

Does Financial Analyst Coverage Influence Firms' Workforce Diversity Practices and Performance?

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Abstract

This study examines whether financial analyst coverage is associated with firms' workforce diversity practices and performance. Using a large sample of U.S.-listed firms from 2000 to 2019, we find that firms with greater analyst coverage exhibit stronger subsequent workforce diversity performance. Specifically, analyst coverage is positively associated with diversity strengths and negatively associated with diversity-related concerns. We further show that this relation is linked to several formalization channels: firms with greater analyst coverage are more likely to establish sustainability committees, adopt Global Reporting Initiative (GRI) disclosure guidelines, strengthen board diversity and inclusivity policies, and set measurable diversity and equal opportunity targets. Additional analyses indicate that this relation is weaker in firms with stronger internal corporate governance, consistent with a substitution effect between external scrutiny and internal governance. Finally, we find that workforce diversity is more positively associated with future firm value when analyst coverage is higher.

Keywords: Financial analyst coverage; Workforce diversity and inclusion; Corporate governance; External scrutiny; Sustainability committees; GRI disclosure; Firm value

1 Introduction

Workforce diversity has become an increasingly important dimension of corporate behavior. Firms routinely express commitments to diversity and inclusion in annual reports, sustainability reports, and other public communications, yet the implementation of such commitments remains uneven. In many firms, the central challenge is not the absence of diversity rhetoric, but the difficulty of institutionalizing diversity-related commitments in ways that are credible, visible, and durable. This distinction is important because workforce diversity is closely connected to organizational legitimacy, corporate social responsibility, human capital quality, employee opportunity, and long-run corporate reputation (McGuire et al., 1988; McGuinness et al., 2017). At the same time, diversity-related policies and outcomes are often less directly observable than conventional financial metrics, and firms retain considerable discretion over how such issues are framed, disclosed, and prioritized. As a result, workforce diversity can remain vulnerable to symbolic adoption, selective disclosure, or uneven implementation unless firms face sufficient external scrutiny and accountability.

This implementation challenge sits naturally within the broader CSR literature, which emphasizes that firms are increasingly expected to address a wider range of stakeholder concerns and legitimacy pressures beyond purely financial performance (Campbell et al., 2002; Pelozo and Shang, 2011). Within this broader evolution, workforce diversity stands out as a particularly important yet difficult-to-govern dimension of corporate conduct. Unlike many traditional financial outcomes, diversity-

related practices often involve long-horizon organizational change, soft information, and considerable managerial discretion. Consequently, firms may face incentives to signal commitment to diversity without necessarily embedding such commitments in formal governance structures, transparent reporting practices, or measurable equal-opportunity targets. This creates an important information problem for outside stakeholders: it is difficult to distinguish substantive workforce diversity engagement from symbolic or weakly implemented commitments.

This raises a central and unresolved question: what external forces make firms more likely to move from diversity rhetoric to more substantive and formalized organizational commitments, particularly when workforce-related practices are difficult for outsiders to observe and verify? We argue that financial analyst coverage provides one such force. As key information intermediaries in capital markets, analysts collect, interpret, and disseminate firm-specific information to a broad set of market participants. Although analysts are traditionally associated with earnings forecasts, valuation, and financial disclosures, their broader scrutiny may also affect how firms respond to workforce-related issues that carry reputational, governance, and long-term value implications. Analysts need not directly design, monitor, or mandate employment policies for analyst coverage to matter. By increasing firm visibility, information dissemination, and capital-market attention, analyst coverage can raise the external salience of organizational practices that are otherwise difficult to assess. Workforce diversity is precisely such a setting because firms can publicly signal commitment to inclusion while outsiders face considerable difficulty evaluating whether these

commitments are supported by formal governance, standardized disclosure, and measurable targets.

The role of analyst coverage in this setting is theoretically ambiguous. On the one hand, greater analyst scrutiny may induce managerial short-termism and discourage investments in long-horizon, intangible initiatives such as diversity programs (Graham et al., 2005; He and Tian, 2013; To et al., 2018). If workforce diversity is viewed as difficult to quantify, weakly linked to near-term performance, or largely symbolic, stronger analyst attention may reduce managers' incentives to invest in such activities. On the other hand, if weak workforce diversity practices expose firms to reputational, governance, and human capital risks, greater analyst scrutiny may increase the expected costs of symbolic or insufficient commitments and strengthen incentives for firms to respond in more visible and systematic ways. Existing literature offers no clear conclusion as to which of these two forces is likely to dominate in the specific context of workforce diversity.

We argue that analyst coverage is more likely to strengthen firms' workforce diversity engagement through the latter channel. Specifically, greater analyst coverage broadens the dissemination of firm-specific information, heightens external scrutiny, and raises the reputational and capital-market salience of workforce-related strengths, weaknesses, and risks. In such an environment, workforce diversity becomes harder for managers to treat as a peripheral or purely symbolic issue. Rather than assuming that analysts directly intervene in employment policy, we posit that greater analyst coverage is associated with stronger incentives for firms to formalize diversity-related

commitments through more visible and accountable organizational arrangements, including governance structures, disclosure frameworks, and measurable targets. These arrangements make diversity commitments more externally legible and may help stakeholders better distinguish substantive engagement from symbolic positioning.

Using a comprehensive panel of U.S.-listed firms from 2000 to 2019, our baseline analyses establish a positive association between analyst coverage and subsequent workforce diversity performance. Firms with greater financial analyst coverage exhibit systematically higher future workforce diversity performance scores. This result holds across both OLS and firm fixed-effects specifications, indicating that the relationship is not merely driven by time-invariant firm characteristics. Importantly, when we decompose the overall diversity measure, we find that analyst coverage is positively associated with diversity strengths and negatively associated with diversity-related concerns. This pattern suggests that greater analyst scrutiny is associated not only with stronger diversity-related commitments, but also with fewer observable weaknesses in firms' diversity engagement and implementation.

We next examine whether firms facing greater analyst scrutiny are more likely to adopt organizational arrangements that formalize diversity-related commitments and make them more visible to external stakeholders. We find that firms with greater analyst coverage are more likely to establish sustainability committees, adopt Global Reporting Initiative (GRI) disclosure guidelines, strengthen board diversity and inclusivity policies, and set measurable diversity and equal opportunity targets. We interpret these patterns as evidence consistent with formalization channels, whereby heightened

external scrutiny is associated with more structured, transparent, and externally legible workforce diversity commitments. These findings are important because they suggest that analyst coverage is not merely associated with better diversity scores, but also with the organizational mechanisms through which diversity-related commitments become more formal, observable, and accountable.

We further address endogeneity concerns using several additional analyses. The positive relation between analyst coverage and workforce diversity performance remains robust to firm fixed effects, an instrumental-variable approach based on industry-year analyst coverage excluding the focal firm, propensity score matching, and entropy balancing. Additional analyses provide further support for our interpretation. The positive relation between analyst coverage and diversity performance is weaker in firms with stronger internal corporate governance, consistent with a substitution effect between external scrutiny and internal governance. We also find that workforce diversity performance is more positively associated with future firm value when analyst coverage is higher, suggesting that diversity-related practices may carry greater credibility or valuation relevance in firms subject to stronger analyst scrutiny.

This study contributes to the literature in several important ways. First, it extends the literature on the determinants of firms' workforce diversity engagement by identifying financial analyst coverage as an important market-based factor associated with diversity-related outcomes. While prior research has extensively documented the role of firm-level characteristics, governance arrangements, and institutional conditions in shaping employee-oriented and socially responsible practices (Saks, 2006;

McGuinness et al., 2017; Xiao et al., 2024), our findings highlight the importance of the external information environment in shaping firms' diversity-related behavior. In particular, our evidence suggests that firms' workforce diversity performance is associated not only with their internal resources and governance structures, but also with the degree of external scrutiny and information dissemination generated by capital-market intermediaries. In doing so, we add to the literature on workforce-related CSR by showing that analyst coverage is associated with a setting in which diversity-related issues become more salient, more difficult to ignore, and more likely to be translated into observable organizational commitments.

Second, we contribute to the literature on the consequences of financial analysts by showing that their influence may extend beyond traditional financial outcomes (Graham et al., 2005; He and Tian, 2013; To et al., 2018) and beyond broad CSR aggregates to the more specific domain of workforce diversity. More specifically, our evidence suggests that analyst coverage is associated not simply with firms that are more visible or more ESG-oriented, but also with the formalization of non-financial organizational practices. This distinction is important because workforce diversity is difficult for outsiders to observe and verify, and therefore provides a setting in which analyst scrutiny is unlikely to operate through direct monitoring. Instead, our evidence suggests that analyst coverage is associated with governance, disclosure, and target-setting mechanisms that make diversity commitments more visible, structured, and externally assessable. The evidence on sustainability committees, GRI adoption, board diversity and inclusivity policies, and minority-related diversity targets therefore sheds

light on the formalization channels through which heightened analyst scrutiny is associated with stronger diversity engagement. In this sense, our study adds nuance to the literature by suggesting that analyst coverage does not need to imply direct intervention in employment policy to matter; rather, it can shape the external salience of workforce-related issues and encourage firms to respond through more formal governance, disclosure, and target-setting mechanisms.

Third, this study contributes to research on the valuation relevance of non-financial performance by showing that workforce diversity is more positively associated with future firm value when analyst coverage is higher. This evidence suggests that the information environment conditions how investors interpret diversity-related practices. Diversity engagement appears to carry greater valuation relevance when external scrutiny enhances its visibility, credibility, and interpretability. More broadly, our evidence is consistent with the view that market-based scrutiny can complement internal governance and formal disclosure requirements in encouraging more structured and externally accountable workforce-related practices.

The remainder of the paper proceeds as follows. Section 2 reviews prior literature and develops our hypothesis. Section 3 covers the research design. Section 4 presents the empirical results, evidence on formalization channels, and robustness checks. Section 5 extends our analyses, and the final section concludes.

2 Literature Review and Hypothesis Development

2.1 Financial Analysts as External Information Intermediaries

Financial analysts play a central role in capital markets by collecting, interpreting, and disseminating firm-specific information to investors and other stakeholders. Prior literature suggests that analyst scrutiny can reduce information asymmetry, improve disclosure quality, strengthen managerial accountability, and constrain opportunistic corporate behavior (Yu, 2008; Irani and Oesch, 2013; Ellul and Panayides, 2018; Chen et al., 2015). In this broader sense, analysts influence not only how firms are valued, but also which aspects of firm behavior become more visible, more interpretable, and more difficult for managers to ignore.

This role is particularly relevant in settings where corporate behavior is economically meaningful yet difficult for outsiders to observe directly. Workforce diversity is one such setting. Diversity-related practices and outcomes may affect organizational legitimacy, employee opportunity, human capital quality, and long-run corporate reputation (McGuire et al., 1988; Fryxell and Wang, 1994). At the same time, workforce diversity is harder to assess than conventional financial metrics because it often involves qualitative disclosures, long-horizon organizational change, and considerable managerial discretion over reporting and implementation. As a result, firms may publicly endorse diversity and inclusion while differing substantially in the extent to which such commitments are formalized, implemented, and sustained.

In this context, analyst coverage may matter not because analysts directly design or mandate workforce diversity policies, but because greater coverage can intensify

external scrutiny and increase the reputational and capital-market salience of workforce-related issues. By broadening the dissemination of firm-specific information and making firm behavior more visible to outside stakeholders, analyst coverage may increase the expected costs of weak or purely symbolic diversity practices and encourage firms to respond through more visible and accountable organizational arrangements.

However, the predicted effect of analyst coverage on workforce diversity is theoretically ambiguous. On the one hand, analyst scrutiny may intensify managerial short-termism and discourage investment in long-horizon, intangible initiatives (Graham et al., 2005; He and Tian, 2013; To et al., 2018). On the other hand, if workforce diversity is associated with better governance, lower human capital risk, stronger employee commitment, and enhanced organizational legitimacy, greater analyst scrutiny may increase the expected costs of weak diversity practices and encourage firms to adopt more visible, structured, and externally accountable responses. Whether analyst coverage ultimately discourages or strengthens workforce diversity engagement is therefore an empirical question.

2.2 Workforce Diversity and the Formalization of Non-Financial Commitments

Our study relates to two strands of literature. The first examines the consequences of financial analyst coverage. Prior research shows that analysts affect firms through information intermediation, external monitoring, and governance-related channels, with implications for disclosure quality, managerial behavior, investment decisions, and broader corporate outcomes (Yu, 2008; Irani and Oesch, 2013; Chen et al., 2015;

To et al., 2018). More recently, this literature has also begun to consider whether analysts influence firms' socially responsible behavior and broader ESG engagement, rather than only traditional financial outcomes.

The second relevant strand examines the determinants of workforce diversity and employee-oriented CSR. Existing studies emphasize the roles of firm characteristics, governance arrangements, and institutional environments in shaping socially responsible and employee-related practices (Saks, 2006; McGuinness et al., 2017; Xiao et al., 2024). Yet, despite growing interest in both analyst scrutiny and corporate social behavior, relatively little is known about whether financial analyst coverage is associated with firms' workforce diversity engagement and performance. In particular, existing research has not sufficiently examined whether analyst coverage is linked not only to diversity outcomes themselves, but also to the formalization of diversity-related commitments through governance, disclosure, and target-setting arrangements.

2.3 Hypothesis Development

Greater analyst coverage may heighten the external salience and accountability of workforce-related issues, thereby encouraging firms to adopt more formal, transparent, and accountable diversity-related arrangements. In this context, sustainability committees, GRI disclosure, board diversity policy, and minority-related targets can be viewed as organizational responses through which firms translate external scrutiny into observable diversity commitments.

Establishing Sustainability Committees

One plausible response to heightened analyst scrutiny is the formalization of board-level oversight over workforce-related issues. As analysts increasingly incorporate non-financial indicators into firm assessments, managers may face stronger incentives to demonstrate that diversity and inclusion are being addressed through credible governance structures rather than through ad hoc or symbolic statements alone. The establishment of sustainability committees can therefore serve as a visible signal that diversity-related issues are monitored, discussed, and integrated into broader strategic decision-making.

Firms with dedicated sustainability committees are better positioned to translate diversity goals into concrete governance processes. Such committees may oversee diversity-related initiatives, monitor implementation, and report outcomes to stakeholders, thereby enhancing transparency and accountability (Driss et al., 2024). In this sense, analyst coverage may not directly cause diversity improvements at the operational level, but may encourage firms to adopt internal governance structures that make diversity commitments more formal and more difficult to ignore. These structures, in turn, are likely to be associated with stronger workforce diversity performance.

Adherence to Global Reporting Initiative (GRI) Guidelines

A second plausible response to greater analyst scrutiny is stronger standardization of non-financial disclosure. Analysts rely on comparable and interpretable information to evaluate firms, and standardized reporting frameworks can reduce ambiguity surrounding workforce-related practices. The GRI guidelines provide one such framework for ESG disclosure (Li et al., 2021; Krueger et al., 2024), including metrics

relevant to diversity, inclusion, and equal opportunity. Accordingly, firms facing more intense analyst attention may have greater incentives to adopt GRI-aligned reporting in order to make their workforce-related commitments more visible and credible.

Adhering to GRI guidelines requires firms to disclose more systematic information on diversity policies, practices, and outcomes. This improves comparability across firms and helps external stakeholders assess whether a firm's stated commitments are supported by more substantive action. In this way, GRI adoption can function as a disclosure response to analyst scrutiny, making workforce diversity easier to observe, evaluate, and benchmark. Firms making such disclosure commitments are therefore more likely to exhibit stronger diversity engagement.

Enhancing Board Diversity and Inclusivity

A third response channel concerns board diversity and inclusivity. Analysts often evaluate not only firm performance but also governance arrangements that affect the credibility of long-term strategy. Diverse boards may signal stronger oversight, broader perspectives, and greater sensitivity to stakeholder-related risks, including those associated with workforce diversity (Hussain et al., 2023). Under greater analyst scrutiny, firms may therefore face stronger incentives to demonstrate that diversity is embedded not only in workforce rhetoric but also in the composition and policy orientation of the board itself.

Board diversity can matter because it shapes both governance quality and organizational tone from the top. Boards with more diverse representation may be more likely to prioritize inclusive practices, challenge narrow managerial perspectives, and

support policies that broaden opportunity throughout the firm. Accordingly, greater analyst coverage may be associated with stronger board diversity commitments, which in turn reinforce firms' wider workforce diversity engagement and performance.

Creating Job Opportunities for Minorities

A final response channel concerns the adoption of more explicit diversity and equal opportunity commitments toward underrepresented groups. Because workforce composition and opportunity structures may be interpreted by external stakeholders as indicators of human capital quality, legitimacy, and organizational fairness, firms facing stronger analyst scrutiny may experience greater pressure to make these commitments more concrete and measurable. One way to do so is to articulate specific diversity targets, recruitment strategies, and promotion opportunities for minorities and other underrepresented groups.

Such measures move diversity beyond general aspiration and toward verifiable commitment. Firms that establish targeted outreach, inclusive hiring practices, or measurable equal opportunity objectives make it easier for outsiders to distinguish substantive effort from generic rhetoric. In that sense, analyst coverage may encourage firms to adopt more explicit and accountable workforce diversity commitments, which are then reflected in stronger diversity performance scores.

Taken together, these arguments suggest that greater analyst coverage can increase the external salience and accountability of workforce-related issues, thereby encouraging firms to adopt more formal governance, disclosure, and policy responses that strengthen workforce diversity engagement and performance. More formally:

***H1:** There is a positive relationship between the level of financial analyst coverage and a firm's future workforce diversity engagement and performance.*

3 Research Design

3.1 Sample and Data

This study utilizes a firm-level dataset comprising all U.S.-listed firms from 2000 to 2019. The sample period ends in 2019 due to the availability of MSCI KLD data, which are not published thereafter. Data are drawn from several sources. Corporate diversity engagement and performance metrics are obtained from the MSCI KLD CSR and LSEG databases. Analyst coverage data, measured by the number of earnings forecasts, come from IBES. Firm fundamentals and accounting data are sourced from Compustat, and board governance variables are from BoardEx. We exclude firms in regulated industries—specifically, utilities (SIC 4900–4999) and financials (SIC 6000–6999)—to focus on the general industrial sector.

After applying these filters and merging the databases, the final sample consists of 23,847 firm-year observations for 3,473 unique publicly listed firms over the 2000–2019 period.

3.2 Key Variables

Following the established literature in corporate sustainability research (e.g., El Ghoul et al., 2011; Deng, Kang, & Low, 2013; Lins et al., 2017), this study measures corporate diversity engagement through metrics derived from the MSCI KLD STATS database. KLD's diversity dimension is assessed by a series of binary indicators categorized into *DIV_Strengths*, which capture proactive leadership and institutional

commitments to inclusion, and *DIV_Concerns*, which reflect incidents of discrimination or poor practices in the workplace. Specifically, *DIV_Strengths* include factors such as gender and minority representation on the board and in senior management, progressive diversity and equal employment opportunity policies, work–life benefits, and initiatives promoting the advancement of women and minorities. *DIV_Concerns*, conversely, encompass notable controversies related to workplace discrimination, substantial litigation or regulatory actions over employment bias, and criticisms regarding the absence or ineffective implementation of non-discrimination policies. Following established literature, we construct our primary variable, *DIV*, as a net score by subtracting the sum of diversity concerns indicators (*DIV_Concerns*) from the sum of diversity strengths indicators (*DIV_Strengths*) for each firm-year observation.

To assess the robustness of our findings, we complement our primary measure with an alternative proxy for workforce-related engagement: the *Workforce Score* from LSEG. This composite metric provides a quantitative assessment of a firm’s commitment to human capital development and workplace equality, with a substantial focus on diversity, inclusion, career training, and health and safety dimensions. It allows us to test whether the influence of analyst coverage on workforce diversity is sensitive to measurement choice.

3.3 Econometric Model

To test our conjecture, we adopt the following OLS specification with year and industry fixed effects, following prior studies (McGuinness et al., 2017; Xiao et al., 2024):

$$DIV_{i,t}(\text{or } DIV_Strengths \text{ or } DIV_Concerns) = \alpha + \beta_1 ANACOV_{i,t-1} + \beta_2 CONTROLVARIABLES_{i,t-1} + Year\ FE + Industry\ FE + \varepsilon_{i,t} \quad (1)$$

where *DIV* can be replaced by *DIV_Strengths* or *DIV_Concerns*. According to our central hypothesis, we predict a positive coefficient on *ANACOV* for the *DIV* and *DIV_Strengths* regressions, and a negative coefficient for the *DIV_Concerns* regression.

An array of control variables is included in our empirical strategy (Pham and Tran, 2020; Nair et al., 2025). For example, *FSIZE*, measured as the natural logarithm of the total assets of a firm, is included as a control variable. Larger firms face greater institutional pressure and public scrutiny and may therefore be more likely to adopt diversity and inclusion initiatives to enhance legitimacy. High-leverage firms typically exhibit lower diversity in CSR performance due to intensified financial constraints and heightened short-term pressure to service debt, which systematically curtails their capacity and willingness to invest in long-term, non-financial initiatives such as diversity and inclusion programs (Li and Liu, 2025). Thus, we include *LEV*, which is calculated as the ratio of total debt to total assets.

From a resource-based perspective, high profitability provides the financial slack necessary to fund diversity initiatives, while a high Tobin's Q signals strong growth prospects and intangible value, which can motivate firms to enhance diversity to attract talent, foster innovation, and secure long-term legitimacy. However, from an agency or

managerial complacency viewpoint, substantial profits may lead to satisfaction with the status quo, reducing the perceived need for change. Simultaneously, an exceptionally high Tobin's Q might indicate that the market is already highly optimistic, potentially diminishing management's urgency to pursue transformative strategies like diversity, as they may fear disrupting the existing valuation. Therefore, we control for both *ROA* and *TOBINQ* in our baseline model. *ROA* is the ratio of net income to total assets. *TOBINQ* is the ratio of the sum of the market value of equity and the book value of debt to total assets.

Next, high cash holdings may positively affect a firm's diversity engagement by providing the financial slack and risk-bearing capacity necessary to fund long-term, non-immediate-return initiatives such as inclusive hiring, training, and community partnerships. *CASH* is the ratio of cash and cash equivalents to total assets. *RD*, the ratio of research and development expense to total assets, is also included as a control variable. This is because a high R&D ratio may foster diversity engagement by signaling a strong innovation-oriented culture and long-term value focus, which naturally embraces diverse perspectives to attract top talent, stimulate creative thinking, and access new markets, thereby integrating diversity into the firm's innovation ecosystem. External monitoring also matters for a firm's socially responsible behaviors (Li et al., 2022). *BIG4* is a binary variable that is assigned a value of one if the firm is audited by the four largest global professional services networks—Deloitte, PwC (PricewaterhouseCoopers), EY (Ernst & Young), and KPMG, and zero if it does not.

CAPEX, measured as the ratio of capital expenditures to total assets, controls for a firm's investment intensity and growth strategy, which can influence its resource allocation for social initiatives. *DIVIDEND*, defined as the ratio of total dividends to total revenues, controls for profit distribution policy and shareholder pressure, factors that may constrain long-term CSR investment. *TANGI*, the ratio of property, plant, and equipment to total assets, controls for asset tangibility. Firms with higher *TANGI* are typically more capital-intensive and locally embedded, motivating different levels of investment in community-focused practices such as diversity and inclusion.

Turning to board governance controls (McGuinness et al., 2017), *BSIZE* is measured as the natural logarithm of the total number of board members. *NED* is the percentage of independent directors. *CEO* is a dummy variable set to one if a firm's CEO and chairperson are the same person, and zero otherwise. *FEMALE* is the percentage of female directors.

Additionally, a firm fixed-effects model with year effects is employed as an alternative empirical model in the baseline table. The standard errors are adjusted for heteroscedasticity and clustered at the firm level. Details on data sources and variable construction are provided in Appendix A.

4 Empirical Results

4.1 Summary Statistics

Table 1 presents the annual distribution of the sample. It reports the number of firm-year observations, their percentage in the full sample, and the yearly averages of the two key variables, *DIV* (diversity performance) and *ANACOV* (analyst coverage),

from 2000 to 2019. The sample size shows a notable structural increase starting in 2003, becoming relatively stable after 2004. Meanwhile, the mean of *DIV* exhibits significant time-series variation, shifting from positive values in the early 2000s to predominantly negative values post-2010, before recovering in the most recent years. In contrast, the mean of *ANACOV* remains relatively stable around 1.77 throughout the sample period.

[Insert Table 1 About Here]

As presented in Table 2, the sample is concentrated in several key industries. The most represented sector is Business Services (SIC 73), accounting for 11.905% of the observations, followed by Chemical & Allied Products (SIC 28) at 9.780%. Significant representation also comes from the manufacturing sectors of Electronic Equipment (SIC 36, 6.751%) and Instruments (SIC 38, 5.661%). Collectively, these four industries constitute over one-third of the total sample. The “Others” category, comprising the remaining industries, accounts for the majority (55.126%) of observations.

[Insert Table 2 About Here]

Table 3 presents the descriptive statistics for all variables. The mean (median) diversity engagement score (*DIV*) is 0.084 (0.000). Analyst coverage (*ANACOV*), measured as the logarithm of one plus the number of analysts issuing earnings forecasts, has a mean (median) of 1.774 (1.792). The summary statistics for other continuous variables are as follows: firm size (*FSIZE*) averages 7.426, leverage (*LEV*) 0.234, return on assets (*ROA*) 0.028, Tobin's Q (*TOBINQ*) 1.863, cash holdings (*CASH*) 0.188, board size (*BSIZE*) 2.274, R&D intensity (*RD*) 0.040, capital expenditure (*CAPEX*) 0.048, dividend payout (*DIVIDEND*) 0.024, and asset tangibility (*TANGI*) 0.248. These

characteristics are qualitatively similar to those in prior research (Flammer, 2015; Flammer and Kacperczyk, 2016; Flammer and Luo, 2017).

Regarding governance and other indicator variables, independent non-executive directors (*NED*) constitute 83.3% of the board on average; the *CEO* also chairs the board in 16.8% of observations; 90.5% of firm-years are audited by a Big Four auditor (*BIG4*); and female directors (*FEMALE*) account for 11.8% of board seats.

[Insert Table 3 About Here]

Table 4 presents the pairwise correlation coefficients among all variables. Crucially, the correlation between analyst coverage (*ANACOV*) and diversity performance (*DIV*) is positive and statistically significant (0.217, $p < 0.01$), providing preliminary support for our main hypothesis. We note several other significant correlations: *DIV* is positively associated with firm size (*FSIZE*, 0.381), board size (*BSIZE*, 0.348), and the proportion of female directors (*FEMALE*, 0.486). The latter correlation is the highest in the matrix, warranting further investigation in multivariate analyses. Most correlation coefficients among the control variables are below 0.5. This suggests that multicollinearity is unlikely to be a severe concern in our regression models.

[Insert Table 4 About Here]

4.2 Main Results

To test our main hypothesis that analyst coverage positively influences a firm's future diversity performance, we estimate Equation (1) using OLS with year and industry fixed effects. The results are presented in Columns (1) to (3) of Table 5. In

Column (1), the coefficient on *ANACOV* is positive and statistically significant (0.056, $p < 0.01$), providing strong initial support for H1. Economically, a one-standard-deviation increase in analyst coverage is associated with an increase in the diversity engagement score (*DIV*) of approximately 41.6% relative to its mean.¹ The results for the split components of *DIV* in Columns (2) and (3) reveal that analyst coverage is positively associated with *DIV_Strengths* (0.028, $p < 0.10$) but negatively associated with *DIV_Concerns* (-0.029, $p < 0.01$), suggesting that analyst scrutiny may simultaneously encourage positive diversity practices and discourage activities that raise concerns.

[Insert Table 5 About Here]

When firm fixed effects are added in Column (4) of Table 5 to control for time-invariant heterogeneity, the coefficient on *ANACOV* remains positive and significant (0.031, $p < 0.10$), though its magnitude is attenuated. This attenuation suggests that part of the observed positive correlation may be driven by time-invariant firm characteristics. Nonetheless, the persistence of a significant positive effect within firms over time strengthens our main finding.

Overall, the evidence in Table 5 is consistent with our central hypothesis that greater financial analyst coverage is associated with stronger subsequent workforce diversity engagement and performance. The positive coefficients for *DIV* and *DIV_Strengths*, alongside the negative coefficient for *DIV_Concerns*, indicate that

¹ In Table 3, the mean of *DIV* is 0.084 and the standard deviation of *ANACOV* is 0.623. Therefore, the economic significance of the coefficient on *ANACOV* is computed as $(0.0561 \times 0.623) / 0.084 \approx 0.416$.

analyst coverage is associated with both stronger diversity-related commitments and fewer diversity-related concerns. In this sense, the baseline results lend initial support to the argument that analyst scrutiny may strengthen the external salience and accountability of workforce-related issues, rather than merely inducing short-term pressure that crowds out such practices.

4.3 Mediation Analysis: Evidence on Formalization Channels

Figure 1 outlines the conceptual framework for our mediation analysis of formalization channels. Financial analyst coverage is the independent variable, and workforce diversity performance is the outcome of interest. Path A denotes the association between analyst coverage and the formalization-related mediators, specifically the likelihood of establishing sustainability committees, adopting GRI disclosure guidelines, strengthening board diversity and inclusivity policies, and setting measurable diversity and equal opportunity targets. Path B captures the association between the mediators and firms' future workforce diversity performance, while Path C denotes the direct association between analyst coverage and workforce diversity performance after accounting for the mediators. The total association between financial analyst coverage and workforce diversity performance is therefore decomposed into a direct component (Path C) and an indirect component operating through formalization channels (the product of Paths A and B).

[Insert Figure 1 About Here]

Table 6 reports evidence on four formalization channels through which greater analyst scrutiny is associated with stronger subsequent workforce diversity

performance. We first examine whether analyst coverage is positively associated with the adoption of each formalization-related arrangement. As shown in Columns (1), (3), (5), and (7), greater analyst coverage is significantly associated with a higher likelihood that a firm establishes a sustainability committee, adopts GRI disclosure guidelines, strengthens board diversity and inclusivity policies, and sets measurable diversity and equal opportunity targets. These results suggest that firms facing stronger analyst scrutiny are more likely to formalize diversity-related commitments through governance structures, disclosure frameworks, and explicit policy targets.

[Insert Table 6 About Here]

We next examine Paths B and C by regressing *DIV* on both *ANACOV* and the respective mediator, as reported in Columns (2), (4), (6), and (8). In all models, the coefficients on the mediators (Path B) are positive and highly significant ($p < 0.01$), indicating that these organizational arrangements are associated with stronger diversity performance. Importantly, the coefficient on *ANACOV* (Path C) remains positive and significant after including each mediator, suggesting that the relation between analyst coverage and diversity performance is only partially accounted for by these channels. Finally, we quantify the indirect effects. The lower panel of Table 6 shows that all four indirect effects are statistically significant.

In Section (a), where the mediator is the establishment of a sustainability committee (*Sustainability_Committee*), the estimated indirect effect is 0.0010 (Sobel $Z = 6.654$), the direct effect (Path C) is 0.0064, and the total effect is 0.0074. Approximately 13.0% ($0.0010/0.0074$) of the total association between analyst

coverage and diversity performance is mediated through this channel. This pattern is consistent with the view that firms facing greater analyst scrutiny are more likely to adopt dedicated governance structures that, in turn, are associated with stronger future diversity engagement performance.

In Section (b), where adherence to *GRI* guidelines serves as the mediator, the estimated indirect effect is 0.0004 (Sobel $Z = 3.674$), while the direct effect (Path C) is 0.0073 and the total effect is 0.0077. Thus, approximately 5.5% of the total association is mediated through GRI adoption. This suggests that standardized sustainability disclosure constitutes one plausible organizational pathway through which greater analyst scrutiny is associated with stronger diversity outcomes.

Similarly, in Section (c), the mediator is the presence of a formal board diversity policy (*Board_Diversity*). The estimated indirect effect is 0.0004 (Sobel $Z = 2.420$), with a direct effect of 0.0073 and a total effect of 0.0077. Approximately 5.2% of the total association is mediated through this channel. This result is consistent with the idea that firms under greater external scrutiny are more likely to formalize their diversity commitments at the board level, and that such commitments are associated with stronger overall diversity performance.

In Section (d), the mediator is the establishment of specific diversity and equal opportunity targets (*Minorities*). The estimated indirect effect is 0.0002 (Sobel $Z = 3.192$), the direct effect (Path C) is 0.0073, and the total effect is 0.0075. Approximately 2.9% of the total association is mediated through this target-setting channel. This evidence suggests that measurable diversity objectives may represent another way in

which firms translate external scrutiny into more explicit and accountable workforce-related commitments.

These findings further suggest that, beyond influencing governance structures and disclosure practices, financial analyst scrutiny may also shape firms' strategic human resource planning by encouraging more concrete and measurable diversity-related commitments. By motivating firms to adopt specific targets for underrepresented groups, analyst scrutiny may help translate external expectations into internal performance benchmarks, thereby creating a more accountable pathway toward workforce diversity. Consistent with our central hypothesis, the mediation results suggest that analyst scrutiny is associated with stronger diversity performance not only through direct pressure but also through organizational arrangements that formalize corporate commitments. This influence appears to operate through stronger internal governance (via sustainability committees and board diversity policies) and enhanced external transparency and commitment (via GRI adoption and the setting of specific diversity targets).

4.4 Endogeneity Tests

4.4.1 Instrumental Variable Approach

A central endogeneity concern in establishing causality is reverse causality. While our hypothesis posits that analyst coverage influences diversity performance, the opposite direction is also plausible: firms with stronger diversity engagement may attract greater analyst coverage because of enhanced reputation, lower ESG risk, or stronger governance. To further address this concern, we employ an instrumental variable two-stage least squares (IV-2SLS) approach. Following established practice

(e.g., Adhikari, 2016), we instrument firm-level analyst coverage using the industry-year mean of analyst coverage, excluding the focal firm (*ANACOV_mean*).

This instrument is expected to satisfy the relevance condition because analyst attention is shaped partly by common industry-level information demand and sector-wide developments, which in turn affect the extent to which firms within the same industry-year attract analyst following. Accordingly, a firm operating in an industry-year with greater overall analyst attention is also more likely to receive higher individual analyst coverage. Consistent with this reasoning, the first-stage result in Column (1) of Table 7 shows that *ANACOV_mean* is a strong and highly significant predictor of firm-level analyst coverage (coefficient = 0.759, $t = 34.339$). The magnitude and statistical significance of this coefficient indicate that the instrument is highly relevant and unlikely to suffer from a weak-instrument problem.

[Insert Table 7 About Here]

The exclusion restriction is inherently more difficult to verify directly, but it is plausible in our setting. Because *ANACOV_mean* is constructed by excluding the focal firm, it does not mechanically capture the firm's own analyst following or diversity-related choices. Conditional on the full set of firm-level controls, together with year and industry fixed effects, the remaining variation in *ANACOV_mean* should primarily reflect broader fluctuations in analyst attention at the industry-year level rather than firm-specific determinants of diversity engagement. In this sense, while industry-wide analyst attention may influence a focal firm's diversity performance indirectly by

affecting its own analyst coverage and the intensity of external scrutiny it faces, it is less likely to directly determine the firm's internal diversity policies.

The second-stage results in Column (2) of Table 7 show that the instrumented value of analyst coverage (*PREDICTED_ANACOV*) remains positively and significantly associated with diversity performance (coefficient = 0.186, $p < 0.05$). Although the validity of the exclusion restriction ultimately rests on an identification assumption, the strong first-stage relation and the consistency of the IV estimate with our baseline findings provide additional support for our main hypothesis.

4.4.2 Propensity Score Matching

To further address potential selection bias arising from systematic differences between firms with high and low analyst coverage, we employ a propensity score matching (PSM) approach using one-to-four nearest neighbor matching with replacement, where the caliper is set at 0.001. This method constructs a counterfactual by matching each treated firm (with high analyst coverage) to a control firm (with low analyst coverage) that is statistically similar in all observable dimensions except for the treatment itself. As shown in Panel A of Table 8, the Average Treatment Effect on the Treated (ATT) without (with) year and industry fixed effects is 0.103 (0.039) and is statistically significant at the 1% (10%) level (t-statistics = 5.485 and 1.708, respectively). This indicates that, within the matched sample, firms with high analyst coverage exhibit a diversity performance score that is, on average, 0.103 (0.039) points higher than comparable firms with low coverage. Panel B presents the regression results using this matched sample. The coefficient on *ANACOV* remains positive and highly

significant (0.073(0.046), $p < 0.01$), and its magnitude is remarkably close to our baseline OLS estimate. Whether we control for year and industry fixed effects, the results remain statistically significant. The consistency of the results across the PSM and baseline models provides strong evidence that our main finding is not driven by observable firm characteristic imbalances, thereby reaffirming our central hypothesis.

[Insert Table 8 About Here]

4.4.3 Entropy Balancing Technique

Next, we employ the entropy balancing technique to address potential estimation bias arising from covariate imbalance between firms with high and low analyst coverage. Unlike PSM, entropy balancing directly incorporates balance constraints into a reweighting scheme, generating optimal weights that simultaneously balance the first moment (means) and even higher moments of all pre-treatment covariates across the treatment and control groups. This ensures that the reweighted sample is perfectly balanced on all observable dimensions, creating a statistically equivalent counterfactual.

Panel A in Table 9 shows significant differences in covariates between the treated and control groups in the raw sample. Panel B confirms that after applying entropy balancing weights, the means of all covariates are perfectly balanced, achieving a treatment group and a synthetic control group that are observationally equivalent. Subsequently, Panel C reports the multivariate regression results using this reweighted sample. The coefficient on *ANACOV* remains positive and highly significant (0.061, $p < 0.01$), and its magnitude is consistent with our baseline estimate. This result provides

further evidence that the positive association between analyst coverage and diversity engagement is unlikely to be driven solely by observable covariate imbalance.

[Insert Table 9 About Here]

Collectively, the consistent findings from the IV-2SLS, PSM, and entropy balancing analyses provide strong, multi-faceted evidence that our main results are not driven by reverse causality, selection bias, or covariate imbalance.

4.5 Other Robustness Checks

To ensure the robustness of our findings against measurement and estimation choices, we conduct three additional tests, with results presented in Table 10.

First, we address potential concerns regarding the construct validity of our diversity measure. In Column (1) of Table 10, we replace our primary diversity score with the *Workforce Score* from the Refinitiv ESG database. This alternative metric, which encompasses broader workforce management practices beyond diversity, yields a positive and highly significant coefficient on *ANACOV* (0.021, $p < 0.01$).

[Insert Table 10 About Here]

Second, we examine whether our results are driven by unobserved, time-varying industry shocks. In Column (2), we employ an industry-year adjusted diversity score as the dependent variable. This measure is computed by demeaning the original *DIV* score within each industry-year cohort, effectively filtering out common trends or shocks at the sector level. The coefficient on *ANACOV* remains strongly positive and significant (0.057, $p < 0.01$). This suggests that the positive effect of analyst coverage operates within industries, beyond any concurrent industry-wide developments.

Third, we mitigate the influence of heteroskedasticity on inference. In Column (3), we employ Weighted Least Squares (WLS) estimation, weighting observations by the inverse of the estimated variance from the baseline model. This approach assigns less weight to noisier observations, improving efficiency. The coefficient on *ANACOV* (0.063, $p < 0.01$) is again positive, significant, and quantitatively similar, reinforcing that our findings are not sensitive to heteroskedasticity.

Collectively, the consistency of the positive and significant coefficient on analyst coverage across these alternative specifications, spanning different outcome measures, adjustment methods, and estimation techniques, provides robust support for our central hypothesis.

5 Extended Analysis

5.1 Cross-sectional Analysis: The Substitution Effect Between External and Internal Governance

We conduct a cross-sectional analysis to examine whether the effect of analyst coverage on diversity performance is contingent on a firm's internal governance quality. We create a binary moderator, *CGOV_dummy*, which equals one if a firm's net KLD corporate governance score exceeds the annual sample mean (indicating relatively strong internal governance), and zero otherwise. We then interact this variable with our key independent variable, *ANACOV*, to test for a differential effect.

The results, presented in Table 11, reveal a significant moderating role of internal governance. The coefficient on the interaction term $ANACOV \times CGOV_dummy$ is negative and statistically significant (-0.117, $p < 0.01$). This indicates that the positive

relationship between analyst coverage and diversity performance is attenuated for firms with stronger internal governance. Quantitatively, while the baseline effect of *ANACOV* for firms with weaker governance is a strong 0.144, the net effect for firms with stronger governance is substantially reduced to 0.027 (0.144 - 0.117)—an attenuation of approximately 80%. This pattern provides robust evidence of a substitution effect, suggesting that external analyst monitoring and internal governance mechanisms function as partial substitutes in promoting corporate diversity. When internal oversight is already robust, the marginal impact of additional external scrutiny is significantly weaker. This finding underscores that the efficacy of analyst coverage is not uniform but may be contextually dependent on the firm's existing governance infrastructure.

[Insert Table 11 About Here]

5.2 The Incremental Effect of Workforce Diversity Engagement Associated with Financial Analyst Coverage on Future Firm Value

We further investigate the economic consequences of our core finding by examining whether workforce diversity engagement is more strongly associated with future firm value when firms are subject to greater analyst scrutiny. This analysis assesses whether the market assigns a higher valuation to diversity-related practices in firms with stronger analyst coverage, where such practices may be more visible and more readily interpreted by external stakeholders. We use Tobin's Q as our proxy for firm value and estimate models interacting analyst coverage (*ANACOV*) with diversity performance (*DIV*) in Column (1) and with diversity strengths (*DIV_Strengths*) in Column (2).

The results, presented in Table 12, reveal a nuanced valuation pattern. In Column (1), the direct effect of diversity performance (*DIV*) on Tobin's Q is negative and statistically insignificant, suggesting that diversity engagement alone is not uniformly valued by the market. By contrast, the coefficient on analyst coverage (*ANACOV*) is positive and highly significant, consistent with the role of analyst following in improving the information environment. Most importantly, the interaction term between *ANACOV* and *DIV* is positive and statistically significant (0.037, $p < 0.05$), indicating that diversity performance is more positively associated with future firm value when analyst coverage is greater.

[Insert Table 12 About Here]

Column (2) provides a complementary perspective by focusing specifically on diversity strengths (*DIV_Strengths*). Similar to Column (1), the standalone coefficient on *DIV_Strengths* is negative and statistically insignificant, whereas *ANACOV* remains positive and highly significant. Importantly, the interaction term between *ANACOV* and *DIV_Strengths* is also positive and statistically significant (0.052, $p < 0.05$). This result suggests that the positive valuation effect documented in Column (1) is more closely linked to firms' diversity strengths than to the mere absence of diversity-related concerns. In other words, the market appears to place greater value on proactive and observable diversity-related commitments when they are embedded in a setting of stronger analyst scrutiny.

Taken together, the results suggest that workforce diversity engagement may carry greater valuation relevance when it is observed in firms with stronger analyst coverage.

One possible interpretation is that analyst scrutiny enhances the visibility and credibility of diversity-related practices, making it easier for investors to distinguish more substantive commitments from symbolic positioning. Accordingly, Table 12 is consistent with the view that analyst coverage not only relates to stronger diversity performance, but also to a setting in which such performance is more positively associated with future firm value.

6 Conclusions

This study examines whether financial analyst coverage is associated with firms' workforce diversity practices and performance. Using a comprehensive panel of U.S. firms from 2000 to 2019, we find that greater analyst coverage is associated with stronger subsequent workforce diversity performance. This relation is reflected not only in stronger diversity strengths and fewer diversity-related concerns, but also in a greater likelihood that firms adopt formalized diversity-related governance, disclosure, and target-setting arrangements. We further find that the relation is weaker in firms with stronger internal governance, consistent with a substitution effect between external scrutiny and internal governance. In addition, workforce diversity performance is more positively associated with future firm value when analyst coverage is higher.

Our findings suggest that financial analyst coverage is associated not only with workforce diversity outcomes themselves, but also with a setting in which diversity-related commitments are more likely to be formalized through visible and accountable organizational arrangements. Rather than interpreting analysts as directly dictating employment policy, the evidence is more consistent with the view that analyst coverage

strengthens the external salience and accountability of workforce-related issues, thereby encouraging firms to respond through more structured governance, disclosure, and target-setting practices. In this sense, the formalization channels documented in our analysis provide a useful framework for understanding how external scrutiny may be associated with stronger workforce diversity engagement.

These results also have broader implications for corporate governance and value creation. The documented substitution effect suggests that external analyst scrutiny and internal governance mechanisms can function as partial substitutes in shaping firms' diversity-related behavior. Moreover, the stronger valuation relevance of workforce diversity in firms with greater analyst coverage is consistent with the view that external scrutiny may enhance the visibility, credibility, and interpretability of diversity-related commitments. More broadly, our evidence suggests that workforce diversity may become more economically meaningful when it is embedded in a more transparent and externally scrutinized information environment.

Future research could extend this inquiry by examining whether the influence of financial analyst coverage reaches beyond workforce diversity practices and performance to broader labor investment decisions and labor governance outcomes. In particular, it would be useful to explore whether stronger analyst scrutiny improves firms' labor investment efficiency by shaping hiring, downsizing, training, and broader workforce adjustment decisions, or whether it instead reinforces short-term pressures that may distort long-term human capital allocation. Relatedly, future research could investigate whether analyst scrutiny promotes the substantive implementation of labor-

friendly policies—such as employee training, job security, workplace safety, internal promotion, and equitable compensation—or primarily encourages the formalization of more visible and externally assessable commitments. Such evidence would help clarify whether financial analysts influence not only the disclosure and governance of workforce-related issues, but also the efficiency and authenticity of firms’ broader labor management strategies.

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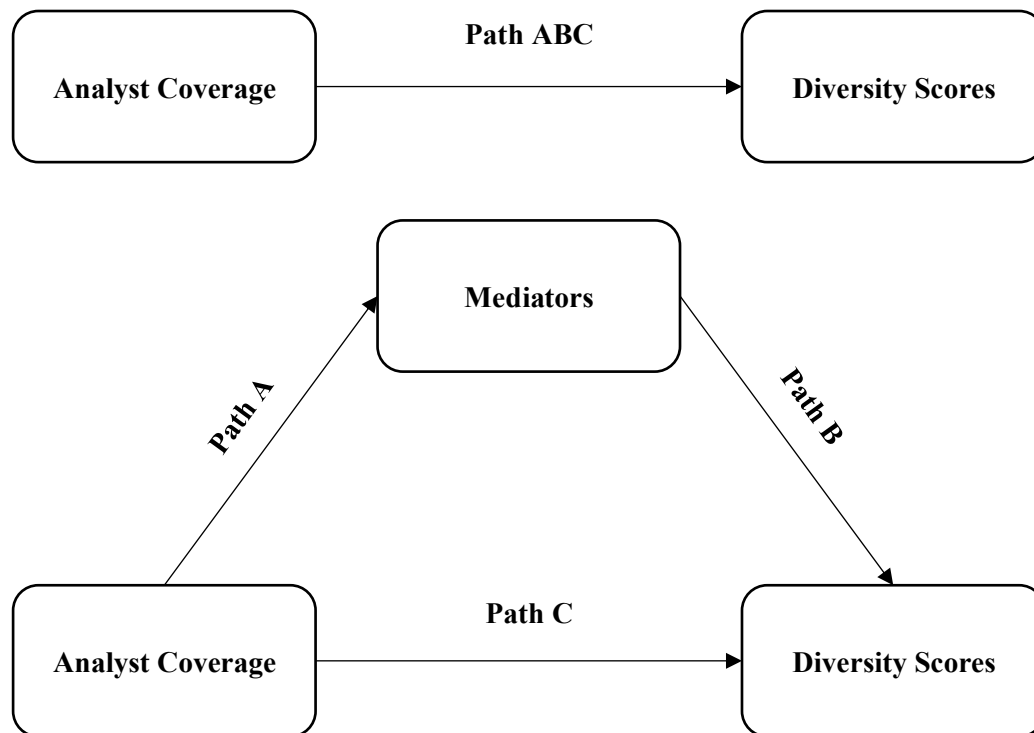
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Appendix A: Variable Definitions and Sources

Variable Name	Definition	Source
DIV	The net diversity engagement performance score is derived by subtracting the sum of concerns indicators from the sum of diversity strengths.	MSCI KLD ESG (via WRDS)
DIV_Strengths	The sum of the "strengths" indicators under the Diversity dimension of the KLD CSR.	MSCI KLD ESG (via WRDS)
DIV_Concerns	The sum of the "concerns" indicators under the Diversity dimension of the KLD CSR.	MSCI KLD ESG (via WRDS)
ANACOV	The natural logarithm of the number of financial analysts following a firm.	IBES
FSIZE	The natural logarithm of the total assets of a firm.	Compustat
LEV	The ratio of total debt to total assets.	Compustat
ROA	The ratio of net income to total assets.	Compustat
TOBINQ	The ratio of the sum of market value of equity and book value of debt to total assets.	Compustat
CASH	The ratio of cash and cash equivalents to total assets.	Compustat
BSIZE	The natural logarithm of the total number of directors in the boardroom.	BoardEx
NED	The percentage of independent directors.	BoardEx
CEO	CEO-Chair duality. A dummy variable set to one if a firm's CEO and chairman is the same person, and zero otherwise.	BoardEx
RD	The ratio of research and development expenses to total assets.	Compustat
BIG4	A binary variable that is assigned a value of one if the firm is audited by the four largest global professional services networks—Deloitte, PwC (PricewaterhouseCoopers), EY (Ernst & Young), and KPMG, and zero otherwise.	Compustat
CAPEX	The ratio of capital expenditures to total assets.	Compustat
DIVIDEND	The ratio of total dividends to total revenues.	Compustat
TANGI	The ratio of total property, plant, and equipment to total assets.	Compustat
FEMALE	The percentage of female directors.	BoardEx
Sustainability_Committee	A dummy variable that equals one if a firm has a board-level CSR committee or a sustainable management team responsible	LSEG (via WRDS)

	for CSR strategy decision-making, and zero otherwise.	
GRI	An indicator variable set to one if the company's sustainability report is published in accordance with the GRI guidelines, and zero otherwise.	LSEG (via WRDS)
Board_Diversity	A dummy variable assigned a value of one if a firm has a policy regarding the diversity of its board, and zero otherwise.	LSEG (via WRDS)
Minorities	A dummy variable set to one if the company has established specific diversity and equal opportunity targets (e.g., regarding the hiring or promotion of women, ethnic minorities, or persons with disabilities), and zero otherwise.	LSEG (via WRDS)
CGOV_dummy	An indicator variable set to one if a firm's net KLD corporate governance score exceeds the sample mean, and zero otherwise.	MSCI KLD ESG (via WRDS)

Figure 1: Conceptual Framework for the Mediation Analysis of Formalization Channels



Notes: Figure 1 presents the conceptual framework for the mediation analysis of formalization channels. Financial analyst coverage is the key explanatory variable, and workforce diversity performance is the outcome of interest. Path A captures the association between analyst coverage and the formalization-related mediators, Path B captures the association between the mediators and workforce diversity performance, and Path C captures the direct association between analyst coverage and workforce diversity performance after accounting for the mediators. The total association is therefore decomposed into a direct component and an indirect component operating through formalization channels.

Table 1: Annual Distribution

Year	Observations	Percent	DIV	ANACOV
2000	31	0.130	1.516	2.569
2001	415	1.740	0.576	1.962
2002	508	2.130	0.522	1.970
2003	1,044	4.378	0.330	2.058
2004	1,336	5.602	0.189	1.798
2005	1,322	5.544	0.200	1.781
2006	1,360	5.703	0.208	1.725
2007	1,339	5.615	0.208	1.769
2008	1,405	5.892	0.188	1.727
2009	1,436	6.022	0.202	1.799
2010	1,407	5.900	-0.670	1.777
2011	1,428	5.988	-0.664	1.765
2012	1,398	5.862	-0.126	1.776
2013	1,299	5.447	-0.460	1.845
2014	1,270	5.326	-0.013	1.770
2015	1,355	5.682	-0.021	1.739
2016	1,373	5.758	0.057	1.718
2017	1,332	5.586	0.166	1.700
2018	1,401	5.875	0.662	1.672
2019	1,388	5.820	0.684	1.660
Total	23,847	100	0.084	1.774

Note(s): Table 1 displays the annual distribution of the study sample. *DIV* is the net diversity engagement score from MSCI KLD. *ANACOV* is measured as the natural logarithm of the number of analysts following a firm.

Table 2: Industry Distribution

Two-digit SIC code	Observations	Percent
28 Chemical & Allied Products	2,332	9.780
35 Industrial Machinery & Equipment	1,334	5.594
36 Electronic & Other Electric Equipment	1,610	6.751
38 Instruments & Related Products	1,350	5.661
49 Electric, Gas, & Sanitary Services	1,236	5.183
73 Business Services	2,839	11.905
Others	13,146	55.126
Total	23,847	100

Note(s): Table 2 reports the industry distribution of the study sample.

Table 3: Descriptive Statistics

Variables	Obs.	Mean	STD.	P1	P25	P50	P75	P99
DIV	23,847	0.084	1.132	-2.000	-1.000	0.000	1.000	4.000
ANACOV	23,847	1.774	0.623	0.693	1.386	1.792	2.197	3.091
FSIZE	23,847	7.426	1.717	4.138	6.184	7.288	8.475	11.947
LEV	23,847	0.234	0.223	0.000	0.037	0.208	0.355	0.892
ROA	23,847	0.028	0.148	-0.594	0.011	0.045	0.085	0.285
TOBINQ	23,847	1.863	1.662	0.223	0.898	1.349	2.222	8.425
CASH	23,847	0.188	0.211	0.001	0.035	0.105	0.266	0.901
BSIZE	23,847	2.274	0.229	1.792	2.079	2.303	2.398	2.773
NED	23,847	0.833	0.090	0.556	0.800	0.857	0.889	1.000
CEO	23,847	0.168	0.374	0.000	0.000	0.000	0.000	1.000
RD	23,847	0.040	0.090	0.000	0.000	0.000	0.042	0.433
BIG4	23,847	0.905	0.294	0.000	1.000	1.000	1.000	1.000
CAPEX	23,847	0.048	0.054	0.000	0.015	0.032	0.061	0.285
DIVIDEND	23,847	0.024	0.069	0.000	0.000	0.001	0.023	0.337
TANGI	23,847	0.248	0.238	0.000	0.061	0.160	0.371	0.881
FEMALE	23,847	0.118	0.105	0.000	0.000	0.111	0.182	0.400

Note(s): Table 3 displays the summary statistics of variables. Detailed variable definitions and sources can be found in Appendix A.

Table 4: Correlation Matrix

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		DIV	ANACOV	FSIZE	LEV	ROA	TOBINQ	CASH	BSIZE
(1)	DIV	1.000							
(2)	ANACOV	0.217***	1.000						
(3)	FSIZE	0.381***	0.424***	1.000					
(4)	LEV	0.047***	0.017***	0.267***	1.000				
(5)	ROA	0.041***	0.061***	0.173***	-0.076***	1.000			
(6)	TOBINQ	0.021***	0.097***	-0.292***	-0.083***	0.019***	1.000		
(7)	CASH	-0.052***	0.019***	-0.430***	-0.304***	-0.247***	0.449***	1.000	
(8)	BSIZE	0.348***	0.233***	0.602***	0.141***	0.080***	-0.151***	-0.272***	1.000
(9)	NED	0.170***	0.064***	0.272***	0.128***	-0.029***	-0.091***	-0.113***	0.332***
(10)	CEO	0.055***	0.067***	0.093***	0.009	0.041***	-0.032***	-0.051***	0.024***
(11)	RD	-0.020***	0.005	-0.343***	-0.137***	-0.495***	0.381***	0.612***	-0.182***
(12)	BIG4	0.145***	0.163***	0.238***	0.070***	0.017**	-0.036***	-0.035***	0.219***
(13)	CAPEX	-0.062***	0.135***	-0.009	0.056***	0.046***	-0.013**	-0.197***	-0.052***
(14)	DIVIDEND	0.033***	0.000	0.154***	0.168***	0.077***	0.029***	-0.082***	0.054***
(15)	TANGI	0.001	0.102***	0.200***	0.227***	0.046***	-0.191***	-0.390***	0.109***
(16)	FEMALE	0.486***	0.082***	0.343***	0.115***	0.048***	0.010	-0.117***	0.324***
		(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(9)	NED	1.000							
(10)	CEO	0.070***	1.000						
(11)	RD	-0.006	-0.053***	1.000					
(12)	BIG4	0.163***	0.001	-0.009	1.000				
(13)	CAPEX	-0.055***	0.002	-0.140***	-0.060***	1.000			
(14)	DIV	0.010	0.002	-0.091***	0.002	-0.058***	1.000		
(15)	TANGI	0.058***	-0.004	-0.263***	0.010	0.684***	0.018***	1.000	
(16)	FEMALE	0.247***	0.032***	-0.073***	0.153***	-0.073***	0.061***	0.026***	1.000

Note(s): Table 4 presents the correlation matrix. Detailed variable definitions can be found in Appendix A.

Table 5: The Influence of Analyst Coverage on a Firm's Future Workforce Diversity Performance

Dep. Var. =	Baseline OLS			Firm fixed effects
	DIV (1)	DIV_Strengths (2)	DIV_Concerns (3)	DIV (4)
ANACOV	0.056*** (3.235)	0.028* (1.848)	-0.029*** (-3.547)	0.031* (1.847)
FSIZE	0.208*** (16.777)	0.207*** (17.127)	0.003 (0.561)	0.201*** (7.651)
LEV	-0.261*** (-4.750)	-0.258*** (-5.362)	-0.001 (-0.057)	-0.116 (-1.603)
ROA	-0.036 (-0.518)	-0.053 (-0.929)	-0.021 (-0.630)	0.010 (0.143)
TOBINQ	0.040*** (5.734)	0.040*** (6.367)	-0.000 (-0.088)	0.023*** (3.216)
CASH	0.235*** (3.465)	0.251*** (4.254)	0.019 (0.621)	-0.194** (-2.096)
BSIZE	0.338*** (5.817)	0.070 (1.360)	-0.267*** (-9.979)	0.043 (0.582)
NED	0.251** (2.112)	0.089 (0.869)	-0.162*** (-2.803)	0.278* (1.875)
CEO	0.017 (0.683)	0.033 (1.405)	0.016 (1.375)	-0.010 (-0.372)
RD	0.470*** (3.055)	0.556*** (4.388)	0.095 (1.275)	0.265 (1.380)
BIG4	-0.036 (-1.233)	-0.113*** (-4.779)	-0.080*** (-5.160)	0.084* (1.763)
CAPEX	0.215 (0.976)	0.255 (1.342)	0.030 (0.233)	-0.531** (-2.209)
DIVIDEND	0.044 (0.384)	0.058 (0.595)	0.019 (0.3272)	-0.034 (-0.228)
TANGI	-0.092 (-1.279)	-0.086 (-1.290)	0.012 (0.292)	0.487*** (2.920)
FEMALE	3.966*** (34.749)	1.977*** (19.007)	-1.981*** (-36.970)	2.518*** (15.320)
Constant	-2.602*** (-6.542)	-1.059*** (-3.352)	1.499*** (10.122)	-2.215*** (-7.206)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	No
Firm FE	No	No	No	Yes
Observations	23,847	23,847	23,847	23,847
Adjusted R2	0.430	0.321	0.447	0.204

Notes: Table 5 reports the results for the influence of analyst coverage on a firm's future diversity engagement performance. The dependent variable in Columns (1) and (4) is *DIV*, the net diversity engagement performance score (calculated as the sum of diversity strengths minus the sum of concerns). The dependent variables in Columns (2) and (3) are *DIV_Strengths* and *DIV_Concerns*, respectively, representing the aggregate strengths and concerns indicators under the Diversity dimension. We control for year and industry (two-digit SIC) fixed effects in Columns (1) to (3) and year and firm fixed effects in Column (4). All independent variables are lagged by one year. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. Detailed variable definitions are provided in Appendix A.

Table 6: Mediation Analysis of Formalization Channels

	(a)		(b)		(c)		(d)	
Mediators	Sustainability_Committee		GRI		Board_Diversity		Minorities	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Mediators		Mediators		Mediators		Mediators	
ANACOV	0.0045***	0.0064***	0.0018***	0.0073***	0.0014*	0.0073***	0.0009***	0.0073***
	(8.39)	(4.01)	(3.93)	(4.61)	(2.45)	(4.61)	(3.91)	(4.61)
Mediators (Path B)		0.2122***		0.2358***		0.2863***		0.2385***
		(10.93)		(10.37)		(16.12)		(5.52)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	23,478	23,478	23,478	23,478	23,478	23,478	23,478	23,478
Mediating effects								
Indirect effect	0.000955 = 0.0045*0.2122		0.000424 = 0.0018*0.2358		0.000401 = 0.0014*0.2863		0.000215 = 0.0009*0.2385	
Sobel Z-statistic for indirect effect	6.654		3.674		2.420		3.192	
Direct effect (Path C)	0.0064		0.0073		0.0073		0.0073	
Total effect	0.007355 = 0.0064 + 0.000955		0.007724 = 0.0073 + 0.000424		0.007701 = 0.0073 + 0.000401		0.007515 = 0.0073 + 0.000215	
Total effect mediated	12.98% = 0.000955/0.007355		5.49% = 0.000424/0.007724		5.21% = 0.000401/0.007701		2.86% = 0.000215/0.007515	

Note(s): Table 6 presents the results of our mediation analysis of four formalization channels through which greater analyst coverage (*ANACOV*) is associated with stronger future workforce diversity performance (*DIV*). In Panel (a), the mediator is *Sustainability_Committee*, a dummy variable that equals one if a firm has a board-level CSR committee or a sustainable management team responsible for CSR strategy decision-making, and zero otherwise. In Panel (b), the mediator is *GRI*, an indicator variable set to one if the company's sustainability report is published in accordance with the GRI guidelines, and zero otherwise. In Panel (c), the mediator is *Board_Diversity*, an indicator variable assigned a value of one if a firm has a policy regarding the diversity of its board, and zero otherwise. In Panel (d), the mediator is *Minorities*, a dummy variable set to one if the company has established specific diversity and equal opportunity targets (e.g., regarding the hiring or promotion of women, ethnic minorities, or persons with disabilities), and zero otherwise. The bottom part of this table reports the indirect effect, direct effect, total effect, the proportion of the total effect mediated, and the Sobel Z-statistic for the indirect effect. All independent variables are lagged by one year. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. Detailed variable definitions are provided in Appendix A.

Table 7: IV-2SLS Estimator

Dep. Var. = DIV	ANACOV	DIV
	(1)	(2)
ANACOV_mean	0.759*** (34.339)	
PREDICTED_ANACOV		0.186** (2.057)
FSIZE	0.208*** (98.833)	0.036* (1.666)
LEV	-0.152*** (-12.355)	-0.167*** (-3.829)
ROA	0.091*** (5.759)	-0.054 (-0.729)
TOBINQ	0.049*** (31.768)	-0.014 (-1.609)
CASH	0.409*** (24.181)	0.238*** (3.300)
BSIZE	0.047*** (3.175)	-0.307*** (-6.507)
NED	-0.155*** (-5.007)	-0.442*** (-4.314)
CEO	0.061*** (8.363)	0.092*** (4.003)
RD	0.466*** (12.522)	0.369** (2.472)
BIG4	0.151*** (19.199)	-0.113*** (-3.493)
CAPEX	1.803*** (27.224)	0.111 (0.375)
DIVIDEND	-0.145*** (-5.266)	0.159 (1.239)
TANGI	-0.161*** (-10.065)	-0.079 (-1.484)
FEMALE	-0.501*** (-20.155)	-1.322*** (-14.239)
Constant	-1.240*** (-26.555)	0.904*** (8.211)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Observations	23,847	23,847

Note(s): This table presents the results of a two-stage least squares (IV-2SLS) estimation where all independent variables are lagged by one year to mitigate reverse causality concerns. The endogenous regressor is firm-level analyst coverage (*ANACOV*), instrumented by *ANACOV_mean*—the industry-year mean of analyst coverage, excluding the focal firm. Column (1) reports the first-stage regression with *ANACOV* as the dependent variable. Column (2) reports the second-stage results with the diversity engagement score (*DIV*) as the dependent variable. All specifications include the full set of control variables (defined in Appendix A), along with year and industry (two-digit SIC) fixed effects. Continuous variables are winsorized at the 1st and 99th percentiles. Robust t-statistics are shown in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 8: PSM Analysis**Panel A** Average treatment effect on the treated (ATT)

	ATT (T-statistic)	Treated	Control	Observations
PSM without FE				
Dep. Var. =DIV				
ANACOV	0.103***(5.485)	0.147	0.043	26,393
PSM with FE				
Dep. Var. =DIV				
ANACOV	0.039*(1.708)	0.132	0.093	26,393

Panel B The propensity-score-matched sample

Dep. Var. = DIV	PSM without FE	PSM with FE
	(1)	(2)
ANACOV	0.073*** (4.091)	0.046*** (2.848)
FSIZE	0.148*** (12.731)	0.154*** (13.208)
LEV	-0.161*** (-3.434)	-0.180*** (-3.639)
ROA	-0.066 (-0.822)	-0.074 (-1.132)
TOBINQ	0.062*** (7.624)	0.036*** (5.113)
CASH	0.209*** (3.050)	0.256*** (3.814)
BSIZE	0.404*** (6.768)	0.286*** (5.513)
NED	-0.182 (-1.534)	0.114 (1.036)
CEO	0.035 (1.268)	-0.018 (-0.749)
RD	0.374** (2.223)	0.310** (2.174)
BIG4	0.059** (2.135)	0.007 (0.260)
CAPEX	0.535** (2.470)	0.206 (1.001)
DIVIDEND	-0.310*** (-2.869)	0.023 (0.199)
TANGI	-0.176*** (-2.939)	-0.099 (-1.473)
FEMALE	4.125*** (37.384)	3.870*** (36.528)
Constant	-2.573*** (-17.975)	-2.683*** (-5.490)
Year FE	No	Yes
Industry FE	No	Yes
Observations	18,958	17,785
R2	0.291	0.436

Note(s): Table 8 reports the results of the PSM analysis used to address selection bias. Firms are classified as "treated" if their analyst coverage is above the annual sample median, and as "control" otherwise. Treatment firms are matched to control firms using one-to-four nearest-neighbor matching with replacement, based on the propensity score estimated from all control variables. Panel A presents the Average Treatment Effect on the Treated (ATT), which compares the mean outcome (*DIV*) between the treated and matched control groups. Panel B reports the OLS regression results for the *DIV* score using the matched sample. All independent variables are lagged by one year. Control variables are as defined in Appendix A. Robust t-statistics are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 9: Entropy Balancing Method

Panel A: before entropy balancing (without weighting)					Panel B: after entropy balancing (with weighting)			
	Treat mean	Control mean	Diff	p-value	Treat mean	Control mean	Diff	p-value
FSIZE	6.567	6.240	0.327	0.000	6.567	6.567	0.000	1.000
LEV	0.232	0.231	0.001	0.000	0.232	0.232	0.000	0.996
ROA	-0.042	-0.018	-0.024	0.000	-0.042	-0.042	0.000	0.996
TOBINQ	1.893	1.633	0.260	0.000	1.893	1.893	0.000	0.999
CASH	0.210	0.193	0.017	0.044	0.210	0.210	0.000	1.000
BSIZE	2.197	2.173	0.024	0.000	2.197	2.197	0.000	0.998
NED	0.811	0.816	-0.005	0.255	0.811	0.811	0.000	0.997
CEO	0.153	0.132	0.021	0.000	0.153	0.153	0.000	0.999
RD	0.054	0.048	0.006	0.000	0.054	0.054	0.000	0.999
BIG4	0.749	0.762	-0.013	0.000	0.749	0.749	0.000	0.999
CAPEX	0.047	0.045	0.002	0.048	0.047	0.047	0.000	1.000
DIVIDEND	0.035	0.033	0.002	0.000	0.035	0.035	0.000	0.999
TANGI	0.243	0.243	0.000	0.000	0.243	0.243	0.000	0.999
FEMALE	0.097	0.096	0.001	0.000	0.097	0.097	0.000	0.999

Panel C: multivariate results with entropy balancing weighted on the first (mean) moment

Dep. Var. =

DIV

(1)

ANACOV	0.061*** (3.396)
FSIZE	0.220*** (16.811)
LEV	-0.109 (-1.168)
ROA	-0.008 (-0.097)
TOBINQ	0.055*** (9.126)
CASH	0.310*** (5.440)
BSIZE	0.290*** (6.302)
NED	0.274*** (2.988)
CEO	0.005 (0.229)
RD	0.483*** (3.519)
BIG4	-0.028

	(-1.200)
CAPEX	0.361*
	(1.925)
DIVIDEND	0.033
	(0.275)
TANGI	-0.191***
	(-3.324)
FEMALE	4.181***
	(44.271)
Constant	-2.809***
	(-10.498)
Year FE	Yes
Industry FE	Yes
Observations	23,847
Adjusted R2	0.451

Note(s): Table 9 presents the results of the entropy balancing robustness check. Panel A reports the unweighted sample means of all covariates for the treated and control groups before balancing. Panel B reports the weighted means after applying entropy balancing weights, which perfectly balance the first moments (means) of all covariates between the two groups. Panel C reports the OLS regression results for the diversity engagement score (*DIV*) using the entropy-balanced weighted sample. All independent variables are lagged by one year. Control variables are as defined in Appendix A. Year and industry (two-digit SIC) fixed effects are included. Robust t-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 10: Other Robustness Checks

	Alternative – LSEG Workforce Score (1)	Industry-year Adjusted DIV (2)	Weighted Least Squares (3)
ANACOV	0.021*** (3.716)	0.057*** (3.345)	0.063*** (5.740)
FSIZE	0.085*** (27.123)	0.203*** (16.628)	0.186*** (32.417)
LEV	-0.058*** (-3.738)	-0.241*** (-4.423)	-0.237*** (-8.197)
ROA	0.052*** (2.919)	0.023 (0.333)	-0.065 (-1.345)
TOBINQ	0.011*** (7.010)	0.039*** (5.596)	0.040*** (9.338)
CASH	0.090*** (4.235)	0.237*** (3.539)	0.219*** (5.666)
BSIZE	0.106*** (5.504)	0.349*** (6.129)	0.318*** (10.176)
NED	0.182*** (4.193)	0.270** (2.301)	0.177*** (2.631)
CEO	-0.006 (-0.748)	0.011 (0.457)	0.013 (0.905)
RD	0.347*** (7.465)	0.484*** (3.190)	0.413*** (4.275)
BIG4	0.017* (1.692)	-0.052* (-1.797)	-0.018 (-0.952)
CAPEX	-0.031 (-0.383)	0.372* (1.699)	0.193 (1.209)
DIVIDEND	0.042 (1.093)	0.060 (0.540)	-0.018 (-0.210)
TANGI	0.010 (0.401)	-0.147** (-2.041)	-0.131*** (-2.892)
FEMALE	0.283*** (8.878)	3.905*** (35.046)	3.925*** (66.371)
Constant	-0.928*** (-12.659)	-3.212*** (-8.409)	-2.447*** (-9.837)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	18,568	23,847	23,847
Adjusted R2	0.381	0.326	0.437

Note(s): Table 10 presents results from three additional robustness checks. Column (1) uses the *Workforce Score* from the Refinitiv ESG database as an alternative dependent variable to address measurement concerns. Column (2) uses an industry-year adjusted diversity score (the original *DIV* score demeaned within each two-digit SIC industry and year) to control for time-varying industry shocks. Column (3) reports Weighted Least Squares (WLS) estimates, with weights based on the inverse of the estimated error variance from the baseline model to correct for heteroskedasticity. In all columns, the key independent variable is analyst coverage (*ANACOV*). All other independent variables are lagged by one year and defined in Appendix A. Year and industry (two-digit SIC) fixed effects are included. Robust t-statistics are shown in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 11: Cross-Sectional Analysis of the Effect of Analyst Coverage in Firms with Different Internal Corporate Governance

Dep. Var. = DIV	(1)
ANACOV	0.144*** (4.419)
CGOV_dummy	0.151** (2.319)
ANACOV × CGOV_dummy	-0.117*** (-3.536)
FSIZE	0.200*** (15.750)
LEV	-0.254*** (-4.626)
ROA	-0.038 (-0.549)
TOBINQ	0.039*** (5.591)
CASH	0.231*** (3.405)
BSIZE	0.344*** (5.917)
NED	0.242** (2.041)
CEO	0.017 (0.690)
RD	0.441*** (2.877)
BIG4	-0.032 (-1.105)
CAPEX	0.211 (0.955)
DIVIDEND	0.058 (0.511)
TANGI	-0.091 (-1.273)
FEMALE	3.965*** (34.689)
Constant	-2.716*** (-6.930)
Year FE	Yes
Industry FE	Yes
Observations	23,837
Adjusted R2	0.431

Note(s): Table 11 presents the regression results by analyzing the interplay between analyst coverage, corporate governance quality, and a firm's diversity engagement (both in practice and performance). The variable *CGOV_dummy* equals one if a firm's net KLD corporate governance score exceeds the sample mean, and zero otherwise. All independent variables are lagged by one year. All variables are as defined in Appendix A. Year and industry (two-digit SIC) fixed effects are included. Standard errors are clustered at the firm level. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Table 12: The Incremental Effect of Workforce Diversity Engagement Associated with Financial Analyst Coverage on Future Firm Value

Ind. Var. Dep. Var. = TOBINQ	DIV (1)	DIV_Strengths (2)
ANACOV	0.414*** (14.489)	0.393*** (13.613)
Ind. Var.	-0.008 (-0.210)	-0.013 (-0.208)
ANACOV × Ind. Var.	0.037** (1.967)	0.052** (2.007)
FSIZE	-0.256*** (-12.541)	-0.261*** (-12.720)
LEV	0.773*** (4.048)	0.779*** (4.083)
ROA	2.709*** (10.267)	2.707*** (10.259)
CASH	2.021*** (12.939)	2.011*** (12.893)
BSIZE	0.340*** (3.812)	0.352*** (3.947)
NED	-0.582*** (-2.821)	-0.576*** (-2.789)
CEO	-0.018 (-0.517)	-0.020 (-0.582)
RD	4.735*** (10.233)	4.712*** (10.191)
BIG4	-0.050 (-0.807)	-0.044 (-0.706)
CAPEX	2.598*** (7.084)	2.573*** (7.039)
DIVIDEND	1.637*** (4.667)	1.633*** (4.661)
TANGI	-0.405*** (-3.168)	-0.405*** (-3.168)
FEMALE	0.264 (1.463)	0.321* (1.819)
Constant	3.867*** (7.561)	3.860*** (7.552)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Observations	24,580	24,580
Adjusted R2	0.364	0.365

Note(s): Table 12 presents regression results examining the contingent effect of analyst-driven diversity engagement on future firm value. The dependent variable is Tobin's Q (*TOBINQ*). The key independent variables in Column (1) are analyst coverage (*ANACOV*), the diversity engagement score (*DIV*), and their interaction term (*ANACOV* × *DIV*). The key independent variables in Column (2) are analyst coverage (*ANACOV*), the sum of diversity strengths indicators (*DIV_Strengths*), and their interaction term (*ANACOV* × *DIV_Strengths*). All independent variables are lagged by one year. All variables are as defined in Appendix A. Year and industry (two-digit SIC) fixed effects are included. Robust standard errors are clustered at the firm level. t-statistics are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.