name of the cand.soc programme

Organisational Innovation and Entrepreneurship

type of assignment

Master's thesis

Title

Companies' sustainability performance in the light of CSR reporting requirements

name and signature of the student

Alexandru Giurgilă

cpr number

hand-in date

20 October 2014

name of supervisor

Karin Buhmann

number of pages and characters (including spaces)

74 | 172,825

Copenhagen Business School

2014

The present thesis is printed on 100% post-consumer recycled paper.

Source of photos on the cover:

Photo 1 (from left to right)
http://sites.psu.edu/anthonyvalentino82/wp-content/uploads/sites/8111/2014/01/wind_turbine_hi_res_turbines_mills_go_high_resolution_desktop_1654x1654_wallpaper-385269.jpg

Photo 2
https://www.flickr.com/photos/anekoho/13148231883/sizes/h/

Photo 3
http://www.staceysblog.co.uk/wp-content/uploads/2011/06/iStock_000016031916Large.jpg

Abstract

Over the past decade, Corporate Social Responsibility has gained increasing awareness in the whole society. This triggered a growing trend among companies of publishing CSR reports reflecting their sustainability efforts. At the same time, governments across the world started to request companies to publish Sustainability reports in an attempt to make them act more sustainable. But is this true? Do companies become more sustainable as a result of CSR reporting requirements? The author started exploring the literature on the matter in order to find an answer to these questions. The literature is scarce thus, leaving a blank space to which this paper aims to bring its contributions.

The study of the current thesis is based on ESG (Environmental, Social and corporate Governance) data reflecting companies' sustainability performance. Through an inductive approach, the ESG data is analysed in the light of CSR reporting requirements for ten countries. This approach enables the investigation of whether the sustainability performance is shaped by reporting regulations.

The results show that indeed, the sustainability performance of companies is influenced by the reporting requirements. By analysing the three ESG pillars taken separately, the author proves the connection between reporting regulations and the individual E, S and G performance, showing that companies tend to pay more attention to one pillar or another should the regulators desire so.

The paper proves the connection between reporting requirements and companies' sustainability performance thus, contributing to the currently underdeveloped state of research on the matter. It offers a brief description of similar studies and relates them to the findings of the current study. Moreover, it serves as a useful reading for those interested in what shapes sustainability and could serve as a basis for future reports to be analysed by governments and stock exchanges considering to introduce CSR reporting regulations.

Acknowledgements

I would like to use this opportunity to express my gratitude towards those who supported me while developing the present thesis.

I am grateful to my supervisor, Karin Buhmann, for her feedback, critical analysis and support that were of paramount importance for the entire process of developing the paper.

I also want to thank everyone at Sustainalytics, the company where I was doing an internship in the first half of 2014, and that provided the ESG data needed for the current research endeavour. I am thankful especially to Luiza, Andrei and Alina, who were of substantial support both during my internship, and also afterwards, while writing the paper.

Moreover, I am grateful to my parents, Mihaela and Gelu, who made possible my studies abroad in the first place. Last but not least, I want to thank to my girlfriend, Maria, who proved her unconditional support throughout the months I was conducting this research.

Thank you,

Alexandru Giurgilă

Contents

I. Introduction 3
I.1. Problem and purpose statement 3
I.2. Delimitation 5
I.3. Relevance 5
I.4. Structure 6
II. Background 8
II.1. Blue ocean strategy 8
II.2. Linking organisational innovation and sustainability 9
II.3. Triple bottom line strategies 11
III. Literature Review 13
III.1. Corporate Social Responsibility 13
III.2. CSV & Social entrepreneurship 16
III.3. Responsible investment 18
III.4. CSR Reporting 22
III.5. Institutional theory as a base for CSR studies 24
III.6. Reflexive law 29
III.7. Knowledge gap 30
IV. Methodology 32
IV.1. Research philosophy 33
IV.2. Research approach 34
IV.3. Methodological choice 35
IV.4. Research strategies 35
IV.5. Time Horizon 38
IV.6. Data collection and analysis 38
V. Analysis 45
V.1. Overview 45
V.2. Brazil 48
V.3. Denmark 50
V.4. France 52
V.5. Germany 53
V.6. Japan 54
V.7. Netherlands 55
V.8. Norway 56

V.9. South Africa ... 58
V.10. Switzerland ... 59
V.11. USA ... 60
VI. Discussion ... 62
VI.1. Connection with the Literature Review ... 63
VI.2. A new perspective ... 69
VII. Conclusion ... 71
VII.1. Limitations and further research ... 72
VIII. Bibliography ... 75
IX. Appendices ... 80
Appendix 1 – ESG integration ... 80
Appendix 2 – Legislation review ... 82

I. Introduction

In a world with growing population, we face an increasing demand of goods opposed to a limited amount of resources. There is, as such, a need for corporate change, a need for organisational innovation that will enable the development of a better management of the scarce resources. Sustainable development was defined by the Brundtland Commission as being the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (UN Document, 1987) Therefore, in order to allow future generations to meet their own needs, organisations need to incorporate sustainability practices into their operations.

Many organisations understood this need and began to operate more sustainable. At the same time, they started reporting on their sustainability activities, leading to the creation of what can be called a Corporate Social Responsibility (CSR – as it will further be referred as) report. Scholars such as Ioannou & Serafeim (2012) argued that the very fact of reporting on CSR, makes companies behave more sustainable. That is because reporting makes them more open to close examination by their stakeholders and, as such, they will do their best to improve their sustainability efforts to avoid disclosing bad performances. Thus, it is easy to understand why some governments and stock exchanges chose to regulate the issuance of CSR reports, in some cases making the reporting even mandatory.

By requesting companies to publish a CSR report, governments actually request them to behave more sustainable. Thus, following this simple line of thought, one possible solution to solve the issue of a growing demand in the context of diminishing resources is to ask companies to publish this type of report that will eventually make them act more sustainable. However, is this true? Do companies become more sustainable as a consequence of the fact that they have to publish a CSR report?

I.1. Problem and purpose statement

I got interested in answering these aforementioned questions, and through the initial research I found several studies that were aimed at investigating how CSR is shaped when companies are facing institutional pressures and regulations. (Jennings and Zandbergen, 1995; Campbell, 2007; Tschopp et al., 2011; Ioannou and Serafeim, 2012; Pedersen et al., 2013) While most of them found that, indeed, companies' sustainability activities are influenced by the ecosystem in which they operate, very few actually looked at the influence CSR reporting requirements have on the sustainability performance. (Ioannou & Serafeim, 2012; Pedersen et al., 2013) Out of these, one has a global perspective (Ioannou & Serafeim, 2012) and the other has a national one – Danish. (Pedersen et al., 2013)

While the author acknowledges that this initial research cannot be exhaustive, thus, there might be other studies investigating the issue, it can be assumed that the literature on the subject is still scarce. Although the literature is scarce, it is also contradictory as some authors argue that CSR reporting requirements push companies to act more sustainable (Ioannou & Serafeim, 2012) while others argue that reporting regulations only increases the quality of the reports. (Pedersen et al., 2013) Therefore, there is room for further research on this matter.

By analysing the knowledge contained in the literature review, the author refined in an iterative process the problem statement and identified space for further research as exhibited above. This process resulted in the current problem statement which can be summarised by the following research question:

How do the requirements on CSR reporting shape the companies' sustainability performance?

This problem statement structures the research process as follows. Firstly, the author will summarise the literature available on the matter. Then, a sample of ten countries will be chosen and the CSR reporting requirements in those particular countries will be introduced to the reader. Thirdly, Environment, Social and corporate Governance (ESG) data, reflecting companies' sustainability performance, will be further processed and analysed in the light of the reporting requirements to determine how they were influenced by the reporting requirements. Lastly, the research loop will be closed as the results of the current research process will be analysed in connection with past research, presented in the beginning of the paper.

The purpose of this paper is to contribute with new knowledge to the still underdeveloped research field. The data analysed was carefully selected in such a manner that allows studying the phenomenon in a new perspective. As the reader will see in the following chapters, the data allows for an analysis not only of the overall ESG performance, i.e. of the overall sustainability performance, – such was the case with most of the past studies – but also allows for an individualised E, S and G analysis. Therefore, the paper will bring a fresh perspective by analysing the three pillars of sustainability separately, contributing this way to the actual state of research.

There is also an additional purpose of the paper with more practical relevance. The author hopes that this study's contribution to the current little amount of research on the matter will serve as a basis for further research that will eventually be taken into account by governments or stock exchanges, which currently consider introducing CSR reporting requirements.

I.2. Delimitation

The author acknowledges that it is possible that other factors besides CSR reporting requirements might affect the way companies organise their sustainability activities. It might be the pressure from stakeholders, or it might be the case of other types of regulations, such as limiting the amount of CO2 emissions, – thus a sustainability regulation per se rather than a sustainability reporting regulation – that shape companies sustainability activities. However, it exceeds the scope of this paper to investigate the effect of these pressures. The current study is concerned only with the evolution of sustainability performance in light of the reporting laws as the research on the matter is scarce. However, as other pressures can also influence the companies' ESG performance, it cannot be precisely determined to what extent an increase or a decrease of this performance is triggered by the legislation or by other pressures. Nevertheless, to overcome this limitation, the study will analyse several countries and will base its conclusion on the overall results. However, the reader should keep this limitation in mind when judging these results. Moreover, other limitations that might emerge throughout the research and that are currently unknown to the author, will be discussed in the Conclusion chapter.

I.3. Relevance

The author is enrolled in a master's programme in social sciences called Organisational Innovation and Entrepreneurship (OIE), which focuses on how to design and manage processes of innovation and entrepreneurship. Nidumolu et al. (2009) argued that sustainability is “a mother lode of organisational and technological innovations that yield both bottom line and top line returns”. Therefore, sustainability is one of the sources of organisational innovation, opinion with which the author of this paper concurs. As such, in the context of designing and managing innovation, it is relevant to discuss the source – or at least one of the sources – of innovation. How regulations shape this source – sustainability – is, therefore, of paramount importance in the context of the OIE programme.

Moreover, the paper has relevance for the practitioners as well, as it enables an understanding of one of the factors that could influence the companies’ ESG performance. In addition, the author modestly hopes that this study will serve as a useful lecture for those governments or stock exchanges that consider introducing CSR reporting requirements because it analyses and summarises the effect this type of requirements had in other cases, bringing at the same time a new perspective.

I.4. Structure

The current thesis will unfold as shown below:

I. **Introduction**

   The chapter introduces the reader to the study and its research question. It also delimits the study, argues for its relevance and ends by describing the structure of the paper.

II. **Background**

   This chapter introduces the background to which the current study belongs; it is aimed at introducing the reader to the concept of sustainability in the context of organisational innovation.

III. **Literature Review**

   After the background was described, the actual topic of the paper is further developed. The chapter begins by reviewing the literature related to the concepts of CSR, CSV, Responsible investment and CSR reporting. Then, similar studies to that of the current paper are presented, together with the concepts of Institutional theory and Reflexive law that will further serve the discussion of the thesis. The chapter ends with a section called Knowledge gap that sums up the drawbacks of the introduced studies. This last section describes the blank space to which the paper aims to contribute with its findings.

IV. Methodology

Details regarding the research philosophy, approach and strategy are highlighted in this chapter. Moreover, information about the data used in the research such as how it was gathered and processed or its reliability, validity or potential measurement bias are also described in this part.

V. Analysis

This chapter starts by presenting the overall results of the legislation review process. It then continues by analysing each of the ten studied countries in a separate section. These sections follow a similar structure as they begin by presenting the reader quick facts about the country and then continue with exhibiting the ESG data reflecting the sustainability performance of companies based in that specific country. This data is then analysed in connection with the legal framework and with the theory presented in the Literature Review.

VI. Discussion

This chapter contains the quintessence of the thesis; it discusses the results of the research process with an overall perspective, and aims to summarise them into what can humbly be called a new *theory*. The overall results are then discussed in connection with the literature review, allowing the reader to place the newly emerged *theory* within the current state of the research.

VII. Conclusion

The paper ends with the concluding chapter which, yet again, summarises the results, and explains the overall relation between the problem statement, the used theories, the processed data and the findings. The chapter ends by highlighting the limitations of the study and by suggesting further research approaches.

VIII. Bibliography

It contains the list of references used for drafting the current paper.

IX. Appendices

Contain information that complements the understanding of the paper in a broader perspective.

II. Background

The current chapter offers the reader the possibility of understanding the background to which the study of the present thesis belongs and aims to link the topics of Organisational Innovation and Entrepreneurship with those of Sustainability. It begins by introducing the concept of blue ocean strategy which serves as a justification for the change needed within organisations. Furthermore, the following sections relate organisational innovation and sustainability and argue for the relevance of incorporating a triple bottom line approach.

II.1. Blue ocean strategy

The traditional strategic thinking is challenged by the Blue Ocean Strategy which provides a different perspective on how to embrace new practices. This section shall exhibit the paradigmatic shift in strategic thinking offered by the theory and briefly present the rationale underpinning it.

The Blue Ocean Strategy argues that competition in red-oceans represents the focus of the traditional strategic thinking. In this so-called red-oceans competitors take the status quo for granted, as something previously created by others, and that serves as a business model for all the players involved. Thus, all those involved play by the same rules, leading to an intense level of competition that would eventually ruin their businesses. In order to avoid this, the theory suggests that players should exit the red-ocean and create a blue-ocean for themselves instead.

The theory challenges the status quo by taking a reconstructionist view on the strategy. If the competition-based red ocean strategy assumes that an industry's structural conditions are given and that players are bound to them, "blue ocean strategy is based on the view that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players." (Kim & Mauborgne, 2005) In so doing, it is possible to get out from the established markets (red-oceans with fierce competition) to create new markets (blue-oceans where there are no or few competitors). Although the concept refers mostly to markets, I believe it can also apply to the way companies organise their activities. Applying this analogy, I can argue that it is possible to break out the unsustainable industry model to create a more sustainable way of doing business. Nevertheless, a more sustainable business approach could lead to the creation of new markets as referred to by the blue ocean strategy.

The rationale behind the blue ocean strategy is thus relevant in two ways for this paper. First, at the micro-economic level, it shows that unsustainable practices can and should be challenged, and a more sustainable way of doing business could be embraced as a form of organisational innovation. Second, at the macro-economic level, it shows that regulatory bodies could challenge the belief that the decision of publicly disclosing their sustainability efforts should be left to companies alone.

II.2. Linking organisational innovation and sustainability

In the previous section, the reader was introduced to the theory of blue ocean strategy, one of the many strategies an organisation can embrace for innovation. This section, thus, aims to link organisational innovation and sustainability by arguing that sustainability itself is one form of innovation.

Nidumolu et al., (2009) argue that "sustainability is a mother lode of organisational and technological innovations that yield both bottom line and top line returns." Their research shows that companies making their operations more sustainable save money by lowering their inputs, thus their costs, or earn more money by attracting new customers driving an increase in sales. This comes in contradiction with the common belief of that time among CEOs in the US or Europe according to which making their operations sustainable and developing *green* products places them at disadvantage – regarding costs and prices – vis-à-vis rivals in developing countries that do not follow the same trend towards sustainability. (Nidumolu et al., 2009) Nevertheless, managers' perception over sustainability improved as a study[1] conducted by *MIT Sloan Management Review and Boston Consulting Group* (2013) revealed that only 11% said that sustainability-related actions eroded their profit, while the rest said that sustainability contributed to their profits or that the costs associated with sustainability broke even. (MIT SMR & BGC, 2013)

Nidumolu et al. (2009) found that "smart companies *now* treat sustainability as innovation's new frontier" and argue that those to be the first to address sustainability as a goal *now* will develop competencies that rivals will be forced to match (Nidumolu et al., 2009) as they will obtain what Lieberman and Montgomery (1988) termed to be *first-mover advantages*. This finding was later

[1] The study comprises a survey of more than 5,300 executives and manager respondents from 118 countries representing a wide variety of industries. Yet, the data shown in this paper draws upon the report based on a smaller subsample of 1,847 respondents from commercial enterprises only. (MIT SMR & BGC, 2013)

confirmed by the study of MIT SMR & BGC (2013) which revealed that over 86% of the respondents say sustainability is or will be necessary to be competitive. The study of Nidumolu et al. shows that organisations that embarked on their innovation journey towards becoming more sustainable, thus more competitive, go through five different stages of change.

The first stage, Viewing Compliance as Opportunity is, in the researcher's opinion, the most important as it lays the foundation for the development of the other stages. Because of that and because the purpose of this paper is to analyse how reporting requirements shape companies' focus when organising their sustainability efforts, only this stage will be briefly presented. Nidumolu et al., (2009) show that large companies with global operations are facing different regulations from country to country and that they are also facing pressure exerted by various stakeholders to comply with voluntary codes such as the Greenhouse Gas Protocol or the Forest Stewardship Council. Although it is tempting to adhere to the lowest standard for as long as possible, the authors argue that "it's smarter to comply with the most stringent rules, and to do so before they are enforced". (Nidumolu et al., 2009) One reason could be that when dealing with multiple standards, companies have to manage logistics, component sourcing, and production separately for each market, because laws differ by country. (Nidumolu et al., 2009) Therefore, complying with only one standard, which should logically be the strongest, would allow companies to benefit from economies of scale and supply chain operations optimisation.

Despite the fact that the study refers mostly to regulations regarding sustainability requirements per se and not sustainability reporting requirements, the author would argue that complying with the highest standards on sustainability reporting is of equal importance. One could argue that it is easier, thus less important, to report on a sustainability programme, e.g. to report on a programme that limits GHG emissions, than to actually implement it. However, the author believes that it is of equal importance that companies report on their sustainability activities as it is that they implement sustainability measures. The argument for this is that reporting increases transparency and forces companies to manage these activities more efficiently in order to avoid having to disclose bad sustainability performances to their multiple stakeholders. (Ioannou & Serafeim, 2012)

A study over CSR reporting covering 540 European companies revealed that the process of drafting this kind of reports is one of the most important catalysts for organisational innovation. This is because the process contributes to the accumulation of knowledge, questioning of processes and the establishment of suitable structures and practices. (Garz and Volk, 2007; apud Ioannou & Serafeim, 2012) Moreover, Dhaliwal et al. (2012) argue that mandatory CSR reporting also enhances the credibility of the reports and improves their informativeness. Thus, it is important for governments to regulate and encourage reporting as complying with sustainability reporting requirements will push companies to innovate even more in order to increase their sustainability performance.

II.3. Triple bottom line strategies

The following section presents the concept of triple bottom line which comes to complement the idea of sustainability as a way of organisational innovation. The term of triple bottom line (or TBL) was coined by John Elkington in 1997, in his book called *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. Elkington (1997) argues that a business is sustainable when it lives up to the "triple bottom line" of economic prosperity, environmental quality and social justice. The idea is somehow opposed to the concept of a single bottom line (or just bottom line) that takes into account only the economic prosperity.

Reimers-Hild (2010) argues that businesses can no longer afford to focus on the single bottom line as their sole purpose for existence. She argues that information age has enabled consumers to research companies and to choose more wisely which business they are going to support. These new consumers' demands combined with the world's rising population, environmental struggles and economic instability have created a new global climate that organisations cannot ignore. (Reimers-Hild, 2010) Therefore, in order to cope with this new climate, a paradigmatic shift in strategic thinking, as the blue ocean strategy suggests, must occur: companies must rethink their business strategies and incorporate a triple bottom line approach into their operations.

TBL is not an easy thing to incorporate into an existing business, Reimers-Hild (2010) argues, as this requires a "fundamental organisational change as well as a plan for continuous innovation" due to the fact that individuals solely are difficult to change, let alone organisations comprising hundreds or thousands of individuals. She highlights that "entrepreneurial leadership and innovation must also become part of the organization's paradigm if TBL approaches are going to be sustainable." (Reimers-Hild, 2010)

To conclude, the new business climate requires the incorporation of sustainability into organisations' daily operations. Although, this is not an easy task, it is of paramount importance to incorporate TBL strategies for an organisation wishing to be successful in the 21st century. This can only be done by challenging the current status quo and continuous organisational innovation.

The previous chapter was aimed to introduce the reader to the concept of organisational innovation and to argue that sustainability is one significant way organisations can choose when embarking on a path towards innovation. The following chapter will, therefore, introduce the reader to the backbone of this paper, which is Corporate Social Responsibility. Its sections will relate corporate social responsibility to responsible investment, and CSR reporting.

III. Literature Review

After the background of the research was introduced, the reader will be now introduced to the core concept of this study, Corporate Social Responsibility, and a brief description of its development and critiques. Then, the Literature Review continues with the concepts of responsible investment and CSR reporting.

The last part of the chapter exhibits similar studies to the one aimed by this paper and their similarities and/or contradictions. Moreover, concepts such as institutional theory and reflexive law are also introduced because they serve as a useful tool for studying mandatory CSR requirements. This third chapter of the paper ends by summing up the drawbacks of the literature, as identified by the author, and develops a section called Knowledge gap that defines the space to which this thesis aims to bring its contribution.

III.1. Corporate Social Responsibility

Although references to the concept of Corporate Social Responsibility existed before the 1950s, that decade developed into what can be called the "modern era" regarding CSR definitions. (Carroll, 1999) According to SAGE Brief Guide to Corporate Social Responsibility, Howard R. Bowen was the first to coin the term of CSR, in 1953, in his book *Social Responsibilities of the Businessman*. Among many questions raised by Bowen, one is of particular importance and it is still of relevance today: "What responsibilities to society may businessmen reasonably be expected to assume?" (SAGE, 2012) His answer was that "businesspeople should assume the *responsibility* that is desirable in terms of the objectives and values of society." (SAGE, 2012) Basically, what he meant was that it is society's expectations that drive the idea of CSR. He further argued that CSR implied that businesspeople were responsible for the consequences of their actions in a sphere wider than that covered by their financial statements. As a *Fortune* article of those days reported that 93.5% of the businessmen agreed with his idea of a wider social responsibility, and due to his early and seminal work Bowen might be considered the "father of corporate social responsibility." (Carroll, 1999; SAGE, 2012)

Bowen's answer proposing a concept of *responsibility* that is desirable in terms of the objectives and values of society was still leaving the concept of responsibility unclear. This concept was further explained by Carroll (1979) who proposed a four-sided responsibility: economic, legal, ethical and discretionary. The economic responsibility refers to organisation's duty of producing goods and services that society needs and selling them at profit. The society expects companies to exert their economic function within an established legal framework. Not breaching that framework summarizes the legal side of responsibility. The ethical responsibility reflects society's expectations, over and above the legal requirements, that are very difficult to deal with as these are rather vague. Discretionary responsibility is even vaguer as it refers to those expectations about which society has no clear-cut message for business. (Carroll, 1979) Acknowledging the vagueness of the last responsibility, Carroll (1991) further renamed it to philanthropic responsibility and argued that it comprises those actions in response to society's expectation that businesses be good corporate citizens. (Carroll, 1991) This four-sided framework was generated by Carroll (1979) as he tried to define what corporate social performance is by asking the following three questions: "(1) What is included in corporate social responsibility? (2) What are the social issues the organisation must address? and (3) What is the organisation's philosophy or mode of social responsiveness?" (Carroll, 1979) As such, by answering these questions, Carroll (1979) not only conceptualised corporate social performance but also offered a clearer picture of Bowen's idea of *responsibility.*

There are several longitudinal studies over the evolution of CSR's definitions such as those of Carroll (1999) or Rahman (2011), most of them focusing on the period from '50s onwards. Rahman revealed, among others, Heald's definition of the concept, which he described as being a CSR expert of that period. In 1957, thus only four years after Bowen's definition, Heald defined the concept closer to the meaning it has today: "CSR is recognition on the part of management of an *obligation* to the society it serves not only for maximum economic performance but for humane and constructive social policies as well." (Heald, 1957; apud Rahman, 2011) I argue that Bowen's *responsibility* and Heald's *obligation* stem from what Dillard (2008) later termed as *ethic of accountability*, a reciprocal relationship between society and organisational management. Dillard (2008) claims that society entrusts organisational management with control over its economic assets (natural, human, and technical) and that management accepts in return a fiduciary duty[2] with respect to these assets. The management recognizes an obligation to provide an account of, and to

[2] "A fiduciary duty is a legal duty to act solely in another party's interests. Parties owing this duty are called fiduciaries. The individuals to whom they owe a duty are called principals. Fiduciaries […] have a duty to avoid any conflicts of interest between themselves and their principals or between their principals and the fiduciaries' other clients." (Cornell University Law School's Legal Dictionary, 2014)

be held accountable for, its actions as part of this fiduciary duty, whereas the society takes its responsibility for holding management accountable for its actions. (Dillard, 2008; Jeffrey and Perkins, 2012)

Both Carroll (1999) and Rahman (2011) analysed the ideas underpinning CSR definitions from ‘50s onwards and summarized them into dimensions specific for each decade. The ‘50s were dominated by the ideas of Bowen and Heald, and the central, common point of that decade was corporations’ obligation to the society. Throughout the ‘60s, the obligation developed into a relationship between corporation and society and Davis became well known for his views on the relation between social responsibility and business power. (Carroll, 1999) In the ‘70s, the concept of stakeholders appears, and the dimensions relevant for that period were stakeholders’ involvement, well-being of citizens, improving the quality of life and a four-sided social responsibility: economic, legal, ethical and discretionary/philanthropic. (Rahman, 2011; Carroll, 1979; Carroll, 1991) The ‘70s also saw an increase of referencing to corporate social responsiveness and corporate social performance. (Carroll, 1999) In the ‘80s, the voluntary dimension emerged (Rahman, 2011) and more attempts to measure and conduct research on CSR were witnessed (Carroll, 1999). The ‘90s brought references to the triple bottom line, (Elkington, 1997) developed in the previous chapter, together with the appearance of environmental stewardship, (Rahman, 2011) stakeholder theory, business ethics theory and corporate citizenship (Carroll, 1999).

All these lead to the dimensions we associate the concept of CSR in the 21st century: integration of social and environmental concern; voluntariness; ethical behaviour; human and labour rights; fight against corruption; transparency and accountability. (Rahman, 2011) Also in the 2000s, a dichotomy of the CSR concept emerged as Matten & Moon (2008) proposed the sub-concepts of implicit and explicit CSR. In a study that draws on institutional theory, to which the reader will be introduced in a further section of this chapter, Matten & Moon (2008) argue that CSR in the US developed into explicit CSR in contrast to the implicit CSR that characterises the development of CSR in Europe. By explicit CSR, the scholars refer to corporate policies that assume responsibility for some societal interests and which consists of voluntary strategies. On the other hand, by implicit CSR the authors refer to companies’ role within the wider formal and informal institutions for society’s concerns and interests. (Matten & Moon, 2008) In contrast to the voluntary aspect of the explicit CSR, the implicit

CSR reflects the mandatory and customary requirements imposed by these formal or informal institutions. (Matten & Moon, 2008) The authors do not conclude on whether implicit or explicit CSR are more effective and suggest that this remains open for further research. As such, the current paper will try to offer an answer to whether one CSR or another is more efficient by comparing the sustainability performance of US-based companies with that of European companies.

The literature on the matter is complemented by legal definitions of CSR such as those belonging to the European Commission (EC). The term was defined by EC in 2002 as being a "concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis". (EC, 2002) Almost ten years later, in 2011, EC provided a new definition for corporate social responsibility which was now "the responsibility of enterprises for their impacts on society". Moreover, EC stated that in order "to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders". (EC, 2011) The difference between the two definitions reflects the changes the CSR concept went through. As one can see, the 2011 definition includes, besides the integration of social and environmental concerns which were part of the 2002 definition, the integration of ethical, human rights and consumer concerns as well.

Combining Bowen's opinion from the 50's according to which it is society's expectations that drive the idea of CSR (opinion to which more than 90% of the businesspersons of that time agreed) and Reimers-Hild (2010) argument presented in the section II.3 *Triple bottom line strategies* according to which companies have to become sustainable due to, inter alia, the fact that consumers became more sustainability conscious, one can see that CSR has evolved into something that is external to companies' core activities and that is influenced by external factors. However, scholars such as Porter and Kramer (2011) disagree with this belief and propose a new model.

III.2. CSV & Social entrepreneurship

Porter and Kramer (2011) criticise what CSR has evolved into and consider that the concept should be superseded by the concept of Creating Shared Value, also known as CSV. The authors argue that while CSR in its philanthropic approach, driven by external pressures, might be noble to some extent, it cannot be sustainable on the long term, or at least not as sustainable as CSV. To prove their point, they use the fair trade initiatives as an example. Fair trade agreements aim to increase the revenues poor farmers receive for their crops. However, the quality of their crops remains the same as fair trade initiatives are mostly about redistribution of wealth rather than expanding the overall amount of value created. On another hand, a shared value approach focuses on improving growing techniques and logistics in order to increase farmers' efficiency, crop quality and sustainability. As such, a shared value approach leads to an increase of revenues for farmers not because buying companies are pressured to pay more but because their products have a higher quality, thus a higher value. This leads to bigger revenues and profits not only for farmers but also for the companies that buy from them, let alone the benefits of the know-how farmers acquire and that will probably last longer than any fair trade agreement would. (Porter & Kramer, 2011)

Thus, the concept of shared value can be defined as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates; it focuses on identifying and expanding the connections between societal and economic progress." (Porter & Kramer, 2011) For a better understanding, the main differences between the two concepts are shown in the table below:

Comparison between CSR and CSV

CSR	CSV
Value: doing good	Value: economic and societal benefits relative to cost
Citizenship, philanthropy, sustainability	Joint company and community value creation
Discretionary or in response to external pressure	Integral to competing
Separate from profit maximization	Integral to profit maximization
Agenda is determined by external reporting and personal preferences	Agenda is company specific and integrally generated
Impact limited by corporate footprint and CSR budget	Realigns the entire company budget
Example: Fair trade purchasing	Example: transforming procurement to increase quality and yield

Source: Porter & Kramer, *Creating Shared Value*, 2011, Harvard Business Review

Again, it is not easy for companies to incorporate CSV into their operations as this requires much organisational innovation. However, the advantages of choosing CSV over CSR are obvious from the table and example above and many companies such as Google, Unilever or Nestle have started important shared value initiatives. Porter and Kramer (2011) argue that there are three critical issues on which companies must focus their innovation efforts: to reconceive products and markets; to redefine productivity in the value chain; and to enable local cluster development.

Although it can be costly to rethink entire business models in order to implement CSV strategies, it is often the case that social entrepreneurs in developing countries, with lower resources, manage to innovate and create shared value. This happens mostly due to their out-of-the-box thinking. The authors argue that these social enterprises that create shared value can scale up faster than purely social programmes inside big corporations and that “real social entrepreneurship should be measured by its ability to create shared value, not just social benefit”. (Porter & Kramer, 2011)

III.3. Responsible investment

After the reader was introduced to the leading studies on Corporate Social Responsibility, the paper will now proceed with connecting CSR and investment or, better said, responsible investment. Sparkes & Cowton (2004) argue that the responsible investment has changed from an activity carried out by a small number of investors into an investment philosophy adopted by a growing proportion of large investment institutions. Therefore, the authors argue that this shift in responsible investment “from marginal to mainstream” could play an essential role in determining companies to address CSR issues. Although the scope of this paper is to analyse the influence reporting requirements exert on companies’ sustainability performance, it is relevant to discuss about responsible investment because its shift “from marginal to mainstream” forms together with the reporting requirements and the companies’ sustainability performance a triangle where all elements influence and are influenced by each other. This view is also supported by Friedman and Miles (2001) who concluded in their study that those producing CSR will become increasingly influenced by the Socially Responsible Investment sector in the foreseeable future. Therefore, as the reader was previously introduced to the notion of CSR, this section shall explain how CSR is used by investors in what is termed to be responsible investment.

Mansley (2000) defined the concept of responsible investment as an investment “where social, ethical or environmental (SEE) factors are taken into account in the selection, retention and realisation of investment, and the responsible use of the rights (such as voting rights) that are attached to such investment.” (Mansley, 2000) However, I consider this definition incomplete as it does not take into account, besides social and environmental factors, corporate governance factors. Hoepner & McMillan (2009) analysed the literature on responsible investment and defined the concept as “investment in capital assets based on screening and selection processes or ownership policies, which are not exclusively developed and practiced on the basis of financial information, but are also developed and practiced on the basis of environmental, social or governance (ESG)[3] criteria that account for the investment’s current and future impacts on society and natural environment” (Hoepner & McMillan, 2009), thus including the corporate governance criterion.

United Nations Principles for Responsible Investment (UNPRI[4]), an UN-supported initiative signed by more than 1200 asset owners and investment managers with over 45 USD trillion in assets under management, issued the latest definition of the term in 2013 in a working paper co-funded by the European Commission. According to UNPRI, “responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole; it recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.” (UNPRI, 2013) Thus, the investor-network defined the concept of responsible investment in accordance with the recent literature, the key common point being the ESG integration.

Still, why do investors invest ethically? The same question was asked by, among others, Beal et al. (2005), who discovered that “one particular type of behaviour that has emerged over the last 20 years or so is the desire to invest ethically.” (Beal et. al, 2005) Their article aims to find some explanations for which this behaviour appeared, explanations that I am going to briefly present.

[3] ESG is a term coined by investors to abbreviate the three pillars governing responsible investment: Environment, Social and (corporate) Governance

[4] The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. (UNPRI, 2014)

Modern finance is based on the assumption that investors are rational; that they prefer more to less; that they juggle risk and return; and that they require higher returns as a compensation for assuming greater risks. (Beal et al., 2005) However, this assumption completely ignores the fact investors might want to obtain also other benefits than the financial gains. Beal et al. (2005) argue against this ignorance using Statman's (2004) analogy between dining at a restaurant and investing responsibly.

Statman (2004) draws an analogy between the experience of dining in a restaurant and investing responsibly. Both experiences offer utilitarian benefits and expressive benefits. While the utilitarian benefits of dining are a low price combined with a high nutrition, these are not the only benefits one choosing to dine in a restaurant, over e.g. eating at home, is looking for. Diners also want the expressive benefits of social status, patriotism and social responsibility. (Statman, 2004) The same way, investors are not looking only for the utilitarian benefits of reduced risks combined with high returns but also for expressive benefits. Statman (2004) criticizes rationalists' reluctance to accept that there might be other purposes investors are following when directing their investments. Therefore, Beal et al. (2005) built upon Statman's (2004) analogy to advocate the idea that social responsibility might be one of these other purposes. In other words, the investors might invest responsibly to gain the status of a social responsible investor. The discussion of why would an investor want to achieve the status of being socially responsible is vast and exceeds the purpose of this paper. However, one reason might be that gaining this status will improve her/his image that will eventually lead to higher future returns or another reason might be that the investor is genuinely interested in doing societal good.

As the discussion above mostly applies to individual investors, it is worth discussing the rationale behind becoming a responsible investor from an institutional perspective. Apart from the fact that organizations are composed by individuals and the rationale of those individual decision makers within institutions might extrapolate to the institution itself, there are three main justifications for SRI advanced so far: complicity-based doctrine, leverage-based responsibility and the universal owner (UO) thesis. (Richardson, 2013) The complicity-based doctrine is focused on the avoidance of problematic companies via exclusion from investment or finance whereas, in contrast, leverage-based responsibility uses divestment to send a message to companies to improve their behaviour if they wish to attract finance, as well as harnessing engagement techniques to influence firms.

(Richardson, 2013). Therefore, both methods employ the same mechanism, it's just that the former refers to the moment *before* buying a stock, whereas the latter refers to the moment *after* the stock is already bought and a divestment decision is considered.

However, it is the thesis of the universal owner that has become the most influential justification for responsible investment today, according to Richardson (2013). The notion of "universal owner" was conceptualised by Hawley and Williams (2002) who argued that a "universal owner owns a small, but representative fraction of most of the companies in an economy; thus its ability to satisfy its fiduciary duties[5] depends heavily on overall macroeconomic efficiency and performance rather than on the performance of any particular firm that it might own." (Hawley & Williams, 2002) Therefore, a universal owner is interested in the long-term macroeconomic performance rather than on a short-term monetary gain a regular investor would obtain by investing in, e.g. a company that employs unsustainable labour practices such as forced or child labour. Investing in such a company might bring short-term economic gain but on the long term it will affect the macroeconomic performance. Thus, a universal owner will either try to avoid those companies employing unsustainable practices when deciding to make a new investment or will seek to divest from those companies when, for some reason, they are already in its portfolio. This very fact of following its macroeconomic interest will transform the universal owner into a responsible investor.

As seen, the universal owner would pursue its interests by avoiding or divesting from problematic companies, which are the core tools of the complicity-based doctrine and leverage-based responsibility. Thus, the three main justifications for SRI are not reciprocally excluding but rather serve as tools for each other towards a common purpose.

As explained before, a responsible investment is an investment that takes into account environmental, social and governance factors. Therefore, in order for an investment to be considered responsible, ESG factors must be integral with the investment decision. Nielsen and Noergaard (2011) noted that when including ESG criteria, negative and positive screenings are ways of selecting stocks, whereas shareholder activism and divestment are ways of improving the

[5] The universal owner (the fiduciary) gets into the position of owning so many stocks due to the fact that its funds are provided by a large number of individuals/companies (principals). As it is highly likely that at least one of the principals wishes not to invest in unsustainable companies, doing so might trigger conflicting interests. Thus, UO's ability to satisfy its fiduciary duty depends heavily on avoiding investing in unsustainable companies.

company's performance or the investors' situation. All four strategies, which are discussed in more detail in Appendix 1 – ESG integration, imply that the investor holds ESG information about the companies based in its (potential) universe. This information is mostly found within companies' CSR reports, thus, the next section will provide an academic overview over the matter.

III.4. CSR Reporting

CSR or sustainability reports are those reports issued by companies on a regular basis (mostly annually) containing information about their CSR activities. Ioannou and Serafeim (2012) term a sustainability report as a "firm-issued general purpose non-financial report that provides information to investors, stakeholders (e.g. employees, customers and NGOs), and the general public about the firm's practices involving environmental, social and governance (ESG) issues, either as a stand-alone report or as part of an integrated report." According to Global Reporting Initiative's website, a sustainability report is a report published by a company about the economic, environmental and social impacts caused by its activities which also presents company's governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. (GRI, 2014) What is at the core of both definitions is the phrase ESG, phrase that is also the core of the definitions of responsible investment described in the previous section.

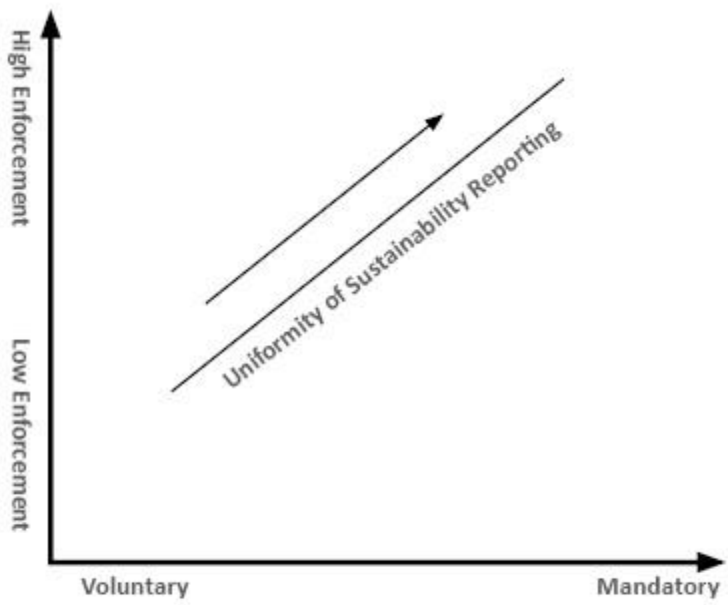
One can see in Ioannou and Serafeim's (2012) definition that reports can either be generated as stand-alone reports or as part of an integrated report. While both exhibit ESG information relevant for stakeholders and responsible investors, an integrated report is considered by the corporate environment as being the best practice[6]. That is because it is easier for investors to read both the ESG and the financial information in one report at a time, thus facilitating the responsible investment process. Additionally, the division between a sustainability report and an integrated report comes in connection with Porter and Kramer's (2011) critique of CSR and suggestion of CSV replacing CSR. They argue that CSR has developed into something external to the firm's primary activities. A stand-alone CSR report would reflect just that. Whereas an integrated financial and sustainability report would be the reflection of the fact that sustainability is embedded in company's core activities, which is the core argument for the concept of CSV, as explained in section III.2.

[6] According to Paul Druckman, CEO of the International Integrated Reporting Council (IIRC) – (Drcaroladams.net, 2014)

It comes natural that CSR reporting refers to the act of issuing a CSR or sustainability report. Golob and Bartlett (2007) define CSR reporting as being the essential tool for communication between stakeholders and the issuing company about latter's CSR activities. Based on the previous discussion, I argue that CSR reporting is not just a tool for communicating between the company and its stakeholders, but also between the company and potential responsible investors. Besides being a valuable communication tool, CSR reporting is also an important driver for innovation as shown previously. Reporting on CSR activities forces companies to manage these activities more efficiently in order to avoid having to disclose poor sustainability performance. (Ioannou & Serafeim, 2012) Thus, the very fact that companies have to disclose CSR information pressures and accelerates the innovation process towards more sustainable practices. Nevertheless, sustainability reporting is also a tool for more effective risk management as a more transparent CSR disclosure creates opportunities to identify reputational and financial risks, as well as to correct possible inefficiencies, all these leading to economic performance improvement. (Brockett & Rezaee, 2012)

As aforementioned, the sustainability reporting has many positive effects. Correlating this with the fact that for the past twenty years, concerns about social responsibility, environmental impact and corporate governance have been on the rise (Ioannou & Serafeim, 2012) it is no wonder that regulatory authorities around the world have started to require companies to report on CSR. The simple answer to why should governments or other regulatory agencies require corporations to care about their social performance is that the society expects and demands it. (Zadek et al., 1997; apud Hess, 1999) Some regulations refer to ESG as a whole, others just to one or combinations of two of these three pillars. Some regulatory bodies have taken a "comply or explain" approach while others require companies to comply strictly with the law. At the same time, there are also cases when the requirements are voluntary. In some countries it is the government that has initiatives regarding CSR reporting, while in other countries it is the main stock exchange the one taking the initiative. However, a brief presentation of the situation of each country is presented in the chapter V. Analysis.

Despite mandatory CSR reporting requirements aim for the positive effects, there are also downsides. As seen from the figure below, there is a direct link between the uniformity of sustainability reporting and the compulsoriness of CSR reporting combined with a high level of enforcement. (Brockett & Rezaee, 2012) Even though uniformity might be beneficial to some extent for the purpose of benchmarking, at the same time uniformity is the reflection of an artificial pooling equilibrium where all firms report (Spence, 1973; Verrecchia, 1983; apud Ioannou & Serafeim, 2012). Before the enactment of mandatory CSR reporting, there is a separating equilibrium among companies distinguishing those that issue a CSR report from those that do not. However, after this enactment occurs, the separating equilibrium is replaced with a pooling one where all companies issue sustainability reports. The drawback of this pooling equilibrium is that it impairs the signaling value of sustainability reporting, thus impeding stakeholders' ability to distinguish between firms. (Ioannou & Serafeim, 2012)



Source: Brocket & Rezaee, *Corporate Sustainability Integrating Performance and Reporting,* 2012, Wiley

III.5. Institutional theory as a base for CSR studies

As the reader is now familiar with the concept of CSR, its integration in investment decisions, and its role in organisational innovation, I will further introduce several studies that aim to discover what influences corporate social responsibility and the way companies organise their CSR activities.

Companies' behaviour is shaped by the ecosystem in which they exist as they attempt to comply with its rules. This process leads to homogenization that is further explained through the process of isomorphism which posits that one unit in a population will resemble other units that face the same set of laws. (Hawley, 1968; apud DiMaggio & Powell, 1983) Institutional isomorphic change occurs through three mechanisms: coercive (that stems from regulations), mimetic (resulting from standard responses to uncertainty) and normative (that has its tenets in professionalization). (DiMaggio & Powell, 1983) Their institutional theory serves as the basis of many studies attempting to discover what shapes CSR and CSR reporting as seen below.

Zucker (1987) argues that organisations are influenced by normative pressures that sometimes arise from external sources such as the state, though relying on the coercive and normative mechanism proposed by DiMaggio & Powell (1983). This marks a shift in thinking about what influences organisational behaviour as the author further acknowledges that "until recently, [1987] most work in economics and political science has treated organisations as black boxes that simply reflect aggregate interlocking individual choices."

Institutional theory serves as the underlying theory for many studies on CSR such as the one of Pedersen et al. (2013) on Danish company responses to institutional pressures for CSR reporting. They explain that institutional theory assumes that human behaviour is highly influenced by the social context as "individuals are not free-floating atoms outside the social context; they shape and, in turn, are shaped by various institutions, i.e. rules, norms, values, routines, habits, and traditions." (Granovetter, 1985; Eisenhardt, 1988; apud Pedersen et al., 2013) Their study, based on an analysis of 142 annual reports and interviews with 16 companies, concluded that, in fact, Danish government's regulations have an impact on CSR reporting practices, thus confirming the coercive mechanism advanced by DiMaggio and Powell (1983).

Nevertheless, the paper concluded that regulations impacted more the CSR reporting rather than the CSR activities per se and showed that the interviewed companies see few commercial benefits from CSR reporting. (Pedersen et al., 2013) This comes in contradiction with Campbell's (2007) findings according to which corporations are more likely to behave socially responsible "the more they encounter strong state regulation, […] and a normative institutional environment that encourages socially responsible behaviour". (Campbell, 2007) Thus, Campbell (2007) argues in its study that strong laws determine companies to act more socially responsible, and not just to improve their reporting on the matter.

Campbell's (2007) argument is confirmed by Garz & Volk (2007, apud Ioannou & Serafeim, 2012) as their study revealed that the process of drafting CSR reports is one of the most important catalysts for organisational innovation because the process contributes to the accumulation of knowledge, questioning of processes, and the establishment of suitable structures and practices. (Garz & Volk, 2007; apud Ioannou & Serafeim, 2012) Therefore, strong regulations forcing companies to publish a CSR report determine them to reflect more on sustainability issues and to search for ways to improve their performance in this regard and not only to improve their reporting capabilities as argued by Pedersen et al. (2013)

However, this lack of agreement on whether CSR reporting influences the sustainability performance of companies, or their reporting capabilities leaves room for further research. Thus, the paper tries to fill this gap by aiming to determine whether CSR reporting requirements influence companies' ESG score which reflects both their sustainability efforts and their reporting practices.

Pedersen et al. (2013) also found in their study elements of mimetic isomorphism in addition to coercive governmental pressures. Their hypothesis, developed on the grounds of institutional theory, according to which mimetic pressures will force inexperienced, first-time reporters to search for successful, long-time reporters that they can imitate when first drafting their reports was confirmed both by interviews and quantitative data analysis. This finding comes as a response to the hypotheses proposed by DiMaggio and Powell (1983) according to which the more uncertain the relationship between means and end and the more ambiguous the goals of an organisation are, the greater the extent to which the organisation will model itself after organisations that it perceives to be successful.

Tschopp et al. (2011) also built their study on institutional theory as they aimed to investigate how the CSR reporting evolved over time and to identify the roles various organizations played in this process. (Tschopp et al., 2011) Among the institutions selected by the authors, one can find governments, CSR reporting organisations, and accounting standards boards. Their conclusions summarise that CSR reporting organisations, through the promotion of their own standards (normative isomorphism), and governments, through mandatory legislation (coercive isomorphism), have the most influential role in promoting and diffusing CSR reporting. (Tschopp et al., 2011) Thus, their findings align with those of Pedersen et al. (2013) according to which Danish government's laws influenced the CSR reporting practices of Danish companies. Even though the study of Tschopp et al. (2011) complements the one of Pedersen et al. (2013) by taking into account, additionally to the government's influence, the influence of CSR reporting organisations and accounting standards boards, it still fails to address the impact of stock markets' own rules. Therefore, this paper explores the opportunity left by this gap by analysing also the influence of stock markets on the company's sustainability performance, this way complementing the study of Ioannou and Serafeim (2012) which has a similar approach.

Additionally, the authors argue that despite CSR reporting has evolved significantly in the past forty years, it is still in its early stages, especially in developing countries where there is no culture of compliance, (Tschopp et al., 2011) thus governments lack the resources to enforce reporting regulations. This claim will be further investigated in this paper, as the data on which it draws upon covers, inter alia, companies based in two developing countries, Brazil and South Africa.

There is also an older, yet still relevant, study developed by Jennings and Zandbergen (1995) that uses institutional theory to explain how external pressures shape social and environmental responsibilities. The study concludes that there are at least three factors shaping the sustainable practices of that time: the nation state (coercive); the social movements; and the innovations among industries (normative isomorphism in the case of the latter two factors). (Jennings & Zandbergen, 1995) The authors argue that out of the three, the state has the greatest impact through its framework for governance and the type of enforcement or sanctions it uses – litigious type of enforcement versus consensual or conciliatory types specific for the other two factors. Yet, this is another study that confirms the findings previously described, of Pedersen et al. (2013) and Tschopp et al. (2011) The fact that the study dates back in 1995 is a proof that institutional theory has proved its utility in testing whether governments shape companies' sustainability practices for the past two decades.

All the studies drawing on institutional theory agree on the fact that there are coercive, mimetic and normative forces that shape the CSR reporting and CSR activities at large. However, these forces form the mechanism of institutional isomorphism whose effect is homogenisation. According to DiMaggio and Powell (1983) the "best indicator of isomorphic change is a decrease in variation and diversity, which could be measured by lower standard deviations". As such, the study of this thesis will include, inter alia, an analysis of the standard deviations of ESG scores in order to test whether isomorphic change and homogenisation occur. This would complement previous studies, offering an even more comprehensive picture of the phenomenon.

However, there are also studies on CSR that do not have as tenets the institutional theory, such as the study of Ioannou and Serafeim (2012). This study is one of the few studies that aim to provide evidence of the influence mandatory CSR reporting requirements have on corporate sustainability practices. The general findings reveal that sustainable development becomes a higher priority for companies and that the social responsibility of business leaders increases after the adoption of mandatory CSR laws and regulations. These findings are in contradiction with those of Pedersen et al. (2013) who argued that, in the case of Denmark, the introduction of mandatory CSR reporting influenced the sustainability reporting rather than the sustainability practices per se. However, Ioannou and Serafeim's (2012) findings are in accordance with the findings of Campbell (2007) who showed that companies facing tougher regulations tend to pay more attention to sustainability practices.

The study seems to some extent similar to other studies exhibited previously but its novelty lays in the fact that it takes into account both firm and country-level data for 58 countries. Ioannou and Serafeim (2012) developed a number of hypotheses that were tested using the data aforementioned. Among the hypotheses, one implies that corporations implement more socially responsible practices after the enactment of mandatory CSR requirements and another implies that this is more likely to happen in countries with stronger law enforcement. Their results were consistent with their expectations. Therefore, prioritization of sustainable development and implementation of ethical practices, inter alia, increase more in countries with stronger law enforcement. In other words, in countries with weak law enforcement, these effects are less intensive. This comes as no surprise as it validates the claim of Tschopp et al. (2011) according to which in developing countries, with no culture of compliance, governments lack the resources to enforce reporting regulations.

The main conclusion of Ioannou and Serafeim's (2012) study is that disclosure of ESG information forces companies to intensity their sustainability efforts in order to avoid having to disclose bad performance to their multiple stakeholders as this could lead to unfavourable comparisons with industry benchmarks that may affect company's reputation. (Ioannou & Serafeim, 2012) The authors further suggest that this conclusion has an implication for regulators as they could leverage their regulatory capabilities to force companies to improve their ESG performance. Their opinion is in accordance with that of Brockett and Rezaee (2012) which based on a report conducted by *AccountAbility* (2011) concluded that mandatory sustainability reporting can lead to positive systemic effects, such as an ability to contrast entities at the industry/market/country/global levels, compared to the situation when companies are left the option of disclosing sustainability performance on a voluntary basis which only leads to firm-specific effects.

III.6. Reflexive law

As seen before, reporting on CSR activities forces companies to manage these activities more efficiently in order to avoid having to disclose bad sustainability performance. (Ioannou & Serafeim, 2012) Moreover, should corporations be required to report on their actions affecting stakeholders, then they would feel pressured to justify those actions; and justifying one's actions is the first step towards improving one's behaviour, most ethicists would argue. (Hess, 1999) As such, one can notice the relevance of the issuance of CSR reporting requirements by governments or other regulatory bodies.

When regulatory bodies around the world require companies to report on CSR, they tend to have different legal approaches. Even though it exceeds the scope of this paper to get into details regarding the nature of all the legal approaches, it is useful to introduce briefly to the reader the concept of reflexive law as the subsequent study will relate to it. A reflexive law approach is taken in particular regards under the circumstances of a substantive law failure or inappropriateness. A substantive law replaces autonomy with direct control of social behaviour by predefining substantive outcomes. Its justification lies in the perceived need for collective regulation of economic and social activities to compensate for inadequacies of the market. (Teubner, 1983) The role of reflexive law is not to supplant substantive law but to complement it. (Buhmann, 2013) As such, reflexive law shares with the substantive law the idea of economic and social regulation but, in contrast, it "retreats from taking full responsibility for substantive outcomes". Reflexive law searches for "regulated autonomy"; "it seeks to design self-regulating social systems through norms of organization and procedure." (Teubner, 1983) Therefore, a reflexive law approach on mandatory

CSR reporting would not mandate that certain predefined outcomes be reached, but would rather determine companies to reflect on their approach to CSR and to engage with the most relevant stakeholders as to report on what is material for them. (Hess, 1999)

The underlying idea of reflexive law, to regulate self-regulation, complements the belief of Jeffrey and Perkins (2012) according to which CSR reporting should be mandatory, but that information contained in CSR reports should be the result of a dialogue between companies and an extensive range of their stakeholders. Moreover, a reflexive law approach enacts the space required by the reciprocal relationship between society and organisations, termed by Dillard (2008) as *ethic of accountability*. As shown before, as part of this reciprocal relationship, the society accepts its responsibility for holding the management accountable for its actions. A reflexive law determining companies to engage in dialogue with stakeholders will enable the creation of a framework needed by the society to fulfil this duty.

The reflexive law theory is typically applied by those regulatory bodies having a comply-or-explain approach. Such is the case of the Danish model, which Buhmann (2013) argues that it may be considered a prototype of how public policy objectives, societal expectations and business action may be combined through reflexive law. The objective of the Danish authorities was to induce self-regulation within companies to promote CSR. The regulation required companies to report on their CSR policies or to explain why they didn't, this way forcing companies to reflect on whether or not CSR policies are relevant to their stakeholders and to report only on those issues considered material. By requiring only reporting on CSR policies, results and expected outcomes instead of particular types of action, the Government enhances transparency but leaves it to those reading the CSR reports, such as institutional investors, to monitor and shape the degree to which a company acts sustainable. (Buhmann, 2013)

III.7. Knowledge gap

Most of the studies exhibited above try to analyse the factors that drive CSR by looking at the institutional conditions at large (Jennings & Zandbergen, 1995; Campbell, 2007; Tschopp et al., 2011) and very few analyse the impact reporting rules determined by those institutional conditions have on the sustainability performance (Ioannou & Serafeim, 2012; Pedersen et al., 2013).

Moreover, out of these two, one has a global perspective (the one of Ioannou & Serafeim, 2012) while the other is focused on Danish companies. Therefore, there is a lack of research regarding the influence CSR reporting regulations exert over companies' sustainability performance.

Moreover, there is a lack of agreement between Ioannou & Serafeim (2012) and Pedersen et al. (2013) on whether CSR reporting influences the sustainability performance of companies or mostly their reporting quality, leaving room for further research. Thus, the paper tries to fill this gap by aiming to determine whether CSR reporting requirements influence companies' ESG score which reflects both their sustainability efforts and their reporting practices.

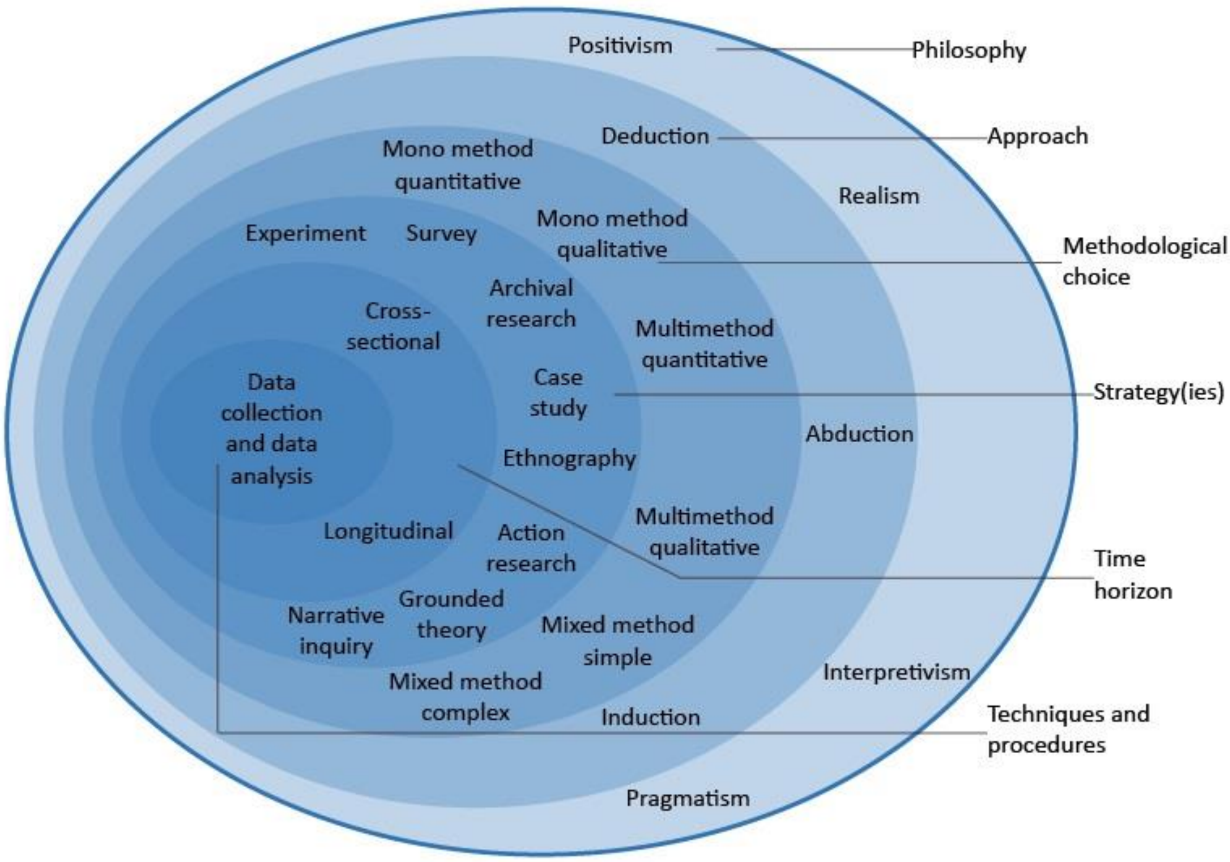
Although there are studies analysing the impact of institutions on companies' sustainability performance, (Jennings & Zandbergen, 1995; Tschopp et al., 2011; Pedersen et al., 2013) they regard the term *institutions* at large rather than analysing the detailed impact of governments or stock exchanges, leaving, yet, another gap in this regard.

Also, although most of the research relies on institutional theory which assumes mimetic pressures shaping companies' performance with clear evidence in this regard found by Pedersen et al., (2013) none of the studies analysed the actual evolution of sustainability performance's homogenization. Moreover, most of the studies regard CSR as something integral in the sense of the three ESG pillars, none of them analysing the pillars separately, leaving even more space for further research.

Therefore, the paper will try to fill the gaps left by past research by analysing the strict influence of reporting requirements onto companies' sustainability performance. The study, which will have a global perspective, will investigate how governments and stock exchanges pressure companies to become more sustainable, and the investigation will be complemented by an analysis of the ESG scores' standard deviation. Moreover, the current thesis will bring a fresh perspective by analysing not only the three ESG pillars taken together but also taken separately, in an attempt to determine whether regulations affect one pillar more than another.

IV. Methodology

The following chapter will draw on the research *onion* proposed by Saunders et al. (2012) as shown in the figure below. The *onion* enables the methodological chapter to introduce the reader in a clear, coherent and structured manner to the research philosophy and approach, the methodological choice and the research strategy of the thesis. The chapter ends by analysing the data, its time horizon and the collection process, and by discussing its reliability, validity and potential measurement bias. This final section also serves as a preamble for the actual analysis and links the first half of the paper composed of background, literature review and methodology with the second one containing the analysis and discussion of the actual research endeavour, and ending with conclusions and suggestions for further research.



Source: Saunders et al., *Research Methods for Business Students 6th edition*, 2012, Pearson Education Limited

IV.1. Research philosophy

According to Saunders et al. (2012), there are four different research philosophies that dominate the literature: positivism, interpretivism, realism and pragmatism. Having a positivism philosophical approach (or more correctly a logical positivism) implies that the researcher works with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by physical and natural scientists. (Remenyi et al., 1998) Whereas an interpretivism researcher would argue that the social world of business is far too complex to lend itself to theorising by definite laws, in the same way, as the physical or natural sciences. Its main critique over positivism is that this does not try to understand the reality working behind the details of the situation considered. Thus, interpretivism argues that it is its role to seek to understand the subject reality of those being studied in order to be able to make sense of and understand their motives, intentions and actions in a way that is meaningful for these research participants. (Saunders et al., 2012)

Realism is based on the belief that there are large-scale social forces and processes that affect people without them actually being aware of the existence of such influences on their interpretations and behaviours. (Saunders et al., 2012) I believe it exceeds the scope of this paper to analyse what are the large-scale social forces or processes that shape the companies' behaviour when it comes to their corporate social responsibility, if such forces or processes exist at all.

Pragmatism (also referred to as American pragmatism) asserts that concepts are only relevant in as much as they support action. (Kelemen and Rumens, 2008) Moreover, Saunders et al. (2012) argue that if the research purpose does not clearly indicate what research philosophy shall be adopted, it only confirms the pragmatist's view that it is entirely possible to work with different philosophical positions. Thus, I would adopt the pragmatist position and argue that both positivism and interpretivism serve as good research philosophies that could guide the research process of an endeavour that seeks to investigate how CSR is shaped. However, as one can see in the Literature Review chapter, most of the studies conducted so far aimed to understand and explain what forces influence the companies' CSR activities. In my opinion, the studies answer to a large extent the question of what influences CSR development by looking at the issue at stake through the lenses of interpretivism philosophy. However, I do believe that these studies could be complemented by a study looking at the issue with positivism lenses, as this would offer a more comprehensive answer to how do mandatory legal requirements shape companies' CSR activities.

Nevertheless, Kelemen and Rumens (2008) argue that while a pragmatist may ground his/her argument in rich ethnographic data, the positivist may make use of statistical data in order to express a particular point of view, type of data that represents the core of the current thesis. For the aforementioned reasons, the research philosophy that will guide the research purpose of this paper is **positivism**. In this tradition, the researcher assumes the role of an objective analyst, making detached interpretations about data collected in a purely objective manner. (Saunders et al., 2012) In positivism, the emphasis is on quantifiable observations that lend themselves to statistical analysis, (Remenyi et al., 1998) this being the case of the present thesis.

IV.2. Research approach

There are three main types of research approach: deductive, inductive and abductive. (Saunders et al., 2012) While the deductive approach stems from theories to form hypotheses tested afterwards through observations, the inductive approach starts with observations that then lead to identifying patterns and drafting preliminary hypotheses and ends up by formulating theories. At the same, the abductive approach combines the two previous approaches as the researcher moves between induction and deduction in a back and forth process. (Suddaby, 2006)

The research purpose of this thesis is **inductive** as it aims to analyse the quantitative data provided by Sustainalytics without a predefined set of hypotheses. As seen from the literature review, the number of studies analysing the relationship between CSR reporting requirements and companies' sustainability performance is insufficient in order to develop a predefined set of hypotheses to be tested in the research process. Nevertheless, the author's intuition hints that such a connection exists, indeed. However, this does not constitute reasonable grounds to develop a set of hypotheses either. As such, the research journey will proceed without predefined hypotheses as a deductive approach would require.

The researcher using an inductive approach is likely to be concerned with the context in which the analysed events take place. (Saunders et al., 2012) Thus, the aim of this paper is to analyse companies' sustainability performance in the context of the legal framework governing their behaviour, then to identify behavioural patterns and finally to synthesize the results into what could modestly be called a new *theory*. As such, in the case of this thesis, theory would follow data rather than vice versa, thus, its research approach is inductive.

IV.3. Methodological choice

Further, the research *onion* proposed by Saunders et al. (2012) "peels" down to the methodological choice. This choice is, usually, influenced by the choices previously done in regards to the research philosophy and approach, and the subsequent decision made regarding the type of data used. As the thesis draws only on one research philosophy, positivism, its approach is inductive and the data supporting the thesis is mostly quantitative, I argue that the suitable method for this paper is **mono quantitative** as exhibited by the third layer of the *onion* proposed by Saunders' et al (2012). Nevertheless, as mentioned before, this paper will draw on mainly statistical, secondary data. The company-level data was collected through mostly qualitative research, as developed in the subsequent section. As such, analysing the entire process stemming from initial research towards the final results of this paper, would qualify the research design as sequential exploratory where quantitative follows qualitative. (Saunders et al., 2012)

IV.4. Research strategies

Although the survey strategy is usually associated with the deductive approach (Saunders et al., 2012), the inductive approach of this thesis will rely on the **survey strategy** which would be complemented by a **case study**. The strategy will also borrow elements from what Saunders et al. (2012) qualify as archival research strategy due to the fact that the exploratory research question focuses upon the past and the changes over time of companies' sustainability performance.

As stated before, the aim of this thesis is to investigate how the legal requirements on CSR reporting influence companies' sustainability performance. As such, the initial research has a dichotomous structure as it firstly collects information about the countries analysed and then it gathers ESG data about the companies at stake. Therefore, this section will be further divided into two subsections, as a reflection of the dichotomous structure of the initial research.

IV.4.1. Country data

Considering the aim of the thesis mentioned in the previous paragraph, it is relevant to briefly present the reader the CSR requirements in each of the studied countries. To enable that, the author drafted a four-question survey that will allow the collection of data relevant for the current thesis. This strategy will also facilitate structuring the information in a summarising table easy to understand by the reader. As this section should only introduce the reader to the research strategy, more details about this process of collecting data about the legal framework in the analysed countries will be provided in the section IV.6. Data collection and analysis.

IV.4.2. Company data

To be able to answer the research question, data regarding companies' sustainability performance needs to be collected and analysed. However, before getting into details regarding the collected data, a clear distinction shall be made between the way the author of this paper collected the data and the way the data itself was previously collected. Therefore, this subsection will also consist of two parts: firstly, Sustainalytics' research strategy that gathered the information in the first place shall be introduced, and secondly, the author's research strategy will be described.

IV.4.2.a. Sustainalytics' research strategy

The data analysed in this paper was previously collected by the analysts team at Sustainalytics (team to which the author of this paper belonged for the first half of 2014) through a profile drafting process (Sustainalytics, 2014a) that resembles with the survey research strategy. As getting into details regarding the drafting process would infringe Sustainalytics' property rights, I would just briefly introduce to the reader the basics of this process, in order to enable an understanding of the grounds on which this thesis relays on. A company profile is a sum of around 60 indicators, each of them being assigned a score from 0 to 100, belonging to the three pillars mentioned in the previous chapters: Environment, Social and corporate Governance. Each indicator is basically a question to which the analyst should find an answer within company's own reporting[7] or from external sources[8]. Although different industries may have specific indicators, the majority of indicators are the same

[7] Such as annual reports, sustainability reports, stock exchange fillings, company's website, etc.

[8] To name a few, the US Environmental Protection Agency's website for environment-related data on US companies such as environmental fines; or European Commissions' website for governance-related data on EU companies such as lobbying expenses

for all companies, thus the data is standardised and allows for easy comparison, as in the case for the research strategy of surveying. Also, even though the indicators, i.e. the questions in the "questionnaire", are filled up by analysts, the researched companies have the chance to contribute with their insights to the profile creation process. The last part of the drafting process includes sending the profile to the researched company for its feedback. This could be seen as the actual sending out of questionnaires to be filled up by respondent companies, part of the survey research strategy.

Some possible limitations of the survey strategy are that designing and plotting the questions are time-consuming, the questions might be designed in a useless manner and that the respondents might not respond at all to the questionnaire, leaving few data to analyse. (Saunders et al., 2012) However, I argue that the data used in this paper overcomes these limitations. Firstly, the designing and plotting of the questions are the result of a long-time brainstorming process conducted by important scholars and practitioners in the field, working for Sustainalytics. Thus, the time-consuming aspect is not borne by the author of this paper, leaving more time for the actual development of the thesis. Secondly, the fact that Sustainalytics has several awards, (Sustainalytics, 2014b) including best RI analysis firm by Thomson Reuters in 2012 and 2013 comes to validate the utility of its research process. As such, the uselessness of the questionnaire is minimised due to the long term recognition of Sustainalytics' performance. Lastly, the drawback of having too few questionnaires respondents, leaving an insignificant amount of data to analyse, is overcome by the fact that data is collected by analysts using company's disclosure regardless of companies' feedback response.

IV.4.2.b. The author's research strategy

Subsequent to this data gathering process is the actual process of analysing and interpreting the available data. The research strategy that will guide this process is the case study, as reflected in the *onion* of Saunders et al. (2012) A case study investigates a contemporary phenomenon in its real-world context using multiple sources. (Yin, 2014) The research of this paper will investigate the data reflecting a contemporary phenomenon – CSR reporting – collected using multiple sources as explained above within its legal framework context. According to Saunders et al. (2012) the survey strategy is most frequently used to answer questions such as "what", "who", "where", and "how much", leaving questions like "why" unanswered. Therefore, as questions like "what" and "how" are already answered by the profiles or "surveys" prepared by Sustainalytics' analysts, there is a space left blank by not answering the "why" question. Filling up this space using a case study approach represents the aim of this thesis. To overcome its potential bias and to fortify the results that will emerge after the study is completed, the case study will also be triangulated by the available literature on the matter and other similar studies.

IV.5. Time Horizon

Continuing the "peeling" process of the *onion* presented by Saunders et al. (2012) a choice has to be made between cross-sectional and longitudinal studies. Cross-sectional studies are, usually, embraced due to the time-constraints researchers are facing during the research process and are only looking at a particular phenomenon at a particular time. (Saunders et al., 2012) In contrast, longitudinal studies regard a phenomenon for a longer period and allow studying its change and development. (Saunders et al., 2012) I believe it is suitable for the research process of this paper to analyse data that spans over a longer period of time as this will allow drawing some conclusions related to whether the introduction of mandatory CSR requirements influenced the companies' sustainability performance. The author of this paper was fortunate enough to have access to such data courtesy of Sustainalytics, thus, the time-constraints were overcome. The data covers the time frame 16th of August 2009 – 1st of June 2014, allowing for an analysis of the six fiscal years between 2008 and 2013. As such, the data underpinning this thesis allows developing a **longitudinal** study.

IV.6. Data collection and analysis

The data collection methods represent the core of the research *onion* of Saunders et al. (2012) and it is of paramount importance to the entire purpose of this paper. As such, this section of the chapter will be the most detailed and will include not only the description of the data collection methods but also the description of how the data is actually going to be processed and important aspects such as its reliability, validity and potential measurement bias. The following section will follow a similar structure to that of the section IV.4 Research strategies, in the sense that it will be divided into two subsections: country data and company data. Nevertheless, as the process of collecting country data is rather straightforward and due to the fact that it relies on publicly available information which can be easily scrutinized by the reader, the first subsection will describe the collection process with its survey questions and only briefly discuss its reliability, validity and potential measurement bias. The last subsection, which refers to company data, will include a broader discussion of the aforementioned items.

IV.6.1. Country data

As stated in section IV.4. Research strategies, the country data will be collected through a four-question survey that was designed to serve the purpose of this thesis. The legislation will be reviewed through the lenses of the following questions of which relevance is also explained below:

1) Who is the regulatory body? Typically this question will have two answers: government[9] or stock exchange. It is relevant to know this detail as it will enable the analysis to investigate whether one regulatory body issues more effective regulations than the other.
2) What are the pillars targeted by the regulations? Out of the three pillars – E, S and G – it can be the case that only one or two are regulated as it can also be the case that all three are taken into account. The answer to this question is relevant as to determine whether the companies pay more attention to one pillar or another in the light of the reporting rules.
3) What type of enforcement was adopted by the regulatory body? It can be the case that the regulatory body requires mandatory reporting or that it has only issued guidelines that should be followed on a voluntary basis. It can also be the case that the requirements follow a "comply or explain" approach which translates to the obligation of the companies targeted to either comply with the regulations or to offer an explanation otherwise. This is relevant as to assess which approach is more efficient.
4) In which fiscal year did the regulations start to be effective? It is relevant to know this information as to analyse the sustainability performance of companies subsequent to the introduction's year.

The author of this paper has neither the sufficient time resources nor the necessary linguistic capabilities to study the entire legislation in its original and prevailing language. Therefore, these

[9] Although the separation of power principle implies that the government is the executive body whereas the parliament is the legislative one, in the sense of this paper the notion *government* will cover all those state-related powers and institutions through which the state regulates the CSR reporting requirements

questions shall be answered based on the most recent data found on Global Reporting Initiative's website (GRI, 2014) and on the working paper drafted by the Initiative for Responsible Investment at Harvard University, called *Current Corporate Social Responsibility Disclosure Efforts by National Governments and Stock Exchanges* (IRI, 2014). In the case of discrepancies, further sources will be consulted but otherwise, the information compiled from these two sources will be taken for granted.

I chose to gather information about the legal framework from the aforementioned sources as to strengthen its reliability and validity. The Global Reporting Initiative (GRI) is widely recognised as the leading organisation when it comes to setting the trend regarding sustainability reporting standards. Several governments (such as the Danish and German ones) and stock exchanges refer in their reporting requirements to the GRI's guidelines. Therefore, it can be assumed that the information published on GRI's website is both valid and reliable. At the same time, Harvard University is widely recognised for its long-stand academic performance, thus working papers developed under its auspices are known for their reliability and validity.

Nevertheless, potential measurement bias could occur as when it comes to laws several jurists would emit several different, even contradicting, opinions about what a particular law is about. As such, the reader should be aware that the information comprised in this paper reflects the authors' understanding of the legal framework.

IV.6.2. Company data

As mentioned before throughout the chapter, this thesis relies on company-level secondary data, i.e. it was not the author of the paper who collected the data in the first place. As such, the discussion about its collection and analysis will be divided into two parts, the first discussing Sustainalytics' processes and the second the author's contribution.

IV.6.2.a. Sustainalytics' process

The current thesis requires a considerable amount of company ESG data collected throughout several years in order to offer generalizability to the findings. As it exceeds the capabilities of the author to collect this amount of data primarily due to time constraints, the research question of this paper is better-answered by analysing secondary data. In fact, according to Saunders et al., one of the advantages of using secondary data is that it facilitates longitudinal studies useful for research questions that require international comparisons. Another advantage would be that secondary data can result in unforeseen discoveries. (Saunders et al., 2012) As the ESG data collected by Sustainalytics was not aimed to link mandatory CSR reporting requirements with sustainability performance, analysing it through these lenses might result in unexpected results. As a matter of fact, this advantage comes to complement the justification for choosing an inductive approach. As there is no hypothesis to test, the results of this study are currently unknown for the author and could or could not lead to the creation of new knowledge. Nevertheless, the very fact of embarking on an unknown scientific destination makes the process more thrilling both for the author and the reader.

There are also disadvantages when using secondary data, one of them being that the data may be collected for a purpose that does not match the needs of the researcher. (Saunders et al., 2012) As stated before, the data collected by Sustainalytics was in fact not intended to serve the needs of this paper but rather to offer a clear image of the sustainability performance of the companies at stake, serving to Sustainalytics' clients. However, I consider this so-called disadvantage an actual advantage for my thesis as the data was objectively collected regardless of the law a specific company might be subjected to at the time of the research. Collecting data over a particular company by keeping an eye on the laws governing its behaviour might lead to potential biases as the researcher could possibly unwittingly pay more attention to the issues regulated by law. As such, I believe that the very fact that the data was not collected for this purpose makes it more reliable.

Another disadvantage exhibited by Saunders et al. (2012) is that secondary data may be difficult and costly to access. Although the data provided was cost-free for the author of this paper as a courtesy of Sustainalytics, the data is not publicly available for free. Thus, the data is costly and less open to public scrutiny.

As mentioned before, I would not get into details on the process of collecting data developed by Sustainalytics because further disclosure would infringe its property rights. The author of this paper had access to this information as a former employee of the company but is forbidden to disclose it due to confidentiality agreements. Nevertheless, briefly, the process implies collecting data from publicly available information disclosed by companies at stake and is complemented by their feedback. The result of this process is a company profile which contains scores on individual indicators, aggregate scores for each of the three ESG pillars, as well as an overall score. Although an explanatory qualitative commentary accompanies each quantitative score, for the purpose of this paper only the scores will be used.

Saunders et al. (2012) divided data into two different groups: categorical and numerical, each of them being further divided into subgroups. The categorical group is divided into descriptive, nominal and ranked data. Whereas the numerical group is divided firstly into interval and ratio and secondly into alternatively, continuous and discrete data. The data used in this paper can be measured numerically; thus, it can be defined as being **numerical**. Moreover, the scores contained in the data are the reflection of aggregate scores that are calculated using a weight matrix and raw scores taking a finite number of values between 0 and 100 and the relative difference between two company scores can be stated. As such, the data is considered **ratio, discrete**. According to Saunders et al., (2012) the numerical discrete data is the most precise out of all types.

As mentioned before, the data covers the time frame 16th of August 2009 – 1st of June 2014. Taking into account that most companies have a regular fiscal year (1st of January to 31st of December) and that the company updates take into account the most recent available data, it can be assumed that the data presented in this paper mostly covers the fiscal years 2008 - 2013.

Further, the reliability and validity of data will be discussed. Saunders et al. (2012) argue that there are four threats to reliability: subject or participant error, subject or participant bias, observer error and observer bias. In this case, the role of the subject or participant is taken by the analysed company, and the analyst takes the role of observer. The first two threats, I would argue, have little chances of occurring as the Sustainalytics' research process involve collecting data from different sources that can further be complemented by company's feedback. These various sources often include reports that are internally or externally assured. Although it cannot be asserted that these reports are 100% error-free, the assurance process often reduces the likelihood of finding errors in reports. Moreover, the fact that reports are drafted by several individuals in the reporting team reduces the potential bias a report might have. When it comes to the latter two threats, observer error and bias, I argue that these also have small chances of occurring. That is because the observer, in this case the analyst, uses a long-time tested methodology which is continuously improved, thus leaving no or little room for error or bias. Additionally, there is a rule which ensures that each analyst's work is peer reviewed by a colleague, thus diminishing even more the possibility of finding any errors or biases in their work.

The validity, but also the reliability of the data are confirmed by the authority and the reputation of the source. (Dochartaigh, 2007) As mentioned before, Sustainalytics was several times honoured as being the Best Responsible Investment Analysis Firm; thus, its authority in the domain was externally certified. Moreover, the fact that Sustainalytics is an ESG data provider for more than 20 years corroborated with the fact the continuous existence of such organisations is dependent on the credibility of their data (Saunders et al., 2012) fortifies the credibility and validity of its analysis.

Further, the data's measurement bias will be discussed. According to Kervin (1999; apud Saunders, 2012) measurement bias can occur for two reasons: deliberate or intentional distortion of data; and changes in the way data is collected. I would argue that it is possible that the data used in this paper is distorted due to inaccurate information published in the sources used by Sustainalytics' analysts. For example, it can be the case that one company might overrate its community consultation activities in its CSR reports. In this case, the analyst would take company's reporting for granted and rate its performance accordingly. It exceeds the responsibilities of the analyst to check a particular company's actual performance. Nevertheless, CSR reports are, usually, externally verified, thus lowering the chances of inaccurate information being published. Moreover, should that specific company's poor performance on one particular matter come to the attention of the analyst, he/she would then reassess its rating on that issue. As such, possible distortion of the data is minor.

Another reason for measurement bias occurrence is a change in the way data is collected. A significant change in methodology occurred in 2009, which is why the data of this paper only covers the period 16th of August 2009 onwards. However, since then, it has remained mostly the same with very few modifications. Therefore, although measurement bias cannot be wholly eliminated, it can be argued that the bias level is low.

IV.6.2.b. The author's process

Once the data is obtained from Sustainalytics, it will be further processed as to serve the research interests of this paper. Although the entire data set comprised information of more than 5000 companies, only those companies with data for all the aforementioned fiscal years (2008-2013) will be chosen to preserve consistency. However, an exception to the time frame rule will be made regarding companies based in developing countries. Those companies based in Brazil and South Africa contain data only for years 2011-2014 (reflecting the performance in fiscal years 2010-2013) due to the fact that companies based in developing countries started to be researched by Sustainalytics only in 2011. The author considers relevant to include in the research alongside companies based in developed countries also companies based in developing ones to provide the paper a more global perspective. As such, the number of companies covered in the study will be 1691 for years 2009-2010 and 1793[10] for 2011-2014. Except for the two aforementioned countries, eight more will be selected to offer a global dimension to the study: Denmark, France, Germany, Netherlands, Norway, Switzerland from Europe and USA and Japan from North America and Asia, respectively, leading the total number of companies based in these countries to 1247 (the difference up to 1793 consists of companies based in other countries than the ten aforementioned; the aggregate scores for the 1793 companies will serve for the comparison purpose of the research).

The data will be further processed using MS Excel and functions such as average, median or standard deviation will be applied to the scores. Firstly, only the data for companies based in the above ten countries will be selected. Secondly, as one company might have multiple updates during a year resulting in different scores, four (corresponding to the three ESG pillars and an Overall score) average yearly scores for each of the selected companies will be calculated. Afterwards, these scores will be separately put into ten different spreadsheets corresponding to the ten countries analysed, each of them following the same pattern. The pattern will include calculating the median value of these averages and their standard deviation for each year. The median function is preferred to the average as it eliminates outliers and, as such, it increases the validity and reliability of the results. A percentage median difference from one year to another will be further calculated in order to determine the yearly modification of the scores. Another percentage median difference will be calculated between the first year's score and the last one's as to determine the overall modification. The standard deviation will serve the analysis of whether homogenisation occurs as a result of introducing reporting regulations. The results of this process will be further presented in the next chapter.

[10] An additional 62 companies based in Brazil (2 Brazilian companies also have data for the years 2009 and 2010, thus the total number of Brazilian companies analysed is 64) and 40 companies based in South Africa

V. Analysis

In order to answer the research question, the ESG data needed to be analysed in the light of the CSR reporting requirements applicable in each country. As such, the research process involved reviewing the legal framework of the countries analysed. Therefore, the first section of this chapter will contain an overview of the legislation and will explain the reader how it was gathered. Also, the first section will offer the reader an understanding of how the ESG data was processed and the general results of this process. Subsequently, each country has its section where the ESG data is analysed in the light of the applicable legal framework and in connection with the literature review.

V.1. Overview

As stated before throughout the paper, the aim of this thesis is to establish a connection between legislation (and the absence of it in some instances) on CSR reporting and the way companies organise their CSR activities, as reflected by the ESG data provided by Sustainalytics. Thus, it is relevant for the purpose of this paper to briefly present the CSR requirements in each of the ten studied countries[11]. The ten countries chosen are both from the groups of developed and developing countries. They cover five different continents, namely Africa (1 country), Asia (1), Europe (6), North America (1) and South America (1) as to offer the paper a global perspective. Six countries were selected only from Europe as Europe has been and continues to be the frontrunner when it comes to CSR reporting. The other four countries were selected as being the most representative for their respective continent.

As explained in the methodology chapter, the legal framework was analysed through the lenses of the four question-survey strategy presented in section IV.6.1, using the most recent data found on Global Reporting Initiative's website (GRI, 2014) and on the working paper drafted by the Initiative for Responsible Investment at Harvard University, called *Current Corporate Social Responsibility Disclosure Efforts by National Governments and Stock Exchanges* (IRI, 2014). Due to space constraints, this section comprises only the summarising table of the legislation review. However, the reader is invited to consult Appendix 2 – Legislation review to find out more about the legal framework in the ten studied countries.

[11] Brazil, Denmark, France, Germany, Japan, Netherlands, Norway, South Africa, Switzerland, United States of America

Legislation review table

Country	Regulatory body	ESG pillars	Enforcement type	Effective from FY
Brazil	Stock Exchange	ESG	Comply or explain	2012
Denmark	Government	ESG	Comply or explain	2009
France	Government	ES	Comply or explain	2012
Germany	Government	ESG	Mandatory	2013
Japan	Government	E	Voluntary	2007
Netherlands	Government	ESG	Mandatory	2004
Norway	Government	ESG	Mandatory	1998
South Africa	Stock Exchange	ESG	Comply or explain	2010
Switzerland	*None*			
United States	Stock Exchange	G	Mandatory	2003

Since the reader is now introduced to the legal framework in the ten studied countries, the section will proceed with presenting the general results of the ESG data analysis process. However, prior to presenting the results, the tables containing the ESG data will be briefly explained. As stated in the methodology chapter, the data provided by Sustainalytics, was further processed using functions such as average, median or standard deviation. Therefore, all the following tables have a similar structure to allow for an easy comparison. They are all split into four quarters, corresponding to the three ESG pillars' scores and the Overall score. The top row indicates the year to which the data corresponds and the leftmost column shows what kind of data follows on that row. I am going to explain each item briefly in the left column:

a) MEDIAN – indicates that the data on that row reflects the median score – for example, in the TOTAL table, the data contained in row 3, column 3, (**53.64**)[12] reflects the median score of all 1691 companies on the Environment pillar, in 2010; as mentioned in chapter IV. Methodology, the median function was preferred to the average as it eliminates outliers and, as such, it increases the validity and reliability of the results

[12] To increase readability only two digits were kept; for example, instead of 53.64880952, the tables show 53.64; no rounding up neither upwards or downwards was performed – the digits from 3rd onwards were simply removed

b) Year to year (%) – shows the percentage difference between the median score of one year compared to the previous – e.g., in the same TOTAL table, the data contained in row 4, column 5 (**1.74**) shows that the median score of all companies increased on the Environmental pillar in 2012 compared to 2011 by 1.74%;
c) ’14 to ’09 (%) – shows the percentage difference between the median score of the last year with available data (2014) compared to the first one (2009) – for example, in the TOTAL table, row 5, last column (**16.40**) shows that the median score of all companies on the Social pillar increased by 16.4% from 2009 to 2014;
d) ’14 to ’12 (%) – this row will only appear for some countries. Its purpose is to determine the percentage difference between the score of last year with available data (2014) and the score corresponding to the year when CSR reporting requirements started to be effective (2012 if we consider the case of Brazil). – for example, in the table with data for Brazil, presented in section V.2., row 6, column 5 (**11.69**) shows that the median score of Brazilian companies on the Environmental pillar increased by 11.69% in the years after the CSR reporting requirements came into force. This row is also contained by the TOTAL table to allow a comparison between the scores of companies placed in Brazil, for example, and the scores corresponding to the total number of analysed companies.
e) STDEV – shows the standard deviation of the scores – for example, in the TOTAL table, row 7, column 3 (**11.53**) shows that the scores of all companies on the Environmental pillar had a variation of 11.53 from the average in 2010. The lower the standard deviation, the closer the scores are to the average; the higher the standard deviation is, the farther the scores are from the average. Therefore, a decreasing standard deviation means that scores tend to appropriate towards the average, thus towards each other, whereas an increasing standard deviation indicates the opposite.

The following table contains data reflecting the performance of all companies on aggregate (1691 Companies for 2009-2010 and 1793 for 2011-2014 – the difference is due to the fact that Brazilian and South African companies were introduced in Sustainalytics’ universe in 2011). The table will be referred to as the TOTAL table and will have a benchmarking role. Thus, it will serve to compare the performance of companies in a specific country to the performance of all companies.

TOTAL table

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						Social					
MEDIAN	**52.00**	**53.64**	**54.71**	**55.66**	**56.71**	**59.40**	**51.38**	**53.71**	**55.71**	**56.57**	**57.32**	**59.82**
Year to year (%)		3.17	1.98	1.74	1.87	4.75		4.52	3.72	1.54	1.32	4.35
‘14 to ‘09 (%)						14.24						16.40
‘14 to ‘12 (%)						6.71						5.73
STDEV	11.54	11.53	11.97	12.64	12.98	13.37	10.07	9.93	10.45	10.53	10.53	10.75
	Governance						Overall					
MEDIAN	**55.20**	**57.78**	**60.73**	**62.22**	**62.98**	**64.22**	**54.40**	**54.42**	**56.36**	**57.51**	**58.29**	**60.52**
Year to year (%)		4.67	5.10	2.44	1.23	1.95		3.85	3.56	2.04	1.35	3.81
‘14 to ‘09 (%)						16.34						15.48
’14 to ’12 (%)						3.21						5.22
STDEV	9.58	9.88	10.80	10.96	10.76	10.51	8.01	8.27	8.93	9.22	9.26	9.54

The following sections, which are alphabetically ordered, will have a similar structure and will include an analysis of the sustainability performance in light of the applicable legislation for each particular country.

V.2. Brazil

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
64	**Stock Exchange**	**ESG**	**Comply or explain**	**2012**

	2011	2012	2013	2014	2011	2012	2013	2014
	Environment				Social			
MEDIAN	**50.95**	**51.16**	**52.34**	**57.15**	**58.05**	**58.33**	**58.43**	**61.26**
Year to year (%)		0.41	2.29	9.19		0.47	0.17	4.85
‘14 to ‘11 (%)				12.16				5.53
’14 to ’12 (%)				11.69				5.03
STDEV	12.28	12.77	13.72	13.55	9.70	10.05	9.94	10.08
	Governance				Overall			
MEDIAN	**64.48**	**63.28**	**64.03**	**70.83**	**57.37**	**57.20**	**58.14**	**61.75**
Year to year (%)		-1.85	1.17	10.62		-0.30	1.64	6.21
‘14 to ‘11 (%)				9.84				7.63
’14 to ’12 (%)				11.92				7.96
STDEV	12.60	13.02	13.05	12.58	9.13	9.62	9.90	10.08

In 2010, the Brazilian authorities passed a law, which requires companies that generate particular types of hazardous waste to develop and report on a solid waste management plan. (GRI, 2014)

Normally, a law passed in 2010 has effects for the 2011 reporting year, effects which are reflected in the scores on 2012, the year when the update based on 2011 reporting occurs. One can see that the environmental score was slightly modified in 2012 compared to 2011 (+0.41%) and that the modification was higher in 2013 compared to 2012 (+2.29%). I would argue that this evolution is justified by the fact that it takes some time for this type of law to take effect. Nevertheless, the improvement is weak because the Environmental score reflects a lot more issues than just the solid waste management, regulated by this particular law, according to Sustainalytics' methodology.

In 2011, the main Brazilian stock exchange, Bovespa, released comply-or-explain recommendations for all listed companies, encouraging them to publish a CSR report starting from 2012, (GRI, 2014) reflected in the 2013 score. One can see that the increase in 2013 compared to 2012 is insignificant (Governance +1.17%, Social +0.17%, Environment +2.29%). An explanation for this insignificant increase could be the fact that Brazilian companies were not prepared to report on CSR and chose to explain why they did not. Nevertheless, Bovespa anticipated this issue and organised a series of training workshops in partnership with GRI in early 2012 to assist companies unfamiliar with sustainability reporting. (Bovespa, 2014) Following, the scores increased significantly in 2014 compared to 2013, especially on the governance (+10.62%) and environment pillar (+9.19%) but also on the social one (+4.85%). The overall score grew by 7.95% following the introduction of the recommendations, placing Brazil's growth way above the growth of all companies (as seen in the TOTAL table) of only 5.22%. As such, in the case of Brazil it can be argued that the comply-or-explain approach of Bovespa was successful, and it lead to an increase of the sustainability performance of the targeted companies.

Although successful, the improvement is weak (+7.95% in two years) compared to the improvement in countries like Denmark (+10.28% in only one year) as seen in section V.3. One explanation might be that in countries like Brazil, which is an emergent market, law enforcement is weaker than in developed countries such as Denmark. Accordingly, the improvement of sustainability performance is also weaker than in developed countries. This finding is in accordance with the findings of Tschopp et al. (2011) and Ioannou & Serafeim (2012) who also discovered that in countries with no culture of compliance, regulatory bodies lack the resources to enforce reporting regulations.

V.3. Denmark

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
15	**Government**	**ESG**	**Comply or explain**	**2009**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**52.25**	**55.25**	**57.23**	**58.90**	**69.30**	**70.76**	**51.87**	**54.80**	**55.52**	**60.31**	**61.96**	**64.44**
Year to year (%)		5.74	3.58	2.92	17.66	2.10		5.64	1.31	8.62	2.74	3.98
‘14 to ‘09 (%)						35.43						24.22
STDEV	15.00	16.64	14.88	14.17	15.22	15.54	9.44	8.89	7.30	8.80	9.09	8.92
	Governance						**Overall**					
MEDIAN	**52.42**	**57.97**	**61.91**	**62.40**	**67.75**	**66.40**	**52.09**	**57.44**	**59.28**	**59.55**	**64.07**	**63.49**
Year to year (%)		10.58	6.80	0.79	8.55	-1.99		10.28	3.20	0.45	7.58	-0.91
‘14 to ‘09 (%)						26.65						21.88
STDEV	10.07	10.79	11.64	10.12	9.31	9.17	9.78	10.46	9.54	9.58	9.92	9.75

Effective from FY 2009, an amendment to the Danish Financial Statements Act (initially released in 2001) required large businesses to report on CSR in their annual reports or to explain why they did not. (IRI, 2014) As such, the 2010 ESG median score for Danish companies saw the biggest improvement on the Governance pillar (+10.58%) and the second biggest on Social (+5.64%) and on the Environmental pillar (+5.74%). The Overall score improved in 2010 compared to 2009 by 10.28%, the highest yearly growth, and more than double of the yearly improvement of all the studied companies (3.85%) shown in the TOTAL table. As one can see, the highest yearly growth is accompanied by the highest standard deviation (10.46), which means that the growth is powered by performers that score much better than laggard companies.

Overall, from 2009 to 2014, the Danish companies’ ESG rating improved by 26.65% on the Governmental pillar, by 24.22% on the Social pillar and by 35.43% on the Environmental one, growth rates which are way above the growth rates of all companies. The consistent increase on all three pillars suggests that the reflexive law approach of the Danish regulator was successful. Hess (1999) argued that a reflexive law approach on CSR reporting would not mandate that certain predefined outcomes be reached, but would rather determine companies to reflect on their approach to CSR and to focus their efforts on what is relevant to their stakeholders. As such, in the case of Danish companies, we can see that the growth on the Environment pillar is higher that the increase on the other two, suggesting that this pillar is the most substantial for their stakeholders. Regardless which pillar had the biggest increase, what is relevant to note in this case is that Danish companies indeed reflected on their approach towards CSR and increased their performance on all three pillars consistently. Therefore, the Danish approach can be considered successful.

Looking at all the four scores, (ESG and Overall) one can see that the standard deviation has a rather random variation than a decreasing trend which would be a sign of homogenisation driven by mimetic pressures. Therefore, the present study contradicts the findings of Pedersen et al. (2013) who found elements of mimetic isomorphism when studying the influence the introduction of CSR reporting requirements had on Danish companies. The mimicry would suggest a decrease in variation, thus an increase of homogenisation and a decrease in the standard deviation. However, as one can see from the table above, this was not the case with Danish companies. The standard deviation did not decrease. Thus, it can be argued that homogenisation of scores did not occur.

One can see that the second biggest annual growth occurred in 2013 (+7.58%), which reflects the 2012 companies' performance. The growth was mostly triggered by the Environmental pillar which had its biggest yearly growth in 2013 (+17.66%). I argue that this growth was influenced by the fact that Denmark held the Presidency of the Council of the EU in the first half of 2012, as contracts for suppliers to the Presidency contained sustainability requirements.[13] This also confirms Hess' (1999) idea that a reflexive law approach would determine companies to focus on what is relevant for their stakeholders. As the stakeholder's group includes customers, Danish companies chose to focus more on what was significant for the Presidency, in its role as a customer, thus as a stakeholder.

To conclude, I argue that the Danish legislator's reflexive law approach was successful as the sustainability performance increased in the five years subsequent to the introduction year by 21.88%, above the growth of all companies of only 15.48%. The biggest yearly increase occurred in the very next year after the requirements' introduction year and the second biggest in this time frame occurred when the Danish state itself started to emphasize the sustainability requirements for its suppliers, acting like an important stakeholder for Danish companies.

[13] "Sustainability is an integral part of all stages of planning and implementing the Presidency, and choosing sustainable solutions in conducting the Presidency is emphasised. Therefore, contracts and tender documents for suppliers to the Presidency contain sustainability requirements." (EU2012.dk)

V.4. France

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
77	**Government**	**ES**	**Comply or explain**	**2012**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**59.44**	**60.80**	**60.90**	**61.77**	**66.28**	**69.28**	**55.62**	**58.72**	**61.51**	**62.77**	**65.22**	**68.92**
Year to year (%)		2.28	0.15	1.44	7.28	4.53		5.56	4.76	2.04	3.89	5.67
’12 to ’09 (%)				3.92						12.85		
‘14 to ‘09 (%)						16.55						23.91
’14 to ’12 (%)						12.15						9.79
STDEV	10.82	10.51	10.14	10.85	10.82	10.84	10.70	10.16	10.60	10.43	9.92	9.88
	Governance						**Overall**					
MEDIAN	**54.60**	**57.74**	**61.72**	**63.32**	**65.55**	**67.28**	**56.78**	**58.96**	**61.26**	**62.05**	**64.09**	**67.86**
Year to year (%)		5.76	6.88	2.59	3.52	2.63		3.83	3.90	1.29	3.27	5.88
’12 to ’09 (%)				15.97						9.28		
‘14 to ‘09 (%)						23.22						19.50
’14 to ’12 (%)						6.25						9.35
STDEV	8.74	8.98	9.21	8.60	7.92	7.65	7.93	8.07	8.28	8.40	8.02	8.09

The Grenelle Act II, regulating corporate sustainability reporting trough a “comply or explain” approach, is applicable for fiscal years 2012 onwards. (GRI, 2014) As such, one can notice that the French companies’ sustainability performance increased in the two years after the introduction year by 9.35% which is more than the previous three years increase of only 9.28%, thus proving again that requirements push companies to become even more sustainable, as found also by Campbell (2007), Tschopp et al. (2011) or Ioannou & Serafeim (2012).

As aforementioned, this study brings a fresh perspective to the past research by analysing not only the overall sustainability performance but also the individual performance of each of the three ESG pillars. This approach is even more relevant when analysing countries with reporting requirements focusing on only one or two of the ESG pillars, such being the case of France. The Grenelle Act II mostly refers to Environmental and Social criteria rather than ESG in general. As such, a shift in companies’ focus is noticed. For the period 2009-2012, the performance on the Governance pillar of French companies increased by 15.97%, more than on the Social pillar (12.85%) and much more than on the Environmental one (only +3.92%). Whereas, after the introduction of the requirements related to the latter two pillars, the Governance score increased only by 6.25% in comparison to the

Social one (+9.79%) and the Environmental one (+12.15%). This behaviour leads to the conclusion that regulations not only push the sustainability performance forward, as shown by other scholars as well, but they also determine companies to focus more on those pillars targeted by the regulator.

V.5. Germany

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
63	**Government**	**ESG**	**Mandatory**	**2013**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**53.05**	**57.99**	**59.31**	**59.9**	**60.7**	**64.22**	**51.96**	**58.48**	**61.89**	**61.11**	**62.57**	**65.82**
Year to year (%)		9.31	2.28	0.98	1.33	5.80		12.54	5.83	-1.26	2.39	5.18
‘14 to ‘09 (%)						21.05						26.66
STDEV	10.44	10.92	11.33	12.43	12.79	12.59	11.50	12.75	13.05	13.60	13.00	13.17
	Governance						**Overall**					
MEDIAN	**54.51**	**56.40**	**59.00**	**60.12**	**61.31**	**64.63**	**54.63**	**59.74**	**61.25**	**63.41**	**62.01**	**64.57**
Year to year (%)		3.45	4.60	1.90	1.97	5.41		9.34	2.53	3.51	-2.19	4.12
‘14 to ‘09 (%)						18.55						18.19
STDEV	9.70	9.80	10.73	11.56	11.39	11.29	8.53	9.57	9.99	10.82	10.69	10.74

Although a voluntary German Sustainability Code was drafted in 2011, there are no significant yearly improvements in 2012 and 2013 on any of the three ESG pillars. Moreover, the overall sustainability rating of German companies decreased in 2013 compared to 2012 by 2.19%. However, for fiscal years commencing after December 31, 2012 it has been mandatory for German companies to report on non-financial performance indicators if these are used for internal management. (GRI, 2014) As a result, the median score for each of the three pillars rose in 2014 compared to 2013 by 5.41% (Governance), 5.18% (Social) and 5.80% (Environment). The Overall score also increased in 2014 compared to 2013 by 4.12% proving that the issuance of mandatory ESG reporting drove the ESG scores up, which reflects a more sustainable way of doing business.

The author of this paper found no specific reporting requirements that would justify the big increase in 2010 compared to 2009. However, this points out to the fact that, indeed, the sustainability performance can improve without being pressured by requirements issued by formal institutions, reflecting the concept of an explicit, voluntary CSR, as expressed by Matten & Moon (2008).

V.6. Japan

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
305	**Government**	**E**	**Voluntary**	**2007**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**59.78**	**60.60**	**60.53**	**59.90**	**59.67**	**62.04**	**50.71**	**52.39**	**53.71**	**53.96**	**54.45**	**55.64**
Year to year (%)		1.36	-0.11	-1.05	-0.38	3.97		3.31	2.51	0.47	0.90	2.18
'14 to '09 (%)						3.77						9.72
STDEV	11.55	11.51	11.73	12.16	12.27	12.82	8.23	7.83	8.21	8.47	8.37	8.55
	Governance						**Overall**					
MEDIAN	**52.90**	**53.60**	**54.10**	**54.40**	**54.58**	**55.27**	**53.87**	**55.32**	**55.82**	**56.05**	**55.99**	**57.38**
Year to year (%)		1.32	0.93	0.55	0.33	1.12		2.68	0.90	0.42	-0.10	2.47
'14 to '09 (%)						4.48						6.51
STDEV	7.50	7.21	7.59	7.67	7.46	7.12	6.81	6.93	7.45	7.74	7.67	7.90

There are no mandatory CSR reporting requirements in Japan. However, the Japanese Ministry of the Environment issued in 2007 the Environmental Reporting Guidelines, which are voluntary. (GRI, 2014) As such, the overall sustainability performance of Japanese companies is modest, being constantly below the performance of all +1600 companies, throughout the six studied years. Also, the growth rate is reduced: 6.51% from 2009 to 2014; in comparison with, e.g. Denmark, which experienced a growth of 10.28% in only one year (2010 to 2009). Nevertheless, out of the three ESG pillars, the Environmental one ranks constantly better than the other two, being at the same time, the only pillar where Japanese companies have a higher score than the median score of all companies, shown in the TOTAL table. Therefore, although voluntary, the regulations managed to improve the environmental performance of Japanese companies. Nevertheless, the growth rate is modest in comparison to those of the companies subject to non-voluntary requirements.

Campbell (2007) and Ioannou & Serafeim (2012) found that companies facing tougher regulations tend to pay more attention to sustainability practices. As such, on the contrary, their findings could be interpreted as follows: the weaker the laws, the less attention companies will pay to sustainability practices. Japanese companies, facing just voluntary reporting requirements on the Environmental pillar and no requirements on the other two, confirm this theory by having in 2014 the lowest overall score out of ten countries that have been analysed. (57.38 compared to 60.52, the overall median score of all companies as shown in the TOTAL table) Moreover, they had the lowest growth rate of all companies analysed of only 6.51% from 2009 to 2014, being surpassed by companies based in countries like Brazil (+7.63%) and South Africa (+7.43%) that had a higher growth rates in only four years, from 2011 to 2014.

V.7. Netherlands

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
42	**Government**	**ESG**	**Mandatory**	**2004**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**52.83**	**55.31**	**56.52**	**57.19**	**59.74**	**62.09**	**52.97**	**55.59**	**58.46**	**58.81**	**60.12**	**61.76**
Year to year (%)		4.69	2.17	1.19	4.46	3.91		4.94	5.16	0.59	2.22	2.73
'14 to '09 (%)						17.51						16.59
STDEV	10.72	10.94	11.75	11.99	12.31	13.07	11.12	11.71	11.96	11.34	11.23	11.82
	Governance						**Overall**					
MEDIAN	**60.80**	**62.85**	**65.48**	**68.25**	**68.40**	**69.95**	**55.15**	**58.09**	**59.45**	**61.08**	**62.27**	**63.66**
Year to year (%)		3.37	4.17	4.24	0.21	2.26		5.32	2.35	2.74	1.94	2.22
'14 to '09 (%)						15.05						15.41
STDEV	10.03	10.84	11.14	10.88	10.70	10.46	9.16	10.17	10.96	10.64	10.42	10.63

The EU Modernisation Directive (2003/51/EC), requiring listed and large non-listed companies to report on environment, employees and risks in their annual reports, is directly implemented by the Dutch Civil Code into the Dutch law (GRI, 2014). However, the Directive indicates that Member States may choose to exempt companies from the obligation of reporting on non-financial key performance indicators. (EC Directive, 2003) Hence, the reason the author does not refer to this Directive when analysing other EU countries. Nevertheless, in the case of Dutch companies, the Directive has effect for the fiscal years 2004 onwards. Although this thesis lacks data for years 2004-2009 to assess the impact the introduction of legislation had on the sustainability performance of Dutch companies, the case of Netherlands is relevant as to show how a mature market – from a CSR reporting perspective – evolves in the period after the introduction of CSR reporting requirements.

The scores follow approximately the same evolution as the scores of all companies (as seen in the TOTAL table), their 2009-2014 increase being similar: Governance pillar +15.05% for Dutch companies vs. +16.34% for all companies; Environmental pillar +16.59% vs. 16.40%; Social pillar +17.51% vs. +14.24%; and Overall score +15.41% vs. 15.48%. Nevertheless, one can notice that out of the three pillars, the Governance score is higher throughout the entire period, e.g. 69.95 in 2014 compared to 61.76 on Social and 62.09 on Environment in the same year. The explanation for this is the fact that Dutch listed companies must follow the guidelines of and refer to the Dutch Corporate Governance Code as of 2003. Therefore, the European Directive regarding all three ESG pillars was preceded by internal legislation regarding reporting on corporate Governance, which further led to higher scores on this pillar.

The results of Dutch companies also confirm the findings of Tschopp et al. (2011) and Ioannou & Serafeim (2012) and prove once again that companies behave more sustainable when facing reporting regulations. Moreover, as the general ESG reporting requirements were doubled by Governance-related regulations, the Dutch companies have higher scores on this pillar. As such, it can be reinforced the idea that regulatory bodies can trigger a more intensive increase on one ESG pillar or another, should they have more interest in so doing.

V.8. Norway

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
12	**Government**	**ESG**	**Mandatory**	**1998**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**57.31**	**59.09**	**56.61**	**57.32**	**59.30**	**61.59**	**54.73**	**57.77**	**62.02**	**64.28**	**66.41**	**69.97**
Year to year (%)		3.10	-4.19	1.25	3.46	3.86		5.56	7.34	3.64	3.30	5.36
'14 to '09 (%)						7.47						27.84
STDEV	11.07	11.04	11.13	13.72	14.49	15.89	8.63	7.82	9.12	8.35	6.51	6.79
	Governance						**Overall**					
MEDIAN	**63.65**	**68.93**	**68.83**	**66.24**	**67.74**	**69.36**	**56.40**	**58.84**	**62.08**	**63.01**	**61.83**	**65.28**
Year to year (%)		8.30	-0.14	-3.75	2.25	2.38		4.33	5.50	1.50	-1.86	5.56
'14 to '09 (%)						8.97						15.75
STDEV	13.16	12.99	13.83	14.88	15.23	14.95	9.55	9.11	10.18	11.17	10.81	11.32

The case of Norwegian companies is to some extent similar to that of Dutch companies in the sense that they are based in a country that has mandatory ESG reporting requirements since 1998, thus the introduction year is preceding the time horizon of this thesis. However, the 2009-2014 evolution of Norwegian companies is quite different from that of Dutch companies and of all companies exhibited in the TOTAL table. Although the Overall score of Norwegian companies increased by 15.75%, similar to the Overall score increase of all companies presented in the TOTAL table, (15.48%) this was driven mostly by the Social pillar which in the analysed period increased by 27.84% compared to the other two pillars which only increased by 8.97% (Governance) and 7.47% (Social).

By looking at the scores of 2009, one can see that the Governance pillar was performing better than the other two (a median score of 63.65 compared to 54.73 on Social and 57.31 on Environment). This is because as of 2007, the Oslo Stock Exchange has been requiring companies to comply with the Norwegian Code of Practice for Corporate Governance. (IRI, 2014) Nevertheless, in 2014, the pillar with the highest score is the Social one, with a score of 69.97, compared to 61.59 on Environment and 69.36 on Governance. The high increase between 2009 and 2014 that led the Social score to being the highest among the three ESG pillars in 2014 can be explained as a consequence of the White Paper on CSR issued in 2009 by the Norwegian Government which, the author argues, had an intense Social-oriented focus when defining CSR.

The White Paper stated that the Norwegian Government "views the following areas as central when it comes to corporate social responsibility in international operations: respecting human rights; upholding core labour standards and ensuring decent working conditions; taking environmental concerns into account; combating corruption; and maximising transparency." (Norwegian Government, 2009) Since the first two out of five "central areas" are concerned with the Social pillar, the author argues that the Norwegian Government's focus is oriented more towards the Social pillar than towards the other two. As such, this could serve as a possible explanation for the higher increase on the Social pillar than on the other two. As was the case with Dutch companies explained above, this shows that governments not only drive the companies' sustainability performance up, as found by Campbell (2007) or Tschopp et al. (2011) as well, but can also influence which pillar is being paid more attention by the companies subjected to regulation.

V.9. South Africa

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
40	**Stock Exchange**	**ESG**	**Comply or explain**	**2010**

	2011	2012	2013	2014	2011	2012	2013	2014
	Environment				**Social**			
MEDIAN	**52.75**	**54.40**	**54.87**	**55.90**	**59.08**	**60.97**	**61.14**	**62.48**
Year to year (%)		3.14	0.85	1.86		3.19	0.27	2.18
'14 to '11 (%)				5.97				5.74
STDEV	11.87	11.88	12.15	12.51	11.25	11.63	10.93	10.35
	Governance				**Overall**			
MEDIAN	**66.12**	**66.63**	**67.28**	**70.22**	**57.99**	**58.88**	**60.61**	**62.30**
Year to year (%)		0.76	0.97	4.37		1.53	2.94	2.77
'14 to '11 (%)				6.20				7.43
STDEV	10.61	11.51	11.03	11.09	8.91	9.13	9.25	9.52

The case of South Africa is similar to the one of Brazil in the sense that it is the main stock exchange that requests companies to report on CSR. The Johannesburg Stock Exchange (JSE) required companies as of 2010 to issue an integrated financial and non-financial report and introduced the issuance of such a report as a listing requirement. (GRI, 2014) This allowed South African companies to keep the pace with all the analysed companies – South African companies grew by 7.43%, slightly above the increase of all companies, shown in the TOTAL table, which was 7.36% between 2011 and 2014. The growth rate for the three ESG pillars is rather uniform – 5.97% for Environment, 5.74% for Social and 6.20% for Governance. However, the Governance scores are regularly higher than those of the other two pillars as in 1994 a code on good corporate governance was issued. The King Report on Corporate Governance, published in 1994 and further revised in 2002 and 2010, applies to all South African companies and complying with it has been a listing requirement for the JSE, thus lifting the Governance scores above those on Environment and Social.

An integrated report is the reflection of what Porter and Kramer (2011) termed to be CSV (creating shared value) which further reflects that sustainability is embedded in company's core activities. As such, the South African regulator wished that companies would report on sustainability as a result of integrating it in their primary practices. Comparing the performance of South African companies to that of Brazilian companies we can see a similar evolution (+7.43% from 2011 to 2014 and +7.63%

in the same period, respectively) although the Brazilian regulation only refers to sustainability reporting and not to integrated reporting. Therefore, by analysing just the companies based in these two countries, it cannot be determined which approach is more efficient.

V.10. Switzerland

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
31	-	-	-	-

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**56.62**	**57.37**	**57.14**	**60.02**	**60.91**	**68.09**	**55.10**	**56.07**	**56.78**	**59.29**	**61.96**	**62.69**
Year to year (%)		1.32	-0.39	5.03	1.49	11.77		1.74	1.27	4.42	4.50	1.16
'14 to '09 (%)						20.24						13.76
STDEV	11.26	11.35	11.72	12.44	13.50	14.32	9.88	8.99	9.01	9.94	9.88	10.09
	Governance						**Overall**					
MEDIAN	**56.40**	**58.19**	**61.00**	**62.77**	**66.83**	**67.59**	**56.35**	**58.13**	**58.83**	**61.73**	**63.71**	**64.79**
Year to year (%)		3.18	4.82	2.91	6.45	1.14		3.16	1.20	4.93	3.19	1.69
'14 to '09 (%)						19.85						14.98
STDEV	10.09	10.30	11.03	12.33	11.66	10.73	7.63	7.73	8.55	9.69	9.84	10.22

Switzerland has no regulation on CSR reporting. (GRI, 2014) However, the sustainability performance of Swiss companies is better than the performance of many other companies based in countries with this type of regulation. As a matter of fact, out of the ten analysed countries, Switzerland ranks third after France and Norway when it comes to the overall score of their companies in 2014. Also, its companies' sustainability performance's growth rate from 2009 to 2014 is similar or above the growth rate of all the studied countries presented in the TOTAL table: Governance 19.85% vs. 16.34%, Social 13.76% vs. 16.40%, Environment 20.24% vs. 14.24% and overall 14.98% vs. 15.48%. Additionally, the standard deviation of the overall score of Swiss companies followed the same ascending trend as the one of all analysed companies, increasing from 7.63 in 2009 to 10.22 in 2014, similar to a steady increase from 8.01 to 9.54 during the same period in the case of all companies.

Matten & Moon (2008) argued that implicit CSR, influenced by mandatory reporting, developed more in Europe, as opposed to explicit CSR, defined by its voluntary aspect, which developed in USA.

However, the case of Swiss companies comes to offer a different view on this as it shows that European companies can also be sustainable and have high sustainability score growth rates without being pressured by reporting requirements.

V.11. USA

Quick facts				
Companies analysed	Regulatory body	ESG pillars	Enforcement type	Effective from FY
598	**Stock Exchange**	**G**	**Mandatory**	**2003**

	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
	Environment						**Social**					
MEDIAN	**47.28**	**48.87**	**49.07**	**50.61**	**51.24**	**53.78**	**49.71**	**51.55**	**52.91**	**53.71**	**54.46**	**57.28**
Year to year (%)		3.35	0.41	3.14	1.24	4.95		3.69	2.64	1.50	1.40	5.16
'14 to '09 (%)						13.75						15.21
STDEV	10.42	10.31	10.99	12.39	12.84	13.17	9.38	8.98	9.30	9.54	9.76	10.31
	Governance						**Overall**					
MEDIAN	**55.81**	**59.44**	**62.94**	**64.45**	**63.95**	**65.11**	**49.59**	**52.06**	**53.61**	**55.05**	**55.47**	**58.04**
Year to year (%)		6.50	5.87	2.39	-0.77	1.81		4.98	2.97	2.69	0.75	4.63
'14 to '09 (%)						16.65						17.03
STDEV	9.05	9.00	9.34	9.19	8.97	8.60	7.06	7.13	7.69	8.23	8.40	8.79

The New York Stock Exchange (NYSE) issued in 2003 corporate governance rules requiring that listed companies adopt and disclose a code of business conduct and ethics. (IRI, 2014) Except for a rule requesting big polluters to report on greenhouse gas (GHG) emissions, there are no other requirements for reporting on the Environmental and Social pillar. As such, it can be noticed that only the Governance related scores are slightly above the median score of all companies presented in the TOTAL table, whereas the Environmental, Social and Overall scores are below the corresponding median scores of all studied companies. At the same time, the score on the Governance pillar in 2014 (65.11) was higher than the ones on the Environmental (57.28) and Social pillar (53.78). Therefore, this is another proof that reporting requirements influence companies' focus when it comes to distributing their efforts towards one sustainability pillar, or another.

Matten & Moon (2008) conceptualised implicit and explicit CSR, the first being influenced by the mandatory and customary requirements imposed by the institutional framework, whereas the latter has a voluntary dimension. They argued that implicit CSR is characteristic to Europe, whereas the explicit one developed more in the US. As one can notice, the study of this paper, through the legislation review, confirms this theory. Indeed, CSR in Europe tends to be more regulated, with few exceptions such as Switzerland, whereas in the USA, except for the Governance-related rules and some GHG emissions reporting requirements, there are no other regulations. Matten & Moon (2008) compared the evolution of CSR in US with the one in Europe and conceptualised the difference between implicit and explicit CSR without, however, pointing out which approach is more efficient. Actually, they suggested that whether social issues are more effectively addressed by implicit than by explicit CSR remains open to future research. (Matten & Moon, 2008)

Analysing the ESG data used in this paper can bring a potential answer to this issue. Although an increasing median score on the Social pillar can be seen in the case of US companies (+15.21% in 2014 compared to 2009), the score in 2014 (57.28) still lags behind the scores of companies based in Denmark (64.44), Netherlands (61.76) or even South Africa (62.48). As such, it can be inferred that implicit CSR tends to address social issues more effectively than explicit CSR as the data on the Social pillar supports this argument. Moreover, by looking at the overall sustainability performance of US countries which tends to be weaker than the performance of European countries, I argue that companies need a legal framework that pressures them to act more sustainable or at least to reflect on this possible course of action, as in the case of a reflexive law approach.

VI. Discussion

As stated in the Methodology chapter, the research approach of this paper is inductive, thus theory follows data. After analysing each country taken separately, this chapter will have a more general approach when discussing the results and will aim to gather some conclusions that will form the basis of a new *theory*. The *theory* would then be compared to other similar theories exhibited in the Literature Review chapter as to enable its connection with the past literature.

As seen from the cases of Brazil, Denmark, Germany, Netherlands, Norway and South Africa which all have reporting requirements related to all three ESG pillars, the introduction of such requirements triggered a relatively equal increase on all three pillars and an increase of their overall score, which, ultimately, is the reflection of more sustainable practices in their operations. As such, it can be concluded that reporting requirements indeed trigger an increase of companies' sustainability performance reflected by their higher scores.

The case of France shows that after the introduction of reporting requirements, concerning the Environmental and Social pillars, a shift in the company's focus occurred. In the subsequent two years, the median score on these two pillars increased much more than the median score on the Governance one, signalling the fact that French companies decided to pay more attention to the regulated pillars.

Also, similar cases occurred in USA and Japan. Although American companies are not requested by the US government to report on CSR, NYSE requires them to publish information related to the corporate Governance pillar. As such, it can be seen that American companies have way better scores on this pillar than on the other two. Moreover, although only voluntary, the Environmental Reporting Guidelines issued by the Japanese Ministry of the Environment made Japanese companies have steadily higher scores on the Environmental pillar compared to the other two throughout the entire studied period. Additionally, when compared to all companies, American and Japanese companies score better only on the Governance pillar and the Environmental pillar, respectively.

Analysing companies based in these countries not only showed that reporting requirements trigger an increase in score, but this increase is higher on those individually regulated pillars. As such, it can be concluded that regulations determine not only more sustainable practices, but also determine which pillar of sustainability becomes more important for the companies.

To avoid biasing the results, the sustainability performance of companies based in a country without reporting requirements was studied. The case of Switzerland, which has no legislation on CSR reporting comes to offer a different perspective to the idea that it is only legislation that increases the companies' sustainability performance due to the fact that the performance of Swiss companies is in line or above the performance of companies subject to regulations. Indeed, the sustainability performance is influenced by regulations, as seen in many of the above cases, but it is not the only factor with that kind of influence. Although there are no reporting requirements in Switzerland, companies based there are amongst the most sustainable companies analysed, their overall 2014 median score being the third after French and Norwegian companies. Therefore, it can be concluded that there are additional factors influencing the sustainability performance besides reporting requirements.

Combining the three main sub-conclusions presented before, I would argue that the main results of this thesis and the answer to the research question are as follows:

The CSR reporting requirements are correlated with the companies' sustainability performance in a positive way. Moreover, should the requirements be focused on only one or two of the ESG pillars, companies would channel their sustainability efforts more on those regulated pillars. Although the sustainability performance is positively correlated with the CSR reporting requirements, there are also additional factors influencing it.

VI.1. Connection with the Literature Review

I will proceed with placing these results within the academic framework exhibited in the literature review. Also, other findings that emerged during the research will be discussed in the light of the literature aforementioned.

Campbell (2007) argues that strong regulations determine companies to act more socially responsible. So do Ioannou and Serafeim (2012) who concluded that sustainable development becomes a higher priority for companies after the adoption of mandatory CSR reporting requirements. As such, the results of this paper come to reinforce their findings.

At the same time, Pedersen et al. (2013) argued that in the case of Danish companies, the reporting requirements influenced more the reporting practices rather than the sustainability practices per se. Similar findings were discovered by Tschopp et al. (2011) who concluded that governments and CSR reporting organisations have the most influential role in promoting CSR reporting without, however, analysing their impact on sustainability performance in itself. Their findings are rather contradictorily with those of Campbell (2007) and Ioannou & Serafeim (2012) and one could argue that they are also contradictorily with the findings of this thesis. Nevertheless, I suggest that this is not the case. As argued in the Literature Review this contradiction leaves spaces for further research such as the one of the current thesis. The research of this paper relays on data reflecting at the same time the companies' sustainability performance at large but also the quality of their sustainability reports. Hence, I would argue that my findings are in accordance with those of all the above four scholars despite the inconsistency among them. As seen, the reporting requirements trigger an increase in the companies' sustainability performance reflected by their ESG score. Nevertheless, their ESG score also reflects the quality of their CSR reports. Therefore, I would argue that reporting requirements trigger both an increase in the sustainability performance and an increase in the quality of reporting.

Jennings and Zandbergen (1995) argued that there are at least three factors shaping the sustainability practices: the nation state, the social movements and the innovations among industries. Also, Tschopp et al. (2011) argued that among other institutions, governments and CSR reporting organisations have the most influential role in promoting and diffusing CSR reporting. Therefore, there are other, additional factors than regulations that influence sustainability performance. This idea was confirmed by the case of Swiss companies which, without being subject to any reporting requirements at all, still managed to perform better than companies subject to this type of requirements.

Although it was not the goal of this paper to investigate what else besides reporting requirements influence sustainability practices, a brief discussion over the findings in the case of Swiss companies should occur. In the globalisation context, it can be safely assumed that large Swiss companies, as those analysed in this thesis, operate in more countries than just in Switzerland, therefore being subject to multiple regulations. As such, in the light of the idea of Nidumolu et al. (2009) according to which "it's smarter to comply with the most stringent rules, and to do so before they are enforced", the author would argue that Swiss companies chose to be *smarter* and to comply with other, stricter regulations before they would get enforced in Switzerland. As such, despite lacking reporting requirements in their home country, their sustainability performance is still high. Apart from this suggestion, the author also argues that Swiss companies might be exposed to mimetic pressures from neighbouring countries as DiMaggio & Powell (1983) claimed; or that the Swiss CSR developed into what Matten & Moon (2008) conceptualised as explicit CSR, thus the Swiss companies needed no regulations to overcome the sustainability performance of companies subject to reporting requirements.

Regardless the reason, the case of Switzerland shows that companies' sustainability performance can be driven by other factors as well besides legislation. Consequently, the author acknowledges that there are several factors influencing companies' sustainability performance. Nevertheless, it is not the purpose of this paper to analyse all the factors driving sustainability, but only the one related to CSR reporting requirements. This, together with the fact that it cannot be precisely explained to what extend the sustainability performance changed as a result of reporting requirements or as a result of other factors constitute limitations to this study, which will be further discussed in section VII.1. Limitations and further research.

Studies such as those of Tschopp et al. (2011) and Jennings & Zandbergen (1995) take into account multiple factors when analysing sustainability in contrast with that of Pedersen et al. (2013) which only takes into account the government's influence. However, the former two fail to address the impact of stock markets over companies' sustainability performance. Therefore, the study of this thesis takes into account also the influence of stock markets, as it regards regulations at large, without discriminating amongst regulatory bodies. In this sense, the study aligns with those of Ioannou and Serafeim (2012) and Campbell (2007) that take into account regulations at large, regardless it derives from governments or stock exchanges. Following, the reader shall find a discussion over the influence of the stock exchanges' regulations.

Three out of the ten analysed countries have as the main regulatory body – when it comes to sustainability reporting – the main stock exchange instead of the government: Brazil, South Africa and USA. Taking a closer look to the American companies, one can see that out of the three sustainability pillars, the one with the highest score is Governance, as highlighted before. As such, it can be concluded that the measure taken by NYSE was effective. Nevertheless, as the regulation dates back to 2003, and as the paper relays on data only from 2009 onwards, it cannot be assessed the immediate impact of the regulation in order to compare it with regulations issued by governments.

The cases of Brazilian and South African companies are rather different from the American ones in the sense that their respective main stock exchange requires a full ESG report in contrast to only a Governance report. Brazilian companies' overall score grew by 7.95% between 2012 and 2014 compared to an increase of only 5.21% of all companies analysed in the same period, as shown in the TOTAL table. After Johannesburg Stock Exchange introduced in 2010 the comply-or-explain rule regarding ESG reporting, South African companies' overall score rose by 7.43% by 2014, slightly above the increase of all companies of 7.36% in the same period. Although when compared to the results of all companies in the TOTAL table, Brazilian and South African companies perform better, their performance is inferior to the performance of companies based in Denmark, for example, which grew by 10.28% in only one year. Even though the percentage basis of the overall score of Danish companies was smaller, thus leaving room for greater growth, I would argue that this is not the reason for the big difference. To support my argument, I present to the reader the results of French companies that grew by 9.35% in the two years following the introduction from a higher percentage basis than the ones of Brazilian and South African companies respectively.

It can be argued by looking at the case of Brazilian and South African companies that regulations enforced by stock exchanges trigger indeed an increase of sustainability performance but the increase is smaller than in the case of companies regulated by governments. Thus, one conclusion could be that governments' regulations are more effective than those issued by stock exchanges. However, these two cases need to be analysed taking into account the studies of Tschopp et al. (2011) and Ioannou and Serafeim (2012). Tschopp et al. (2011) claimed that in developing countries there is no culture of compliance, thus reporting laws are harder to enforce. Their claim was further tested by Ioannou and Serafeim (2012) who concluded that corporations are more likely to implement more sustainable practices after the enactment of mandatory CSR reporting requirements in countries with stronger law enforcement. Thus, as Brazil and South Africa are both developing, emerging markets, it could also be the case that their companies' weaker improvement compared to that of Danish or French companies is due to the lack of a culture of compliance – or at least to a not so strong culture of compliance.

Therefore, I would argue that the results are unclear on this matter as it cannot be asserted based on these results that the performance of Brazilian and South African companies is weaker compared to that of French and Danish companies neither due to stock exchanges versus governments regulating the issue, nor due to a weaker culture of compliance. As such, it cannot be concluded whether one regulatory body issues more effective regulations than the other.

The four aforementioned countries – Brazil, Denmark, France and South Africa – distinguish themselves from all other studied countries in the sense that their regulatory bodies have taken a comply-or-explain approach. This approach stems from the reflexive law concept which, as presented in chapter III. Literature Review, searches for "regulated autonomy"; for designing self-regulating social systems. (Teubner, 1983) Therefore, a reflexive law approach would not mandate that certain predefined outcomes be reached (Hess, 1999), but rather that companies reflect on a particular matter, such as CSR in this case, and design outcomes relevant for their stakeholders. Such a reflexive law approach was adopted by the regulatory bodies in the aforementioned countries, where companies have the opportunity to reflect on the items proposed by the regulator and to comply should they find it material for their stakeholders to do so or to explain why they did not comply otherwise.

Buhmann (2013) argued that the Danish model may be considered a prototype of how public policy objectives, societal expectations and business actions may be combined through reflexive law. The findings of this thesis concur with that argument because Denmark was the first out of the ten selected countries to have this approach (2009) and its results were the most successful. The Danish approach was embraced by South Africa (2010) and Brazil and France (2012). The median overall score of Danish companies grew by 13.81% in the first two years after introducing the requirements compared to a 9.35% increase in the case of French companies, a 7.95% increase for Brazilian companies and only 4.51% for South African companies. As such, its successfulness and time of introduction would qualify the Danish system as a prototype of the reflexive law approach in the context of CSR mandatory requirements. Nevertheless, the reader should regard the comparison aforementioned in the light of the arguments previously described of a lower starting percentage basis for Danish companies and a stronger law enforcement.

Considering the inductive approach of this thesis, its results shall humbly form the basis of a new *theory*. I would argue that this *theory* draws upon the tenets of the institutional theory which assumes that individuals or companies are not “free-floating atoms outside the social context” (Granovetter, 1985; Eisenhardt, 1988; apud Pedersen et al., 2013) but rather their behaviour is shaped by the ecosystem in which they exist as they attempt to comply with its rules. (DiMaggio & Powell, 1983) This assumption combined with the author’s intuition which hinted that governments and stock exchanges, through their regulations, might shape company’s sustainability focus led the entire process of drafting this thesis. The author of this paper considers the following two aspects as reasonable arguments for which the newly developed *theory* can be regarded as drawing upon the institutional theory: the findings confirmed the author’s initial intuition and the aforementioned assumption; and the newly emerged *theory* can be easily compared with other theories drawing upon the institutional theory. As such, it is relevant to discuss the findings of this paper through the lenses of the institutional theory.

Pedersen et al., (2013) who posited that their study uses the basic tenets of the institutional theory, found evidence of mimetic pressures forcing first-time reporters to search for successful reporters that they can imitate. This mimetic pressure corroborated with other two types of pressures – coercive and normative – form the mechanism of institutional isomorphism whose effect is homogenisation. (DiMaggio and Powell, 1983) The same authors suggested that a decrease in variation and a lower standard deviation are indicators of this homogenisation process. Therefore, the author of this paper found relevant to include a standard deviation analysis.

The study of Pedersen et al. (2013) found evidence of mimetic pressures in the case of Danish companies. That would typically lead to homogenisation and to a lower standard deviation. However, the results of this paper show that the standard deviation of the overall score of Danish companies rather had a random evolution than a decreasing trend, (9.78 in 2009; 10.46 in 2010; 9.54 in 2011; 9.58 in 2012; 9.92 in 2013; and 9.75 in 2014) thus contradicting the findings of Pedersen et al. (2013)

Moreover, except for Denmark that had an insignificant decrease of the standard deviation in 2014 compared to 2009 (9.75 vs 9.78), all other nine countries analysed had an increasing standard deviation. Additionally, the standard deviation of all studied companies in the TOTAL table has a continuously increasing trend from 8.01 in 2009 to 9.54 in 2014. As such, this thesis refutes the idea of homogenisation and of the disadvantages it triggers, disadvantages taking the form of an artificial pooling equilibrium that distorts the signalling value of sustainability reporting. (Ioannou & Serafeim, 2012) This does not mean that the current thesis entirely repudiates the idea of mimetic pressures proposed by DiMaggio and Powell (1983) but merely shows statistically that a lowering standard deviation signalling homogenisation does not occur within the analysed companies.

VI.2. A new perspective

As seen in chapter III. Literature Review, most studies analyse the effect CSR reporting requirements have on the overall sustainability performance, in other words, on all three ESG pillars together. The study of this paper brings a new perspective by analysing not only the ESG pillars taken together but also each of them taken separately in light of these reporting requirements.

As seen in the case of French companies, they shifted their sustainability efforts towards the Environmental and Social pillars after the introduction of reporting requirements related to those two pillars. Moreover, countries with regulations on only one ESG pillar such as Japan (Environment) or USA (Governance) exhibit higher scores on that specific pillar compared to the other two. Additionally, the Social score of Norwegian companies grew more than the other two because the Norwegian Government defined CSR in, what the author of this paper considers to be, a strong Social-oriented fashion, as argued in section V.8. Lastly, the scores on the Governance pillar are higher than those on the other two pillars as most countries or stock exchanges had Codes for good corporate Governance even before they required ESG reporting.

In contrast, countries with ESG reporting requirements tend to exhibit similar scores on the three pillars or at least similar growth rates, with few exceptions such as Brazil or South Africa. Also, countries with no regulations at all, such as Switzerland, show relatively equal scores and growth rates on all three ESG pillars.

Therefore, it can be inferred that regulatory bodies not only influence the overall sustainability performance of the subject companies but also tip the balance towards those particular ESG pillars targeted by their regulations. As such, by looking at each of the sustainability pillars individually, the paper advances one step further the research in this area by proving the connection between regulations and individual E, S or G performance.

VII. Conclusion

As stated in the introduction, I got interested in whether companies become more sustainable as a result of being subjected to CSR reporting regulations. By initially reviewing the literature, I found very few papers dealing with this issue and I also discovered that their findings were to some extent contradictory. Therefore, I identified a problem in the little amount of research underpinned to deal with this issue which has valuable importance not only for academia, but also for those governments and stock exchanges considering introducing this type of requirements. As such, the research question that guided the research process was: **How do the requirements on CSR reporting shape the companies' sustainability performance?**

In order to answer the research question, the author further studied the available literature on the matter. However, the low amount of research was not enough as to develop a set of hypotheses to be tested in the study. As such, the research approach of the paper was inductive, meaning that the research started by analysing the available data, and then ended by discussing the findings with the aim of forming a new *theory*. As a result of the research process, the following answer to the research question emerged: **The CSR reporting requirements are correlated with the companies' sustainability performance in a positive way. Moreover, should the requirements be focused on only one or two of the ESG pillars, companies would channel their sustainability efforts more on those regulated pillars.** This two sentences form what can be called a new *theory.* Moreover, the study revealed that **although the sustainability performance is positively correlated with the presence of reporting requirements, there are also additional factors influencing it.**

The findings of the study were then analysed in relation with the studies exhibited in the literature review to allow the reader to place them within the academic field. The author then argued that the study can be considered as drawing upon the institutional theory as it confirms the idea that institutions shape through their mechanisms – in this case, their reporting requirements – the way companies organise their activities – more precisely, their CSR activities. However, institutional theory assumes the existence of mimetic pressures that lead companies to homogenisation after the introduction of reporting requirements, thus forming a pooling equilibrium where all companies report alike, distorting the signalling value of CSR reports. Nevertheless, by introducing an analysis over the standard deviation of the ESG scores, the author argued that homogenisation did not occur as a result of introducing these requirements. In this way, the findings of this paper differ from those of other studies based on institutional theory.

Apart from consolidating the previous findings according to which the CSR reporting requirements trigger an increase of the companies' sustainability performance, the thesis brings also a new perspective. By analysing the three ESG pillars taken separately in the light of legislation covering only one or two of them, the paper shows that companies tend to concentrate their sustainability efforts more on that or those regulated pillars. Therefore, it is not only that reporting requirements determine companies to become more sustainable, but also make them pay more attention to the specifically regulated areas.

Moreover, by analysing a country without CSR reporting requirements – Switzerland – the study showed that companies based there increased their ESG score regardless the absence of such requirements. Also, in countries where only one or two pillars were regulated, the sustainability performance improved on the other deregulated pillars as well, although the increase was smaller. Therefore, it can be argued that it is not only the CSR reporting requirements that shape companies' sustainability performance but there are other influencing factors as well. The fact that the paper does not take into account these other factors constitute one of the limitations of the study. The following section shall discuss these limitations and make suggestions for further research.

VII.1. Limitations and further research

As mentioned before, one of the limitations of the study consists of the fact that it does not take into account other factors influencing companies' sustainability performance. Although the aim of the paper was to investigate how reporting requirements shape companies' sustainability performance, thus not to investigate how other factors shape this performance, a study taking into account more factors would offer a better image of the issue. The argument for this is that as long as other influencing factors exist, it cannot be explained to what extent the increase of the sustainability performance was triggered by the introduction of reporting requirements. The author believes that a study analysing more factors would allow a better understanding of the degree to which the increase in sustainability performance is determined by the introduction of reporting requirements or is determined by other pressures.

Another limitation to the study is represented by the number of analysed countries. Although there were ten such countries, the author suggests for further research that a bigger number of countries should be included. The reason for this suggestion resides in the fact that, although ten countries might seem enough, the differences among them make it hard to draw certain conclusions. More specifically, the regulations in Brazil, Denmark, France and South Africa are similar because the regulatory body had a "comply or explain" approach. The difference is that in Brazil and South Africa it was the main stock exchange playing the role of the regulator, whereas in the other two, it was the government. Judging by the evolution of the sustainability performance in these four countries, one could argue that regulations imposed by governments are more efficient as the performance increased more in Denmark and France than in Brazil and South Africa. However, this conclusion could be biased as in the latter two countries, law enforcement is weaker than in the first two due to their status as developing countries. As such, it cannot be inferred from the sample chosen by this paper whether regulations imposed by governments are more efficient than those imposed by stock exchanges or vice-versa. Analysing a larger set of countries would probably be more appropriate to answer this issue.

Moreover, although relying on secondary data has its advantages, presented throughout the paper, there are also some disadvantages that trigger some limitations on the paper. The way data was collected by Sustainalytics limits the paper in two ways that will be subsequently discussed.

Firstly, the number of companies available is insufficient as Sustainalytics mostly analyses publicly traded companies, part of major indices. When the regulatory body is the stock exchange, these companies are enough to enable the study, although in some cases, not all listed companies, subject to regulations, are included in stock indices, and, as such, they are not included in the research. On the other hand, when it comes to governmental regulations, these refer also to state-owned companies or big, unlisted companies, besides those traded on a stock exchange. As such, using data provided by Sustainalytics, the effect of the legislation on these types of companies could not be taken into account. Therefore, the author suggests for further research that all companies subject to reporting requirements be analysed, in order to offer a more comprehensive picture.

Secondly, as explained before, prior to completing a company profile, Sustainalytics' analysts have to get in contact with the researched companies, provide them a copy of the draft profile, and ask for their feedback. Regardless they answer or not, companies do get informed that they are being researched and that potential investors, clients of Sustainalytics, might have access to the ESG data reflecting their sustainability performance. This could trigger what Saunders et al. (2012) call participation or interviewee bias, in the sense that these particular companies will do their best to report the facts in a better light, knowing that they are going to be researched by Sustainalytics (or by other ESG analysis firms). A further research would then aim to study companies' sustainability performance taking this comment into account and, thus, trying to limit this biases as much as possible.

The author wishes to stress out that not under any circumstances these comments should be regarded as a critique of Sustainalytics' methodology. They only serve to present the limitations of the current paper.

Another suggestion for further research would be that the legislation in the analysed countries should be studied in its original language. In this case, the researcher would probably have to be replaced by a team of researchers, each using her/his linguistic capabilities to study the legislation in its original form. This way, the intention of the regulator could be better captured and taken into account in the research process. This would then enable a further research to analyse, for example, whether a reflexive law approach is more efficient than a substantive law approach.

Also, a future research could include an analysis of data from more than just one ESG analysis firms. This would allow for a triangulation than enables the validation of data through cross verification. Nevertheless, this kind of data is expensive and using more sources would skyrocket the costs associated with the research.

To sum up, a further research is suggested to take into account more than just one factor shaping sustainability; to use a larger set of countries both developing and developed; to use a larger set of companies, not only publicly traded but also unlisted and state-owned; to analyse the legislation in its original language, to use multiple ESG data sources and to rely on data collected in such a manner that would eventually reduce the participation bias, although this might imply collecting the data primarily which means expanding considerably the amount of time needed to conduct such a research.

VIII. Bibliography

Beal, J., D., Goyen, M., Phillips, P., 2005, *Why Do We Invest Ethically?,* The Journal of Investing, Fall 2005, pp. 66-77

Bovespa, 2014. Available at: http://www.bmfbovespa.com.br/en-us/markets/download/EC-017-2011-Relate-ou-Explique-Ingles.pdf (Accessed September 2014)

Brockett, A., M., Rezaee, Z., 2012, *Corporate Sustainability Integrating Performance and Reporting*, Wiley

Buhmann, K., 2013, *The Danish CSR Reporting Requirement as Reflexive Law: Employing CSR as a Modality to Promote Public Policy Objectives through Law*, European Business Law Review, Issue 2, pp. 187-216

Campbell, J., L., 2007, *Why would corporations behave in socially responsible ways? An Institutional Theory of Corporate Social Responsibility*, The Academy of Management Review, Vol. 32, No. 3 (Jul2007), pp. 946-967

Carroll, A., B., 1979, *A Three-Dimensional Conceptual Model of Corporate Performance*, The Academy of Management Review, Vol. 4, No. 4, October 1979, pp. 497-505

Carroll, A., B., 1991, *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders,* Business Horizons, July/August 1991, pp. 39-48

Carroll, A., B., 1999, *Corporate Social Responsibility: Evolution of a Definitional Construct,* Business Society, Vol. 38, No. 3, September 1999, pp. 268-295

Cornell University Law School's Legal Dictionary, 2014. Available at:
http://www.law.cornell.edu/wex/fiduciary_duty (Accessed August 2014)

Dhaliwal, D., S., Radhakrishnan, S., Tsang, A., Yang, Y., G., 2012, *Nonfinancial Disclosure and Analyst Forecast Accuracy: International Evidence on Corporate Social Responsibility Disclosure*, The Accounting Review, Vol. 87, No. 3 (2012), pp. 723-759

Dillard, J., 2008, *An ethic of accountability*, Research on Professional Responsibility and Ethics in Accounting, Volume 13, pp. 1–18

DiMaggio, P., J., Powell, W., W., 1983, *The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields,* American Sociological Review, Vol. 48, No. 2 (Apr., 1983), pp. 147-160

Dochartaigh, N., O., 2007, *Internet Research Skills,* Sage Publications, London

Drcaroladams.net, 2014. Available at: http://drcaroladams.net/integrated-reporting-what-it-is-and-is-not-an-interview-with-paul-druckman/ (Accessed August 2014)

EC Directive, 2003, *Directive 2003/51/EC of the European Parliament and of the Council* – Available at:
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:178:0016:0022:EN:PDF
(Accessed October 2014)

Elkington, J., 1997, *Cannibals with forks, the triple bottom line of 21st century business,* Capstone

EC (Commission of the European Communities), 2002, *Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development*, Brussels, 2nd July 2002, COM (2002) 347 final. Available at:
http://trade.ec.europa.eu/doclib/docs/2006/february/tradoc_127374.pdf (Accessed August 2014)

EC (European Commission), 2011, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A renewed EU strategy 2011-14 for Corporate Social Responsibility*, Brussels, 25.10.2011 COM(2011) 681 final. Available at:
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF (Accessed August 2014)

EU2012.dk, 2014, *Danish Presidency of the Council of the European Union 2012*. Available at: http://eu2012.dk/en/EU-and-the-Presidency/About-the-Presidency/Baeredygtighed (Accessed September 2014)

Friedman, A., L., Miles, S., 2001, *Socially Responsible Investment and Corporate Social and Environmental Reporting in the UK: An Exploratory Study*, British Accounting Review, 33, pp. 523-548

Gillan, L., S., & Starks, L., T., 1998, *A Survey of Shareholder Activism: Motivation and Empirical Evidence,* Contemporary Finance Digest, Autumn 1998, 2, 3 10-34

Golob, U., & Bartlett, J., L., 2007, *Communicating about corporate social responsibility: A comparative study of CSR reporting in Australia and Slovenia*, Public Relations Review, 33(1), pp. 1-9

GRI, 2014, Global Reporting Initiative's website, www.globalreporting.org (Accessed August 2014)

Hawley, J., P., & Williams A., T., *The Universal Owner's Role in Sustainable Economic Development*, Corporate Environmental Strategy, Vol. 9, No. 3 (2002), pp. 284-291

Hess, D., 1999, *Social Reporting: A reflexive law approach to Corporate Social Responsiveness*, Journal of Corporation Law, Volume 25, No 1, pp. 41-84

Hoepner, A., G., F., & McMillan, D., G., 2009, *Research on 'Responsible Investment': An Influential Literature Analysis comprising a rating, characterisation, categorisation & investigation*, version 2.9 (August, 2009), University of St. Andrews, UK

Ioannou, I. & Serafeim, G., 2012, *The Consequences of Mandatory Corporate Sustainability Reporting*, Harvard Business School Working Paper 11-100, October 26, 2012

IRI, 2014, Initiative for Responsible Investment at Harvard University, *Current Corporate Social Responsibility Disclosure Efforts by National Governments and Stock Exchanges*, Available at: http://hausercenter.org/iri/wp-content/uploads/2011/08/CSR-Disclosure-Updates-6-26-14.pdf (Accessed August 2014)

Jeffrey, C., & Perkins, J., D., 2013, *Social Norms and Disclosure Policy: Implications from a Comparison of Financial and Corporate Social Responsibility Reporting*, Social and Environmental Accountability Journal, 33:1, pp. 5-19

Jennings, P., D., & Zandbergen, P., A., 1995, *Ecologically Sustainable Organizations: An Institutional Approach*, The Academy of Management Review, Vol. 20, No. 4 (Oct. 1995), pp. 1015-1052

Kelemen, M., Rumens, N., 2008, *An Introduction to Critical Management Research,* Sage Publications, London

Kim, W.C. & Mauborgne, R., 2005, *Blue Ocean Strategy: From Theory to Practice*, California Management Review, Spring 2005, Vol. 47, No. 3, pp. 105-121

Lieberman, M., B., Montgomery, D., B., 1988, *First-Mover Advantages*, Strategic Management Journal, Vol. 9, Special Issue: Strategy Content Research, Summer, 1988, pp. 41-58

Mansley, M., 2000, *Socially Responsible Investment: A Guide for Pension Funds and Institutional Investors*, Sudbury, UK, Monitor Press

Matten, D., Moon, J., 2008, *"Implicit" and "Explicit" CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility*, The Academy of Management Review, Vol. 33, No. 2, April, 2008, pp. 404-424

MIT Sloan Management Review and The Boston Consulting Group, 2013, *Sustainability's Next Frontier – Findings from the 2013 Sustainability & Innovation Global Executive Study and Research Project,* MIT SMR Research Report (December 2013)

Nidumolu, R., Prahalad C.K. & Rangaswami M.R., 2009, *Why sustainability is now the key driver of innovation,* Harvard Business Review, September 2009, pp. 57-64

Nielsen, K., P. & Noergaard, R., W., 2011, *CSR and mainstream investing: a new match? – an analysis of the existing ESG integration methods in theory and practice and the way forward*, ScienceDirect Journal of Sustainable Finance & Investment, 1:3-4, pp. 209-221

Norwegian Government, 2009, *Corporate social responsibility in a global economy - Report No. 10 (2008 – 2009) to the Storting*, Available at: http://www.regjeringen.no/en/dep/ud/documents/propositions-and-reports/reports-to-the-storting/2008-2009/report-no-10-2008-2009-to-the-storting.html?id=565907 (Accessed September 2014)

Pedersen, E., R., G., Neergaard, P., Pedersen, J., T., Gwozdz, W., 2013, *Conformance and Deviance: Company Responses to Institutional Pressures for Corporate Social Responsibility Reporting,* Business Strategy and the Environment, 22, pp. 357-373

Porter, E., M., & Kramer, M., R., 2011, *Creating Shared Value*, Harvard Business Review January-February 2011, pp. 62-77

Rahman, S., 2011, *Evaluation of Definitions: Ten Dimensions of Corporate Social Responsibility*, World Review of Business Research Vol. 1, No. 1, March 2011, pp. 166-176

Reimers-Hild, C. I., *Sustainability through Profitability: The Triple Bottom Line,* 2010, University of Nebraska - Lincoln, Kimmel Education and Research Centre – Presentations and White Papers 1-1-2010

Remenyi, D., Williams, B., Money, A., Swartz, E., 1998, *Doing Research in Business and Management: An Introduction to Process and Method*, chapter *Philosophical Background to Research*, pp. 22-42, Sage Publications, London

Renneboog, L., Horst, J., T., & Zhang, C., 2008, *Socially responsible investments: Institutional aspects, performance, and investor behaviour,* ScienceDirect, Journal of Banking & Finance 32 (2008) 1723-1742

Richardson, B., J., 2013, *Socially Responsible Investing for Sustainability: Overcoming Its Incomplete and Conflicting Rationales*, Cambridge University Press

SAGE Publications, 2012, *SAGE Brief Guide to Corporate Social Responsibility*, chapter *Corporate Social Responsibility (CSR)*, SAGE Publications, Thousand Oaks

Saunders, M., Lewis, P., Thornhill, A., 2012, *Research methods for business students, Sixth edition*, Pearson Education Limited, Essex

Sparkes, R., Cowton, C., J., 2004, *The Maturing Of Socially Responsible Investment: A Review Of The Developing Link With Corporate Social Responsibility*, Journal of Business Ethics 52, pp. 45-57

Statman, M., 2004, *What do investors want?*, Santa Clara University, Leavey School of Business, Santa Clara

Sustainalytics, 2014a. Available at: http://www.sustainalytics.com/research-methodology (Accessed August 2014)

Sustainalytics, 2014b. Available at: http://www.sustainalytics.com/sustainalytics-awards (Accessed September 2014)

Teubner, G., 1983, *Substantive and reflective elements in modern law,* Law and Society Review, Volume 17, No 2, pp. 239-286

Tschopp, D., Wells, S., & Barney, D., 2011, *The institutional promotion of corporate social responsibility reporting,* Journal of academic and business ethics, 5, pp. 1–18

UN Document, 1987, *Report of the World Commission on Environment and Development: Our Common Future.* Available at:
http://www.un-documents.net/ocf-02.htm#I (Accessed August 2014)

UNPRI, 2013, *What is responsible investment?,* Available at:
http://www.unpri.org/viewer/?file=wp-content/uploads/1.Whatisresponsibleinvestment.pdf (Accessed August 2014)

UNPRI, 2014. Available at: http://www.unpri.org/about-pri/about-pri/ (Accessed August 2014)

Yin, R., K., 2014, *Case study research: design and methods, Fifth edition*, Sage Publications

Zucker, L., G., 1987, *Institutional Theories of Organisation,* Annual Review of Sociology, Vol. 13, No. (1987), pp. 443-464

IX. Appendices

Appendix 1 – ESG integration

The four ESG integration strategies mentioned in the Responsible Investment section of the Literature Review chapter will be discussed further.

Negative screens

The negative screens are considered to be the oldest and most basic responsible investment strategy. (Renneboog et al., 2008) This approach was initially based on religious principles and excluded from the investment universe firms operating in "sin" industries like alcohol and tobacco (Ioannou & Serafeim, 2012). The concept of "sin" industries is further expanded as the strategy now implies that one or several companies are excluded from an investment universe due to the fact that they derive revenues from industries such as pornography, gambling or weapons industries, in addition to the two aforementioned, or due to the fact that they are linked with e.g. severe environmental damages, human rights violations or high corruption scandals, to name a few. There is neither a written rule of what incidents should trigger a company's exclusion nor of what industries have to be rejected. It is up to the investor to choose whether to screen out a company or not. It is worth mentioning that the original foundation on religious principles still holds nowadays in some cases as there is a small number of SRI funds that use filters based on traditional ideological or religious convictions. These might exclude from their universe a company that produces pork products or an insurance company insuring non-married people. (Renneboog et al., 2008)

Positive screens

As opposed to those investors excluding companies based on their low sustainability performance, some responsible investors prefer to include in their investment universe only companies that have a high sustainability ranking. It is common that positive screens focus on corporate governance, labour relations, the environment, sustainability of investments and the stimulation of cultural diversity. (Renneboog et al., 2008) A "best-in-class" approach is often linked with positive screens. ESG analysis firms or stock exchange's sustainability indexes rank companies based on their sustainability performance allowing for benchmarking. Thus, a "best-in-class" approach means choosing only companies that pass a minimum threshold, e.g. are placed in the top 25% in their industry.

Shareholder activism

According to Gillan and Starks (1998), a shareholder activist is an "investor who tries to change the status quo through 'voice', without a change in control of the firm." (Gillan and Starks, 1998) His actions range from letter writing and meetings with management and board to the use of corporate voting rights and even threatening the sale of shares. The entire set of tools a shareholder activist uses compose what is termed shareholder activism. Often, this strategy implies close ties and collaboration between the investor and the company towards achieving changes to more sustainable practices.

Divestment

Divestment is the act of selling stocks based on the fact that the stock issuer is not considered sustainable enough. Besides being a strategy itself, it is also a tool for shareholder activism and is the ultimate step an active shareholder can make. It is often the result of failed shareholder-company collaboration and it aims to signal to the firm that its practices have reached that point of being unsustainable that triggered the removal of its stocks from the investor's portfolio.

Getting back to Nielsen and Noergaard idea, these are the four strategies aimed at improving the company's performance or the investor's situation. They argue that, when investing, investors incorporating one or more of the above strategies use a so-called *dual decision model.* The model implies that two decisions are taken subsequently: first a decision that considers the ESG information and then a second one that takes into account financial information. (Nielsen and Noergaard, 2011) This model is antithetic with the *single decision model* which only takes into consideration financial elements. Nevertheless the authors argue against the dual decision model and propose an integrated decision model that uses both ESG and financial data at a time and makes the two decisions together. This model, argue the authors, will have the advantage that it will allow for an analysis where both ESG factors and financial data are considered simultaneously. However, their proposed model is merely a proposal, and explaining it would exceed the purpose of this section.

As one can see, all the above strategies imply that the investor holds ESG information about the companies in its (potential) universe. Even though most of the companies make their ESG information available and easily accessible, it is difficult for an investor to handle massive amounts of ESG information about hundreds or thousands of companies. Therefore, most likely, a responsible investor will make use of the services offered by ESG analysis firms, such as Sustainalytics that kindly provided the quantitative data needed for the research purpose of this paper.

Appendix 2 – Legislation review

Brazil

Stock Exchange, ESG, comply or explain, 2012

Law no. 12.305 (2010) sets out a Solid Waste National Policy, requiring all entities that generate identified types of hazardous waste to develop and report a solid waste management plan. Among others, the report had to include details about the preventive and corrective actions and about reduction and recycling goals. However, this 2010 step towards CSR reporting referred only to environmental (E) issues. It was only in 2012, when the Sao Paolo Stock Exchange (Bovespa) released comply or explain recommendation for all listed companies, encouraging them to publish a sustainability report or to explain why they did not should that be the case. Bovespa believed that this approach of comply-or-explain will encourage companies to report on ESG issues, which will further improve the sustainability efforts and create greater transparency for investors. (GRI, 2014)

Denmark

Government, ESG, comply or explain, 2009

The Danish Financial Statements Act (2001) which requires reporting on environmental aspects in the management report, if it was material to providing a true and fair view of the company's financial position, was amended in 2008, with effect for FY 2009. (IRI, 2014) The amendment requires large companies to report on CSR in their annual reports or to explain why they did not. The aim is to inspire businesses to take an active position on social responsibility and communicate this, as well as to improve the international competitiveness of Danish trade and industry. (GRI, 2014) The explanatory notes to the amended law refer to and encourage the use of the GRI Guidelines. Companies covered by the Act are state-owned and those with: (1) total assets/liabilities of DKK 143 million (EUR 19.18 million[14]); (2) Net revenue of DKK 286 billion (EUR 38.36 million) and; (3) an average of 250 full-time employees per year.

[14] http://www.oanda.com/currency/converter/ was used to convert all the amounts in this paper

France

Government, ES, comply or explain, 2012

Article 225 of the Grenelle Act II, 2010 makes corporate sustainability reporting mandatory for companies exceeding size thresholds. The large companies are required to comply in their 2012 reports, whereas the smaller ones with up to 500 employees and total assets or net annual sales of EUR 100 million are required to comply in their 2014 reports. The regulation regards disclosure obligations on 42 Environmental and Social matters, thus, leaving the corporate Governance pillar deregulated. (GRI, 2014) The information provided in the reports needs to be verified by an independent third party. Although the reporting is mandatory, the companies can avoid it under the obligation of providing a reason for which they couldn't report.

Germany

Government, ESG, mandatory, 2013

Effective for fiscal years beginning after December 31, 2012, the German Accounting Standard No. 20 'Group Management Report' (GAS 20) amends GAS 15 'Management Reporting'. If non-financial performance indicators are used for internal management, quantitative information on this indicators should be provided and their connection to sustainability should be explained, if the indicators are used for this purpose internally. Almost all companies of the N100 Germany required publishing a group management report, now include non-financial key indicators in their annual report. (GRI, 2014)

Additionally, as a result of a biennial consultation process between representatives of financial markets, various enterprises and civil society, the German Sustainability Code (GSC) was drafted in 2011, featuring 20 indicators on sustainability performance aligned with the GRI Guidelines and UN Global Compact principles, among others. The GSC was drafted by the German Council for Sustainable Development which provides the government with recommendations and information on their sustainability strategy and policy. The GSC was sent to the German Federal Government with a recommendation for implementation.

Japan

Government, E, voluntary, 2007

There are several reporting requirements in Japan, most of them regarding environmental issues, such as the Law Concerning the Promotion of Business Activities with Environmental Consideration (2005), the Pollutant Release and Transfer Register Law (2001) or the Civil Aeronautics Act (2006). Nevertheless, the most relevant is the Environmental Reporting Guidelines (2007) issued by the Ministry of the Environment. However, this requirement is voluntary and comprises a set of reporting rules only for those companies wishing to report. (GRI, 2014)

Netherlands

Government, ESG, mandatory, 2004

The EU Modernisation Directive (2003/51/EC) is directly implemented by the Dutch Civil Code into Dutch law. The requirement which is compulsory for all listed companies irrespective of size and large non-listed companies, states that organisations should, to the extent necessary for an understanding of their development, performance or position as far as relevant, give some information (financial and non-financial) about environment, employees and risks in their annual reports. As the EU Modernisation Directive does not provide specific guidance on reporting non-financial information, the Dutch Social Economic Council (a government advisory council consisting of employers and workers´ associations and independent expert members) proposed that the Assurance Standards Committee issue guidelines on the matter. Guidelines for the integration of social and environmental activities in the financial reporting were issued in 2010. (GRI, 2014) Moreover, Dutch listed companies must follow the guidelines of and refer to the Dutch Corporate Governance Code as of 2003. The code was further revised in 2009.[15]

Norway

Government, ESG, mandatory, 1998

The Norwegian Accounting Act (1998) requires the inclusion of information on working environment, equality and environmental-related issues, in the Director's report. This requirement applies to all Norwegian-registered companies (legally bound to keep accounting records) and to foreign companies carrying out activities in Norway (subject to Norwegian taxation). The Act was

[15] http://commissiecorporategovernance.nl/dutch-corporate-governance-code (Accessed September 2014)

amended on 9 April 2013 and provisions requiring large companies to provide information about what they do to integrate considerations for human rights, labour rights and social issues, the environment and anti-corruption practices in their daily operations were introduced. The report must contain information about policies, principles, procedures and standards that are followed to integrate these considerations. (GRI, 2014)

Moreover, as of 2007, the Oslo Stock Exchange stipulates that all listed companies must publish a statement specifying what they have done to comply with the recommendations of the Norwegian Code of Practice for Corporate Governance – or the equivalent code for companies with a primary listing on a foreign stock exchange. The purpose of this code is to clarify the respective roles of shareholders, boards of directors and executive officers beyond the requirements of the legislation. (IRI, 2014)

In addition, in January 2009, Norway issued a White Paper on Corporate Social Responsibility[16] which goal was to raise awareness about CSR in both the public and private sector. The Norwegian Government defined the concept of CSR with, what the author of this paper considers to be, a strong Social-oriented focus in contrast to an overall ESG-oriented focus: “(t)he Government views the following areas as central when it comes to corporate social responsibility in international operations: respecting human rights; upholding core labour standards and ensuring decent working conditions; taking environmental concerns into account; combating corruption; and maximising transparency.” (excerpt from the law aforementioned) As one can see, the first two out of five areas of interest defined by the Norwegian Government are Social-related.

South Africa
Stock Exchange, ESG, comply or explain, 2010

Although there are in place some governmental initiatives, mostly related to the social pillar, more precisely to the elimination of racial discrimination, it is the main stock exchange that regulates the CSR reporting. Over 450 companies listed on the Johannesburg Stock Exchange (JSE) are required to produce an integrated report instead of separate financial and sustainability reports as a

[16] Corporate social responsibility in a global economy - Report No. 10 (2008 – 2009) to the Storting – Available at: http://www.regjeringen.no/en/dep/ud/documents/propositions-and-reports/reports-to-the-storting/2008-2009/report-no-10-2008-2009-to-the-storting.html?id=565907 (Accessed September 2014)

consequence of the adoption of the King III Code, on an comply or explain basis. (GRI, 2014) Entities must describe financial, social and environmental factors within the report. (IRI, 2014)

Moreover, in 1994 the King Report on Corporate Governance was issued and further revised in 2002 and 2010. It is a non-legislated code on good corporate governance and applies to all South African companies and is a listing requirement for the Johannesburg Stock Exchange.

Switzerland
None
There are no government initiatives related to CSR in Switzerland and only a few market regulators' initiatives such as the Directive on Information relating to Corporate Governance (2009) intended to encourage issuers to report on corporate governance.

United States of America
Stock Exchange, G, mandatory, 2003
The New York Stock Exchange (NYSE) adopted in 2003 corporate governance rules requiring that listed companies adopt and disclose a code of business conduct and ethics. (IRI, 2014) The requirement comes to complement the Sarbanes-Oxley (SOX) Act of 2002 which imposes new reporting requirements for US-listed companies to increase corporate transparency (mainly corporate governance). (GRI, 2014) Moreover, in 2013 NYSE Euronext joined the UN' Sustainable Stock Exchanges (SEE) initiative, the only carbon neutral exchange group. (IRI, 2014)

Additionally, an act known as Mandatory Reporting of Greenhouse Gases rule requires, as of 2010, large emitters of greenhouse gases to collect and report data with respect to their greenhouse gas emissions.