.0001	<.0001	0.000	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
9 ZSCORE	-0.075	0.051	-0.215	0.196	-0.457	0.348	0.279	-0.206		0.550	-0.071	-0.019	0.260	0.076	0.076	0.248	-0.087	0.072
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	0.006	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
10 TOBINQ	-0.081	0.110	-0.160	0.469	-0.155	0.099	0.116	-0.030	0.591		-0.126	-0.025	0.268	0.197	0.086	0.141	-0.002	0.210
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	0.000	<.0001	<.0001	<.0001	<.0001	0.821	<.0001
11 FIRMAGE	0.068	0.146	0.445	-0.019	0.087	0.173	0.107	-0.179	-0.128	-0.161		-0.061	0.069	-0.203	-0.340	-0.012	0.053	-0.192
<i>p-value</i>	<.0001	<.0001	<.0001	0.005	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	0.066	<.0001	<.0001
12 ASSETAGE	-0.015	-0.035	0.244	0.006	0.171	0.121	0.098	-0.095	0.031	-0.005	-0.064		-0.017	-0.067	0.200	0.074	0.040	-0.157
<i>p-value</i>	0.029	<.0001	<.0001	0.410	<.0001	<.0001	<.0001	<.0001	<.0001	0.453	<.0001		0.013	<.0001	<.0001	<.0001	<.0001	<.0001
13 MGR_ABILITY	-0.019	0.104	0.105	0.113	-0.130	0.227	0.220	-0.151	0.225	0.248	0.068	-0.017		0.125	-0.001	0.061	0.003	0.079
<i>p-value</i>	0.006	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.014		<.0001	0.831	<.0001	0.627	<.0001
14 ACCRUAL	-0.033	-0.002	-0.215	0.118	-0.092	-0.196	-0.026	0.175	0.097	0.287	-0.220	-0.078	0.126		0.123	-0.044	-0.050	0.246
<i>p-value</i>	<.0001	0.725	<.0001	<.0001	<.0001	<.0001	0.000	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001
15 SALE_VOL	-0.063	-0.080	-0.186	0.055	-0.052	-0.164	-0.142	0.165	0.119	0.167	-0.339	0.209	-0.003	0.171		0.034	-0.077	0.078
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.670	<.0001		<.0001	<.0001	<.0001
16 SPE_ITEM	-0.032	0.014	0.043	0.036	-0.045	0.525	0.110	-0.371	0.146	0.070	0.056	0.047	0.036	-0.176	-0.040		-0.056	-0.064
<i>p-value</i>	<.0001	0.047	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001
17 BIG4	0.040	0.079	0.284	0.026	0.123	0.011	0.019	-0.039	-0.102	-0.025	0.054	0.037	0.003	-0.061	-0.077	-0.010		-0.020
<i>p-value</i>	<.0001	<.0001	<.0001	0.000	<.0001	0.101	0.004	<.0001	<.0001	0.000	<.0001	<.0001	0.631	<.0001	<.0001	0.152		0.004
18 HIGH_RISK	-0.016	0.078	-0.147	0.073	-0.163	-0.168	-0.149	0.173	0.125	0.233	-0.193	-0.168	0.079	0.268	0.076	-0.073	-0.020	
<i>p-value</i>	0.019	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.004	

Table 3: Corporate Social Responsibility and Lawsuit Risk and Settlement
Correlation Matrix

Panel B: Lawsuit sample (Obs. = 4,307)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1 LAWSUIT_GL		0.005	-0.061	-0.061	-0.002	0.115	0.037	-0.108	0.035	-0.061	0.024	0.026	-0.056	-0.058	-0.016	0.544	0.007	-0.066
<i>p-value</i>		0.025	<.0001	<.0001	0.886	<.0001	0.014	<.0001	0.021	<.0001	0.121	0.085	0.000	0.000	0.300	<.0001	0.633	<.0001
2 CSR	0.026		0.201	0.163	0.013	0.124	0.120	-0.091	0.108	0.173	0.136	-0.079	0.125	-0.003	-0.084	-0.039	0.041	0.115
<i>p-value</i>	0.087		<.0001	<.0001	0.398	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.830	<.0001	0.011	0.007	<.0001
3 SIZE	-0.035	0.245		0.117	0.370	0.135	0.074	-0.198	-0.217	-0.067	0.446	0.240	0.147	-0.136	-0.226	-0.047	0.275	-0.090
<i>p-value</i>	0.021	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.002	<.0001	<.0001
4 MTB	-0.006	0.080	0.038		-0.014	0.379	0.316	-0.186	0.329	0.804	0.010	-0.001	0.186	0.106	-0.057	0.026	0.062	0.093
<i>p-value</i>	0.718	<.0001	0.014		0.373	<.0001	<.0001	<.0001	<.0001	<.0001	0.528	0.946	<.0001	<.0001	0.000	0.091	<.0001	<.0001
5 LEV	0.012	-0.006	0.258	0.011		-0.171	-0.128	0.052	-0.595	-0.190	0.127	0.232	-0.135	-0.158	-0.132	-0.076	0.135	-0.221
<i>p-value</i>	0.447	0.672	<.0001	0.461		<.0001	<.0001	0.001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
6 ROA	0.159	0.090	0.189	0.091	-0.108		0.619	-0.697	0.547	0.492	0.143	0.022	0.242	0.018	-0.131	0.392	0.033	-0.050
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	0.142	<.0001	0.234	<.0001	<.0001	0.028	0.001
7 CASHFL	0.081	0.101	0.123	0.096	-0.095	0.569		-0.397	0.405	0.417	0.024	0.013	0.227	0.191	-0.072	0.162	0.021	0.006
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	0.112	0.381	<.0001	<.0001	<.0001	<.0001	0.160	0.707
8 LOSS	-0.142	-0.103	-0.204	-0.044	0.103	-0.661	-0.404		-0.347	-0.209	-0.159	-0.048	-0.140	0.091	0.161	-0.350	-0.071	0.110
<i>p-value</i>	<.0001	<.0001	<.0001	0.004	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	0.002	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
9 ZSCORE	0.020	0.062	-0.194	0.115	-0.444	0.336	0.291	-0.214		0.536	-0.058	-0.078	0.258	0.091	0.064	0.196	-0.068	0.074
<i>p-value</i>	0.191	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	0.000	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001
10 TOBINQ	-0.075	0.139	-0.109	0.288	-0.136	0.192	0.281	-0.094	0.605		-0.088	-0.062	0.249	0.166	0.004	0.063	0.015	0.186
<i>p-value</i>	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	0.784	<.0001	0.323	<.0001
11 FIRMAGE	0.025	0.162	0.448	0.011	0.067	0.169	0.055	-0.164	-0.109	-0.135		-0.070	0.081	-0.155	-0.329	0.009	0.075	-0.120
<i>p-value</i>	0.103	<.0001	<.0001	0.457	<.0001	<.0001	0.000	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	0.551	<.0001	<.0001
12 ASSETAGE	0.002	-0.097	0.232	-0.006	0.199	0.062	0.020	-0.048	-0.030	-0.033	-0.073		-0.056	-0.051	0.147	0.044	0.033	-0.159
<i>p-value</i>	0.915	<.0001	<.0001	0.671	<.0001	<.0001	0.179	0.002	0.050	0.032	<.0001		0.000	0.001	<.0001	0.004	0.033	<.0001
13 MGR_ABILITY	-0.055	0.138	0.169	0.067	-0.117	0.179	0.213	-0.139	0.219	0.254	0.079	-0.056		0.140	-0.016	-0.001	0.020	0.092
<i>p-value</i>	0.000	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.000		<.0001	0.306	0.928	0.200	<.0001
14 ACCRUAL	-0.072	0.004	-0.163	0.038	-0.126	-0.131	0.134	0.121	0.117	0.243	-0.185	-0.066	0.152		0.083	-0.081	-0.033	0.213
<i>p-value</i>	<.0001	0.808	<.0001	0.012	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001	0.029	<.0001
15 SALE_VOL	0.003	-0.102	-0.225	0.003	-0.074	-0.202	-0.149	0.183	0.078	0.081	-0.321	0.157	-0.026	0.121		0.003	-0.103	0.046
<i>p-value</i>	0.837	<.0001	<.0001	0.854	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.094	<.0001		0.862	<.0001	0.003
16 SPE_ITEM	0.445	0.016	0.027	0.032	-0.036	0.582	0.148	-0.394	0.135	0.015	0.055	0.010	-0.020	-0.159	-0.044		-0.025	-0.102
<i>p-value</i>	<.0001	0.290	0.081	0.036	0.019	<.0001	<.0001	<.0001	<.0001	0.316	0.000	0.502	0.190	<.0001	0.004		0.099	<.0001
17 BIG4	-0.007	0.045	0.270	0.029	0.115	0.063	0.031	-0.071	-0.068	-0.012	0.072	0.031	0.021	-0.041	-0.096	-0.011		-0.030
<i>p-value</i>	0.667	0.003	<.0001	0.057	<.0001	<.0001	0.044	<.0001	<.0001	0.444	<.0001	0.040	0.159	0.007	<.0001	0.461		0.046
18 HIGH_RISK	-0.024	0.166	-0.069	0.014	-0.180	-0.099	-0.041	0.110	0.121	0.179	-0.121	-0.170	0.093	0.216	0.035	-0.067	-0.030	
<i>p-value</i>	0.118	<.0001	<.0001	0.375	<.0001	<.0001	0.007	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	<.0001	0.022	<.0001	0.046	

**Table 4: Corporate Social Responsibility and Lawsuit Risk and Settlement
Primary Results**

Panel A: Full Sample

	Dependent Variable = LAWSUIT							
	Logistic Regression							
	Column 1				Column 2			
Variable	Estimate	Chi-Square	Pr>ChiSq	VIF	Estimate	Chi-Square	Pr>ChiSq	VIF
Intercept	-3.11***	213.950	<.0001		-2.71***	148.116	<.0001	
CSR	-0.04***	35.681	<.0001	1.25				
CSR_STRENGTH					-0.02**	4.530	0.033	1.57
CSR_CONCERN					0.11***	72.527	<.0001	1.70
SIZE	0.25***	249.774	<.0001	2.02	0.19***	98.661	<.0001	2.78
MTB	0.00	0.562	0.454	1.33	0.00	0.515	0.473	1.33
LEV	-0.35***	7.307	0.007	1.61	-0.27**	4.350	0.037	1.62
ROA	1.05***	10.519	0.001	4.60	1.07***	10.832	0.001	4.60
CASHFL	-0.20	0.450	0.502	2.73	-0.15	0.261	0.610	2.73
LOSS	0.25***	17.562	<.0001	1.93	0.23***	15.248	<.0001	1.94
ZSCORE	-0.02***	8.530	0.004	2.47	-0.02***	8.349	0.004	2.47
TOBINQ	-0.10***	17.417	<.0001	2.55	-0.11***	20.797	<.0001	2.56
FIRMAGE	0.07*	3.462	0.063	1.66	0.05	2.054	0.152	1.67
ASSETAGE	-0.60***	17.041	<.0001	1.53	-0.54***	13.618	0.000	1.54
MGR_ABLITY	0.00	0.001	0.981	1.25	-0.01	0.019	0.892	1.26
ACCRUAL	0.41	1.206	0.272	1.35	0.40	1.179	0.278	1.35
SALE_VOL	-0.12***	8.376	0.004	1.38	-0.11***	7.830	0.005	1.38
SPE_ITEM	-2.08***	19.210	<.0001	1.82	-2.05***	18.562	<.0001	1.82
BIG4	0.09	1.782	0.182	1.16	0.13*	3.255	0.071	1.16
HIGH_RISK	0.10	1.466	0.226	3.54	0.10	1.634	0.201	3.54
Industry Indicators	Yes				Yes			
Year Indicators	Yes				Yes			
Pseudo R ²	0.1092				0.1117			
Observations	21,761				21,761			

This panel presents the results of the baseline regression model using logistic regression. The baseline model is as follows.

$$\text{LAWSUIT} = \beta_0 + \beta_1 \times \text{CSR} + \beta_x \times \text{Control Variables} + \text{Industry Indicators} + \text{Year Indicators} + \varepsilon$$

Each year, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles prior to their inclusion in the regression analysis. Column 1 employs CSR as the key independent variable, while Column 2 utilizes CSR_STRENGTH and CSR_CONCERN as the primary independent variables. The symbols *, **, and *** indicate significance at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. For comprehensive variable explanations, please refer to Appendix 1.

**Table 4: Corporate Social Responsibility and Lawsuit Risk and Settlement
Primary Results**

Panel B: Lawsuit Sample

	Dependent Variable = LAWSUIT_GL							
	Clustered Standard Errors OLS Regression							
	Column 1				Column 2			
Variable	Estimate	tValue	Pr> t	VIF	Estimate	tValue	Pr> t	VIF
Intercept	-0.0007	-0.21	0.833		-0.0019	-0.51	0.613	
CSR	0.0003***	3.33	0.001	1.36				
CSR_STRENGTH					0.0003**	2.38	0.018	1.95
CSR_CONCERN					-0.0005***	-2.77	0.006	1.97
SIZE	-0.0012***	-4.31	<.0001	2.02	-0.0010***	-2.88	0.004	3.19
MTB	0.0000	0.97	0.334	1.13	0.0000	0.98	0.329	1.13
LEV	0.0059**	2.31	0.021	1.64	0.0057**	2.23	0.026	1.66
ROA	-0.0605***	-4.95	<.0001	3.69	-0.0604***	-4.94	<.0001	3.69
CASHFL	0.0498***	5.08	<.0001	2.05	0.0495***	5.05	<.0001	2.05
LOSS	-0.0022	-1.48	0.139	1.88	-0.0021	-1.44	0.151	1.89
ZSCORE	0.0003**	2.04	0.042	2.40	0.0003**	2.03	0.042	2.40
TOBINQ	-0.0024***	-4.41	<.0001	2.29	-0.0023***	-4.37	<.0001	2.31
FIRMAGE	0.0012**	2.15	0.031	1.60	0.0013**	2.21	0.027	1.61
ASSETAGE	0.0045	1.58	0.115	1.54	0.0043	1.49	0.135	1.55
MGR_ABLITY	-0.0002	-0.16	0.876	1.29	-0.0002	-0.17	0.863	1.29
ACCRUAL	-0.0113	-1.05	0.295	1.30	-0.0112	-1.04	0.300	1.30
SALE_VOL	0.0005	0.70	0.487	1.39	0.0005	0.70	0.486	1.39
SPE_ITEM	0.2208***	9.49	<.0001	1.84	0.2206***	9.48	<.0001	1.84
BIG4	0.0018	1.22	0.223	1.15	0.0017	1.15	0.251	1.16
HIGH_RISK	0.0006	0.43	0.669	3.72	0.0006	0.42	0.677	3.72
Industry Indicators	Yes				Yes			
Year Indicators	Yes				Yes			
Adjusted R ²	0.2603				0.2607			
Observations	4,307				4,307			

This panel presents the results of the baseline regression model using clustered standard errors OLS regression (by firm and by year). The baseline model is as follows. $LAWSUIT_GL = \beta_0 + \beta_1 \times CSR + \beta_x \times \text{Control Variables} + \text{Industry Indicators} + \text{Year Indicators} + \varepsilon$

Each year, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles prior to their inclusion in the regression analysis. Column 1 employs CSR as the key independent variable, while Column 2 utilizes CSR_STRENGTH and CSR_CONCERN as the primary independent variables. The symbols *, **, and *** indicate significance at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. For comprehensive variable explanations, please refer to Appendix 1.

Table 5: Corporate Social Responsibility and Lawsuit Risk and Settlement
Alternative CSR Measures

	Dependent Variable = LAWSUIT						Dependent Variable = LAWSUIT GL					
	Logistic Regression						Clustered Standard Errors OLS					
	Column 1			Column 2			Column 3			Column 4		
Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq	Estimate	tValue	Pr> t	Estimate	tValue	Pr> t
Intercept	-3.13***	214.58	<.0001	-3.01***	202.56	<.0001	-0.0003	-0.08	0.936	-0.0014	-0.40	0.690
CSR_ALT	-0.04***	23.57	<.0001				0.0004***	3.26	0.001			
H_CSR				-0.18***	17.73	<.0001				0.0015**	2.50	0.012
SIZE	0.25***	244.59	<.0001	0.24***	237.90	<.0001	0.0013***	-4.48	<.0001	0.0012***	-4.22	<.0001
MTB	0.00	0.54	0.461	0.00	0.49	0.485	0.0000	0.95	0.342	0.0000	0.98	0.325
LEV	-0.35***	7.27	0.007	-0.34***	7.02	0.008	0.0059**	2.32	0.020	0.0060**	2.35	0.019
ROA	1.06***	10.79	0.001	1.09***	11.25	0.001	0.0605***	-4.96	<.0001	0.0609***	-4.99	<.0001
CASHFL	-0.21	0.52	0.472	-0.27	0.81	0.367	0.0498***	5.08	<.0001	0.0504***	5.15	<.0001
LOSS	0.25***	17.63	<.0001	0.25***	17.95	<.0001	-0.0022	-1.49	0.137	-0.0022	-1.53	0.126
ZSCORE	-0.02***	8.77	0.003	-0.02***	8.57	0.003	0.0003**	2.05	0.040	0.0003**	2.05	0.041
TOBINQ	-0.10***	17.27	<.0001	-0.10***	17.57	<.0001	0.0024***	-4.44	<.0001	0.0024***	-4.41	<.0001
FIRMAGE	0.06*	3.24	0.072	0.06*	3.11	0.078	0.0012**	2.19	0.029	0.0013**	2.27	0.023
ASSETAGE	-0.60***	17.23	<.0001	-0.58***	16.09	<.0001	0.0046	1.60	0.109	0.0043	1.51	0.132
MGR_ABLITY	0.00	0.00	0.965	-0.01	0.01	0.926	-0.0002	-0.17	0.862	-0.0001	-0.09	0.927
ACCRUAL	0.41	1.19	0.274	0.38	1.03	0.309	-0.0114	-1.05	0.293	-0.0111	-1.03	0.304
SALE_VOL	-0.11***	8.02	0.005	-0.11***	7.86	0.005	0.0005	0.68	0.495	0.0005	0.65	0.514
SPE_ITEM	-2.10***	19.67	<.0001	-2.12***	19.98	<.0001	0.2210***	9.50	<.0001	0.2216***	9.51	<.0001
BIG4	0.09	1.79	0.181	0.10	1.96	0.161	0.0018	1.22	0.224	0.0018	1.19	0.235
HIGH_RISK	0.09	1.40	0.237	0.08	1.14	0.285	0.0006	0.41	0.683	0.0007	0.52	0.606
Industry Indicators	Yes			Yes			Yes			Yes		
Year Indicators	Yes			Yes			Yes			Yes		
Pseudo R ² / Adj. R ²	0.1084			0.1080			0.2602			0.2596		
Observations	21,761			21,761			4,307			4,307		

This table presents the results of the baseline regression models using two alternative CSR variables. CSR_ALT = total CSR strengths – total CSR concerns in the following five areas: community, diversity, environment, employee relations and products. H_CSR is an indicator variable that equals one if the total CSR strengths is greater than total CSR concerns and zero otherwise. The symbols *, **, and *** signify significance at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. You can find detailed definitions of the variables in Appendix 1.

Table 6: Corporate Social Responsibility and Lawsuit Risk and Settlement
Alternative Sample Periods

	Dependent Variable = LAWSUIT						Dependent Variable = LAWSUIT GL					
	Logistic Regression						Clustered Standard Errors OLS					
	Column 1			Column 2			Column 3			Column 4		
	1994-2005			2006-2019			1994-2005			2006-2019		
Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq	Estimate	tValue	Pr> t	Estimate	tValue	Pr> t
Intercept	-3.85***	16.67	<.0001	-3.03***	221.59	<.0001	-0.0390**	-2.06	0.041	0.0027	0.75	0.451
CSR	-0.04*	3.35	0.067	-0.05***	39.01	<.0001	0.0004	0.66	0.513	0.0003***	3.13	0.002
SIZE	0.47***	50.77	<.0001	0.25***	232.26	<.0001	-0.0001	-0.07	0.940	-0.0014***	-4.63	<.0001
MTB	0.01	0.46	0.498	0.00	0.51	0.476	0.0001**	2.02	0.045	0.0000	0.44	0.659
LEV	0.03	0.00	0.963	-0.34***	7.02	0.008	0.0046	0.26	0.797	0.0051**	1.97	0.048
ROA	0.04	0.00	0.975	0.98***	8.74	0.003	-0.1133***	-2.83	0.005	-0.0486***	-4.02	<.0001
CASHFL	-3.96***	8.60	0.003	-0.11	0.14	0.710	0.1079***	3.00	0.003	0.0452***	4.57	<.0001
LOSS	0.29	1.93	0.165	0.24***	15.34	<.0001	-0.0105*	-1.72	0.086	-0.0009	-0.56	0.576
ZSCORE	0.03	2.09	0.148	-0.02***	9.55	0.002	0.0008	1.30	0.194	0.0002	0.85	0.398
TOBINQ	0.00	0.00	0.973	-0.10***	17.48	<.0001	-0.0032	-1.04	0.298	-0.0025***	-4.65	<.0001
FIRMAGE	-0.35**	5.29	0.022	0.06	2.52	0.112	0.0052	1.64	0.103	0.0012**	2.17	0.030
ASSETAGE	-2.13***	8.04	0.005	-0.58***	15.39	<.0001	0.0351	1.59	0.113	0.0038	1.34	0.181
MGR_ABLITY	-0.51**	4.54	0.033	0.00	0.00	0.945	-0.0084	-1.58	0.116	0.0006	0.49	0.621
ACCRUAL	2.64*	2.78	0.095	0.33	0.76	0.383	0.0052	0.14	0.891	-0.0112	-1.03	0.305
SALE_VOL	-0.27	2.42	0.120	-0.11***	7.51	0.006	0.0030	0.65	0.514	0.0005	0.61	0.539
SPE_ITEM	-3.72**	4.24	0.040	-1.45***	8.75	0.003	0.2069***	2.85	0.005	0.2178***	8.66	<.0001
BIG4	-0.25	0.24	0.624	0.12*	3.05	0.081	-0.0070	-0.99	0.323	0.0019	1.26	0.209
HIGH_RISK	-0.10	0.07	0.795	0.10	1.49	0.222	-0.0078	-0.87	0.386	0.0008	0.56	0.578
Industry												
Indicators	Yes			Yes			Yes			Yes		
Year Indicators	Yes			Yes			Yes			Yes		
Pseudo R ² / Adj. R ²	0.1386			0.0710			0.2968			0.2532		
Observations	3,131			18,630			279			4,028		

This table presents the results of the baseline regression models using two different sample periods, namely 1994-2006 and 2006-2019. The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. The symbols *, **, and *** signify significance at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. You can find detailed definitions of the variables in Appendix 1.

**Table 7: Corporate Social Responsibility and Lawsuit Risk and Settlement
Using Lagged CSR Measures**

	Dependent Variable = LAWSUIT								
	Logistic Regression								
	Column 1			Column 2			Column 3		
Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq
Intercept	-3.02***	151.17	<.0001	-2.95***	130.83	<.0001	-2.79***	105.38	<.0001
LAG_CSR1	-0.04***	17.35	<.0001						
LAG_CSR2				-0.04***	17.99	<.0001			
LAG_CSR3							-0.03***	15.18	<.0001
SIZE	0.22***	143.22	<.0001	0.21***	122.49	<.0001	0.20***	98.12	<.0001
MTB	0.01*	3.13	0.077	0.01*	3.43	0.064	0.01*	2.90	0.089
LEV	-0.33**	4.36	0.037	-0.36**	4.40	0.036	-0.55***	9.31	0.002
ROA	1.25**	6.03	0.014	1.20**	4.89	0.027	1.30**	5.15	0.023
CASHFL	-0.73*	2.83	0.093	-0.75	2.67	0.102	-0.66	1.86	0.173
LOSS	0.18**	6.08	0.014	0.21***	7.16	0.007	0.24***	8.22	0.004
ZSCORE	-0.02***	6.75	0.009	-0.03***	7.25	0.007	-0.04***	13.62	0.000
TOBINQ	-0.14***	16.60	<.0001	-0.12***	12.86	0.000	-0.12***	11.09	0.001
FIRMAGE	0.10**	5.82	0.016	0.09**	4.05	0.044	0.10*	3.79	0.052
ASSETAGE	-0.40**	5.16	0.023	-0.39**	4.40	0.036	-0.37*	3.54	0.060
MGR_ABLITY	0.02	0.04	0.843	-0.01	0.01	0.925	-0.01	0.02	0.901
ACCRUAL	1.32**	6.48	0.011	1.36**	6.10	0.014	1.20**	4.20	0.041
SALE_VOL	-0.13**	6.60	0.010	-0.16***	8.12	0.004	-0.14**	5.47	0.019
SPE_ITEM	-2.91***	17.83	<.0001	-2.77***	14.29	0.000	-2.36***	9.02	0.003
BIG4	0.14	2.62	0.106	0.14	2.54	0.111	0.12	1.64	0.200
HIGH_RISK	0.02	0.04	0.847	0.05	0.23	0.633	0.05	0.28	0.600
Industry Indicators	Yes			Yes			Yes		
Year Indicators	Yes			Yes			Yes		
Pseudo R ²	0.1044			0.1020			0.0976		
Observations	16,099			14,452			12,915		

This table presents the results of the baseline regression models using three lagged CSR variables, namely LAG_CSR1, LAG_CSR2, and LAG_CSR3. Specifically, LAG_CSR1 is the CSR score in year t-1. LAG_CSR2 (LAG_CSR3) is the CSR score in year t-2 (t-3). The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. The symbols *, **, and *** signify significance at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. You can find detailed definitions of the variables in Appendix 1.

**Table 8: Corporate Social Responsibility and Lawsuit Risk and Settlement
Changes Analysis**

	Clustered Standard Errors OLS					
	Column 1			Column 2		
	Dependent	Variable	=	Dependent	Variable	=
	Δ LAWSUIT			Δ LAWSUIT _{GL}		
	Full Sample			Lawsuit Sample		
Variable	Estimate	tValue	Pr> t	Estimate	tValue	Pr> t
Intercept	-0.003	-0.13	0.894	0.0019	1.01	0.312
ΔCSR	-0.006**	-2.41	0.016	0.0001*	1.73	0.083
Δ SIZE	0.048*	1.75	0.081	-0.0044*	-1.84	0.066
Δ MTB	0.000	-0.04	0.971	0.0001*	1.92	0.056
Δ LEV	-0.040	-0.56	0.573	0.0149**	2.29	0.022
Δ ROA	0.231**	2.44	0.015	-0.0506***	-3.11	0.002
Δ CASHFL	-0.029	-0.37	0.708	0.0328***	2.91	0.004
Δ LOSS	0.012	0.98	0.329	0.0007	0.37	0.711
Δ ZSCORE	-0.007**	-2.29	0.022	0.0007	1.61	0.107
Δ TOBINQ	0.009	0.90	0.366	-0.0038***	-2.73	0.006
Δ FIRMAGE	-0.013	-0.09	0.925	0.0048	0.91	0.361
Δ ASSETAGE	-0.165	-1.58	0.113	0.0162*	1.85	0.064
Δ MGR_ABLITY	-0.023	-1.29	0.197	-0.0009	-0.64	0.522
Δ ACCRUAL	0.203**	2.29	0.022	-0.0066	-0.58	0.564
Δ SALE_VOL	-0.004	-0.22	0.828	0.0002	0.12	0.902
Δ SPE_ITEM	-0.347***	-2.77	0.006	0.2282***	8.92	<.0001
Δ BIG4	0.027	0.62	0.536	-0.0008	-0.20	0.844
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Adj. R ²	0.0044			0.2235		
Observations	16,099			2,465		

This panel presents the results of the changes analysis. In Column 1, the following model is used: Δ LAWSUIT = $\beta_0 + \beta_1 \times \Delta$ CSR + $\beta_x \times \Delta$ Control Variables + Industry Indicators + Year Indicators + ϵ ; In Column 2, the following model is used: Δ LAWSUIT_{GL} = $\beta_0 + \beta_1 \times \Delta$ CSR + $\beta_x \times \Delta$ Control Variables + Industry Indicators + Year Indicators + ϵ . Before entering the regression analysis each year, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles. Significance levels are denoted by *, **, and *** at the 10, 5, and 1 percent (two-tailed) levels, respectively. Detailed definitions of the variables can be found in Appendix 1.

Table 9: Corporate Social Responsibility and Lawsuit Risk and Settlement
Two-Stage OLS Regression Analysis

	Dependent Variable = LAWSUIT_GL					
	Lawsuit Sample					
	Ordinary Least Squares Regression (OLS)					
	Column 1			Column 2		
	Stage 1			Stage 2		
Variable	Estimate	tValue	Pr> t	Estimate	tValue	Pr> t
Intercept	-3.048***	-6.67	<.0001	-0.0007	-0.21	0.831
CSR_Mean	0.885***	9.35	<.0001			
CSR_Instrumental				0.0003***	2.98	0.003
SIZE	0.470***	14.11	<.0001	-0.0012***	-4.64	<.0001
MTB	0.008	1.40	0.160	0.0000	0.91	0.362
LEV	-0.326	-1.21	0.228	0.0059***	2.90	0.004
ROA	-1.907***	-2.86	0.004	-0.0605***	-12.02	<.0001
CASHFL	2.151***	3.26	0.001	0.0498***	10.02	<.0001
LOSS	-0.290**	-2.32	0.021	-0.0022**	-2.30	0.022
ZSCORE	0.002	0.12	0.904	0.0003***	3.10	0.002
TOBINQ	0.181***	3.59	0.000	-0.0024***	-6.19	<.0001
FIRMAGE	0.195**	2.59	0.010	0.0012**	2.13	0.033
ASSETAGE	-1.042***	-3.31	0.001	0.0045*	1.89	0.059
MGR_ABLITY	0.528***	3.69	0.000	-0.0002	-0.16	0.875
ACCRUAL	-0.029	-0.04	0.971	-0.0113*	-1.83	0.067
SALE_VOL	-0.236***	-2.68	0.007	0.0005	0.83	0.409
SPE_ITEM	1.751*	1.92	0.055	0.2208***	32.12	<.0001
BIG4	-0.162	-1.04	0.299	0.0018	1.56	0.119
HIGH_RISK	0.306*	1.80	0.072	0.0006	0.45	0.650
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Adj. R ²	0.2817			0.2603		
Observations	4,307			4,307		

This table presents the results of the two-stage OLS analysis (2SLS). Continuous variables in the baseline regression model undergo winsorization at the 1% and 99% percentiles annually before entering the regression analysis. Significance levels are indicated by *, **, and *** at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. For comprehensive variable definitions, please refer to Appendix 1.

Table 10: Corporate Social Responsibility and Lawsuit Risk and Settlement
Observations with Settlement Gain vs. Observations with Settlement Loss

	Dependent Variable = LAWSUIT_GL					
	Lawsuit Sample					
	Clustered Standard Errors OLS Regression					
	Column 1			Column 2		
	Settlement Gain			Settlement Loss		
Variable	Estimate	tValue	Pr> t	Estimate	tValue	Pr> t
Intercept	0.0105**	2.26	0.024	-0.0168***	-3.92	<.0001
CSR	0.0001	0.75	0.456	0.0003***	2.72	0.007
SIZE	-0.0021***	-6.81	<.0001	0.0009**	2.47	0.014
MTB	0.0000	1.37	0.172	0.0001	0.92	0.356
LEV	-0.0022	-0.80	0.425	0.0110***	3.21	0.001
ROA	-0.0473**	-2.58	0.010	-0.0486***	-3.98	<.0001
CASHFL	0.0424***	3.01	0.003	0.0352***	3.37	0.001
LOSS	0.0037**	2.13	0.033	-0.0062***	-3.39	0.001
ZSCORE	-0.0003	-1.42	0.157	0.0004**	1.98	0.048
TOBINQ	0.0000	-0.07	0.948	-0.0030***	-4.13	<.0001
FIRMAGE	0.0010	1.34	0.181	0.0008	1.18	0.239
ASSETAGE	0.0012	0.33	0.739	0.0082**	2.21	0.027
MGR_ABLITY	0.0021	1.60	0.111	-0.0007	-0.55	0.582
ACCRUAL	0.0179	1.26	0.208	-0.0371***	-2.89	0.004
SALE_VOL	0.0021**	2.16	0.031	0.0010	1.00	0.315
SPE_ITEM	0.1798***	5.22	<.0001	0.1617***	6.60	<.0001
BIG4	-0.0002	-0.10	0.922	0.0022	1.42	0.156
HIGH_RISK	0.0012	0.66	0.513	0.0003	0.18	0.858
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Adj. R ²	0.2876			0.3122		
Observations	2,050			2,257		

This table presents the results of the baseline regression model using clustered standard errors OLS regression for observations with settlement gain and observations with settlement loss. The baseline model is as follows. $LAWSUIT_GL = \beta_0 + \beta_1 \times CSR + \beta_x \times \text{Control Variables} + \text{Industry Indicators} + \text{Year Indicators} + \varepsilon$

Continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles annually before entering the regression analysis. Significance levels are denoted by *, **, and *** at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. Detailed definitions of the variables can be found in Appendix 1.

**Table 11: Corporate Social Responsibility and Lawsuit Risk and Settlement
Observations with High Cash Holdings vs. Observations with Low Cash Holdings**

	Dependent Variable = LAWSUIT					
	Full Sample					
	Logistic Regression					
	Column 1			Column 2		
	High Cash Holdings			Low Cash Holdings		
Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq
Intercept	-2.622***	79.69	<.0001	-3.434***	85.90	<.0001
CSR	-0.037***	17.24	<.0001	-0.066***	14.64	0.000
SIZE	0.205***	71.63	<.0001	0.248***	53.00	<.0001
MTB	0.008	2.22	0.136	-0.008	1.13	0.287
LEV	-0.256	1.89	0.169	-0.423**	5.03	0.025
ROA	1.543***	9.46	0.002	0.796*	3.29	0.070
CASHFL	-0.827*	3.38	0.066	0.062	0.02	0.880
LOSS	0.112	1.68	0.196	0.378***	20.20	<.0001
ZSCORE	-0.021**	5.23	0.022	-0.021**	4.76	0.029
TOBINQ	-0.127***	15.16	<.0001	-0.055	2.42	0.120
FIRMAGE	0.036	0.53	0.465	0.153***	7.76	0.005
ASSETAGE	-0.580***	8.06	0.005	-0.494**	5.19	0.023
MGR_ABLITY	0.019	0.05	0.830	0.020	0.03	0.858
ACCRUAL	1.362***	6.75	0.009	-0.566	1.05	0.305
SALE_VOL	-0.218***	14.66	0.000	-0.005	0.01	0.936
SPE_ITEM	-3.403***	21.67	<.0001	-1.072	2.70	0.101
BIG4	0.086	0.46	0.496	0.136	2.50	0.114
HIGH_RISK	0.184*	3.17	0.075	-0.031	0.06	0.806
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Pseudo R ²	0.1193			0.1007		
Observations	10,881			10,880		
	Coefficient Comparison Test					
	Coefficient of CSR (-0.037) for Observations with High Cash Holdings vs. Coefficient of CSR (-0.066) for Observations with Low Cash Holdings					
	F-stat. = 16.63; p-value < 0.0001					

This table presents the results of the baseline regression model using logistic regression for observations with high cash holdings and observations with low cash holdings. The baseline model is as follows. $LAWSUIT = \beta_0 + \beta_1 \times CSR + \beta_x \times \text{Control Variables} + \text{Industry Indicators} + \text{Year Indicators} + \epsilon$

Before commencing the regression analysis each year, the continuous variables in the baseline model are adjusted at the 1% and 99% percentiles. *, **, and *** represent significance levels at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. Detailed explanations of the variables can be found in Appendix 1.

**Table 12: Corporate Social Responsibility and Lawsuit Risk and Settlement
Manufacturing Firms vs. Service Firms**

	Dependent Variable = LAWSUIT					
	Full Sample					
	Logistic Regression					
	Column 1			Column 2		
	Manufacturing Firms			Service Firms		
Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	Chi-Square	Pr>ChiSq
Intercept	-3.510***	189.39	<.0001	-1.644***	14.08	0.000
CSR	-0.039***	19.74	<.0001	-0.057***	19.51	<.0001
SIZE	0.262***	181.64	<.0001	0.209	55.08	<.0001
MTB	0.004	0.44	0.505	0.000	0.00	0.993
LEV	-0.092	0.31	0.576	-0.742***	12.31	0.000
ROA	1.090***	8.34	0.004	0.924	1.91	0.167
CASHFL	0.263	0.55	0.458	-1.116*	3.86	0.050
LOSS	0.274***	14.32	0.000	0.168	2.50	0.114
ZSCORE	-0.020**	6.69	0.010	-0.024*	3.41	0.065
TOBINQ	-0.056**	3.90	0.048	-0.135***	9.68	0.002
FIRMAGE	0.034	0.61	0.436	0.136**	4.28	0.039
ASSETAGE	-0.445**	6.02	0.014	-0.868***	11.98	0.001
MGR_ABLITY	-0.048	0.32	0.569	0.054	0.22	0.636
ACCRUAL	-0.003	0.00	0.994	1.462**	4.88	0.027
SALE_VOL	-0.064	1.66	0.198	-0.197***	7.93	0.005
SPE_ITEM	-1.990***	11.92	0.001	-2.096**	5.58	0.018
BIG4	0.029	0.11	0.737	0.239**	3.88	0.049
HIGH_RISK	0.111	0.92	0.337	0.110	0.99	0.320
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Pseudo R	0.1194			0.1125		
Observations	14,369			7,392		
	Coefficient Comparison Test					
	Coefficient of CSR (-0.039) for Manufacturing Firms vs. Coefficient of CSR (-0.057) for Service Firms					
	F-stat. = 14.45; p-value < 0.0001					

This table presents the results of the baseline regression model using logistic regression for manufacturing firms and service firms. The baseline model is as follows. $LAWSUIT = \beta_0 + \beta_1 \times CSR + \beta_x \times \text{Control Variables} + \text{Industry Indicators} + \text{Year Indicators} + \varepsilon$

The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. Detailed variable definitions are provided in Appendix 1.

Table 13: Corporate Social Responsibility and Lawsuit Risk and Settlement

Individual CSR Components

		Column 1			Column 2		
		Dependent Variable = LAWSUIT			Dependent Variable = LAWSUIT_GL		
		Logistic Regression			Clustered Standard Errors OLS		
		Full Sample			Lawsuit Sample		
	Variable	Estimate	Chi-Square	Pr>ChiSq	Estimate	tValue	Pr> t
	Intercept	-2.50***	127.04	<.0001	-0.0021	-0.56	0.576
CSR Components	Community Component	0.02	0.33	0.567	-0.0008	-1.38	0.168
	Governance Component	-0.13***	19.26	<.0001	0.0009*	1.76	0.079
	Diversity Component	0.04**	5.41	0.020	0.0007**	2.53	0.011
	Employee Component	-0.03	1.66	0.198	0.0001	0.20	0.845
	Environment Component	-0.06***	8.60	0.003	0.0004	1.49	0.135
	Human Rights Component	0.00	0.00	0.952	-0.0020***	-2.87	0.004
	Product Component	-0.28***	74.25	<.0001	0.0012**	2.49	0.013
	Controls	Yes			Yes		
	Industry Indicators	Yes			Yes		
	Year Indicators	Yes			Yes		
	Pseudo R ² / Adj. R ²	0.1157			0.2630		
	Observations	21,761			4,307		

This table presents the results of the baseline regression model using individual CSR components, namely community, governance, diversity, employee, environment, human rights, and product. Before commencing the regression analysis each year, the continuous variables in the baseline model are adjusted at the 1% and 99% percentiles. *, **, and *** represent significance levels at the 10, 5, and 1 percent (two-tailed) confidence levels, respectively. Detailed explanations of the variables can be found in Appendix 1.