The dark side of CSR: Moral licensing effect of CSR assurance on prosocial firms' subsequent misconduct

Abstract

This study explores CSR assurance's moral licensing effect on companies with superior CSR performance. Based on a sample of the US listed companies from the period 2002 to 2022, we find that prosocial firms acquiring CSR assurance tend to subsequently engage in corporate misconduct. We perform various robustness checks and address endogeneity concerns by applying a placebo test, using a propensity score matching (PSM) sample, and developing a staggered difference-in-differences (DID) design. Additional analyses report that when CSR assurance is provided by auditors, compared with consulting firms, the moral licensing effect on prosocial firms is salient because the moral image via CSR assurance provided by auditors is more convincing to the public. Cross-sectional analyses suggest that such an influence is more salient in firms (i) with low litigation risk, (ii) facing weak competition, (iii) possessing large size, (iv) without government customers, (v) encountering high financial constraints, and (vi) experiencing individualistic culture. Overall, our results provide original evidence that managers can be influenced by moral licensing via CSR assurance as a costly signal of CSR efforts and then be concerned less about the consequences of immoral actions, thus intensifying the incidence of corporate misconduct detrimental to a wide range of stakeholders. Our study contributes to the existing literature by highlighting the role of CSR assurance in prosocial firms' subsequent misconduct via a lens of moral licensing theory.

Keywords: Corporate social responsibility (CSR); CSR assurance; Corporate misconduct; Moral licensing.

1. Introduction

Corporate social responsibility (CSR) reports and external assurance on such statements, so-called CSR assurance, have grown significantly in recent years (Du & Wu, 2019; Maso et al., 2020). A large amount of existing literature focuses on exploring the bright side of CSR reports and assurance. Christensen (2016) suggests that firms issuing CSR reports tend not to conduct CSR-related misbehaviours, which appears to be consistent with the contents of their CSR reports. However, he acknowledges that CSR assurance insignificantly moderates CSR reporting's inhibiting influence on corporate misconduct in the US setting. To examine CSR assurance's role, Du & Wu (2019) argue that only companies acquiring CSR assurance have less propensity to conduct CSR-related misbehaviours. Moreover, Ballou et al. (2018) point out that CSR assurance, especially provided by auditors, enhances CSR reports' credibility by requiring restatements for comparability. Furthermore, when accounting firms provide its clients with both financial statement and CSR audits, auditors' assessments of going-concern risk can be improved (Maso et al., 2020). Following those results, Asante-Appiah & Lambert (2022) find that companies facing CSR-related reputation risk tend to acquire expertise from auditors via non-audit services.

Existing studies also explore drivers of CSR reporting and assurance. Regarding CSR reports, existing studies mainly focus on voluntary disclosure. For instance, Ryou et al. (2022) find that enterprises tend to avoid CSR reports and assurance due to proprietary cost concerns. Furthermore, Casey & Grenier (2015) suggest that in the US, intense regulatory oversight, stringent bank monitoring, and ineffective marketing of CSR assurance provided by accounting firms, inhibit listed firms' demand for CSR assurance. The US enterprises' low-level acquisition of CSR assurance can also be attributed to the shareholder-oriented culture (Simnett et al., 2009). Moreover, companies that need an improvement in CSR information quality prefer CSR assurance acquisition (Simnett et al., 2009). Focusing on a global setting, Clarkson et al. (2019) find that CSR leaders are inclined to provide stand-alone CSR reports and purchase CSR assurance. Furthermore, capital markets also value CSR reports assured by accounting firms, especially Big 4 (Casey & Grenier, 2015; Clarkson et al., 2015; Dhaliwal et al., 2011).

Therefore, existing literature regarding CSR reports and CSR assurance implies that prosocial enterprises have more propensity to acquire CSR assurance to enhance CSR information

credibility and thus improve firms' reputation. This indicates that companies with genuine CSR commitment tend to differentiate themselves from those that might be exposed to greenwashing by acquiring CSR assurance (Casey & Grenier, 2015; Pflugrath et al., 2011). Thus, CSR assurance plays a signalling role in a firm's reputation establishment (Asante-Appiah & Lambert, 2022; Clarkson et al., 2019; O'Dwyer et al., 2011). Nonetheless, from a reputation-building perspective, Kotchen & Moon (2012) find that companies take positive CSR activities to offset negative CSR actions that are perceived as unethical. Additionally, Chakravarthy et al. (2014) point out that enterprises conduct a large number of reputation-building initiatives after a severe earnings restatement. Furthermore, Ferrés & Marcet (2021) suggest that price-fixing companies are likely to make more CSR efforts that coincide with the official antitrust investigations. Importantly, CSR, especially in the long term, can provides firms with insurance-like protection against the impacts of a wide range of negative events on firms' stock and bond prices (Shiu & Yang, 2017). Furthermore, due to the halo effect of CSR, firms could strategically engage in CSR activities favoured by their jury pool and thus receive lower sanctions when they commit to crime (Cohen & Gurun, 2023; Efran, 1974; Nisbett & Wilson, 1977). Thus, socially responsible firms may care less about adverse consequences of misconduct because their CSR efforts as insurance-like protection compensate negative influence of their unethical behaviours.

If managers regard CSR engagement as a remedial strategy to alleviate the adverse effect of corporate unethical behaviours, is it possible that managers also regard CSR actions as a prerequisite for corporate misconduct? In other words, managers, considering the insurance-like protection of CSR, might believe that they lead firms to behave socially responsible enough and that their stakeholders have perceived them as prosocial already, thus being less concerned about the risk of unethical and socially irresponsible behaviours. Hence, those prosocial companies might be subsequently involved more with corporate misconduct. This phenomenon is counterintuitive. However, in the field of social psychology, moral licensing theory can explain such behaviour. Moral licensing theory means that individuals who initially behave in a socially desirable way can later behave immorally or unethically (Merritt et al., 2010). When the moral image or reputation of oneself is built, actions perceived as unethical or socially irresponsible are allowed without the fear of losing that moral image (Blanken et al., 2015). Furthermore, Miller & Effron (2010) suggest that moral behaviour in one domain can license individuals to behave

unethically in either the same domain or unrelated domains. Some management studies apply this theory to employee behaviours. Klotz & Bolino (2013) apply moral licensing theory to explain why and when employees' citizenship behaviour may result in subsequent counterproductive behaviour. List & Momeni (2021) point out that firms' CSR initiatives can stimulate employee misconduct via moral licensing. Focusing on organisational behaviour, Ormiston & Wong (2013) argue that firms' previous CSR performance causes subsequent CSR controversies because of moral licensing.

According to Lasarov & Hoffmann (2020), costly signals about previous moral behaviours to observers are an important driver of moral licensing. Hence, moral licensing might evoke when prosocial firms purchase CSR assurance to enhance CSR information quality and plot moral images. Although CSR reporting is also a way of building moral images to the public including stakeholders, CSR information without external assurance is less credible (Casey & Grenier, 2015; Du & Wu, 2019; Simnett et al., 2009). Compared with CSR assurance, CSR reporting without assurance seems to be a "cheap-talk" communication game (Crawford & Sobel, 1982). Nevertheless, Christensen (2016) argues that enterprises with CSR reports have less propensity to conduct high-profile and CSR-related misbehaviours. From a moral licensing perspective, what those firms decide to report might exceed what they truly do, so their managers could consider the current moral self-regard associated with their moral equilibrium and decide to close the gap between the two when they face a moral decision (Klotz & Bolino, 2013; Zhong et al., 2010; Zhong et al., 2009).

Conversely, Reitmaier et al. (2024) argue that companies disclosing high-quality CSR information tend to engage in future misconduct. Nonetheless, they fail to consider CSR assurance implying higher quality or credibility of CSR information (e.g., Casey & Grenier, 2015). Thus, we speculate that the moral licensing effect might be more significant when firms with superior CSR performance purchase CSR assurance, which indicates that those firms have more propensity to engage in subsequent misconduct. Some studies use CSR concerns and changes in environmental, social, and governance (ESG) ratings as proxies for firms' socially irresponsible behaviours (e.g., Del Giudice & Rigamonti, 2020; Ormiston & Wong, 2013), but hardly such measurements reflect the frequency and extent of corporate misconduct. Although Du & Wu (2019) argue that only

enterprises purchasing CSR assurance tend not to engage in CSR-related misconduct, there is a lack of consideration, in their study, about CSR assurance's influence on CSR leaders and a wide range of misbehaviours, especially in the US research setting. Therefore, through the lens of moral licensing theory, it is unclear whether the decisions of managers from companies with superior CSR performance to acquire external CSR assurance might license or rationalise them to subsequently lead firms in a socially irresponsible way. Anecdotal evidence, derived from the Volkswagen emissions scandal, shows that although Volkswagen puts efforts into CSR activities and external assurance from PricewaterhouseCoopers to verify CSR information, the vehicle manufacturing giant, which used to be regarded as one of the CSR leaders, still engages in cheating pollution emissions tests, which conflicts with its moral image built by previous moral behaviours.

Our research uses enterprises listed in the US from 2002 to 2022 as a sample to explore whether prosocial enterprises with CSR assurance tend to subsequently misbehave. We use data manually collected from the Violation Tracker to measure a wide range of corporate misbehaviours (Heese & Pérez-Cavazos, 2020; Raghunandan, 2021; Zaman et al., 2021). CSR-related data are collected from the Thomson Reuters Refinitiv database. Our research results show that the moral licensing effect appears when managers from firms with superior CSR performance make decisions to purchase CSR assurance, thus licensing firms to engage in subsequent corporate misconduct. Furthermore, such an impact is more salient when CSR assurance services are performed by audit firms than consultant firms. We undertake multiple robustness tests, including an alternative sample, alternative measurements of corporate misconduct, a continuous ESG variable, and CSR performance data from KLD. We also employ some a placebo test, PSM sample, and staggered DID model, to mitigate endogeneity concerns. Cross-sectional analyses present that the moral licensing effect of CSR assurance is more prominent in low-litigation-risk industries and industries with low competition. Moreover, such an effect is more pronounced in large-size firms, firms without government customers, firms with tight financial constraints, and firms exposed to individualism culture.

Our research generates several theoretical contributions. First, our study contributes to the existing literature by providing deep insights into CSR assurance's influence on CSR leaders' subsequent misconduct from the lens of moral licensing theory. Existing studies concerning moral licensing

focus on the individual level (Klotz & Bolino, 2013; Kouchaki & Jami, 2018; Millar et al., 2023). Although prior research implies that firms' CSR performance can morally license employees and positively relate to CSR controversial ratings (List & Momeni, 2021; Ormiston & Wong, 2013), it is still unclear, at the firm level, whether CSR assurance as a costly signal to establish moral credentials for prosocial firms can influence managers' attitude toward corporate misconduct, the concrete immoral behaviours. Thus, our findings fill the gap and provide deep insights into moral licensing at the organisation level. Moreover, considering the proposition made by Lasarov & Hoffmann (2020), our study provides empirical evidence for moral licensing caused by costly signals of firms' previous prosocial deeds.

Second, our findings enrich the understanding of CSR assurance's influence. Extant research provides empirical evidence for CSR assurance's bright side (e.g., Ballou et al., 2018; Dhaliwal et al., 2011; Maso et al., 2020). Regarding corporate misconduct, Christensen (2016) finds the monitoring role of CSR reporting in high-profile and CSR-related misconduct but fail to clarify CSR assurance's moderating effect in the US research setting. To extend his research, Du & Wu (2019), using a research setting outside the US, find that only companies acquiring CSR assurance have less propensity to conduct subsequent CSR-related misbehaviours. Nonetheless, both studies focus only on CSR-related misconduct rather than on misconduct related to both shareholders and stakeholders. Additionally, even though CSR leaders tend to purchase CSR assurance (Clarkson et al., 2019), both studies fail to consider the moral licensing role of CSR assurance, as moral credentials, on subsequent behaviours of those prosocial firms. Furthermore, although Reitmaier et al. (2024) suggest that enterprises disclosing high-quality CSR information are inclined to subsequently misbehave, they fail to further explore the influence of CSR assurance, which indicates high CSR reporting quality, on corporate misconduct. Therefore, based on moral licensing theory and data on misconduct detrimental to a broad spectrum of stakeholders, our research offers insights into the dark side of CSR assurance.

Third, our study supplements the existing research concerning companies' misconduct (e.g., Armstrong et al., 2010; Cumming et al., 2015; Heese & Pérez-Cavazos, 2020; Zaman et al., 2021; Zaman et al., 2022). Our findings suggest a unique driver of corporate misconduct, CSR assurance. Although prosocial firms establish more convincing moral credentials via CSR assurance,

managers who lead those enterprises can be influenced by moral licensing and then concerned less about the risk of subsequent immoral behaviours, thus driving corporate misconduct in the following years. Consequently, our research also enriches existing studies on the inducement of corporate misconduct by exploring CSR assurance's moral licensing.

The rest of the paper proceeds as follows. Section 2 discusses the theoretical framework, related literature, and hypothesis development. Section 3 describes the sample selection process, main variables, and empirical model. Section 4 reports the research results. We conclude this research and discuss its theoretical and practical implications in Section 5.

2. Theoretical framework, related literature, and hypothesis development

2.1 Moral licensing theory

Moral licensing theory means that individuals possessing prior prosocial deeds can later behave in an unethical way (Merritt et al., 2010). Prosocial behaviours in one domain can liberate people to behave unethically either in related or unrelated domains (Mazar & Zhong, 2010). For instance, Millar et al. (2023) point out that taxi drivers who drive a hybrid vehicle are more likely to fraudulently overcharge their passengers. In a virtual shopping game, participants who purchased environmental-friendly products subsequently offered less money to another person in an ultimatum game and stole more money than participants who purchased normal goods. In an experiment conducted by Cain et al. (2005), participants who disclosed their conflict of interest subsequently gave more corrupt advice. Moreover, Ormiston & Wong (2013) suggest that CSR leaders tend to be subsequently rated as CSR controversial. Therefore, in a firm-level view, it is possible that management personnel who lead a firm to assume CSR can subsequently lead the firm in a way perceived as socially irresponsible or unethical, such as environmental violation and accounting fraud. Furthermore, Merritt et al. (2010) suggest that an impeccable track record of previous good deeds intensifies individuals' propensity to perform oppositely. From the firm-level perspective, CSR reports assured by external parties might play the role of an impeccable track record, which can facilitate reputation-building or moral image (Asante-Appiah & Lambert, 2022; Cohen & Simnett, 2015). According to Blanken et al. (2015), managers who lead firms to establish a moral image could subsequently perform immorally without the fear of losing that moral image.

Miller & Effron (2010) suggest two possible mechanisms for moral licensing: moral credits and moral credentials. The former means that people earn credits by engaging in good behaviours and then spend them on subsequent questionable behaviours (Miller & Effron, 2010). For instance, an individual can perceive her/his regular blood donation as a credit license to litter cigarette butts. Thus, if people accumulate moral credits via socially responsible behaviours, they may perceive their subsequent immoral behaviours as acceptable because it is offset by their past good behaviours (Blanken et al., 2015; Lasarov & Hoffmann, 2020). From a firm-level perspective, it is possible that managers lead their firms to raise moral credits by engaging in CSR actions and then perceive subsequent corporate misconduct as acceptable. Furthermore, existing studies provide empirical evidence that the reputation established by CSR actions has an insurance-like effect (e.g., Christensen, 2016; Godfrey et al., 2009). Enterprises with better reputations can receive smaller punishments when encountering adverse events (Dawar & Pillutla, 2000; Godfrey et al., 2009). Thus, the insurance-like protection can further support the occurrence of moral licensing in prosocial firms.

Moral credentials mean that an individual's behavioural history is regarded as judgment and provides license to immorally act by changing the way that subsequent behaviour is construed (Blanken et al., 2015; Monin & Miller, 2001). In other words, if people feel credentialed due to their previous moral deeds, they will perceive their transgression as less bad than it actually is (Lasarov & Hoffmann, 2020). For example, a record of unprejudiced behaviour makes oneself an unbiased person, so a subsequent discriminatory attitude is perceived as less prejudiced because it stems from an ostensibly unbiased source (Blanken et al., 2015). Similarly, companies' CSR reporting can be viewed as a history of its moral behaviours, which established itself as a prosocial firm, thus misleading observers to perceive subsequent misconduct as less bad.

Moral licensing can evoke on either moral credits or credentials (Merritt et al., 2010). However, in the CSR and corporate behaviour scenario, we conjecture that moral credentials are a more significant driver of moral licensing than moral credits. Clarkson et al. (2019) suggest that CSR leaders tend to issue CSR reports and purchase CSR assurance. This implies that managers from prosocial firms with abundant moral credits tend to build moral credentials by providing a history of firms' prosocial deeds. Lasarov & Hoffmann (2020) suggest that in a public context, moral

credentials grant people the license to care less about moral concerns because they change the way that observers construe an individual's immoral behaviour. Furthermore, moral licensing is evoked when moral behaviours are observable, and people tend to be morally licensed if the cost of signals about their moral actions is higher (Lasarov & Hoffmann, 2020). Although CSR reporting can also make moral behaviours observable to the public including stakeholders, CSR information without external assurance is less credible (Casey & Grenier, 2015; Du & Wu, 2019; Simnett et al., 2009). Compared with CSR assurance, CSR reporting without assurance seems to be a "cheap-talk" communication game (Crawford & Sobel, 1982). Furthermore, compared with prosocial firms that acquire CSR assurance, those that issue CSR reports without assurance might engage in greenwashing (Lyon & Maxwell, 2011). Khan & Dhar (2006) suggest that individuals who imagine moral behaviours can also be licensed to subsequently engage in immoral behaviours. However, considering the negative market reaction to greenwashing (Du, 2015), the insurance-like protection effect on firms issuing CSR reports without assurance might be weaker than on those issuing CSR reports with assurance. Thus, managers from firms that only issue CSR reports might lead firms carefully and care more about misconduct's adverse influence. Therefore, CSR assurance might be a more important driver of moral licensing in prosocial firms.

2.2 Related literature and hypothesis development

Extant literature regarding CSR reporting's and CSR assurance's consequences demonstrates positive findings. Dhaliwal et al. (2011) suggest that CSR reporting can mitigate information asymmetry and thus faciliate the access to capital and that such an effect is greater in firms with CSR assurance. Casey & Grenier (2015) further argue that enterprises can experience a decrease in the cost of capital when they acquire CSR assurance from auditors. Furthermore, Clarkson et al. (2019) use global data and suggest that enterprises acquiring CSR assurance tend to be incorporated into the Dow Jones Sustainability Index (DJSI). Thus, their research results imply that CSR assurance helps firms create a credible image to the audience from capital markets. Simnett et al. (2009) also suggest that enterprises with demand for credibility enhancement tend to acquire CSR assurance. Such a need is greater as increasing investors and stakeholders are sceptical of CSR reports and regard them as a channel of greenwashing (e.g., Casey & Grenier, 2015; Gray, 2010; Hopwood, 2009; Lyon & Maxwell, 2011). Lyon & Maxwell (2011) argue that positive CSR reporting without external assurance can be regarded as exposure to greenwashing.

Ballou et al. (2018) provide empirical evidence for CSR assurance's improving effect on CSR information quality. They also find that the improving effect on CSR reports' credibility will be more salient if auditors perform assurance services. Therefore, CSR assurance can help firms distinguish themselves from those who might be exposed to greenwashing and establish a reputation or moral image to the audience, making it easier to acquire resources (O'Dwyer et al., 2011). Additionally, in the eyes of the audience, the moral image built via CSR assurance provided by auditors is more convincing (García-Sánchez et al., 2022).

Nonetheless, extant literature documents that enterprises might implement CSR initiatives to compensate for their misconduct (e.g., Kotchen & Moon, 2012). Chakravarthy et al. (2014) argue that enterprises considerably augment their engagement in reputation-building activities after a severe earnings restatement. Furthermore, Ferrés & Marcet (2021) find that price-fixing companies tend to put more CSR efforts in anticipation of the revelation of price-fixing scandals and that the improvement in their overall CSR ratings due to their efforts persists over time. Thus, it is possible that firms with socially responsible images to the audience in fact behave in a way perceived as dubious or socially irresponsible. Nonetheless, Christensen (2016) argues that enterprises reporting CSR information have less propensity to undertake CSR-related and high-profile misconduct in the following years and finds that CSR assurance seems not to play a significant role. To further examine CSR assurance, Du & Wu (2019) find that only companies purchasing CSR assurance tend not to conduct CSR-related misbehaviours, but they apply a research setting other than the US. Therefore, it is still unclear whether and how CSR assurance affects corporate misconduct in the US setting. Furthermore, both studies neither consider whether and how CSR assurance affects prosocial firms' subsequent misconduct nor whether and how it influences misconduct detrimental to a board spectrum of stakeholders. Nevertheless, Reitmaier et al. (2024) argue that firms disclosing high-quality CSR information have more propensity to be involved in future misconduct. Thus, CSR assurance as a driver of CSR information quality and a costly signal of firms' moral behaviours might evoke the moral licensing effect on managers' decision-making.

Based on moral licensing theory and related literature, we conjecture that managers in prosocial companies purchasing CSR assurance might tend to lead firms to engage in (CSR-related and unrelated) subsequent misconduct. The reasons for that are as follows. First, compaines with

superior CSR performance, compared with those with inferior CSR performance, have abundant moral credits to spend on subsequent bad deeds (Millar et al., 2023). Conversely, those with inferior CSR performance might behave with great care to restore their image (Blanken et al., 2015). For instance, Marquis et al. (2016) suggest that entities with substantial environmental damage costs face stringent scrutiny from the public. Thus, we speculate that managers from CSR leaders are inclined to be influenced by moral licensing. Second, CSR assurance facilitates the establishment of moral credentials, especially in the eyes of the audience. Although the independence of CSR assurance is also controversial (e.g., Casey & Grenier, 2015; Owen et al., 2000; Smith et al., 2011), existing literature reflects that the moral image established by CSR assurance is more convincing to the public than by CSR reports without external assurance (e.g., Ballou et al., 2018; Dhaliwal et al., 2011; O'Dwyer et al., 2011). Additionally, Lasarov & Hoffmann (2020) suggest that individuals whose past prosocial deeds are publicly observable, especially with costly signals, tend to take subsequent immoral acts. Therefore, when managers from firms with superior CSR performance decide to purchase CSR assurance, moral licensing could evoke because a moral image is established by CSR assurance as a costly signal to the public. Third, the insurance-like protection of CSR actions could enable managers to neglect the adverse consequences of misconduct. Existing studies demonstrate that CSR actions reduce adverse influences when enterprises encountering negative events (e.g., Bartov et al., 2021; Godfrey et al., 2009; Lins et al., 2017; Shiu & Yang, 2017). Furthermore, even if prosocial firms face trial, they will receive lower sanctions from prosecutors due to the halo effect of CSR (Cohen & Gurun, 2023; Efran, 1974; Nisbett & Wilson, 1977). Therefore, it is possible that when managers from firms with superior CSR performance make unethical decisions, following punishment could not inhibit managers from such decision-making. As a result, Hypothesis 1a is developed as follows:

Hypothesis 1a: The acquisition of CSR assurance in firms with superior CSR performance is positively related to subsequent misconduct, ceteris paribus.

Nonetheless, another important social psychological theory, moral consistency, suggests that people who have past prosocial deeds would therefore regard themselves as being a moral model, which would therefore result in future moral behaviour (Bem, 1972; Blanken et al., 2015). Furthermore, if previous prosocial deeds are highlighted, individuals will be more likely to perform

in the same way as their past actions, leading to subsequent ethical behaviours (Blanken et al., 2015; Gawronski & Strack, 2012). Based on moral consistency, if managers decide to highlight their CSR performance by issuing stand-alone CSR reports and acquiring CSR assurance for those, they will consistently lead enterprises in a moral way and thus match the moral image established. For instance, not only does Christensen (2016) find that firms disclosing CSR information tend not to engage in subsequent, high-profile, and CSR-related misconduct, but Du & Wu (2019) also argue that only companies purchasing CSR assurance have less propensity to conduct subsequent CSR-related misbehaviours. Therefore, based on moral consistency theory, when prosocial companies highlight their past moral deeds by acquiring CSR assurance, they might tend to behave in the same way as the moral image established (Blanken et al., 2015; Gawronski & Strack, 2012). This indicates that managers could lead firms to avoid actions against the moral image. Therefore, Hypothesis 1b is built as follows:

Hypothesis 1b: The acquisition of CSR assurance in firms with superior CSR performance is negatively related to subsequent misconduct, ceteris paribus.

3. Research design

3.1 Sample selection and data

We collect CSR-related data including ESG ratings, CSR assurance, and CSR reporting from the Thomson Reuters Refinitiv database covering all firms from 2002 to 2022. We then keep the US firms only. Following Zaman et al. (2021), we manually collect data on corporate misconduct from the Violation Tracker. Data on firm-level financial characteristics are collected from the Compustat database. Data on institutional shareholding stem from the Thomson Reuters 13F database. We then merge all the data sets from various databases.

However, Thomson Reuters Refinitiv identifies some firms as those acquiring CSR assurance but classifies them as those who do not issue a stand-alone CSR report. Furthermore, regarding some firms acquiring CSR assurance, Thomson Reuters Refinitiv does not provide those CSR assurance providers' identities. Following Maso et al. (2020), we delete these observations. Moreover, we exclude financial firms in two-digit SIC codes from 60 to 69 and drop observations with unavailable values of variables in the baseline specifications. The final sample comprises 9,917

(8,749 for $lnNumber_{t+1}$) firm-year observations for 931 (923 for $lnNumber_{t+1}$) US firms. All continuous variables are winsorised at the 1% and 99% levels. The sample selection process are summarised in Table 1.

[Insert Tables 1 about here]

3.2 Variable measurement

3.2.1 Dependent variable: corporate misconduct

Unlike studies conducted by Christensen (2016) and Du & Wu (2019), we apply a wider range of corporate misbehaviours rather than only CSR-related misconduct because according to moral licensing theory, firms with past prosocial deeds have more propensity to be involved in both CSR-related and unrelated misconduct. Meanwhile, many studies on corporate misconduct focus on the detriment of shareholders (Zaman et al., 2021), including capital market manipulation (Wahid, 2019), financial misstatement (Christensen et al., 2018), and accounting fraudulence (Bartov et al., 2021). For enriching the existing research concerning corporate misconduct targeted at a broad spectrum of stakeholders, Heese & Pérez-Cavazos (2020) examine the effect of visits by headquarters' managers on facility-level misconduct. Furthermore, Zaman et al. (2021) find an increasing effect of co-opted directors on corporate misconduct. Following them, we collect data on corporate misconduct from the Violation Tracker, which recording violations causing penalties of at least 5,000 US dollars. After that, we measure it as the natural logarithm of one plus the number of financial penalties in US dollars imposed by regulatory agencies on an enterprise in a year, *lnNumber*. If a firm does not appear in the Violation Tracker database, we assign a value of zero to it.

Violation Tracker is the first wide-ranging database recording companies' irresponsibility and has been applied in some high-quality research on corporate misconduct (e.g., Heese & Pérez-Cavazos, 2020; Raghunandan, 2021; Zaman et al., 2021). According to Zaman et al. (2021), the Violation Tracker compiles a log of corporate misconduct associated with an extensive range of infringements of stakeholders' rights, including shareholder-related, environmental-related, society-related, employee-related, and customer-related misconduct. It has collected misconduct-related data from more than 50 federal regulatory agencies of the Department of Justice since 2001.

3.2.2 Independent variables: CSR assurance and firms with superior ESG performance

According to existing literature concerning CSR assurance (e.g., Casey & Grenier, 2015; Christensen, 2016; Du & Wu, 2019; Maso et al., 2020; Ryou et al., 2022), we measure CSR assurance by using a binary variable, *CSRA*, that equals 1 if a firm acquires CSR assurance from accounting or consulting firms in a year and 0 otherwise. To further explore the effects of different types of CSR assurance providers, in additional analyses, we also categorise *CSRA* into *AccAuditor*, which equals 1 if a firm purchases CSR assurance from accounting firms and 0 otherwise, and *ConsAuditor*, which equals 1 if a firm acquires CSR assurance from consulting firms and 0 otherwise.

Because our study focuses on firms with superior CSR performance (past prosocial deeds) and CSR assurance (reputation-building), we identify firms with high CSR performance by using a binary variable, *ESGG*, that equals 1 if a firm's ESG rating surpasses the industry-year (two-digit SIC codes) ESG rating median and 0 otherwise. The ESG rating used in our study, *ESG*, is measured by calculating the mean of the subcategory ratings of the following general ESG components: environmental, social, and governance (Christensen et al., 2022; Kimbrough et al., 2022).

Based on moral licensing theory, from an organisational perspective, managers who lead firms in a moral way and decide to build a reputation through CSR assurance have more propensity to subsequently lead companies in an immoral way. Thus, we focus on the interaction between *CSRA* and *ESGG*, *CSRA×ESGG*, which represents firms that have impeccable track records of previous prosocial deeds and have established reputations to the public.

3.2.3 Control variables

According to the extant research concerning corporate misconduct, we include several control variables. According to Christensen (2016), we develop a binary variable, *CSRR*, which equals 1 if a company issues a stand-alone CSR report in a year and 0 otherwise. Moreover, following his study, we include the Herfindahl-Hirschman Index, *HHI*, to measure competition and *TobinsQ* to measure a firm's growth opportunities. Following Zaman et al. (2021) and Nadeem (2021), we control the following board characteristics: *BoardSize*, the natural logarithm of one plus the

number of directors on a board; *CSRComm*, an indicator variable that equals 1 in an enterprise has a CSR committee and 0 otherwise; *Dual*, a binary variable that equals 1 if a company's CEO also chairs the board; *Indep*, the proportion of independent directors. Because Ferrés & Marcet (2021) suggest that enterprises tend to take CSR activities after engagement in illegal fixing price schemes when they are exposed to antitrust investigation, we also control for *ESG*; Existing studies document institutional investors' monitoring role in CSR activities (e.g., Dyck et al., 2019), we control for *Inst*, the percentage of institutional shareholdings. We also include a set of control variables measuring firm characteristics that are related to corporate misconduct. We use the natural logarithm of a firm's sales revenue in a year to measure firm size, *Size* (Christensen, 2016; Jensen & Meckling, 1976). We include *Lev*, the ratio of a firm's long-term debt to its total assets in a year. According to Köster & Pelster (2017), We control firm performance, *ROA*, the ratio of a firm's income before extraordinary items to its total assets in a year. Following Bouslah et al. (2018) and Gerged et al. (2023), we develop a control variable, *TanIntan*, which is measured as the growth rate of an enterprise's tangible and intangible assets, to capture the enterprise's tangible and intangible assets. We control for an enterprise's cash holding, *Cash*, which is measured as the ratio of cash and assets readily convertible to cash to total assets, and for research and development, *RD*, which is measured as the ratio of research and development expenditure to total assets (Tang et al., 2015; Wowak et al., 2015). Following Liu (2016), we control for the market-to-book ratio, *MB*. The definitions of all the variables are described in Appendix A.

3.3 Model specification

To examine whether and how the acquisition of CSR assurance in companies with superior CSR performance is related to subsequent misconduct, we estimate the following regression model:

$$lnNumber_{i,t+1} = \beta_0 + \beta_1 CSRA_{i,t} + \beta_2 ESGG_{i,t} + \beta_3 CSRA \times ESGG + \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{i,t+1} \quad (1)$$

where *i* and *t* refer to the firm and year respectively; $lnNumber_{i,t+1}$ denotes firm *i*'s subsequent misconduct in year *t+1*, which is measured as the natural logarithm of one plus the number of penalties in a year; $CSRA_{i,t}$ refers to CSR assurance acquired by firm *i* in year *t*; $ESGG_{i,t}$ indicates whether firm *i*'s ESG rating is above the industry-year ESG median in year *t*; *CSRA×ESGG* equals one if a firm with superior CSR performance acquires CSR assurance and zero otherwise;

$Controls_{k,i,t}$ refers to a set of control variables described in Section 3.2.3. we focus on the coefficient of $CSRA \times ESGG$, β_3. We include the year and industry fixed variables in the regression model. Furthermore, standard errors are clustered at the firm level.

4. Empirical results

4.1 Descriptive statistics

Table 2 reports the descriptive statistics of variables used in the baseline regression model. The average number of incidents of misconduct committed by the sample firms is 2.465 (mean of raw value before log transformation). The mean value of *ESGG* is 0.47, which means that, in our sample, approximately 47% of firm-year observations have ESG ratings above the industry-year level ESG median. In other words, 47% of firm-year observations can be regarded as firms with superior CSR performance. Although 43.4% of firm-year observations in our sample issue stand-alone CSR reports, only 10% of the observations acquire external assurance. Furthermore, while 8.4% of them acquire CSR assurance from consulting firms, only 1.7% purchase assurance from accounting firms. Such inferences align with Casey & Grenier (2015) who suggest a low demand for CSR assurance in the US and argue that few firms acquire CSR assurance from accountants.

[Insert Tables 2 about here]

Regarding CSR assurance and CSR performance, our research sample can be further categorised into subsamples. Table 3 presents the outcomes of the difference in means tests when the full sample is partitioned into different groups. Panel A shows that companies with superior CSR performance and CSR assurance tend to subsequently mis behave than those with superior CSR performance but without CSR assurance. Panel B indicates that although CSR leaders tend to purchase CSR assurance (Clarkson et al., 2019), some enterprises with poor CSR performance still acquire CSR assurance. Furthermore, compared with firms with inferior CSR performance and without CSR assurance, those with CSR assurance and inferior CSR performance tend to substantially engage in subsequent misconduct. Thus, the results imply that CSR assurance appears to evoke moral licensing. Moreover, the mean of *lnNumber* in enterprises with superior CSR performance and CSR assurance, 1.112, is the largest among all the groups, which seems to provide preliminary support to *Hypothesis 1a.*

However, the univariate regression is difficult to interpret the positive association between subsequent misconduct and CSR assurance in prosocial enterprises, so we, in the next section, provide the results of multivariate regression models that control for multiple drivers of corporate misconduct[1].

[Insert Tables 3 about here]

4.2 Baseline regression results

Table 4 presents the baseline inferences. Column (1) shows the outcomes by estimating Eq. (1) in the full sample. *CSRA* is significantly and negatively associated with *lnNumber* at the 5% level, with a t-statistic of -2.03, which implies that enterprises with assured CSR reports tend to fulfil their social responsibility and prevent future misconduct. The results are consistent with Du & Wu (2019), but our results extend the range of misconduct, indicating that firms acquiring CSR assurance, in the US setting, tend not to subsequently conduct both CSR-related and unrelated misbehaviours. Furthermore, the results supplement the study conducted by Christensen (2016), implying that assured CSR reports, in the US, play a role in a wider range of misconduct, including both CSR-related and unrelated misconduct. *ESGG* is significantly and negatively associated with *lnNumber* at the 5% level. Our interest is in the coefficient of *CSRA×ESGG*. Column (1) shows that the association between *lnNumber* and *CSRA×ESGG* is significant and positive at the 1% level. This indicates that companies with superior CSR performance tend to subsequently misbehave after acquiring CSR assurance, which supports *Hypothesis 1a*. According to moral licensing theory, managers accumulate moral credits through CSR efforts and then lead firms in a way perceived as unethical or socially irresponsible when they build moral images or moral credentials to the audience via CSR assurance. In other words, managers from prosocial companies purchasing CSR assurance tend to be influenced by moral licensing and then affect corporate behaviours. Interestingly, Column (1) shows that compared with *CSRA*, *CSRR* seems not to influence *lnNumber*, which is inconsistent with Christensen (2016). The reason could be that CSR reporting plays its monitoring role only in high-profile and CSR-related misconduct. Regarding misbehaviours detrimental to a wide range of stakeholders, CSR reports with external assurance assume the monitoring role and thus become more credible than those without CSR assurance. A

[1] Untabulated results report that the mean of variance inflation factors (VIF) does not exceed 5, so multicollinearity should not be a concern in our study.

higher credibility and costly signal lead to more convincing moral credentials or images, so managers in prosocial firms with CSR assurance tend to pay less attention to unethical behaviours in the following years without fear of losing the moral image[2].

To ease the concern that the baseline outcomes are mainly driven by the difference between observations with and without CSR reporting, we re-estimate Eq. (1) by applying a sample that only contains firms issuing stand-alone CSR reports. Column (2) reports the outcomes. *CSRA* is significantly and negatively associated with *lnNumber* at the 1% level, which further confirms that CSR reports assured are more credible. The association between *ESGG* and *lnNumber* is still significant and negative at the 5% level. The coefficient of *CSRA×ESGG* is still significantly positive and pronounced in the CSR reporting sample. Therefore, in a sample that only contains observations with CSR reports, our results still remain.

Regarding other control variables, the results of *Size* and *ROA* align with Christensen (2016). The outcomes of control variables measuring corporate governance, including *Indep* and *CSRComm*, are consistent with existing literature concerning the board's influence on corporate wrongdoing (e.g., Boivie et al., 2016; Cumming et al., 2015; Jain & Zaman, 2020). The results of *TanIntan*, *RD*, and *Cash* also align with extant research (e.g., Zaman et al., 2021; Zaman et al., 2022). The significant and negative relationship between *TobinsQ* and *lnNumber* implies that companies with a higher value tend not to conduct misbehaviours, which aligns with Kim et al. (2022). The significant and positive association between *HHI* and *lnNumber* indicates that enterprises facing fierce competition tend to prevent future misconduct, which aligns with Gelman et al. (2021). The significant and positive coefficient of *MB* indicates that enterprises with a higher market-to-book ratio tend to be involved in corporate wrongdoing, which is consistent with Liu (2016).

[Insert Tables 4 about here]

4.3 Additional analysis: types of CSR auditor

Table 5 reports the results of how CSR assurance provided by accounting and consulting firms separately influence prosocial firms' subsequent misconduct. Columns (1) and (2) present that

[2] Untabulated results show that the coefficient of the interaction between CSR reporting and superior CSR performance, *CSRR×ESGG*, is insignificant.

while the relationship between *ConsAuditor* and *lnNumber* is significant and positive at the 10% level, *AccAuditor* is significantly and negatively related to *lnNumber* at the 1% level. Those regression results indicate that although US enterprises are less likely to acquire CSR assurance from professional accountants (Casey & Grenier, 2015), CSR reports assured by accounting firms play a better monitoring role in corporate wrongdoing than those assured by consulting firms. Pflugrath et al. (2011) also suggest that enterprises with CSR concerns are less inclined to acquire higher-quality CSR assurance from accounting providers. Furthermore, Ballou et al. (2018) argue that auditors are better in identifying errors in CSR reports than consulting firms. García-Sánchez et al. (2022) suggest that CSR assurance provided by accounting firms helps firms build reputational advantage. Therefore, our results also imply that CSR information assured by auditors are more credible than those assured by consulting firms. In other words, the moral credentials established via auditors' CSR assurance are more convincing to the audience and observer. Thus, when managers in prosocial firms make decisions to build reputation via CSR assurance, those who select auditors tend to be affected by moral licensing than those who select consulting firms, leading to subsequent misconduct.

Columns (1) and (2) present that while the coefficient of *AccAuditor×ESGG* is significant and positive at the 1% level, that of *ConsAuditor×ESGG* is significant and positive at the 5% level. Therefore, the outcomes reveal that the moral licensing effect is more pronounced in prosocial firms choosing accounting providers than those choosing non-accounting providers. After managers from prosocial firms decide to acquire CSR assurance from accounting providers, they tend to care less about corporate misconduct in the following years without concerns about a loss of moral image.

[Insert Tables 5 about here]

4.4 Robustness checks

Table 6 reflects the outcomes of robustness tests. First, following previous studies (Du & Wu, 2019; Heese & Pérez-Cavazos, 2020; Zaman et al., 2021), we alternatively measure corporate misconduct by using *lnPenalties*, which is the natural logarithm of one plus the amount of misconduct penalties in US dollars imposed by regulatory agencies on a firm in a year. Likewise, for firms without records of penalties in the Violation Tracker database, we assign a value of zero

to them. Column (1) reports that the relationship between *CSRA×ESGG* and *lnPenalties* is significant and positive at the 5% level, which indicates that our baseline inferences remain after developing an alternative dependent variable, further supporting *Hypothesis 1a*. Furthermore, the results also imply that not only the frequency but also the severity of subsequent misconduct increases as firms with superior CSR performance acquire CSR assurance.

Second, we directly use a continuous variable, *ESG*, to measure an enterprises' CSR performance in a year. Column (2) reflects that the association between *CSRA×ESG* and *lnNumber* is significant and positive at the 1% level, which implies that after building a moral image to the audience via CSR assurance, enterprises with higher ESG ratings have more propensity to subsequently misbehave. Finally, we use ESG data from MSCI KLD social ratings to identify firms with superior CSR performance. Following Deckop et al. (2006) and Flammer (2018), we develop a KLD ESG index by calculating the mean of KLD strengths for seven dimensions, including community relations, diversity, employee relations, environment, product, governance, and human rights. The strength score of each component ranges from 0 to 1. We sum up the scores of strengths along these dimensions and then use the mean of seven dimensions to measure an enterprise's CSR performance in a year. Then, an indicator variable, *KLDESGG*, similar to *ESGG*, is developed to identify whether a firm has superior CSR performance in a year. *KLDESGG* equals 1 if an enterprise's KLD ESG index exceeds the industry-level (two-digit SIC codes) median of the KLD ESG index in a year and 0 otherwise. Due to the KLD social ratings data period from 1991 to 2019, our sample period for *KLDESGG* is from 2002 to 2019. Column (3) shows that the coefficient of *CSRA×KLDESGG* is significant and positive at the 10% level. Therefore, the baseline inferences remain even though we apply an alternative ESG database. All the robustness checks imply that when managers lead firms to be prosocial and establish moral credentials via CSR assurance as a costly signal to the audience, they are inclined to be affected by moral licensing and neglect moral concerns, leading to an increase in corporate misconduct in the following years.

[Insert Tables 6 about here]

4.5 Endogeneity concerns

4.5.1 Placebo test

To mitigate endogeneity concerns, we apply a placebo test to examine whether our baseline inferences are driven by coincidence. First, we randomly assign CSR assurance to firms in our sample and then develop a placebo variable, *Placebo-CSRA*. Second, in the same way, we randomly identify firms as those with superior CSR performance and thus create another placebo variable, *Placebo-ESGG*. Third, we construct a placebo interaction variable, *Placebo-CSRA×Placebo-ESGG*. We re-estimate Eq. (1) by substituting the original variables, *CSRA*, *ESGG*, *CSRA×ESGG* with those placebo variables. In the placebo test, we still focus on the interaction variable, *Placebo-CSRA×Placebo-ESGG*. We repeat this procedure 1000 times and produce 1000 coefficient estimates and standard errors of *Placebo-CSRA×Placebo-ESGG*. As a result, we divide the coefficients by the standard errors to calculate the t-value. After that, we plot the distribution of the t-value of *Placebo-CSRA×Placebo-ESGG*. Figure 1 shows that the distribution of the *Placebo-CSRA×Placebo-ESGG* t-value is centred on 0. However, Column (1) of Table 4 reflects that the true t-value of *CSRA×ESGG* is 2.80. The results imply that in the placebo test scenario, the moral licensing effect of CSR assurance on prosocial firms' future misconduct is insignificant. Therefore, our research findings are not a result of coincidence.

[Insert Figure 1 about here]

4.5.2 Propensity score matching

To ease endogeneity concerns caused by self-selection bias, we conduct the PSM procedure to develop the matched sample. We first estimate a logit model as the following:

$$CSRA_{i,t} = \beta_0 + \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{i,t} \quad (2)$$

where the dependent variable is $CSRA_{i,t}$, a binary variable, which equals 1 if enterprise *i* acquires CSR assurance in year *t*. The co-variates are all of the control variables, excluding *CSRR* due to collinearity, in Eq. (1). Column (1) of Panel B in Table 7 reflects the outcomes of Eq. (2).

Using propensity scores obtained from Eq. (2), we undertake one-to-one matching to develop the PSM sample. We then require the propensity scores for the treatment and control observations to be within a fixed distance of each other to ensure that matched observations are similar. Following Christensen (2016), we also apply a calliper width equal to 0.2 times the standard deviation of the

logit of the propensity scores. According to Austin (2011), Monte Carlo simulations have found that the calliper width calculated in this way is optimal for maximising the total number of matches and minimising the number of bad matches. In our model, the calliper width is 0.03.

Panel A of Table 12 presents the pre- and post-matching descriptive statistics. The outcomes of the PSM sample show that in addition to *Cash*, the absolute values of the standardised bias for all the covariates in PSM samples are below 9.4%. Furthermore, after matching, the difference in means of most covariates between the treatment and control groups is insignificant except for *Cash*. Therefore, the results of Panel A imply that the matched samples are reasonably balanced. We then re-estimate Eq. (1) by applying the PSM sample. Column (2) of Panel B in Table 7 presents the outcomes based on the matched sample. The association between *CSRA×ESGG* and *lnNumber* is significant and positive at the 5% level, which implies that our baseline inferences are unlikely to be driven by differences between the treatment and control observations.

[Insert Tables 7 about here]

4.5.3 Staggered differences-in-differences model

We develop a staggered DID model to mitigate endogeneity concerns resulting from reversal causality. Huang et al. (2017) use the reduction in tariff rate as an exogenous increase in competition and find that managerial disclosure of earning forecasts decreases due to the increase in proprietary cost concerns. This is because a firm's voluntary disclosure, including earnings forecasts, capital expenditure forecasts, and confidential treatment order redactions, contains abundant proprietary information (Park et al., 2019). Existing studies suggest that proprietary cost concerns increase as the competition level escalates (e.g.,Verrecchia, 1983, 2001). Non-financial disclosure, especially CSR reporting, also contains proprietary information such as corporate strategies about how to improve CSR performance in a specific industry, which provides rivals with opportunities to imitate or learn (Christensen et al., 2021). Ryou et al. (2022) find that after the reduction in tariff rate, treatment firms reduce both product-related and general CSR reporting due to proprietary cost concerns. Further, they suggest that the demand for CSR assurance also decreases because firms try to obscure competition-sensitive information and then issue less informative CSR reports, which impairs the credibility of CSR information. Although both CSR reports and CSR assurance decrease due to the decrease in tariff rate reduction, Flammer (2015)

argues that facing the challenge caused by tariff rate reduction, domestic US firms try to put more effort into CSR initiatives, maintain a good relationship with local stakeholders, and thus use CSR as a differentiation strategy to compete against foreign rivals.

Therefore, facing intensified competition due to the reduction in tariff rate, firms try to improve CSR performance as a competitive advantage but reduce CSR disclosure and issue unassured CSR reports to prevent threats from rivals, which also provides a negative exogenous shock to the moral licensing effect. Based on moral licensing theory, the moral credential to the audience is important in the public context. The decrease in CSR reports, especially in CSR assurance, hinders firms from building moral credentials for the public. Even though stakeholders who benefit from CSR efforts perceive those firms as socially responsible, firms might find it difficult to build a convincing moral image for a broad spectrum of stakeholders due to less informative and credible CSR reports (Ryou et al., 2022). According to Reitmaier et al. (2024), the decrease in CSR information quality might also reduce the incidence of firms' future misconduct. As a result, according to moral licensing theory, we speculated that managers might be less likely to be influenced by moral licensing in the scenario of tariff rate reduction.

According to existing studies (Flammer, 2015; Ryou et al., 2022), we apply the reduction in tariff rate as a negative shock to the moral credentials established by CSR assurance. In brief, facing a significant reduction in tariff rate, companies with superior CSR performance tend not to acquire CSR assurance. According to Huang et al. (2017), we apply the US import data during the period 2002-2022 from Peter Schott's website (see: http://faculty.som.yale.edu/peterschott/) to calculate the tariff rate for each industry (two-digit SIC code) and year as the duties collected at the US Customs divided by the Free-On-Board (FOB) custom value of imports. Subsequently, we then identify as our exogenous shocks all industry years for which the tariff rate declines relative to the prior year by more than three times the median tariff rate reduction during our sample period. Importantly, to avoid these large tariff rate reductions that are only transient in the product market competition, we exclude observations with a decrease that is preceded or followed by a tariff augment greater than eighty percent of the reduction (Huang et al., 2017). Following the processes, we develop a time variable, *Post*, which equals 1 for years after a significant reduction in tariff rate and 0 otherwise, and construct a treatment variable, *Treat*, which equals 1 if a firm is attributed to

an industry that experiences a significant reduction in tariff rate and 0 otherwise. Therefore, according to Flammer (2015) and Ryou et al. (2022), we apply a quasi-natural experiment setting using the tariff rate reduction as an exogenous decrease in CSR assurance demand of firms with superior CSR performance. We conjecture that facing the shock, treatment firms tend not to engage in subsequent misconduct because managers are less likely to be affected by moral licensing. The staggered DID model is developed as follows:

$$lnNumber_{i,t+1} = \beta_0 + \beta_1 Post + \beta_2 Treat + \beta_3 Post \times Treat + \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{t+1} \quad (3)$$

where $lnNumber_{i,t+1}$ is the same as Eq.(1). As described above, *Post* equals 1 for years after a significant reduction in tariff rate and 0 otherwise; *Treat* equals 1 if an enterprise is attributed to an industry that experiences a significant reduction in tariff rate and 0 otherwise. $Controls_{k,i,t}$ refers to control variables used in Eq. (1). We focus on the coefficient of *Post×Treat,* β_3. The year and industry fixed effects are applied in the regression model. Standard errors are clustered at the firm level[3].

Column (1) of Table 8 presents the outcomes of the staggered DID model. *Post×Treat* is significantly and negatively associated with *lnNumber* at the 1% level. This implies that facing the reduction in tariff rate, treatment firms tend not to engage in subsequent misconduct. Firms encountering severe competition caused by the tariff rate reduction tend to engage in CSR activities to differentiate themselves from foreign rivals but tend not to acquire CSR assurance to protect competition-sensitive information (Flammer, 2015; Ryou et al., 2022). In such a setting, even though firms improve CSR performance, their capacity of building moral credentials to the public decreases as CSR assurance declines (Crawford & Sobel, 1982; García-Sánchez et al., 2022; Ryou et al., 2022). Managers in prosocial firms without CSR assurance are more likely to lead firms in a scrupulous way to avoid misconduct because hardly can a lack of reputation provide an insurance-like effect on negative consequences of misconduct (Dawar & Pillutla, 2000; García-Sánchez et al., 2022; Godfrey et al., 2009). Although stakeholders who benefit from firms' CSR efforts perceive these firms as moral and prosocial, a reduction in the number, content, and

[3] Bertrand et al. (2004) suggest that standard errors are clustered at the dimension of the treatment variable. Our results remain when the standard errors are clustered at the two-digit SIC level.

credibility of CSR reports hinders firms from building a reputation to a wider range of audience, leading to a decrease in visibility. Conversely, managers in prosocial firms with CSR assurance tend to lead firms without concerns about a loss of moral image, so they tend to be morally licensed. Furthermore, Lasarov & Hoffmann (2020) suggest that if individuals' previous prosocial deeds can be observed by a group of others, they are inclined to perceive that the others grant them moral licensing for subsequent misconduct. Therefore, our results also imply that the exogenous increase in competition due to the tariff rate reduction not only increases proprietary costs but also weakens moral licensing.

[Insert Tables 8 about here]

One concern with the staggered DID model is that the reduction in subsequent misconduct might appear before the tariff rate reduction. Hence, we implement a parallel trend analysis. We develop a set of pre- and post-shock variables. *Pre1* and *Pre2* are indicator variables indicating the two years before the tariff rate decrease. *Current* equals 1 for the occurrence year of the tariff rate reduction and thereafter and 0 otherwise. Similarly, *Post1*, *Post2*, and *Post3* represent the three years after the tariff rate decline. We then develop six interaction terms between these dummies and *Treat* to replace *Post×*Treat. Column (2) of Table 8 presents the outcomes of parallel trend analysis. Despite the insignificant coefficients of *Pre1×Treat* and *Pre2×Treat*, those of interaction terms between *Treat* and the current and after year of the tariff rate reduction are significant and negative. This indicates that the outcomes satisfy the parallel trend assumption. Overall, the outcomes imply that the reduction in subsequent misconduct following the plummet in tariff rate appears not to be promoted by the pre-existing trend in corporate misconduct. Figure 2 plots the dynamic trend.

[Insert Figure 2 about here]

4.6 Cross-sectional analyses

4.6.1 Litigation risk

Enterprises facing high litigation risk have a low demand for CSR assurance (Casey & Grenier, 2015). This is because high litigation risk also acts as an alternative form of credibility improvement, and stakeholders perceive that fear of litigation hinders enterprises from unethical actions (Choi & Wong, 2007; Durnev & Kim, 2005). Conversely, low litigation risk weakens firms'

fear of punishment for misconduct (Casey & Grenier, 2015). Therefore, we speculate that moral licensing could be prominent in industries with low litigation risk. Following existing studies (Casey & Grenier, 2015; Francis et al., 1994; Skinner, 1997), we identify enterprises, with SIC codes 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 73070, as those with high litigation risk and others as those with low litigation risk.

Table 9 presents the cross-sectional analysis outcomes. Columns (1) and (2) reflect that the coefficient of *CSRA×ESGG* is significant and positive at the 1% level only in the sample containing firms attributed to low-litigation-risk industries. The outcomes imply that CSR assurance's moral licensing influence on prosocial firms is pronounced in industries with low litigation risk. This is because high litigation risk constraints firms from subsequent misconduct. Conversely, managers tend to be impacted by moral licensing in industries with low litigation risk due to few concerns about punishment for their wrongdoing.

4.6.2 Competition

As discussed in Section 4.5.3, intensified competition generates a negative shock on moral licensing. This implies that managers in prosocial firms are influenced by the moral licensing effect of CSR assurance more when their firms face weak competition than severe competition. We identify firms whose *HHI* exceeds the industry-year median of *HHI* as those facing low competition and otherwise as those facing high competition. Columns (3) and (4) present that the CSR assurance's moral licensing is more salient in prosocial firms facing low-level competition. The results imply that the moral licensing effect matters with competition. According to Lasarov and Hoffmann (2020), individuals whose past prosocial deeds are publicly observable, especially with costly signals such as CSR assurance, have more propensity to subsequently take immoral acts. As high-level competition intensifies firms' proprietary cost concerns, subsequent decreases in CSR assurance impair firms' ability to create a convincing moral image to a broad spectrum of audiences and thus weaken subsequent misconduct.

4.6.3 Firm size

Firm size is a determinant of CSR assurance (Simnett et al., 2009). Large enterprises are more inclined to acquire CSR assurance than small ones. Furthermore, because large-size firms have

more propensity to be involved with agency problems, the likelihood of corporate misconduct is greater (Jensen & Meckling, 1976; Zaman et al., 2022). Hence, we conjecture that CSR assurance's moral licensing might be more salient in large-size prosocial firms than in small-size prosocial ones.

We classify firm-year observations with *Size* exceeding the industry-year median of *Size* into a large-size group and otherwise into a small-size group. Columns (5) and (6) report that while the coefficient of *CSRA×ESGG* is insignificant in the small-size group, the association between *CSRA×ESGG* and *lnNumber* is significant and positive at the 1% level. Therefore, because of large firms' propensity to purchase CSR assurance and severe agency problems, managers in prosocial enterprises possessing a large size tend to be morally licensed and subsequently pay less attention to preventing future unethical behaviours when they decide to establish moral credentials via CSR assurance, thus causing an increase in corporate misconduct in the following years.

4.6.4 Government customers

Flammer (2018) argues that CSR leaders tend to receive more government procurement contracts. Cohen and Li (2020) suggest that government customers motivate suppliers' profitability. Thus, government customers account for an important proportion of an enterprise's client portfolio. Existing studies provide empirical evidence for customers' influence on suppliers' decision-making. For example, customers' bargaining power influences suppliers' decisions to provide trade credit (Fabbri & Klapper, 2016; Wilner, 2000). Dai et al. (2021) suggest that customers with a commitment to CSR can unilaterally and positively influence suppliers' decisions to improve CSR performance. This is because of suppliers' fear of the termination of customer-supplier relationships if they cannot meet customers' CSR requirements (Banerjee et al., 2008). Furthermore, She (2022) suggests that enterprises subject to the mandatory disclosure of supply chain due diligence enacted in California motivate their suppliers' human rights performance.

Compared with firm customers, government customers have advantages in bargaining power and enforcement authority to acquire information via a private channel and unnecessarily rely on public information (Chaney et al., 2011). Furthermore, for some contracts, the government continuously oversee suppliers' financial and operational compliance and performance (Samuels, 2021). Thus,

regarding firms that have procurement contracts with the government, government customers play a monitoring and governance role in corporate behaviours and managers' decision-making. Samuels (2021) suggests that companies contracting with government clients are inclined to improve their external reporting quality for satisfying the government's information requirements.

Corporate misconduct behaviours are monitored by federal regulatory agencies (Zaman et al., 2021). If an enterprise has a contracting relationship with its government customers, the government might be more concerned about the potential of its financial or operational non-compliance. Because of a fear of losing important customers, enterprises might have less propensity to misbehave. Furthermore, undertaking wrongdoings regulated by government clients who have the statutory authority to penalise is like committing a crime during the height of a crackdown on crime. Managers in firms contracting with the government could pay more attention to the severe consequences of misconduct. Thus, we conjecture that government customers could inhibit CSR assurance's moral licensing effect on prosocial firms.

Following Cohen & Li (2020), we collect data on firms' major customers from Compustat Segment files between 2002 and 2022. We obtain the classification codes of enterprises' major customers and revenue derived from sales to each major customer. Using the code, we identify major government customers from major customers. Following Dhaliwal et al. (2016) and Zhu et al. (2021), we apply the formula as follows to measure the government customer concentration. For enterprises that do not have sales to major government customers, we assign a value of zero to them.

$$GovC_{i,t} = \sum_{j=1}^{J} \frac{GovSales_{i,j,t}}{Sales_{i,t}} \quad (4)$$

where $GovC_{i,t}$ refers to enterprise *i*'s government customer concentration in year *t*. $GovSales_{i,j,t}$ represents enterprise *i*'s sales to major government customer *j* in year *t*. $Sales_{i,t}$ means enterprise *i*'s total sales in year *t*. We then identify firms with *GovC* above zero as a group of firms with government customers and those with *GovC* equalling zero as a group of firms without government customers.

Columns (7) and (8) show that the coefficient of *CSRA×ESGG* is more prominent in firms without government customers than in those with government customers. This implies the inhibiting role of government customers in subsequent misconduct caused by the moral licensing effect of CSR assurance on prosocial firms. Even if managers are still influenced by moral licensing, the supplier-customer relationship with the government makes managers recall the concern about the severe consequences of firms' unethical behaviours, thus curbing subsequent misconduct.

4.6.5 Financial constraints

CSR investments entail costly expenditures and possess longer payback periods (Attig, 2024). Thus, Engagement in CSR actions might put a burden on firms with limited financial resources. Existing studies also suggest that CSR activities negatively influence firms' profitability and value (Chen et al., 2018; Preston & O'bannon, 1997). Because capital preservation is prioritised by financially constrained firms, those financially constrained firms may carefully allocate their scarce capital resources and avoid investments, such as CSR, which are not core to them but sensitive to their financial slack (Attig, 2024; Roper & Ruckes, 2012). Using the enactment of anti-recharacterisation laws as an exogenous shock, Attig (2024) provides causal evidence that the decrease in financial constraints intensifies firms' CSR performance.

However, Cheng et al. (2014) argue that CSR strategies also facilitate access to financial resources. El Ghoul et al. (2011) suggest that CSR leaders benefit from cheaper equity financing. Enterprises disclosing CSR information also enjoy a subsequent decrease in the cost of equity, especially when their CSR information is assured by external parties (Dhaliwal et al., 2011). Wang (2023) suggest that non-US banks exposed to CSR disclosure regulations incentivise thwir US borrowers' CSR activities. Thus, capital markets value firms' CSR actions. Furthermore, CSR can also consolidate the relationship between firms and the government, therefore easing the difficulty of external financing (Borghesi et al., 2014; Khwaja & Mian, 2005). Thus, financially constrained firms could attract attention from capital providers by strategically taking CSR activities.

Nonetheless, the cost of signalling moral deeds for firms with high financial constraints is higher than for those with low financial constraints. According to Lasarov & Hoffmann (2020), individuals with costly signals about their moral behaviours are more likely to be morally licensed

and subsequently behave in a dubious way. This implies that managers from prosocial firms with tight financial constraints, compared with those with loose financial constraints, have more propensity to neglect moral concerns about a wide range of stakeholders after establishing moral credentials via CSR assurance. Therefore, we conjecture that prosocial companies with CSR assurance and tight financial constraints have more propensity to conduct subsequent misbehaviours detrimental to a wide range of stakeholders than those with CSR assurance and loose financial constraints.

We use the SA index to gauge financial constraints (Hadlock & Pierce, 2010). The formula of the SA index is presented below:

$$SA_{i,t} = -0.737 \times SizeAsset_{i,t} + 0.043 \times SizeAsset_{i,t}^2 - 0.040 \times Age_{i,t} \quad (5)$$

where *SizeAsset* is measured as the natural logarithm of the book value of total assets in millions; *Age* is the number of years for which a firm has been on the Compustat database with a non-missing stock price. According to Hadlock & Pierce (2010), *SizeAsset* and *Age* are winsorised at the 1% and 95% levels. Observations with missing SA index are eliminated. SA index is negative, so a higher SA index means more serious financial constraints.

After that, we classify companies with the SA index above the industry-year median into the high financial constraint group and otherwise into the low financial constraint one. Columns (9) and (10) report that while the coefficient of *CSRA×ESGG* is significant and positive at the 10% level in the group of low financial constraints, that of *CSRA×ESGG* is significant and positive at the 5% level in the group of high financial constraints. The results imply that the moral licensing effect is more salient when managers lead prosocial firms with high financial constraints to establish moral credentials via CSR assurance. As a result, those enterprises have more propensity to subsequently misbehave.

4.6.6 State-level culture

Existing studies suggest that the cultural context is a moderator of moral licensing (Brewer & Gardner, 1996; Lasarov & Hoffmann, 2020; Wilhelm & Gunawong, 2016). Collectivism and

individualism are well-known cultural dimensions (Hofstede & Hofstede, 2005). In collectivistic societies, individuals prioritise group achievement, align their life objectives with the group's overall interests, and sacrifice their self-interest to benefit the whole group (Brett, 2000; De Mooij & Hofstede, 2010; Nadarajah et al., 2022). Conversely, in individualistic societies, people emphasise their own interests, attach importance to individual freedom, and give the accomplishment of personal goals priority over concerns for the collective interests of group members (Hofstede, 2001). Therefore, the cultural context can affect managers' decision-making, therefore influencing corporate behaviours. El Ghoul & Zheng (2016) suggest that customers in individualistic societies have scarce access to trade credit offered by their suppliers due to the higher cost of creditworthiness information in such societies. Chen et al. (2015) suggest that firms in individualistic societies tend to hold less cash than those in collectivistic societies because individualistic managers emphasise success and esteem, tend to be overconfident, and therefore have more propensity to engage in acquisition and capital expenditure. Furthermore, Nadarajah et al. (2022) suggest that compared with enterprises in collectivistic states, those in individualistic states tend not to adopt workplace diversity policies.

Lasarov & Hoffmann (2020) argue that the occurrence of moral licensing is contingent on the salience of cultural influences on moral decision-making processes. Additionally, Simbrunner & Schlegelmilch (2017) find that in Western countries, the moral licensing effect is more salient in individualistic societies than in collectivistic ones. Hence, we conjecture that prosocial firms in individualistic states tend to engage in subsequent misconduct after establishing moral credentials via CSR assurance. After building moral images via CSR assurance for the audience, those managers from individualistic states might return to prioritise firm performance over CSR. In particular, management compensation in an individualistic culture is tightly linked with corporate performance (Schuler & Rogovsky, 1998). Even if those firms in individualistic states are prosocial, their managers are more likely to only regard CSR actions as the way to acquire insurance-like protection. Therefore, once they achieve their goal of changing how observers construe their immoral behaviours through moral credentials, they will be more likely to chase corporate profitability without moral concerns, leading to an increase in subsequent misconduct detrimental to a wide range of stakeholders. Conversely, in collectivism societies, managers tend to preserve the public image (Chen et al., 2015). After acquiring moral credentials via CSR assurance,

managers from prosocial firms in collectivistic states might be influenced by moral licensing less because they tend to preserve the moral image.

To measure the state-level cultural context, we apply the state-level culture index developed by Vandello & Cohen (1999). The lower scores indicate greater individualism. Data on corporate headquarter locations are collected from the Compustat. Subsequently, the state-level culture index is matched with states where firms' headquarters are located in our sample. Observations with missing information about headquarters are eliminated. Firms whose state-level culture scores are above the median of the state-level culture index are identified as those in collectivistic states; otherwise, companies with state-level culture scores below the median of the index are denoted as those in individualistic states.

Columns (9) and (10) show that the coefficient of *CSRA×ESGG* is not significant in firms from collectivistic states but significant and positive in firms from individualistic states. Thus, the moral licensing effect of CSR assurance on prosocial firms is more salient in individualistic states. This implies that compared with prosocial firms in collectivistic states, those in individualistic states tend to subsequently behave in conflict with their moral credentials established by CSR assurance, leading to an increase in corporate misconduct.

5. Conclusion

In this research, we explore whether and how prosocial companies' acquisition of CSR assurance influences their subsequent misconduct from a moral licensing perspective. By applying the US research setting and data from the Thomson Reuters Refinitiv and Violation Tracker, we find that prosocial enterprises with CSR assurance tend to engage in subsequent misconduct detriment to a broad spectrum of stakeholders. This implies that the moral licensing effect can spill over to firm-level behaviours through influenced managers. Our research inferences are robust after applying an alternative measurement of corporate misconduct, continuous ESG variables, and KLD ESG data. Our findings still hold after addressing endogeneity concerns by using a placebo test and PSM sample. Furthermore, we estimate a staggered DID model by applying the tariff rate reduction as a negative exogenous shock to the moral image establishment of CSR assurance and further address endogeneity issues caused by reversal causality. The outcomes present that due to the

reduction in CSR assurance for enterprises with superior CSR performance, caused by the tariff rate reduction, treatment firms have less propensity to subsequently misbehave. Additional analyses show that when prosocial firms' CSR assurance is provided by auditors, the moral licensing effect is more salient. Cross-sectional analyses report that CSR assurance's moral licensing effect on prosocial firms is more salient when those firms face low litigation risk, experience weak competition, possess a large size, have government customers, encounter tight financial constraints, and locate in individualistic states.

Our research generates several theoretical contributions. First, our research contributes to the extant research concerning moral licensing by offering empirical evidence for the influence of CSR assurance on prosocial firms' subsequent misconduct. Most existing literature focuses on the individual level (e.g., Klotz & Bolino, 2013; Kouchaki & Jami, 2018; Millar et al., 2023). List & Momeni (2021) find that firms' CSR performance can morally license employees to conduct subsequent misconduct detrimental to firms. Ormiston & Wong (2013) suggest that firms' CSR ratings are positively related to subsequent CSR controversial ratings and that CEOs' moral identity symbolisation plays a moderating role in such a relationship. However, it is still unclear, at the organisation level, whether CSR assurance as a more convincing and costly moral image of prosocial firms influences their managers' attitude toward subsequent corporate misconduct, the concrete unethical behaviour at the firm level. Therefore, our findings fill the void and provide deep insights into moral licensing at the organisation level. Furthermore, following the proposition made by Lasarov & Hoffmann (2020), our study offers insights into the moral licensing caused by costly signals of firms' past prosocial deeds.

Second, our research provide deep insights into CSR assurance's influences. Extant research pays attention to CSR assurance's bright side, such as reputation-building (Simnett et al., 2009), improved CSR information quality (Ballou et al., 2018), lower cost of capital (Dhaliwal et al., 2016), and aid in auditors' assessment of going concern risk (Maso et al., 2020). Regarding corporate misconduct, Christensen (2016) finds the monitoring role of CSR reporting in high-profile and CSR-related misconduct but fail to clarify CSR assurance's moderating role in the US research setting. To supplement his research, Du & Wu (2019), by applying research setting outside the US, find that only firms with CSR assurance tend not to engage in subsequent CSR-related

misconduct. However, both studies focus only on CSR-related misconduct rather than on that related to a wider range of stakeholders. Additionally, although CSR leaders tend to acquire CSR assurance (Clarkson et al., 2019), both studies pay less attention to CSR assurance's impact on prosocial firms' subsequent behaviours. Furthermore, Reitmaier et al. (2024) argue that enterprises reporting high-quality CSR information have more propensity to engage in future misconduct, but they do not further examine whether and how CSR assurance, as a driver of CSR information quality and a costly signal of firms' moral behaviours, play a role in future misconduct. Therefore, based on moral licensing theory and data on misconduct from the Violation Tracker, our study helps the understanding of the dark side of CSR assurance and supplements the existing research concerning the association between CSR information quality and corporate misbehaviours (Christensen, 2016; Du & Wu, 2019; Reitmaier et al., 2024) via a lens of moral licensing.

Third, our paper enriches the existing research concerning corporate wrongdoing (e.g., Armstrong et al., 2010; Cumming et al., 2015; Heese & Pérez-Cavazos, 2020; Zaman et al., 2021; Zaman et al., 2022). We enrich prior research through identifying a unique driver of corporate misconduct, CSR assurance. Although prosocial firms acquiring CSR assurance build a more convincing moral image according to their past CSR efforts, managers who lead those firms tend to be morally licensed due to such an image and then concerned less about the consequences of subsequent immoral behaviour, therefore leading to corporate misconduct in the following years. Thus, our research also augments the literature in this field by stressing the moral licensing effect on managers' attitudes toward immoral behaviours, which enables enterprises to misbehave.

Our research also generates some practical implications. First, our findings point out that regulators should not neglect enterprises with a better moral image to the public. The moral image built by past prosocial deeds does not mean that those companies tend not to engage in misconduct in the following years. Instead, based on the moral licensing theory, those enterprises have more propensity to behave in an unethical way detrimental to a wider range of stakeholders. Second, our research implies that after managers make decisions to acquire CSR assurance to signal firms' CSR achievements, the board of directors should enhance its monitoring role, especially in managers' attitudes toward corporate misconduct in the following years. Furthermore, the board of directors must take measurements, such as compensation package bonding with corporate misconduct, to

make managers recall the severe consequences of corporate wrongdoings. Third, CSR auditors from accounting firms should realise that their professional skills and methodologies used in financial audits not only deliver better quality CSR assurance but also help firms build a more convincing moral image that appears to activate moral licensing. Thus, if they continue to provide CSR assurance for a firm in the following years, they should accordingly improve professional scepticism against CSR information. Furthermore, financial auditors would consider CSR assurance as a criterion for judging the possibility of financial misstatement. This is because moral licensing can lead to CSR-unrelated misconduct such as accounting fraudulent. Therefore, our findings also imply that CSR and financial auditing engagement teams, especially those from the same accounting firm, could augment their information sharing. Finally, our research provides deep insights into the debate over whether mandatory CSR disclosure is more effective in inhibiting enterprises' misbehaviours than voluntary one, thus stressing the necessity of mandatory CSR reporting even assurance.

As with all studies, our research has several limitations, which also provide opportunities for future studies. First, although we use a database recording both CSR-related and unrelated misconduct, we do not examine the moral licensing effect on specific types of misconduct according to Violation Tracker's classification. Future research can explore the scope of CSR assurance's moral licensing effect on prosocial firms. Second, even though moral licensing is associated with costly signals of prosocial deeds, we do not explore how the cost of purchasing CSR assurance moderates moral licensing due to a lack of access to data on the price of CSR assurance, especially for the assurance provided by consulting firms. Future research can further explore the role of CSR assurance cost in subsequent misconduct. Third, the likelihood that our inferences could be promoted by endogeneity caused by self-selection and reversal causality is an inevitable limitation of archival studies even though we mitigate endogeneity concerns by using a placebo test, PSM procedure, and staggered DID model. However, it is difficult to capture the change in a manager's psychological status. Future research could conduct qualitative methodologies to further explore the moral licensing effect on managers. Finally, our research has limited generalisability because we apply the US setting in which firms voluntarily issue CSR reports and acquire CSR assurance. Future research could examine the moral licensing effect in mandatory CSR reporting settings such as Europe or in mandatory CSR assurance settings such as South Africa to further address the

debate over the influence of mandatory and voluntary CSR reporting or assurance on corporate behaviour.

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Table 1 Sample selection
This table reports the sample selection process.

Descriptions	Firm-year observations
Asset 4 firms from 2002 to 2022	129,220
Remove observation for non-US firms	(81,460)
Remove observations from financial industries	(9,988)
Remove observations with missing values of control variables	(27,547)
Remove observations for firms, with CSR assurance, that do not issue CSR reports and do not provide the name of the CSR assurance provider	(308)
Final sample	9,917

Table 2 Descriptive statistics

This table reports the descriptive statistics of the variables used in this research. The sample includes 923 firms listed in the US from 2002 to 2022, which includes 8,749 firm-year observations. We calculate means, standard deviations, minimums, Q1, medians, Q3, and maximums of the main variables used in this study.

	N	Mean	SD	Min	p25	Median	p75	Max
$Number_{t+1}$	8,749	2.465	10.009	0.000	0.000	0.000	2.000	290.000
$lnNumber_{t+1}$	8,749	0.651	0.824	0.000	0.000	0.000	1.099	3.219
ESG	8,749	0.443	0.196	0.090	0.282	0.423	0.597	0.868
ESGG	8,749	0.470	0.499	0.000	0.000	0.000	1.000	1.000
CSRA	8,749	0.100	0.300	0.000	0.000	0.000	0.000	1.000
ConsAuditor	8,749	0.084	0.277	0.000	0.000	0.000	0.000	1.000
ACCAuditor	8,749	0.017	0.130	0.000	0.000	0.000	0.000	1.000
CSRR	8,749	0.434	0.496	0.000	0.000	0.000	1.000	1.000
Size	8,749	8.414	1.339	4.705	7.531	8.317	9.272	11.907
Lev	8,749	0.284	0.190	0.000	0.150	0.269	0.391	0.928
ROA	8,749	0.056	0.086	-0.392	0.026	0.058	0.098	0.270
BoardSize	8,749	2.384	0.194	1.792	2.303	2.398	2.485	2.833
Dual	8,749	0.312	0.463	0.000	0.000	0.000	1.000	1.000
Indep	8,749	0.811	0.111	0.364	0.750	0.833	0.900	0.933
CSRComm	8,749	0.426	0.495	0.000	0.000	0.000	1.000	1.000
TanIntan	8,749	0.303	1.026	-0.887	-0.029	0.051	0.235	7.544
HHI	8,749	0.007	0.026	0.000	0.000	0.000	0.001	0.199
Inst	8,749	0.860	0.152	0.270	0.788	0.919	0.977	0.977
TobinsQ	8,749	2.342	1.571	0.813	1.329	1.823	2.757	9.730
RD	8,749	0.051	0.129	0.000	0.000	0.003	0.046	1.129
Cash	8,749	0.144	0.152	0.000	0.035	0.093	0.198	0.972
MB	8,749	2.373	1.723	0.533	1.337	1.828	2.760	23.158

Table 3 Difference in means tests of subsamples

This table reports the means tests of subsamples. All continuous variables are winsorised at the 1% and 99% levels. t-tests are conducted for the differences in means. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A

Variables	High CSR performance without CSR assurance (n=3344) Mean	High CSR performance with CSR assurance (n=765) Mean	Difference in means (p-value)
$lnNumber_{t+1}$	0.721	1.112	0.000***
CSRR	0.615	1.000	0.000***
Size	8.830	9.743	0.000***
Lev	0.288	0.327	0.000***
ROA	0.060	0.072	0.000***
BoardSize	2.419	2.515	0.000***
Dual	0.311	0.327	0.387
Indep	0.834	0.862	0.000***
ESG	0.555	0.721	0.000***
CSRComm	0.579	0.941	0.000***
TanIntan	0.258	0.249	0.798
HHI	0.009	0.012	0.075*
Inst	0.864	0.795	0.000***
TobinsQ	2.169	2.556	0.000***
RD	0.042	0.050	0.010**
Cash	0.132	0.123	0.079*
MB	2.184	2.587	0.000***

Panel B

Variables	Low CSR performance without CSR assurance (n=4532) Mean	Low CSR performance with CSR assurance (n=108) Mean	Difference in means (p-value)
$lnNumber_{t+1}$	0.513	1.009	0.000***
CSRR	0.191	1.000	0.000***
Size	7.859	9.426	0.000***
Lev	0.273	0.298	0.202
ROA	0.051	0.048	0.723
BoardSize	2.333	2.505	0.000***
Dual	0.310	0.333	0.598
Indep	0.786	0.794	0.493
ESG	0.309	0.593	0.000***
CSRComm	0.216	0.861	0.000***
TanIntan	0.350	0.102	0.023**
HHI	0.004	0.018	0.000***
Inst	0.870	0.794	0.000***
TobinsQ	2.444	1.856	0.000***
RD	0.060	0.013	0.002***
Cash	0.157	0.070	0.000***
MB	2.489	0.609	0.001***

Table 4 Baseline results

This table reports the results of the regression model below:

$$lnNumber_{t+1} = \beta_0 + \beta_1 CSRA_{i,t} + \beta_2 ESGG_{i,t} + \beta_3 CSRA \times ESGG + \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{t+1}$$

where *lnNumber* refers to the natural logarithm of one plus the number of corporate misconduct in a year. $CSRA_{i,t}$ is a dummy variable that equals one if firm *i* acquires CSR assurance in year *t* and 0 otherwise. $ESGG_{i,t}$ is a dummy variable that equals one if firm *i*'s ESG rating is above the industry-year median of ESG in year *t* and 0 otherwise. We focus on the coefficient, β_3, of the interaction term between *CSRA* and *ESGG*. *Controls* refers to a set of control variables. The details of all variables are provided in Appendix A. The year and industry fixed effects are applied to estimate the regressions. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered by at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	Full Sample	CSR Reporting Sample
Variables	$lnNumber_{t+1}$	$lnNumber_{t+1}$
CSRA	-0.226**	-0.288***
	(-2.16)	(-2.89)
ESGG	-0.066**	-0.095**
	(-2.11)	(-1.99)
CSRA×ESGG	0.284***	0.322***
	(2.80)	(3.32)
CSRR	0.042	
	(1.24)	
Size	0.249***	0.273***
	(12.05)	(9.40)
Lev	-0.030	-0.117
	(-0.40)	(-0.94)
ROA	-0.684***	-0.812***
	(-4.56)	(-3.41)
BoardSize	-0.098	-0.017
	(-1.15)	(-0.12)
Dual	-0.017	-0.008
	(-0.58)	(-0.18)
Indep	0.363**	0.231
	(2.50)	(0.93)
ESG	0.156	0.226
	(1.09)	(1.07)
CSRComm	-0.092**	-0.067
	(-2.45)	(-1.54)
TanIntan	0.015**	0.017*
	(2.57)	(1.77)
HHI	3.418***	3.219***
	(3.40)	(2.99)
TobinsQ	-0.046**	-0.111**
	(-2.00)	(-2.51)
Inst	-0.021	0.243
	(-0.17)	(1.27)
RD	-0.224*	-0.599**
	(-1.80)	(-2.07)
Cash	-0.245***	-0.578***
	(-2.76)	(-3.48)
MB	0.045***	0.107***
	(2.76)	(3.33)
Constant	-2.462***	-1.987***
	(-8.51)	(-3.26)
Observations	8,749	3,795
Adj. R^2	0.447	0.483
Year FE	Yes	Yes
Industry FE	Yes	Yes

Table 5 Type of CSR auditors

This table shows the results by using different types of CSR auditors, *AccAuditor,* and *ConsAuditor* respectively. The details of all variables are provided in Appendix A. The year and industry fixed effects are applied to estimate the regressions. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	Accounting firms	Consulting firms
Variables	$lnNumber_{t+1}$	$lnNumber_{t+1}$
AccAuditor	-0.563***	
	(-3.19)	
ConsAuditor		-0.186*
		(-1.74)
ESGG	-0.055*	-0.062**
	(-1.78)	(-1.98)
AccAuditor×ESGG	0.599***	
	(2.93)	
ConsAuditor×ESGG		0.243**
		(2.30)
Controls	Yes	Yes
Observations	8,749	8,749
Adj. R^2	0.447	0.446
Year FE	Yes	Yes
Industry FE	Yes	Yes

Table 6 Robustness check: alternative measurements of misconduct and CSR performance
This table shows the results of the baseline regression model by replacing *lnNumber* with *lnPenalities*, replacing *ESGG* with a continuous variable, *ESG*, and using data on ESG from KLD. The definition of all variables is elaborated in Appendix A. The year and industry fixed effects are applied to estimate the regressions. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
Variables	$lnPenalties_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$
CSRA	-1.031	-0.640***	-0.140
	(-1.42)	(-2.66)	(-1.43)
ESGG	-0.334		
	(-1.48)		
CSRA×ESGG	1.685**		
	(2.24)		
ESG	0.838	-0.037	
	(0.85)	(-0.31)	
CSRA×ESG		0.960***	
		(2.87)	
KLDESGG			-0.067**
			(-2.28)
CSRA×KLDESGG			0.195*
			(1.95)
KLDESG			0.004
			(0.51)
Controls	Yes	Yes	Yes
Observations	8,749	8,749	7,570
Adj. R^2	0.344	0.447	0.450
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes

Table 7 Endogeneity concerns: Propensity score matching

This table reports the regression results of the PSM procedure. The first-step analysis is a logit model in which the treat variable is *CSRA*; the outcome variable is *lnNumber*, and the covariates are the same control variables as those in the baseline regression model. The second-step analysis is the ordinary least square regression using the PSM sample generated from the first step of this model. Panel A compares the original sample with the PSM sample. Panel B reports the regression results based on the matched sample. The details of all variables are provided in Appendix A. The year and industry fixed effects are applied to estimate the PSM OLS model. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Comparison between original and matched samples

Variables	Original Sample				PSM Sample				
	Firms with *CSRA*	Firms w/o *CSRA*	Diff. in. means (t-stat)	Standardised bias (%)	Firms with *CSRA*	Firms w/o *CSRA*	Diff. in. means (t-stat)	Standardised bias (%)	Reduction in bias (%)
Size	9.703	8.271	1.432***	115.2	9.698	9.724	-0.026	-2.1	98.2
			(31.66)				(-0.43)		
Lev	0.324	0.280	0.044***	24.9	0.324	0.312	0.012	6.8	72.7
			(6.53)				(1.48)		
ROA	0.069	0.055	0.014***	17.6	0.069	0.073	-0.004	-5.0	71.4
			(4.60)				(-1.13)		
BoardSize	2.514	2.370	0.144***	80.1	2.514	2.505	0.009	4.7	94.1
			(21.33)				(1.08)		
Dual	0.328	0.310	0.018	3.8	0.327	0.339	-0.012	-2.5	34.6
			(1.06)				(-0.51)		
Indep	0.853	0.806	0.047***	46.8	0.853	0.849	0.004	4.3	90.9
			(12.02)				(1.07)		
ESG	0.706	0.413	0.298***	192.2	0.705	0.706	-0.001	-0.8	99.6
			(46.70)				(-0.21)		
CSRComm	0.931	0.370	0.561***	145.5	0.931	0.935	-0.004	-0.9	99.4
			(33.80)				(-0.29)		
TanIntan	0.231	0.311	-0.08**	-8.5	0.230	0.203	0.027	2.9	65.3
			(-2.19)				(0.76)		
HHI	0.013	0.006	0.007***	20.5	0.013	0.015	-0.002	-8.3	59.4
			(6.79)				(-1.35)		
TobinsQ	2.470	2.327	0.143**	9.0	2.461	2.589	-0.128	-8.1	10.1
			(2.54)				(-1.60)		
Inst	0.795	0.867	-0.072***	-50.5	0.795	0.800	-0.005	-3.3	93.4
			(-13.52)				(-0.70)		
RD	0.046	0.052	-0.006	-5.9	0.045	0.050	-0.005	-4.3	27.0
			(-1.40)				(-1.16)		
Cash	0.119	0.146	0.073***	-20.5	0.118	0.134	-0.016***	-11.6	43.3
			(-5.16)				(-2.67)		
MB	2.500	2.359	0.141**	8.2	2.491	2.612	-0.121	-7.1	13.7
			(2.29)				(-1.44)		

Panel B: regression based on matched sample

	(1) Logit	(2) Matched Sample
Variables	*CSRA*	$lnNumber_{t+1}$
CSRA		-0.276**
		(-1.99)
ESGG		-0.122
		(-1.00)
CSRA×ESGG		0.325**
		(2.16)
Controls	Yes	Yes
Observations	8,749	1,155
Pseudo/Adj. R^2	0.390	0.535
Year FE	No	Yes
Industry FE	No	Yes

Table 8 Endogeneity concerns: Staggered differences-in-difference model
This table reports the results of the regression model below:

$$lnNumber_{i,t+1} = \beta_0 + \beta_1 Post + \beta_2 Treat + \beta_3 Post \times Treat + \sum_k \beta_k Controls_{k,i,t} + \varepsilon_{i,t+1}$$

where *lnNumber* refers to the natural logarithm of one plus the number of corporate misconducts in a year. *Post* is a dummy variable that equals one for years after a significant reduction in tariff rate and 0 otherwise. *Treat* is a dummy variable that equals one if a firm is attributed to an industry that experiences a significant reduction in tariff rate and 0 otherwise. We focus on the coefficient, β_3, of the interaction term, *Post×Treat. Controls* refers to a set of control variables. The details of all variables are provided in Appendix A. The year and industry fixed effects are applied to estimate the regressions. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Staggered DID		(2) Parallel Trend
Variables	$lnNumber_{t+1}$		$lnNumber_{t+1}$
Post	0.884***	*Pre2×Treat*	-0.111
	(7.71)		(-0.46)
Treat	1.316***	*Pre1×Treat*	-0.136
	(4.62)		(-0.73)
Post×Treat	-1.318***	*Current×Treat*	-0.399**
	(-7.60)		(-2.36)
		Post1×Treat	-0.394**
			(-2.20)
		Post2×Treat	-0.450***
			(-2.66)
		Post3×Treat	-0.505***
			(-3.21)
Controls	Yes	Controls	Yes
Observations	7,531	Observations	7,531
Adj. R^2	0.460	Adj. R^2	0.460
Year FE	Yes	Year FE	Yes
Industry FE	Yes	Industry FE	Yes

Table 9 Cross-sectional analyses

This table reports the results of our re-estimation of the baseline regression model using the subsamples constructed based on litigation risk, competition level, firm size, and government customers. Specifically, we divide the full sample into the following subsamples: high/low litigation risk, high/low competition, large/small size, and with/without government customers respectively. The details of all variables are provided in Appendix A. The year and industry fixed effects are applied to estimate the regressions. All continuous variables are winsorised at the 1% and 99% levels. The robust standard errors are clustered at the firm level. t-statistics are given in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) High Litigation Risk	(2) Low Litigation Risk	(3) High Competition	(4) Low Competition	(5) Large Size	(6) Small Size	(7) With government customer	(8) Without government customer
Variables	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$
CSRA	-0.218	-0.190	-0.161	-0.188	-0.312***	-0.071	-0.612***	-0.210*
	(-1.51)	(-1.63)	(-1.10)	(-1.56)	(-2.63)	(-0.48)	(-2.71)	(-1.92)
ESGG	-0.112*	-0.055	-0.021	-0.110***	-0.118***	-0.043	0.040	-0.074**
	(-1.90)	(-1.59)	(-0.52)	(-2.67)	(-2.61)	(-1.20)	(1.44)	(-2.36)
CSRA×ESGG	0.075	0.316***	0.198	0.200*	0.317***	0.139	0.417*	0.287***
	(0.47)	(2.81)	(1.47)	(1.65)	(2.68)	(0.99)	(1.82)	(2.74)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,746	7,003	4,145	4,604	4,124	4,625	643	8,106
Adj. R^2	0.620	0.425	0.334	0.482	0.484	0.383	0.457	0.461
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Cont.

	(9) High Financial Constrained	(10) Low Financial Constrained	(11) Collectivism	(12) Individualism
Variables	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$	$lnNumber_{t+1}$
CSRA	-0.193	-0.260*	-0.194	-0.107
	(-1.47)	(-1.79)	(-1.17)	(-0.81)
ESGG	-0.104***	-0.066	-0.061	-0.055
	(-2.83)	(-1.44)	(-1.38)	(-1.21)
CSRA×ESGG	0.291**	0.252*	0.187	0.220*
	(2.43)	(1.66)	(1.14)	(1.70)
Controls	Yes	Yes	Yes	Yes
Observations	4,858	3,884	4,266	3,886
Adj. R^2	0.525	0.363	0.536	0.392
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

Figure 1 Endogeneity concerns: Placebo test

This figure plots the distribution of the 1000 estimated coefficients of *Placebo-CSRA×Placebo-ESGG*. *Placebo-CSRA* and *Placebo-ESGG* are developed using the randomly assigned *CSRA* and *ESGG* to measure CSR assurance and identify firms with superior CSR performance. The distribution of *Placebo-CSRA×Placebo-ESGG* t-value is centred on 0. The true estimated t-value of *CSRA×ESGG* as in Table 4 is 2.80.

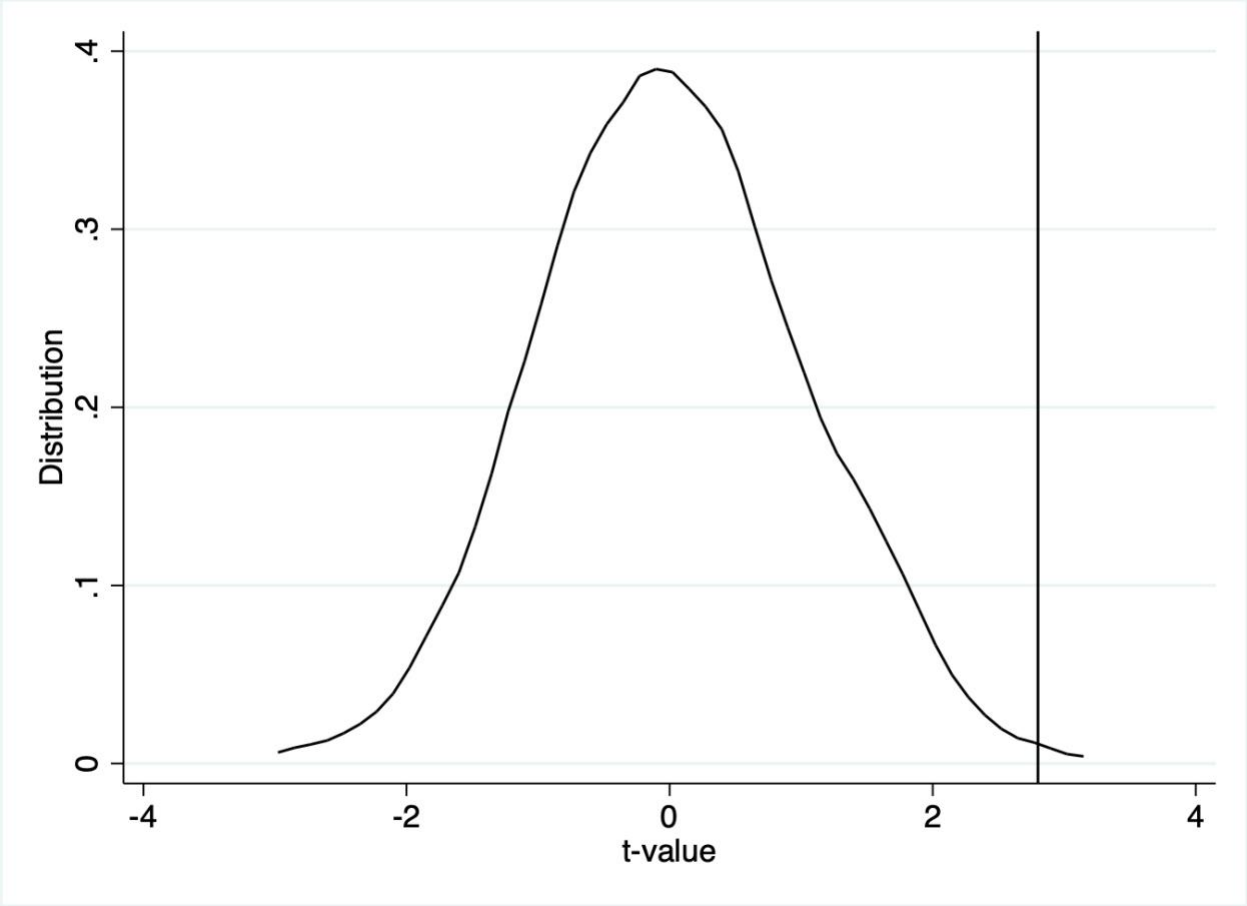
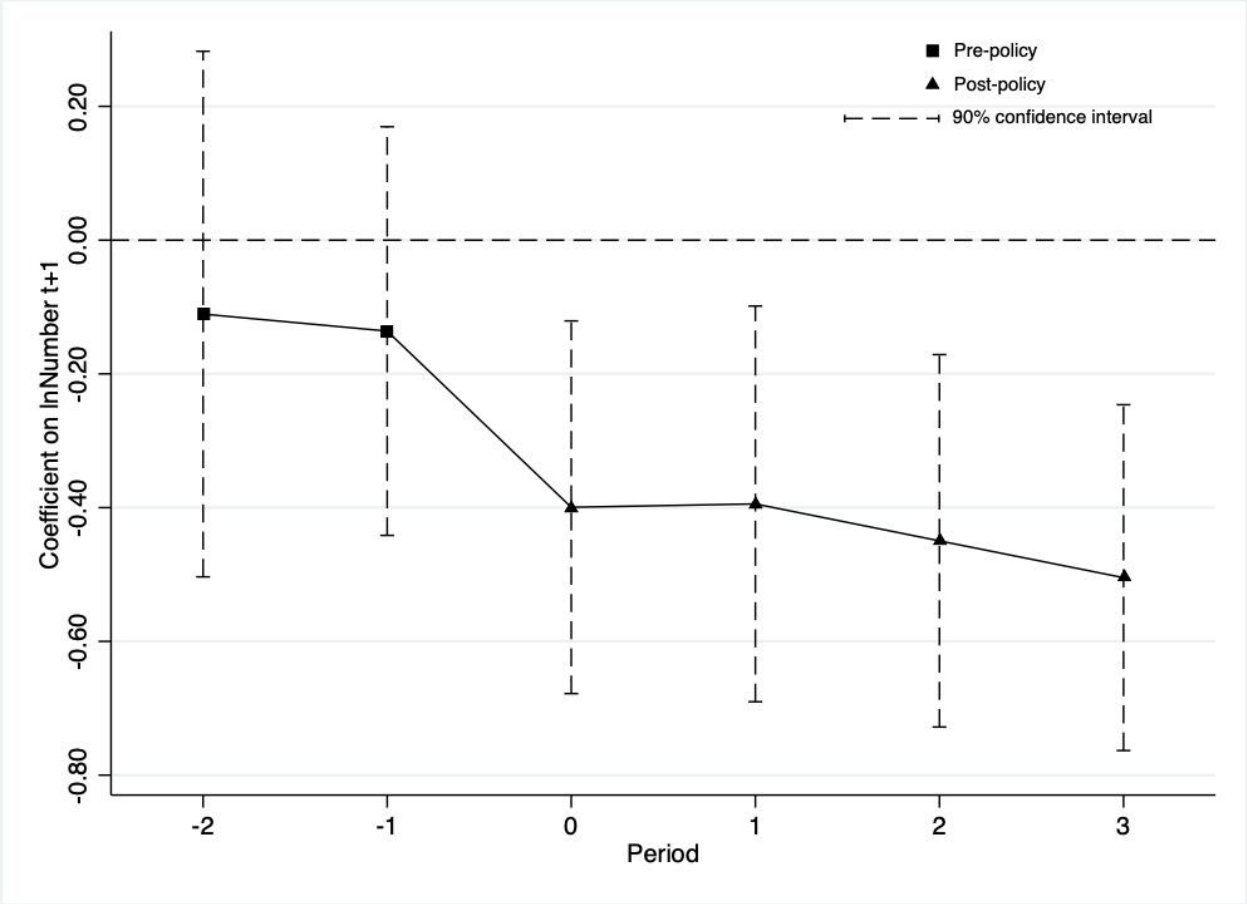


Figure 2 Parallel trend analysis

This figure plots the two-tailed 90% confidence interval around each point estimate of the impact of significant tariff rate reductions on corporate misconduct. The *x-axis* indicates the year relative to the year of a significant reduction in import tariff rate. The *y-axis* denotes corporate misconduct, *lnNumber*. Each dot on the graph indicates the regression coefficient for the event year from a parallel trend DID regression estimation as reported in column (2) of Table 8.



Appendix A Variable definition

Variables	Definition
lnNumber	The natural logarithm of one plus the number of a firm's penalties in US dollars imposed by regulatory agencies in a year due to its engagement in corporate misconduct.
lnPenalities	The natural logarithm of one plus the amount of a firm's penalties in US dollars imposed by regulatory agencies in a year due to its engagement in corporate misconduct.
CSRA	A binary variable that equals 1 if a firm acquires CSR assurance in a year and 0 otherwise.
AccAudtior	An indicator variable that equals 1 if a firm receives CSR assurance from an accounting firm in a year and 0 otherwise.
ConsAudtior	An indicator variable that equals 1 if a firm receives CSR assurance from a consultant firm in a year and 0 otherwise.
ESG	The mean of a firm's environmental, social, and governance scores obtained from the Thomson Reuters Refinitiv database in a year.
ESGG	A dummy variable that equals 1 if a firm's Refinitiv ESG rating is above the industry-level (two-digit SIC code) median of Asset 4 ESG rating in a year and 0 otherwise.
KLDESGG	A dummy variable that equals 1 if a firm's KLD ESG rating is above the industry-level (two-digit SIC code) median of KLD ESG rating in a year and 0 otherwise.
CSRR	A binary variable that equals 1 if a firm issues a standalone CSR report and 0 otherwise.
Size	The natural logarithm of a firm's sales revenue in a year.
SizeAsset	The natural logarithm of a firm's total assets (in millions) in a year.
Lev	The ratio of a firm's long-term debt to its total assets in a year.

ROA	A firm's income before extraordinary items divided by its total assets in a year.
BoardSize	The natural logarithm of one plus the number of directors on board.
Indep	The number of independent directors divided by the number of directors on board.
CSRComm	A dummy variable that equals 1 if a firm establishes a CSR committee and 0 otherwise.
Dual	An indicator variable that equals 1 if a firm's CEO chairs the board and 0 otherwise.
TanIntan	Tangible and intangible investments, which are calculated as the sum of percentage change in tangible and intangible assets as the following: *(Property, plant and equipment$_t$/ Property, plant and equipment$_{t-1}$ – 1) + (Intangible assets$_t$/ Intangible assets$_{t-1}$ – 1)*.
HHI	Herfindahl-Hirschman Index, which is calculated as follows: $HHI = \sum_i^n (\frac{Sales_{i,t}}{Sales_{j,t}})^2$, where $Sales_{i,t}$ refers to firm *i*'s total sales in year *t*; $Sales_{j,t}$ denotes the total sales of industry *j* (two-digit SIC code) in which firm *i* operates in year *t*.
Inst	The proportion of shares held by institutional investors.
TobinsQ	*TobinsQ* is calculated as the follows: (book value of total assets – book value of total equity + market value of equity)/book value of total assets.
RD	The ratio of research and development expenditure to total assets, with missing values set to zero.
Cash	The ratio of cash and assets readily transferrable to cash at the end of fiscal year to total assets.
MB	The market-to-book ratio = (total assets – common equity + close price * common shares outstanding)/total assets.
Age	The number of years for which a firm has been on the Compustat database with a non-missing stock price.
Post	A dummy variable that equals 1 for years after a significant reduction in tariff rate and 0 otherwise.

Treat	A dummy variable that equals 1 if a firm is attributed to an industry that experiences a significant reduction in tariff rate and 0 otherwise.
GovC	A firm's government customer concentration, calculated as Equation (4).
SA	The SA index used to measure a firm's financial constraints in a year, which is calculated as Equation (5).