

MSc Accounting, Auditing and Control

Does the national transposition of the EU CSR directive matter?

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Abstract

This study aims to examine whether the country-level variation of the transposition of the CSR Directive moderates the effect of the CSR reporting mandate on real effects. This directive is called NFRD 2014/95, and it was passed by the European Union in 2014. EU firms that fall under the scheme of the non-financial reporting mandate, are obligated to disclose yearly non-financial reporting, starting from the fiscal year 2017. The CSR Directive is implemented differently on a national level. The variation of the transposition of the CSR Directive influences the effectiveness of the CSR Directive on real effects. For this research, there is a difference-in-difference analysis performed to examine whether the transposition of the CSR Directive has an effect on the effectiveness of the CSR reporting mandate on real effects. This research documents that the variation in the transposition of the CSR Directive by EU firms affects the effectiveness of the CSR Directive on CSR activities. Furthermore, firms with a high CSR transposition score increase their CSR activities. This research also documents that firms respond to the directive by increasing their CSR activities. Additionally, this research tests alternative outcome variable CSR initiatives to confirm that the real effects reflect important CSR improvements. The results on CSR initiatives show an increase in CSR activities for EU firms with high levels of CSR transposition.

Keywords: Corporate Social Responsibility (CSR), Non-Financial Reporting Directive (NFRD) 2014/95, CSR Directive, European Union (EU), Voluntary disclosure, Mandatory disclosure, CSR transposition, CSR initiatives, Real effects

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1 Introduction

The disclosure of just financial information often does not sufficiently capture firm performance. Firms disclosing non-financial information has significantly increased (Grewal et al., 2015). A factor that contributes to the growth of firms disclosing non-financial information is the pressure from stakeholders. As the interest in sustainability grows, the need for information on corporate activities and policies in the areas of CSR and ESG is progressively increasing (Christensen et al., 2021). Corporate social responsibility (CSR) lacks one accepted definition (Coombs & Holladay, 2011). For this master thesis the term “CSR” will be defined as the information disclosed by firms about their business activities and procedures that evaluate firms’ responsibilities and their impact on the environment and the public (Christensen et al., 2021).

The European Union (EU) passed in 2014 the CSR reporting mandate, called NFRD 2014/95 (hereafter, “CSR Directive). From the fiscal year 2017 onwards, large EU-listed firms are mandated by the CSR Directive to provide yearly reports. The following aspects need to be included in the CSR reports: procedures, outcomes, hazards regarding environmental issues, and public and employee-related issues. The CSR Directive aims to enhance the comparability and transparency within EU firms on CSR reporting. Furthermore, this mandate is implemented to encourage firms to increase their CSR activities. Disclosing non-financial information is crucial to achieving a sustainable global economy (The European parliament & Council, 2014).

The European Commission was required by the CSR Directive to develop guidelines to support firms in disclosing non-financial information in their reports (Noti et al., 2020). According to Article 1 of the CSR Directive, firms can use international reporting frameworks to prepare their non-financial reports (The European parliament & Council, 2014).

Firms use boilerplate language or “greenwashing” disclosures to try to encounter the obligations regarding the CSR Directive (Hoffmann et al., 2018). Greenwashing has a broad definition and can be described as an approach by which firms attempt to deceive the public with overly optimistic views about their performance (Lyon & Montgomery, 2015). Besides the negative aspect of greenwashing, there is also a positive aspect of greenwashing. The positive aspect is the incentive that inadequate information disclosure gives to a bad firm to invest in social causes, which would not occur if consumers could distinguish a bad firm from a “good” firm. When there is a low transparency level, greenwashing increases. The positive aspect of greenwashing is strengthened by higher transparency, which raises social welfare (Wu et al., 2020).

Each country has implemented the CSR directive in its unique way. The Global Reporting Initiative and CSR Europe have jointly monitored the implementation of the CSR mandate in the regulation of individual EU Member States. A reason for this is that firms may need further help to comprehend and comply with the requirements of CSR directives at a country-level. They provided a table with the transposition of EU countries for the requirements of the CSR

Directive. This table shows that there is a variation in the transposition of these requirements (CSR Europe & GRI, 2017).

The purpose of this master thesis is to examine whether the transposition of the CSR Directive moderates the effectiveness of the CSR mandate on real effects. Hence, the research question for this research is formulated as follows:

Does the transposition of the CSR Directive moderate the effectiveness of the CSR reporting mandate on firms' CSR-related real effects?

Prior research has provided evidence of the impact of the CSR Directive around the real effects without considering the country-level variation of the transposition of the directive. The study of Ioannou and Serafeim (2016) provided evidence of the implications of regulations mandating CSR disclosure (Ioannou and Serafeim, 2016). They did not consider country-level variation in the transposition of the regulations. This research will provide evidence on the impact of the CSR Directive, considering the variation of transposition of this directive on the country-level, stretching across different industries, and timespan. This will add to the existing literature within this field. Furthermore, this research can help elaborate the evidence from previous studies. Additionally, this study will provide further implications which might help regulators design such mandates.

This research will perform a difference-in-difference (DiD) analysis. This research bases its research design on the model used in prior literature by Fiechter et al. (2022). The DiD analysis compares the impact of the transposition of the CSR mandate on the real effects of firms in the EU with US firms as the controlled group. This research begins its analysis by examining the variation of the transposition of the CSR directive.

The main analysis of this research examines if the transposition of the CSR mandate has an impact on the effectiveness of the CSR Directive on real effects. The dependent variable in this analysis is the real effects. They are measured by CSR activities. As an alternative real effects measure, I will use CSR initiatives. The main interest variable used for this analysis is the CSR transposition, which is a moderating variable.

This investigation led to the following findings: EU firms with a high CSR transposition score, lead to an increase in CSR activities than low CSR transposition firms. This means that the variation of the CSR directive's transposition moderates the CSR Directive's effect on real effects. Therefore, H1 can be accepted. Furthermore, this research provides additional findings. First, a comparison of the data from the base year 2013 and the year 2018 shows that EU firms experience a significant positive effect regarding CSR activities. The reaction of EU firms to the CSR Directive was immediately after the passage of the CSR directive (2014). A second conclusion that can be derived from the results is that from the year 2015, it is evident that the CSR mandate's impact on CSR activities is positive. Most of the effect on CSR activities was in the post-period. CSR initiatives usually indicate new CSR activities. These results comply with the key findings of this research. There is an increase in CSR activities of EU firms and

an increase in CSR initiatives. These findings contribute to the study of Fiechter et al. (2022). Their finding is that CSR activities increase because of mandatory CSR reporting. They also provide evidence that these real effects take different forms, including a variety of social and environmental initiatives.

The response to the proposed research question is as follows: Yes, the results imply that the variation in transposition of the CSR directive influences the effectiveness of the CSR directive on real effects.

Furthermore, the findings of this research are of interest to regulators. One of the purposes of the passage of the non-financial reporting mandate is to enhance the comparability and transparency of disclosing CSR information among EU firms (The European parliament & Council, 2014). The CSR transposition score presents a variation in the transposition of the CSR Directive. This means that each country provides CSR disclosure in different ways. Therefore, there is a lack of comparability of CSR disclosure by EU firms. When providing stricter requirements on the transposition of the CSR Directive, firms will implement the requirements equivalent to each other. This will lead to a decrease in information asymmetry between EU firms.

The findings of this master thesis have limitations. First, this paper is focused on the country-level transposition of the CSR Directive using the US as a benchmark. However, this paper does not match the number of firms in the EU sample with the U.S. sample. Second, this paper provides early evidence, the sample years used for these analyses are one reporting year after the CSR Directive is enforced. Future research can expand the sample period to provide more evidence. Third, due to the time I had for this master thesis, I could not add alternative measures as real effects. For future research, this research can be performed on other alternative variables such as Greenwashing-related communication Quantitative measures. Furthermore, the validity of this research can be improved by performing the main analysis with a larger sample size. Lastly, I did not focus on the different channels that have an effect on firms' responses, such as stakeholder pressure. This research could be extended by the specific roles of these mechanisms to provide a better understanding of the future.

First, I begin this research by reviewing the literature on CSR and the CSR reporting directive. The development of the hypothesis is also described in this section. Second, in section 3 the research design and the variables that will be used for the analyses are explained. Third, the results of the performed analyses are discussed in section 4. Finally, the findings, limitations, and future research are disclosed in section 5.

2 Theoretical framework

This section introduces the topic of Corporate Social Responsibility and the CSR reporting directive. This will be followed by arguments to support the predictions and states the hypotheses that will be tested to answer the research question.

2.1 Institutional background

Over the past years, a significant growth in the reporting of non-financial information by firms has occurred (Grewal et al., 2015). As the interest in sustainability grows, so does the need for information on corporate activities and policies in the areas of CSR and ESG is progressively increasing (Christensen et al., 2021). A factor that contributes to the growth of firms disclosing non-financial information is the pressure from stakeholders. Stakeholders pressure firms to disclose non-financial information about their impacts on the public and the environment regarding their processes and related governance activities (Delmas & Toffel, 2008). For a long time, the group of top executives found that managers' main responsibility is to serve shareholders. However, there has been an updated statement now, managers and directors should also serve customers, employees, and suppliers as well as support communities (Harrison et al., 2020).

2.1.1 NFRD 2014/95

SEC's Investor Advisory Committee in the US requires SEC registrants to disclose information associated with ESG matters that are important to stakeholders in making choices (Christensen et al., 2021). The European Union is further along. For the EU there is a non-financial reporting directive called NFRD 2014/95. This non-financial reporting directive was passed on by the European Parliament and the Council on April 15, 2014. This directive mandates that listed firms with more than 500 employees prepare CSR reports from the fiscal year 2017 onwards. These firms are obligated to report minimum information on environmental, public, labor, human rights, and corruption issues. These reports should include an explanation of the result, policies, and hazards regarding those issues. The NFRD introduces a dual materiality standpoint. This standpoint directs firms to provide, besides the information on the impact of sustainability matters, information on their effect on the public and the environment (European Commission, 2020). The year 2018 was the first year that mandatory CSR reports were published. The aim of implementing this directive is to enhance the comparability and transparency among EU firms on their CSR disclosure (The European parliament & Council, 2014).

It is necessary to determine the minimum requirements in order to comply with the level of CSR disclosure that needs to be available to the stakeholders. These legal requirements should provide a reasonable and widespread perspective of its policies, consequences, and risks (The European parliament & Council, 2014). Therefore, the European Commission was required by the CSR Directive to develop guidelines designed to help with disclosing non-financial information. These guidelines serve as an adequate mechanism to ensure compliance with the

CSR directive (Noti et al, 2020). They do not, however, provide a standardized foundation that provides detailed guidelines on country-level enforcement institutions and their activities (CSR Europe & GRI, 2017). Article 1 of the reporting directive states that firms may utilize international reporting frameworks, an example of such a framework is the Global Reporting Initiative's (GRI) standard to prepare non-financial reports (The European parliament, 2014). Each Member State has implemented the CSR Directive in its unique way. The countries of France, Italy, Germany, the Netherlands, Spain, and Poland form the six Member states that are selected for the study by Noti et al (2020). The six Member States have adopted different approaches to national guidelines and procedural matters (Noti et al, 2020).

2.1.2 Boilerplate language

Firms use boilerplate language or “greenwashing” disclosures to try to encounter the obligations regarding the CSR reporting directive (Hoffmann et al., 2018). Greenwashing has a broad definition and can be described as an approach by which firms attempt to deceive the public with overly optimistic views about their performance. According to the Greenpeace-hosted website stopgreenwash.org, the term greenwash is used to describe a firm's commitment to the environment or misleading consumers about the environmental benefits of its products and services. Scholars have tried to be more precise on the definition of greenwashing, but there is not yet a consensus on the definition (Lyon & Montgomery, 2015). Besides the negative aspect of greenwashing, there is also a positive aspect of greenwashing. The positive aspect is the incentive that inadequate information disclosure gives to a bad firm to invest in social causes, which would not occur if consumers could distinguish a bad firm from a “good” firm. When there is a low transparency level, greenwashing increases. The positive aspect of greenwashing is strengthened by higher transparency, which raises social welfare. Nonetheless, when there is a sufficiently high transparency level, greenwashing will be eliminated and so are both the positive aspect and negative aspects of greenwashing (Wu et al., 2020).

2.1.3 Transposition of the CSR Directive

The CSR Directive has provided requirements regarding CSR disclosure. The European Union, in response to requests from authorities, investors, and civil society organizations, has sought a similarly high-level of transparency for EU member state firms when disclosing their social and environmental impacts and risks. However, the EU also gives national legislators the discretion to enact directives (CSR Europe & GRI, 2017). The harmonization in CSR disclosure between firms could be jeopardized when legislators have the freedom to adapt or consolidate disclosure requirements and the potential to choose from a pre-set selection of possibilities (Aureli et al., 2020). Firms may need additional assistance in understanding and comply with the impact of CSR policies at the country-level. For this reason, the Global Reporting Initiative and CSR Europe have jointly monitored the transposition of the CSR Directive in the regulation of individual EU Member States. They provided their observations in a table presented in Appendix A. This table illustrates 28 member states, including Iceland and Norway. In the columns, you can find the requirements of the CSR directive. According to this study, there are

three ways to implement non-financial reporting requirements: implementing the requirement as is, omitting the requirement, and adopting the requirements (CSR Europe & GRI, 2017).

2.2 Prior literature

2.2.1 *Corporate Social Responsibility*

When doing research into a concept, it is essential to clarify the meaning of that concept. Corporate social responsibility (CSR) lacks one accepted definition. Different articles have different explanations of what CSR is (Coombs & Holladay, 2011). According to an article by Lewis (2003), CSR is a tool that is used to enhance a firm's trademark (Lewis, 2003). CSR often aims to make corporate activities more sustainable and improve social welfare. CSR can also increase the value of the firm (Christensen et al., 2021).

For this master thesis the term "CSR" will be defined as the information disclosed by firms about their business activities and procedures that evaluate firms' responsibilities and their impact on the environment and the public (Christensen et al., 2021).

2.2.2 *Voluntary CSR disclosure*

An important advantage of CSR disclosure is to decrease information asymmetry between firms (Christensen et al, 2021). CSR disclosure also influences transparency between firms. (Lambert et al, 2007). CSR reports covering different issues, for instance, their relations with shareholders. Such detailed disclosures reveal information regarding management credibility, which influences investors' judgment (Cahan et al, 2016). Additionally, the transparency of firms with their stakeholders acts as a controlling tool for management to make optimal investment choices. Transparency reduces the chances of management hiding inefficient investment choices from the stakeholders and the stakeholders are less likely to engage in investment inefficiency (Christensen et al., 2021). According to the Dhaliwal et al. (2011) study, CSR performance is a fundamental element of firms' CSR reporting choices. Firms with high CSR activities are expected to gain profits from CSR reporting. Additionally, firms with a greater CSR performance are expected to have more incentive to prepare CSR reports than firms that have a lower CSR performance (Dhaliwal et al., 2011). CSR disclosure can be used by firms as a form of "insurance" in case something does not go as expected. CSR is used strategically by firms to build ties with society or improve relationships with specific stakeholders (Christensen et al., 2021). The research of Lin et al. (2015) explains that firms focus more on CSR activities that are of interest to the politicians to gain favor with their local politicians. However, before the CSR Directive was effective, some firms were delaying the adoption of the CSR standard. This could indicate that the cost-benefit tradeoff of CSR disclosure is negatively associated with voluntary disclosure (Christensen et al., 2021). Between the size of a firm and the quality or the amount of CSR reporting by that firm, is a positive correlation. An explanation for this correlation could be that CSR disclosure is less costly for large firms (Li et al., 2021). In addition, stakeholders can pressure firms to engage in

certain CSR objectives and performances. This could lead to higher costs and no obvious payoffs to shareholders (Christensen et al., 2021).

2.2.3 Mandatory CSR disclosure

Cost-benefit tradeoffs indirectly state the advantages of CSR reporting obligation, which reflects the choice of firms to provide voluntary disclosure. For mandatory reporting, the main benefits are increased transparency and comparability. This will not only apply to firms with low-level CSR disclosure before the directive was effective but will also lead to improved comparison for best-practice firms (Christensen et al., 2021).

The level of CSR disclosure may increase because of mandatory CSR reporting. The research of Fiechter et al. (2022) adds to the literature on CSR disclosure by investigating the real effects as a result of a widespread CSR reporting obligation over different industries and countries. They also provide evidence that these real effects take different forms, including variations in CSR infrastructure and a variety of initiatives. Additionally, because of the EU's timeframe, roughly four years between passage and entrance into force of the CSR Directive, it makes it possible for the research of Fiechter et al. (2022) to develop new understandings on the effects of the CSR directive over a certain period. Particularly, they show that EU firms react to the CSR Directive before the directive was mandatory, whereas previous articles have focused on real effects around the entry into force of CSR disclosure mandates (Fiechter et al., 2022).

2.2.4 Research gap and contribution

Prior research typically focuses on the impact of the CSR mandate around the real effects without considering other features on a country-level, that can moderate the effect of the CSR mandate. For example, the study of Ioannou and Serafeim (2016). They explore the implications of regulations mandating CSR disclosure in several countries (Ioannou and Serafeim, 2016). Most of this research focuses on a single country and assesses whether companies are willing to disclose non-financial data by the requirements of the CSR Directive before conducting them in each country. In addition, it is common to describe a firm's approach to disclose non-financial information in terms of the characteristics of a firm such as the scope and structure of a firm, considering the circumstances, especially the potential impact of the situation and national legislations (Dienes et al., 2016). Thus, most of these studies did not hold into account the variation in the transposition of the directive on a country-level, hence the difference in implications of the directive. This research thus add to existing literature within the field by providing evidence on whether the transposition of the CSR Directive moderates the effect of the CSR reporting mandate on real effects stretching across different industries, countries, and timespan.

As mentioned in previous paragraphs, the CSR reporting directive only provides minimal requirements concerning what firms must elaborate on regarding their CSR activities. The high stage of flexibility increases concerns about whether the mandate will increase firms' CSR disclosure, which leads to transparency and comparability. By investigating the transposition

of this mandate in different countries in the EU, it will be clearer what the impact is of this mandate on real effects. Thus, this study will provide evidence of the impact of the CSR mandate, considering the different transposition of this mandate for different countries. This can help elaborate the evidence from previous studies on this topic. Furthermore, this study will provide evidence on whether this mandate should have more guidelines on the transposition of this mandate. Additionally, this study will provide further implications which might help regulators design such mandates.

2.3 Hypothesis development

There is a variation in the transposition of the CSR Directive at the country-level. When it comes to transposing directives into national law, EU regulators leave the Member States in a pre-specified direction. Discretion is thought to be a conscious option made by the European legislator to allow the Member States to adjust their legislation to their situations (Aureli et al., 2020). Some countries already had some national regulations about disclosing non-financial information before the directive was effective. According to the study by Aureli et al. (2020), the UK is considered a frontrunner in sustainability reporting as early as the 20th century (Aureli et al., 2020). The reaction of stakeholders to CSR disclosure may stimulate firms to participate in more CSR activities. Stakeholders respond to firms' CSR disclosure. Their reaction creates a cyclical process, where firms react to stakeholders' reactions. When more information becomes available on these activities, debt and equity investors can monitor managers' CSR decisions more (Christensen et al., 2021) It is possible that for countries such as the UK, the CSR Directive will not have an impact on their real effects because they already disclosed this information. However, as mentioned in 2.1.3, some EU countries implemented requirements the same as the CSR Directive acquires, but others adopt or omit something from the requirements of the CSR mandate. So, the difference in the transposition of the CSR Directive leads to a different effect of the CSR Directive on real effects.

2.3.1 Pre-regulation of CSR information

As mentioned before, the UK already provided CSR disclosure before the mandate was effective. The paper of Brammer and Pavelin (2004) examined voluntary social disclosures in UK large firms. They focused primarily on three topics: the relationship between firms' decisions on disclosure, their relationship with the nature of the activities performed by the firm, and the relation with firms' characteristics such as the size of the firm and their social performance. They found a positive relationship between engaging in one way of voluntary CSR disclosure and engaging in other forms of voluntary CSR disclosure (Brammer & Pavelin, 2004). Furthermore, the UK government is one of the pioneering governments to promote CSR disclosure among firms. Also, the UK has established several bodies, organizations, and mechanisms to enhance the course of CSR. An example of this is the FTSE4 Good Index established by the London Stock Exchange. This measures the CSR performance of companies against robust criteria of ESG scores (Amin et al., 2022). The research of Hoffmann et al. (2018) investigated the quality of sustainability reporting published and integrated reporting by German firms before non-financial reporting was mandated (2014 and 2015). A finding of the

research of Hoffmann et al. (2018), is the quality of the reports. Generally, reports that are created by using frameworks such as GRI14 lead to higher quality reports than management reports (Hoffmann et al., 2018). Based on these findings, it makes it more likely to assume that countries such as the UK and Germany will adopt more than the bare minimum requirements of the directive. I expect that the transposition score of the CSR directive for countries such as the UK will be higher and will increase the real effects of the CSR mandate on CSR activities.

2.3.2 Assurance

According to an article by KPMG (2015), firms are seeking assurance on their CSR reports. For these firms to improve communications with relevant stakeholders on CSR activities (KPMG, 2015). The purpose of assurance is to evaluate evidence to provide independent assurance of a firm's governance, risk management, and control processes. This can be translated into that independent assurance includes verifying the integrity and validity of firms' disclosures, including CSR disclosure (Gallego-Álvarez & Pucheta-Martínez, 2021). Managers have considerable discretion in strategically disclosing CSR information, especially given the lack of mutual CSR standards and the variety of corporate CSR activities (Cho et al., 2015). Providing independent assurance by an external third party will improve the credibility of CSR disclosure, which increases the quality of CSR reports (Velte, 2020). Also, you limit firms to providing greenwashing. Some countries have already adopted independent assurance on CSR reporting. Because of a higher quality CSR report, CSR reports will be more informative for interested stakeholders. A study by Gallego-Álvarez and Pucheta-Martínez (2021) found that companies facing disclosure obligations are much more likely to disclose their CSR information to external assurance. They also found that CSR disclosure is positively mitigated by CSR (Gallego-Álvarez & Pucheta-Martínez, 2021). For these findings, they used ESG data from Bloomberg. I expect that firms, which provide assurance on CSR reports as a requirement of the CSR Directive, will have a higher transposition score and will increase the real effects of the CSR Directive on CSR activities.

2.3.3 Integrated reporting

Integrated reporting puts economic performance into a broader context. It represents exactly how an organization works, by disclosing its environment, its effect on stakeholders, and its strategies that have an impact on the public. Therefore, integrated reporting describes the value-creation process (Ioannou & Serafeim, 2017). Integrated reporting is a revolutionary approach to CSR disclosure. It aims to improve the level of integration of CSR disclosures. The focus of CSR disclosure was initially on social issues, which shifted to environmental issues. Firms have become increasingly dependent on non-financial disclosure, which caused the occurrence of CSR disclosure. Initially, CSR reports intended to provide information on firms' influence on the public, the environment, and the economy. This will enable firms to share their organization's values and accomplishments. However, traditional CSR reporting has failed to quell corporate mistrust, given that sustainability issues are becoming more and more entrenched. Therefore, it no longer seems informative for stakeholders. Academics believe that the limitations of CSR reporting add to integrated reporting. Integrated reporting particularly

ensures that CSR disclosure is provided in an integrated way (Sun et al., 2022). Integrated reporting not only contains the elements that are of importance for CSR reporting but additionally shows the links among various types of information that traditional CSR reporting lacks (Jablowski, 2021). The format of CSR reports must comply with the requirements of the CSR Directive. This can be a management report or a separate report based on a national framework, EU framework, or international framework (CSR Europe & GRI, 2017). I expect that the transposition for firms that provide integrated reporting is higher than for firms that do not provide integrated reporting and will increase the real effects of the CSR mandate on CSR activities.

Taking all arguments together, I predict that the transposition of the CSR Directive moderates the effectiveness of the CSR mandate on real effect. Therefore, the following hypothesis is being put forward:

H1: The transposition of the CSR Directive moderates the effectiveness of the CSR mandate on real effects.

3 Methodology

The research design that is utilized for this research in order to test the hypothesis, is explained in this section. Additionally, this chapter provides an answer to the research question. Furthermore, the variables used in the statistical analysis are presented. Lastly, this explains which data is used, and how the sample is obtained.

3.1 Research design

In this master thesis, I aim to investigate whether the transposition of the CSR Directive moderates the effectiveness of the CSR Directive on real effects. This study bases its research design on the model used in prior literature by Fiechter et al. (2022). Therefore, a difference-in-difference (DiD) analysis will be performed that will estimate the treatment effects of the transposition of the CSR Directive on real effects. The DiD analysis compares the impact of the transposition of the CSR Directive on real effects across EU firms and a sample of US controlled firms. But first, to address H1, I will use the following equation:

$$CSR\ Activities = \beta_0 + \beta_1 POST \times EUn_Transposition-high + \beta_2 POST \times EUn_Transposition-low + \sum \beta_j Controls_j + \sum \beta_i FixedEffects_i + \varepsilon \quad (1)$$

The above equation will be estimated using OLS regression. The variable POST indicates the period after the effectiveness of the CSR Directive. To differentiate the EU firms and US firms, the variable EU will be used in the equation. The variables transposition distinguishes between high- and low-level transposition of the directive. *Control* is a vector for all the control variables. The CSR Transposition indicates the implementation of the directive at the country-level. The real effects used for the analysis are firm-fixed effects and year-fixed effects.

3.2 Variables

3.2.1 Dependent variable

This research uses real effects as the dependent variable. From the CSR Directive, it can be inferred that EU regulators are aware of increased CSR transparency as a means of promoting corporate CSR activities. The real effects will be measured by CSR activities. These CSR activities are computed by the *Social score* and *Environmental score* from the ASSET4 database. These variables describe the activities of each firm within the EU and US in environmental and social aspects. The values of these variables are presented in scores and scaled by a hundred.

3.2.2 Main interest variable

The variable of interest in this study is a moderating variable. The moderating variable in this study is the CSR transposition of the CSR Directive. It perhaps affects the connection between CSR disclosure and real effects. By adding a moderating variable, it is possible to see whether

the effect of the CSR Directive is affected by the transposition of this directive. The CSR transposition variable is constructed based on the table in Appendix A. In this table, you will find the 28 member states that are mentioned in 2.1.3 In the columns you can find the following non-financial reporting requirements: “Definition of a Large Undertaking” “Definition of a Public Interest Entity”, “Report topics, and Content”, “reporting Framework”, “Disclosure Format”, “Auditor’s involvement”, “Non-compliance Penalties”, “Safe Harbour Principle”, and “Diversity Reporting Required” (CSR Europe, GRI, 2017). There are three ways for these countries to implement the non-financial reporting requirements: implementing the requirement as is, omitting the requirement, and adopting the requirements. From this table, it is noticeable that only six member states have adopted the requirement reporting framework. Furthermore, Germany is the only member state that omits the requirement for auditor’s involvement. Sweden and Ireland are the two member states that have adopted most of the requirements. The member states Denmark and Estonia are the ones that omit most of the requirements. Besides these two member states, Germany, Hungary, Luxembourg, The Netherlands, Norway, Slovakia, and Spain omit one requirement. The requirements that have been omitted are “Auditor’s involvement”, “Non-compliance penalties”, and the “Safe harbor principle” (CSR Europe & GRI, 2017). Furthermore, Finland is the only member state that just adopts one requirement and implements the remaining requirements the same as the directive. As for the other member states, they have a variety of requirements that are implemented the same as the directive and the requirements that they have adopted. Overall, more requirements are implemented the same as the directive than there are requirements that have been adopted. Thus, the results of this table confirm that there is a variation in the transposition of the CSR Directive (CSR Europe & GRI, 2017).

To provide a score for CSR transposition for each country, the requirements will be receiving a score of 1 or 2. This is based on the level of importance of the requirement. Each country has three ways to implement the requirements, each possibility will receive a score of 0, 1, or 2. The possible responses including the score are as follows: adapting the requirement will receive a 2, implementing the requirement as is will receive a 1, and omitting the requirement will receive a 0. By assigning the possible response scores, it is possible to calculate the score of the CSR transposition of each country. In Appendix E, you will find a detailed table of the CSR transposition score for each country.

3.2.3 Additional analyses

Apart from the main analysis, two sets of additional analyses will be performed. To have a better observation of the effect of the transposition on the CSR Directive, it is important to examine the impact on the CSR activities by the CSR Directive without the effect of the transposition of the directive. Therefore, I will perform a difference-in-difference analysis that estimates the yearly treatment effects of the transposition of the CSR Directive on real effects. The CSR activities used for the additional analysis will be composed of the same variables as in the main analysis. The following equation will be used:

$$CSR\ Activities = \beta_0 + \sum \beta_n YEAR \times EU_n + \sum \beta_j Controls_j + \sum \beta_i FixedEffects_i + \varepsilon \quad (2)$$

The other set of additional analyses examines the reaction of EU firms to the CSR Directive, moderated by the CSR transposition, on CSR initiatives. This additional analysis examines whether actual impacts present improved social and environmental results instead of corporate claims or investment approaches that may lead to greenwashing. The presence of greenwashing cannot be ruled out. This additional analysis enhances the level of confidence in the main findings indicating important CSR progresses. Therefore, this analysis sheds light on the potential existence of both greenwashing strategies using the alternative outcome variables gleaned from the ASSET4 database. CSR initiatives are composed of the following variables: *ENV Reduction initiatives*, *ENV Investment Initiatives*, *Customer Initiatives*, and *Labor Initiatives*. The following equation will be used:

$$CSR\ initiatives = \beta_0 + \beta_1 POST \times EU_n \text{ - Transposition-high} + \beta_2 POST \times EU_n \text{ - Transposition-low} + \sum \beta_j Controls_j + \sum \beta_i FixedEffects_i + \varepsilon \quad (3)$$

3.2.4 Control variable

Following the paper of Fiecher et al. (2021), the same control variables will be used. This paper controls for changes in firm size. Firm size (LN(TA)) is constructed by taking the natural log of the total assets of the fiscal year. The control variable leverage (LEV) is calculated by taking the ratio of the total liabilities scaled by the total assets. The cash from the operation (CFO) is also controlled for this research. The log of the percentage of free float (PFF) is calculated by the natural log of the percentage of free float, which indicates the ownership structure. The control variable asset turnover (ATO) measures the profitability of a firm and is composed of net sales scaled by total assets. The profitability per share is computed by dividends per share (DPS). The long-term assets, property, plant, and equipment (PPE) are computed by property, plant, and equipment divided by total assets. Furthermore, I also control for the market value of a firm using the Log of Tobin's Q (TQ), which is calculated by the Log of market value scaled by total assets. In addition, I also control for CSR reporting to account for variations in CSR disclosure over time. CSR reporting is composed by CSR report, Reporting scope, GRI report, OECD report, and assurance. Lastly, I control corporate governance quality (CORPGOV), which is a score retrieved from the ASSET4 database. These control variables fall under the vector Controls. I expect that by holding these variables constant, these factors will not influence the outcome of this analysis. The variable measurements are also included in the appendix, see Appendix D: Description of variables.

3.3 Sample and data

The sample used for this research includes firms that meet the size threshold that the CSR Directive has required. Although the directive was passed in 2014 and mandatory from the fiscal year 2017 onwards, firms started disclosing CSR information before. Therefore, the year 2013 will be used as a base year. To get a clear picture of how firms were conducting their CSR activities before the passage of the CSR Directive, the sampling period begins in 2011 and ends in 2018. Because the directive applies to all large EU firms, the setting falls short of randomly

4 Empirical results

This section describes the results derived from the analyses performed. The descriptive statistics of the dataset will be discussed. Furthermore, the results of the main analysis and additional analyses are presented and interpreted to see whether H1 should be rejected or supported.

4.1 Descriptive statistics

Panel A of Table 1 displays the number of firms in the EU and US samples. The samples used for these analyses are not matched, which explains the difference in the number of sample firms between the US and EU. From panel B of Table 1, the number of firms for each year for EU and US firms is presented. From 2018 onwards there is a significant increase in EU firms providing CSR disclosure. A possible reason for this is the period that the CSR Directive was effective. Panel E of Table 1 reports summary statistics of the variables included in the regression. It presents the mean and the standard deviation of the variables. What is noticeable from panel E is that the CSR activities are higher for EU firms than for US firms. This may again be explained because of the CSR Directive. The variable CSR reporting from panel E can support this assumption because the CSR reporting score represents how firms score on CSR disclosure. The CSR reporting score is higher for EU firms than for US firms. The mean of the reduction initiatives is higher than the other initiatives, especially for the EU firms. This can be because EU firms are more active in reducing environmental risks posed by their activities than within other initiatives. Furthermore, the mean of the CSR transposition score for EU firms is 17.95 with a standard deviation of 1.96. This means that, on average, the CSR transposition score for each country lies at 1.96 from the mean. According to these outputs, there is indeed a difference in the transposition of the CSR Directive. Overall, most EU variables in panel E have a higher mean than the variables of the US sample, which also may be explained because of the CSR Directive.

4.2 CSR Transposition

The empirical analysis is started by examining whether the transposition of the CSR Directive affects the CSR activities of EU firms as a response to the CSR Directive. For this analysis, the sample is divided into two periods, pre-directive and post-directive. The pre-directive period is defined as the year from 2011 until 2014. The post-directive period is from 2014 until 2018. Table 2 presents the effects of the EU sample as a whole and divides the sample into two groups based on high- and low-transposition of the CSR directive. There are several findings observed in Table 2. Table 2 presents results for the $POST \times EU$ and shows how the directive affected EU firms after the directive is implemented. This result can be translated into a positive effect of the directive on CSR activities. The second finding is that the effect of the directive in the post-period on CSR activities is higher for high transposition (coef. = 0.016) firms than for low transposition firms (coef. = 0.008). The coefficients of CSR activities are significant at the conventional level of 10% (p-value < 0.010), which means that it is less likely that the data could have occurred if H1 is not true. Based on Table 2 H1 can be accepted because the moderating variable CSR transposition does affect the effectiveness of the CSR Directive on real effects.

4.3 Additional analyses

4.3.1 *The average effect of the CSR directive*

Given the results in the previous section on the moderating effect of CSR transposition and the timelines of the CSR Directive, it is not just whether such practical impacts will materialize, but when they will materialize. This is still unknown. Therefore, I utilize a model to approximate annual impacts on CSR activities by the CSR Directive. The effect of the CSR mandate on social- and environmental activities, which is used to measure CSR activities, is shown in Table 3. The analysis is performed on EU firms and the effect of the directive on CSR activities is reported for each year, whereas the directive was introduced in 2014 and the directive became mandatory in 2018. Three key findings can be drawn from the results presented in Table 3. Firstly, a comparison of the data from the base year 2013 and the entry-into-force year 2018 reveals a significant positive impact on CSR activities on EU firms. The second conclusion that can be derived from the results is that these results suggest that as early as 2015, the CSR Directive had a positive effect on CSR activities. Although the positive treatment effect is present as early as 2015, it only attains statistical significance at the 1% level in that year and in 2016, whereas in 2017 and 2018, the significance is achieved at the 5% level. Third, for EU firms in comparison with US firms, there is no apparent treatment effect observed in the pre-directive period. Statistically insignificant coefficients are revealed from the years 2011 and 2012. This finding implies that the level of CSR Activities, as measured by the outcome variable, did not demonstrate any increasing trend in anticipation before the CSR Directive' passage in 2014. In other words, this finding shows the effectiveness of the CSR Directive. These empirical results hold considerable economic significance, and these findings are consistent with previous research Fiechter et al. (2022).

The results of the control variables for this additional analysis are also provided in Appendix E. These variables result in similar output to the analysis in Table 2. A reason for this is that both analyses have the same dependent variable. Hence, most of these control variables are also significant at a significance level of 1%. The control variables, Lev (leverage), CFO, PPE, ROA, and Total expenses have a negative result. Again, this means that these variables are negatively associated with CSR activities and are expected to engage in CSR activities when firms have a low Lev (leverage), CFO, PPE, ROA, or Total expenses. The other control variables provide positive results, which explains the opposite. These control variables are positively associated with CSR activities and are expected to engage in CSR activities when these control variables are positive. Because of the similarities between these tables, the control variable GORPROV provides also the largest coefficient and DPS has the smallest (positive) coefficient.

Table 3*Effect of the CSR directive on Firms' CSR Activities*

Dependent Variable:		(1) <i>CSR activities</i>	(2) <i>SOC Activities</i>	(3) <i>ENV Activities</i>
<i>2011 × EU</i>		-0.000 (-0.03)	-0.005 (-0.40)	0.004 (0.31)
<i>2012 × EU</i>		0.005 (0.42)	0.006 (0.44)	0.004 (0.28)
<i>2014 × EU</i>	Passage of directive	0.006 (0.52)	0.018 (1.36)	0.006 (0.04)
<i>2015 × EU</i>		0.021* (1.98)	0.032** 2.67	0.010 (0.74)
<i>2016 × EU</i>		0.021* (1.97)	0.030* (2.56)	0.011 (0.83)
<i>2017 × EU</i>		0.024** (1.07)	0.033** (3.07)	0.014 (1.10)
<i>2018 × EU</i>	Entry-into-force	0.026** (1.18)	0.036** (3.24)	0.016 (1.70)
Control Variables		Included	Included	Included
Firm fixed effects		Included	Included	Included
Year fixed effects		Included	Included	Included
Adjusted R2		0.927	0.919	0.879
<i>N</i>		4,690	4,690	4,690

Note: Table 3 presents results from estimating the difference-in-difference analyses with CSR activities as the dependent variable. Control variables comprise CSR Reporting, LN(TA) (firm size), LN(AF) (analyst following), LEV (leverage), CFO (cash from operations), LN(FF) (free float), ATO (asset turnover), DPS (dividends per share), PPE (asset structure), LN(TQ) (growth opportunities), ROA (operating profitability), and CORPGOV (corporate governance quality). The fixed effects used are firm fixed effects and year fixed effects. All variables are defined in appendix D. t-Statistics are provided in parentheses. The results on the control variables are presented in appendix E.

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

4.3.2 CSR Initiatives

The next set of tests examines whether actual impacts present improved social and environmental results instead of corporate claims or investment approaches that may lead to greenwashing. The existence of greenwashing cannot be denied. The reason for performing this additional analysis is to ensure that the main findings reflect important development in CSR activities. This analysis, therefore, sheds light on the possible presence of symbolic investments and disclosure on greenwash by applying CSR initiatives as an alternative outcome variable. Table 4 the result of the difference-in-difference analysis that is performed on CSR initiatives. With this analysis, I investigate the moderating effect of the transposition of the directive on CSR initiatives. For this analysis, I also divided the sample period into two groups. The pre- and post- period is as in Table 2. The full sample is used for this analysis, divided into high- and low- transposition firms. Results reported in Table 4 indicate that the CSR initiatives for EU firms are higher after the enforcement of the CSR Directive. These coefficients are significant, except for ENV Reduction Initiatives. The coefficients of the Customer Initiative and Labor Initiatives provide significant results for EU firms with low transposition at a

5 Conclusion

This master thesis examined whether the transposition of the CSR Directive moderates the effectiveness of the CSR mandate on real effects. This is examined by performing a difference-in-difference analysis on the sample period of 2011 until 2018 for EU firms and US firms as a benchmark. This research not only adds to the literature but is also of potential interest to regulators.

5.1 Findings

This research finds that EU firms that have a high CSR transposition score, experience more effect on CSR activities than low CSR transposition firms. This means that the variation of the CSR directive's transposition moderates the CSR Directive's effect on real effects. Therefore, H1 can be supported. The research question is formulated as follows: "*Does the transposition of the CSR Directive moderate the effectiveness of the CSR reporting mandate on firms' CSR-related real effects?*" With supporting H1, an answer to the research question is provided. The results present a variation in the transposition of the CSR Directive, which influences the effectiveness of the CSR Directive on real effects.

Furthermore, this research provides additional findings. Firstly, EU firms responded quite immediately after the CSR Directive is introduced. A second conclusion that can be derived from the results is the positive treatment effect of the CSR Directive on CSR activities is evident as early as 2015. So, most of the effect on CSR activities was in the post period. This is equivalent to the findings of Fiechter et al. (2022) for the additional analysis, with CSR initiative as an outcome variable. CSR initiatives often involve new CSR activities, this is consistent with the key findings of this research. There is an increase in CSR activities of EU firms and an increase in CSR initiatives.

These findings add to the current literature by providing evidence on the variation of the directive's transposition affects the CSR Directive's effectiveness on real effects. Thus, the evidence provided before on the effect of the CSR Directive on real effects can be explained because of the variation of the transposition of the directive. Moreover, these findings are of interest to regulators. The CSR directive aims to increase transparency and comparison of CSR disclosure between EU firms. The CSR transposition score presents a variation in the transposition of the CSR Directive. This means that each country provides CSR disclosure in different ways. Therefore, there is a lack of comparability within the CSR disclosure between EU firms. When providing stricter requirements on the transposition of the CSR directive, firms will implement the requirements equivalent to each other. This will cause a reduction in the variation of the transposition of the CSR Directive. Consequently, this will lead to a decrease in information asymmetry between EU firms.

5.2 Limitations and future research

The findings of this master thesis have limitations. First, this paper focused on the country-level transposition of the CSR Directive using the US as a benchmark. However, in this paper, the number of firms in the EU sample does not match the number of firms in the US sample. Because of this, other factors can explain the difference in real effects between EU and US firms.

Second, this paper provides early evidence, the sample years used for these analyses are one reporting year after the CSR Directive is enforced. Future research can expand the sample period to provide more evidence.

Third, due to the time I had for this master thesis, I could not add alternative measures as real effects. For future research, this research can be performed on other alternative variables such as Greenwashing-related communication Quantitative measures. I also recommend future research to focus on one country in the EU and compare this with another country in the EU. To indicate the difference in the impact of the real effects because of the transposition of the CSR Directive.

Fourth, the validity of this research can be improved by performing the main analysis with a larger sample size. The main analysis of this research only used CSR transposition information on 19 countries because of the limitation on the CSR transposition information in the remaining countries. Including the CSR transposition information of the remaining countries will provide more accurate results.

Lastly, this master thesis aims to analyze the real effects of the CSR mandate moderated by the CSR transposition. I did not focus on the different channels that affect firms' responses, such as stakeholder pressure and benchmarking. This research can be extended by the specific roles of these mechanisms as future research.

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I

(Legislative acts)

DIRECTIVES

DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 22 October 2014

amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 50(1) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee ⁽¹⁾,

Acting in accordance with the ordinary legislative procedure ⁽²⁾,

Whereas:

- (1) In its communication entitled ‘Single Market Act — Twelve levers to boost growth and strengthen confidence — “Working together to create new growth”’, adopted on 13 April 2011, the Commission identified the need to raise to a similarly high level across all Member States the transparency of the social and environmental information provided by undertakings in all sectors. This is fully consistent with the possibility for Member States to require, as appropriate, further improvements to the transparency of undertakings’ non-financial information, which is by its nature a continuous endeavour.
- (2) The need to improve undertakings’ disclosure of social and environmental information, by presenting a legislative proposal in this field, was reiterated in the Commission communication entitled ‘A renewed EU strategy 2011-14 for Corporate Social Responsibility’, adopted on 25 October 2011.
- (3) In its resolutions of 6 February 2013 on, respectively, ‘Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth’ and ‘Corporate Social Responsibility: promoting society’s interests and a route to sustainable and inclusive recovery’, the European Parliament acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust. Indeed, disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. In this context, disclosure of non-financial information helps the measuring, monitoring and managing of undertakings’ performance and their impact on society. Thus, the European Parliament called on the Commission to bring forward a legislative proposal on the disclosure of non-financial information by undertakings allowing for high flexibility of action, in order to take account of the multidimensional nature of corporate social responsibility (CSR) and the diversity of the CSR policies implemented by businesses matched by a sufficient level of comparability to meet the needs of investors and other stakeholders as well as the need to provide consumers with easy access to information on the impact of businesses on society.

- (12) Investors' access to non-financial information is a step towards reaching the milestone of having in place by 2020 market and policy incentives rewarding business investments in efficiency under the roadmap to a resource-efficient Europe.
- (13) The European Council, in its conclusions of 24 and 25 March 2011, called for the overall regulatory burden, in particular for small and medium-sized enterprises ('SMEs'), to be reduced at both European and national levels, and suggested measures to increase productivity, while the Europe 2020 Strategy for smart, sustainable and inclusive growth aims to improve the business environment for SMEs and to promote their internationalisation. Thus, in accordance with the 'think small first' principle, the new disclosure requirements should apply only to certain large undertakings and groups.
- (14) The scope of those non-financial disclosure requirements should be defined by reference to the average number of employees, balance sheet total and net turnover. SMEs should be exempted from additional requirements, and the obligation to disclose a non-financial statement should apply only to those large undertakings which are public-interest entities and to those public-interest entities which are parent undertakings of a large group, in each case having an average number of employees in excess of 500, in the case of a group on a consolidated basis. This should not prevent Member States from requiring disclosure of non-financial information from undertakings and groups other than undertakings which are subject to this Directive.
- (15) Many of the undertakings which fall within the scope of Directive 2013/34/EU of the European Parliament and of the Council⁽¹⁾ are members of groups of undertakings. Consolidated management reports should be drawn up so that the information concerning such groups of undertakings may be conveyed to members and third parties. National law governing consolidated management reports should therefore be coordinated in order to achieve the objectives of comparability and consistency of the information which undertakings should publish within the Union.
- (16) Statutory auditors and audit firms should only check that the non-financial statement or the separate report has been provided. In addition, it should be possible for Member States to require that the information included in the non-financial statement or in the separate report be verified by an independent assurance services provider.
- (17) With a view to facilitating the disclosure of non-financial information by undertakings, the Commission should prepare non-binding guidelines, including general and sectoral non-financial key performance indicators. The Commission should take into account current best practices, international developments and the results of related Union initiatives. The Commission should carry out appropriate consultations, including with relevant stakeholders. When referring to environmental aspects, the Commission should cover at least land use, water use, greenhouse gas emissions and the use of materials.
- (18) Diversity of competences and views of the members of administrative, management and supervisory bodies of undertakings facilitates a good understanding of the business organisation and affairs of the undertaking concerned. It enables members of those bodies to constructively challenge the management decisions and to be more open to innovative ideas, addressing the similarity of views of members, also known as the 'group-think' phenomenon. It contributes thus to effective oversight of the management and to successful governance of the undertaking. It is therefore important to enhance transparency regarding the diversity policy applied. This would inform the market of corporate governance practices and thus put indirect pressure on undertakings to have more diversified boards.
- (19) The obligation to disclose diversity policies in relation to the administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender or educational and professional backgrounds should apply only to certain large undertakings. Disclosure of the diversity policy should be part of the corporate governance statement, as laid down by Article 20 of Directive 2013/34/EU. If no diversity policy is applied there should not be any obligation to put one in place, but the corporate governance statement should include a clear explanation as to why this is the case.

⁽¹⁾ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

- (20) Initiatives at Union level, including country-by-country reporting for several sectors, as well as the references made by the European Council, in its conclusions of 22 May 2013 and of 19 and 20 December 2013, to country-by-country reporting by large companies and groups, similar provisions in Directive 2013/36/EU of the European Parliament and of the Council (¹), and international efforts to improve transparency in financial reporting have been noted. Within the context of the G8 and the G20, the OECD has been asked to draw up a standardised reporting template for multinational undertakings to report to tax authorities where they make their profits and pay taxes around the world. Such developments complement the proposals contained in this Directive, as appropriate measures for their respective purposes.
- (21) Since the objective of this Directive, namely to increase the relevance, consistency and comparability of information disclosed by certain large undertakings and groups across the Union, cannot be sufficiently achieved by the Member States but can rather, by reason of its effect, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective.
- (22) This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union, including freedom to conduct a business, respect for private life and the protection of personal data. This Directive has to be implemented in accordance with those rights and principles.
- (23) Directive 2013/34/EU should therefore be amended accordingly,

HAVE ADOPTED THIS DIRECTIVE:

Article 1

Amendments to Directive 2013/34/EU

Directive 2013/34/EU is amended as follows:

- (1) The following Article is inserted:

Article 19a

Non-financial statement

1. Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

- (a) a brief description of the undertaking's business model;
- (b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- (c) the outcome of those policies;

- (d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- (e) non-financial key performance indicators relevant to the particular business.

Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.

The non-financial statement referred to in the first subparagraph shall also, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity.

In requiring the disclosure of the information referred to in the first subparagraph, Member States shall provide that undertakings may rely on national, Union-based or international frameworks, and if they do so, undertakings shall specify which frameworks they have relied upon.

2. Undertakings fulfilling the obligation set out in paragraph 1 shall be deemed to have fulfilled the obligation relating to the analysis of non-financial information set out in the third subparagraph of Article 19(1).

3. An undertaking which is a subsidiary undertaking shall be exempted from the obligation set out in paragraph 1 if that undertaking and its subsidiary undertakings are included in the consolidated management report or the separate report of another undertaking, drawn up in accordance with Article 29 and this Article.

4. Where an undertaking prepares a separate report corresponding to the same financial year whether or not relying on national, Union-based or international frameworks and covering the information required for the non-financial statement as provided for in paragraph 1, Member States may exempt that undertaking from the obligation to prepare the non-financial statement laid down in paragraph 1, provided that such separate report:

- (a) is published together with the management report in accordance with Article 30; or
- (b) is made publicly available within a reasonable period of time, not exceeding six months after the balance sheet date, on the undertaking's website, and is referred to in the management report.

Paragraph 2 shall apply *mutatis mutandis* to undertakings preparing a separate report as referred to in the first subparagraph of this paragraph.

5. Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement referred to in paragraph 1 or the separate report referred to in paragraph 4 has been provided.

6. Member States may require that the information in the non-financial statement referred to in paragraph 1 or in the separate report referred to in paragraph 4 be verified by an independent assurance services provider.

(2) Article 20 is amended as follows:

(a) in paragraph 1, the following point is added:

- '(g) a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.'

(b) paragraph 3 is replaced by the following:

‘3. The statutory auditor or audit firm shall express an opinion in accordance with the second subparagraph of Article 34(1) regarding information prepared under points (c) and (d) of paragraph 1 of this Article and shall check that the information referred to in points (a), (b), (e), (f) and (g) of paragraph 1 of this Article has been provided.’;

(c) paragraph 4 is replaced by the following:

‘4. Member States may exempt undertakings referred to in paragraph 1 which have only issued securities other than shares admitted to trading on a regulated market within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC from the application of points (a), (b), (e), (f) and (g) of paragraph 1 of this Article, unless such undertakings have issued shares which are traded in a multilateral trading facility within the meaning of point (15) of Article 4(1) of Directive 2004/39/EC.’;

(d) the following paragraph is added:

‘5. Notwithstanding Article 40, point (g) of paragraph 1 shall not apply to small and medium-sized undertakings.’.

Source: The European parliament & Council (2014)

Appendix B: Transposition summary table

→ **Transposition summary table**

Country	Definition of a Large Undertaking	Definition of a Public Interest Entity	Report Topics and Content	Reporting Framework	Disclosure Format	Auditor's involvement	Non-compliance Penalties	Safe Harbour Principle	Diversity Reporting Required
Austria	=	○	=	=	○	=	○	=	○
Belgium	○	○	=	=	○	=	○	=	○
Bulgaria	=	○	=	○	○	○	○	=	○
Croatia	=	○	=	=	○	=	○	=	○
Cyprus	=	○	=	=	=	○	○	=	○
Czech Republic	○	○	=	=	○	=	○	=	=
Denmark	○	○	=	○	○	○	✗	✗	○
Estonia	○	=	=	=	○	=	✗	✗	○
Finland	=	=	=	=	=	=	○	=	=
France	=	○	=	=	○	○	○	=	=
Germany	=	○	=	=	○	✗	○	=	=
Greece	○	○	○	=	○	=	○	=	=
Hungary	=	○	=	=	○	=	○	✗	=
Iceland	○	○	=	=	○	○	○	=	○
Ireland	=	=	=	=	=	=	○	=	○
Italy	=	○	=	○	○	○	○	=	=
Latvia	=	○	○	=	○	○	○	=	=
Lithuania	=	○	○	=	○	=	○	=	=
Luxembourg	○	○	=	=	=	=	○	✗	=
Malta	=	=	○	=	○	=	○	=	=
The Netherlands	=	○	=	=	○	=	✗	=	○
Norway	=	○	=	=	○	=	○	✗	=
Poland	=	○	=	○	=	=	○	=	=
Portugal	○	○	=	=	=	=	○	=	=
Romania	○	○	○	=	=	○	○	=	=
Slovakia	=	○	=	○	○	=	○	✗	=
Slovenia	=	=	○	=	○	=	○	=	○
Spain	=	○	○	○	○	=	✗	=	=
Sweden	○	○	○	=	○	=	○	=	=
United Kingdom	○	=	=	=	○	○	○	=	=

Legend

- = Requirements are the same as in the Directive
- ✗ Requirements have been omitted
- Requirements have been adapted

Source: CSR Europe & GRI (2017)

Appendix C: Description Transposition score

Table 5 summarizes the scores assigned to the requirements, the scores assigned to each country's response, and the together the CSR Transposition score for each country.

Table 5
CSR Transposition score

	Definition of a Large Undertaking	Definition of a Public Interest Entity	Report Topics and Content	Reporting Framework	Disclosure Format	Auditor's involvement	Non-compliance Penalties	Safe Harbour Principle	Diversity Reporting Required	CSR Transposition score
Requirements Weight	2	2	2	1	1	1	1	1	2	
Country										
Belgium	2	2	1	1	2	1	2	1	2	21
Cyprus	1	2	1	1	1	2	2	1	2	19
Denmark	2	2	1	2	2	2	0	0	2	20
Finland	1	1	1	1	1	1	2	1	1	14
France	1	2	1	1	2	2	2	1	1	18
Germany	1	2	1	1	2	0	2	1	1	16
Greece	2	2	2	1	2	1	2	1	1	21
Hungary	1	2	1	1	2	1	2	0	1	16
Ireland	1	1	1	1	1	1	2	1	2	16
Italy	1	2	1	2	2	2	2	1	1	19
Luxembourg	2	2	1	1	1	1	2	0	1	17
Norway	1	2	1	1	2	1	2	0	1	16
Poland	1	2	1	2	1	1	2	1	1	17
Portugal	2	2	1	1	1	1	2	1	1	18
Slovenia	1	1	2	1	2	1	2	1	2	19
Spain	1	2	2	2	2	1	0	1	1	18
Sweden	2	2	2	1	2	1	2	1	1	21
Netherlands	1	2	1	1	2	1	0	1	2	17
United Kingdom	2	1	1	1	2	2	2	1	1	18
Total CSR Transposition score										341
Average CSR Transposition score										17,95

Legenda: Requirements have been adopted = 2
 Requirements are the same as the Directive = 1
 Requirements have been omitted = 0

Appendix D: Description of variables

Variable name	Explanation	Source
CSR Activities		
- CSR Activities	- CSR activities are composed of SOC Activities and ENV Activities.	- Constructed based on ASSET4
- SOC Activities	- Social Score (soscore)	- ASSET4
- ENV Activities	- Environmental Score (enscore)	- ASSET4
CSR Transposition		
- CSR Transposition score	- See appendix D.	- See appendix D.
Control variables		
- LN(TA)	- Log of fiscal year's total assets in USD (xwc02999u).	- Worldscope
- LN(AF)	- Log of number of financial analysts following a firm (recno).	- I/B/E/S
- LEV	- Total liability (wc03351) to total assets (wc02999).	- Worldscope
- CFO	- Cash from operations (wc04860) to total assets (wc02999).	- Worldscope
- LN(FF)	- Log of the number of shares in free float (noshff).	- Worldscope
- ATO	- Net sales (wc01001) divided by total assets (wc02999).	- Worldscope
- DPS	- Dividends per share (wc05101) divided by earnings per share (wc05201).	- Worldscope
- PPE	- Property, plant & equipment (wc02501) divided by total assets (wc02999).	- Worldscope
- LN(TQ)	- Log of market value (wc02999+(nosh*wc05001) - wc03501) scaled by total assets (wc02999).	- Worldscope
- ROA	- Net income available to common shareholders (wc01751) divided by total assets (wc02999).	- Worldscope
- CORPGOV	- Corporate governance score (cgscore).	- ASSET4
- Total Expenses	- Sum of cost of goods sold (COGS) and selling, general, and administrative expenses (SG&A) divided by sales: (wc01051+wc01101)/wc01001.	- Worldscope
- SG&A	- Selling, General & Administrative Expenses (wc01101) divided by sales (wc01001). SG&A is set to 0 for missing values if COGS (wc01051) is available.	- Worldscope
- CSR Reporting	- CSR reporting assigns a score of 1 to each of the categories: CSR reporting (cgvsdp026), Reporting scope (cgvsdp029), GRI report (cgvsdp028), OECD report (socodp013), and whether the CSR	- Constructed based on ASSET4

	<p>report is audited (cgvsdp030). Scores range from 0 to 4, with 0 representing a low level of CSR disclosure and 4 representing a high level of CSR disclosure.</p>	
<p>Alternative CSR outcome variables: CSR Initiatives</p> <ul style="list-style-type: none"> - ENV Reduction Initiatives - ENV Investment Initiatives - Customer Initiatives - Labor Initiatives 	<ul style="list-style-type: none"> - Environmental reduction initiatives are composed of: Clean Energy Production (enpidp066), Energy Efficiency Policy (enrrdp0122), Emission Policy (enerdp0051), eWaste Reduction Initiative (enerdp063) Renewable Energy Use (enrrdp046), Water Efficiency Policy (enrrdp0121), and Water Reduction Initiative (enerdp062). - ENV Investment Initiatives are composed of: Environmental Expenditure Investments (enero24v) and Environmental Investment Initiatives (enerdp095). - Customer related initiatives are composed of: Customer Health and Safety Policy (sopr dp0121), Data Privacy Policy (sopr dp0124), Responsible Marketing Policy (sopr dp0126), Fair Trade Policy (sopr dp0128), and Product Responsibility Monitoring (sopr dp016). - Labor-related initiatives are composed of: Child labor Policy (sohr dp0102), Diversity Policy (sododp0081), Employee Health Policy (sohsdp0121), Forced labor Policy (sohr dp0103), and Human rights Policy (sohr dp0105). 	<ul style="list-style-type: none"> - Constructed based on ASSET4 - Constructed based on ASSET4 - Constructed based on ASSET4 - Constructed based on ASSET4

Appendix E: Tables including control variables

Table 2
The moderating effect of the CSR Transposition

Dependent Variable:	(1)	(2)	(3)	(4)	(5)	(6)
	<i>CSR activities</i>		<i>SOC Activities</i>		<i>ENV Activities</i>	
<i>POST</i> × <i>EU</i>	0.010*		0.031***		-0.012*	
	(1.74)		(4.94)		(-1.75)	
<i>POST</i> × <i>EU high-transposition</i>		0.016*		0.043***		-0.011
		(1.52)		(3.63)		(-0.89)
<i>POST</i> × <i>EU low-transposition</i>		0.008*		0.029***		-0.012*
		(1.42)		(4.31)		(-1.68)
<i>F</i> -test for differences [<i>p</i> -value]		[0.028]		[0.025]		[0.056]
<i>Control Variables:</i>						
<i>LN(TA)</i>	0.032***	0.032***	0.025***	0.025***	0.039***	0.039***
	(28.88)	(28.88)	(19.84)	(19.85)	(28.36)	(28.36)
<i>LN(AF)</i>	0.029***	0.029***	0.035***	0.035***	0.023***	0.023***
	(13.66)	(13.67)	(14.51)	(14.53)	(8.69)	(8.69)
<i>LEV</i>	-0.061***	-0.061***	-0.046***	-0.046***	-0.076***	-0.076***
	(-10.74)	(-10.74)	(-7.07)	(-7.07)	(-10.82)	(-10.82)
<i>CFO</i>	-0.036**	-0.036**	-0.038*	-0.038*	-0.034*	-0.034*
	(-2.62)	(-2.617)	(-2.43)	(-2.44)	(-1.98)	(-1.98)
<i>LN(FF)</i>	0.017***	0.017***	0.118**	0.118**	0.022***	0.022***
	(4.38)	(4.37)	(2.70)	(2.70)	(4.58)	(4.58)
<i>CSR Reporting</i>	0.089***	0.089***	0.075***	0.075***	0.104***	0.104***
	(86.52)	(86.50)	(63.44)	(63.42)	(81.27)	(81.26)
<i>ATO</i>	0.013***	0.013***	0.006**	0.006**	0.020***	0.019***
	(6.70)	(6.71)	(2.67)	(2.68)	(8.37)	(8.37)
<i>DPS</i>	0.000	0.000	0.000*	0.000*	0.000	0.000
	(1.90)	(1.90)	(2.34)	(2.34)	(0.92)	(0.92)
<i>PPE</i>	-0.012*	-0.011*	-0.052	-0.052	0.030***	0.030***
	(-2.30)	(-2.29)	(-9.64)	(-9.63)	(5.17)	(5.17)
<i>LN(QT)</i>	0.017***	0.017***	0.026***	0.026***	0.007**	0.007**
	(8.90)	(8.90)	(12.23)	(12.23)	(3.10)	(3.10)
<i>ROA</i>	-0.003	-0.003	-0.017	-0.017	0.015	0.015
	(-0.24)	(-0.25)	(-1.25)	(-1.26)	(0.76)	(0.73)
<i>GORPGOV</i>	0.094***	0.094***	0.094***	0.094***	0.093***	0.093***
	(15.43)	(15.42)	(13.53)	(13.52)	(12.45)	(12.45)
<i>SG&A</i>	0.002	0.002	0.0127***	0.0127***	-0.008**	-0.008***
	(0.85)	(0.86)	(4.32)	(4.33)	(-2.61)	(-2.61)
<i>Total expenses</i>	-0.002	-0.002	0.0126***	0.0126***	-0.008**	0.008**
	(0.85)	(0.86)	(-4.31)	(-4.33)	(2.61)	(2.61)
Firm fixed effects	Included	Included	Included	Included	Included	Included
Year fixed effects	Included	Included	Included	Included	Included	Included
Adjusted R2	0.927	0.927	0.919	0.919	0.879	0.879
<i>N</i>	4,690	4,690	4,690	4,690	4,690	4,690

Note: Table 2 presents results on a pre–post specification (with *POST* indicating the years between 2014 and 2018). I use *EUhigh-transposition* vs. *EUlow-transposition* as non-overlapping treatment indicators to assess the cross-sectional variation in the treatment effect. With *CSR activities* as the dependent variable. *High-transposition firms* is a dummy variable with 1 indicating EU countries with high transposition values (*CSR Transposition score* > mean) in the post-period and zero otherwise. *Low-transposition firms* is a dummy variable with 1 indicating EU countries with low transposition values (*CSR Transposition score* < mean) in the post-period, and zero otherwise. The fixed effects used are firm fixed effects and year fixed effects. Control variables comprise *CSR Reporting*, *LN(TA)* (firm size), *LN(AF)* (analyst following), *LEV* (leverage), *CFO* (cash from operations), *LN(FF)* (free float), *ATO* (asset turnover), *DPS* (dividends per share), *PPE* (asset structure), *LN(TQ)* (growth opportunities), *ROA* (operating profitability), and *CORPGOV* (corporate governance quality). All variables are defined in appendix D. *t*-Statistics are provided in parentheses. The results on the control variables are presented in appendix E.

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 3
Effect of the CSR directive on Firms' CSR Activities

Dependent Variable:	(1)	(2)	(3)
	<i>CSR Activities</i>	<i>SOC Activities</i>	<i>ENV Activities</i>
<i>2011 × EU</i>	-0.000 (-0.03)	-0.005 (-0.40)	0.004 (0.31)
<i>2012 × EU</i>	0.005 (0.42)	0.006 (0.44)	0.004 (0.28)
<i>2014 × EU</i> Passage of directive	0.006 (0.52)	0.018 (1.36)	0.006 (0.04)
<i>2015 × EU</i>	0.021* (1.98)	0.032** 2.67	0.010 (0.74)
<i>2016 × EU</i>	0.021* (1.97)	0.030* (2.56)	0.011 (0.83)
<i>2017 × EU</i>	0.024** (1.07)	0.033** (3.07)	0.014 (1.10)
<i>2018 × EU</i> Entry-into-force	0.026** (1.18)	0.036** (3.24)	0.016 (1.70)
<i>Control Variables:</i>			
<i>LN(TA)</i>	0.032*** (28.81)	0.025*** (19.67)	0.039*** (28.43)
<i>LN(AF)</i>	0.028*** (13.54)	0.0345*** (15.50)	0.022** (8.51)
<i>LEV</i>	-0.061*** (-10.75)	-0.045*** (-6.99)	-0.077*** (-10.93)
<i>CFO</i>	-0.036** (-2.59)	-0.039* (-2.46)	-0.033 (-1.91)
<i>LN(FF)</i>	0.017*** (4.35)	0.012** (2.70)	0.022*** (4.55)
<i>CSR Reporting</i>	0.089*** (86.45)	0.075*** (63.34)	0.010*** (81.29)
<i>ATO</i>	0.026*** (6.69)	0.006** (2.66)	0.019*** (8.36)
<i>DPS</i>	0.000 (1.86)	0.001* (2.35)	0.000 (0.84)
<i>PPE</i>	-0.012* (8.92)	-0.051*** (-9.63)	0.032*** (5.22)
<i>LN(QT)</i>	0.017*** (8.92)	0.026*** (12.16)	0.007** (3.20)**
<i>ROA</i>	-0.002 (-0.19)	-0.018 (-1.27)	0.013 (0.87)
<i>GORPRGOV</i>	0.093*** (15.42)	0.094*** (13.58)	0.093*** (12.39)
<i>SG&A</i>	0.002 (-0.81)	0.013*** (4.33)	-0.009** (-2.68)
<i>Total expenses</i>	-0.002 (-0.81)	-0.013*** (-4.33)	0.009** (2.68)
Firm fixed effects	Included	Included	Included
Year fixed effects	Included	Included	Included
Adjusted R2	0.927	0.919	0.879
<i>N</i>	4,690	4,690	4,690

Note: Table 3 presents results from estimating the difference-in-difference analyses with CSR activities as the dependent variable. Control variables comprise CSR Reporting, LN(TA) (firm size), LN(AF) (analyst following), LEV (leverage), CFO (cash from operations), LN(FF) (free float), ATO (asset turnover), DPS (dividends per share), PPE (asset structure), LN(TQ) (growth opportunities), ROA (operating profitability), and CORPGOV (corporate governance quality). The fixed effects used are firm fixed effects and year fixed effects. All variables are defined in appendix D. t-Statistics are provided in parentheses. The results on the control variables are presented in appendix E.

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels.

Table 4
Alternative measures of CSR Activities

Dependent Variable:	(1) <i>ENV Reduction Initiatives</i>	(2) <i>ENV Reduction Initiatives</i>	(3) <i>ENV Investment Initiatives</i>	(4) <i>ENV Investment Initiatives</i>	(5) <i>Customer Initiatives</i>	(6) <i>Customer Initiatives</i>	(7) <i>Labor Initiatives</i>	(8) <i>Labor Initiatives</i>
<i>POST × EU</i>	0.310*** (4.47)		0.051* (2.03)		0.116*** (3.31)		0.428*** (6.81)	
<i>POST × EU^{high-transposition}</i>		0.459*** (3.93)		0.110* (2.34)		0.082 (1.26)		0.555*** (4.17)
<i>POST × EU^{low-transposition}</i>		0.267*** (3.57)		0.03 (1.44)		0.123*** (3.31)		0.400*** (4.79)
<i>F-test for differences [p-value]</i>		[0.000]		[0.000]		[0.000]		[0.000]
<i>Control Variables:</i>								
<i>LN(TA)</i>	0.246*** (21.24)	0.246*** (21.25)	0.086*** (17.11)	0.086*** (17.10)	0.081*** (11.719)	0.081*** (11.71)	0.173*** (17.96)	0.173*** (17.98)
<i>LN(AF)</i>	0.182*** (8.23)	0.182*** (8.25)	-0.063*** (-6.55)	-0.063*** (-6.58)	0.086*** (-6.521)	0.086*** (-6.50)	0.108*** (5.90)	0.108*** (5.94)
<i>LEV</i>	-0.340*** (-5.67)	-0.340*** (-5.68)	-0.195*** (-7.50)	-0.195*** (-7.50)	-0.119*** (-3.320)	-0.119*** (-3.320)	-0.236*** (-4.760)	-0.236*** (-4.76)
<i>CFO</i>	-0.016 (-0.11)	-0.016 (-0.11)	-0.083 (-1.32)	-0.083 (-1.31)	0.080 (0.921)	0.080 (0.92)	0.772*** (6.37)	0.772*** (6.37)
<i>LN(FF)</i>	0.121** (2.99)	0.120** (2.99)	-0.031 (-1.79)	-0.031 (-1.78)	0.027*** (1.104)	0.027 (1.11)	0.003 (0.10)	0.003 (0.09)
<i>CSR Reporting</i>	0.794*** (73.00)	0.794*** (72.98)	0.127*** (26.88)	0.127*** (26.90)	0.196*** (30.265)	0.196*** (30.270)	0.415*** (46.00)	0.415*** (45.98)
<i>ATO</i>	0.147*** (7.51)	0.149*** (7.52)	0.007 (0.79)	0.007 (0.78)	0.111*** (9.397)	0.111*** (9.39)	0.141*** (8.59)	0.141*** (8.61)
<i>DPS</i>	0.002 (1.02)	0.002 (1.02)	-0.001 (-0.94)	-0.001 (-0.94)	0.001 (0.692)	0.001 (0.69)	0.001 (0.41)	0.001 (0.41)
<i>PPE</i>	0.169*** (3.43)	0.170*** (3.44)	0.352*** (16.43)	0.352*** (16.42)	-0.213*** (-7.220)	-0.213*** (-7.23)	-0.594*** (-14.51)	-0.594*** (-14.50)
<i>LN(QT)</i>	0.055** (2.74)	0.055** (2.74)	0.033*** (3.76)	0.033*** (3.77)	0.113*** (9.468)	0.113*** (9.47)	0.060*** (3.64)	0.060*** (3.64)
<i>ROA</i>	0.206 (1.61)	0.206 (1.60)	-0.115* (-2.07)	-0.115* (-2.06)	-0.073 (-0.951)	-0.073 (-0.95)	-0.080 (-0.75)	-0.080 (-0.76)
<i>GORPRGOV</i>	0.601*** (9.40)	0.600*** (9.39)	0.202*** (7.29)	0.202*** (7.30)	0.237*** (-6.215)	0.237*** (-6.22)	0.449*** (8.460)	0.448*** (8.44)
<i>SG&A</i>	-0.088** (3.26)	-0.088** (3.24)	-0.063*** (-5.36)	-0.063*** (-5.38)	-0.003 (-0.212)	-0.003 (-0.22)	-0.167*** (-7.45)	-0.167*** (-7.42)
<i>Total expenses</i>	0.088** (3.26)	0.088** (3.24)	0.063*** (5.36)	0.063*** (5.38)	0.003 (0.213)	0.003 (0.22)	0.167*** (7.45)	0.167*** (7.42)
<i>Firm fixed effects</i>	Included	Included	Included	Included	Included	Included	Included	Included
<i>Year fixed effects</i>	Included	Included	Included	Included	Included	Included	Included	Included
<i>Adjusted R2</i>	0.852	0.852	0.435	0.435	0.728	0.728	0.846	0.846
<i>N</i>	4,690	4,690	4,690	4,690	4,690	4,690	4,690	4,690

Note: Table 4 presents results on a pre-post specification (with POST indicating the years between 2014 and 2018). I use EUhigh-transposition vs. EUlow-transposition as non-overlapping treatment indicators to assess the cross-sectional variation in the treatment effect. With CSR initiatives as the dependent variable. High-exposure firms is a dummy variable with 1 indicating EU countries with high transposition values (CSR Transposition score > mean) in the post-period and zero otherwise. Low-transposition firms is a dummy variable with 1 indicating EU countries with low transposition values (CSR Transposition score < mean) in the post-period, and zero otherwise. The fixed effects used are firm fixed effects and year fixed effects. Control variables comprise CSR Reporting, LN(TA) (firm size), LN(AF) (analyst following), LEV (leverage), CFO (cash from operations), LN(FF) (free float), ATO (asset turnover), DPS (dividends per share), PPE (asset structure), LN(TQ) (growth opportunities), ROA (operating profitability), and CORPGOV (Corporate Governance Quality). All variables are defined in appendix D. t-Statistics are provided in parentheses. The results on the control variables are presented in appendix E.

***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.