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Determinants and Economic Consequences of Non-financial Disclosure Quality

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Supplemental Data and Research Materials

Supplemental data for this article can be accessed on the Taylor & Francis website, 10.1080/09638180.2015.1013049.

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Notes

[1] An exte … that investors … ability to process … Grossman & Stiglitz 1 … & Xiong, 2006 … es that are less att … much less salient t … wal et al. (2011, 2 … straints.

[2] The pro … rations in the Neth … , governm … he program, and universities (Source: http://www.transparantiebenchmark.nl/en). We restrict our

sample to public companies in the Netherlands for two reasons: first, both accounting information and market information of public companies are more available. Second, public companies are required to participate in the program, mitigating any potential self-selection bias.

[3] In the online supplement, OSM Appendix 1 and OSM Appendix 2 provide the full list of criteria and their descriptions for the Content-oriented Framework of Standards and the Quality-oriented Framework of Standards, respectively; OSM Appendix 3 provides two snapshots of the correspondence between rating scores and disclosure practices: for one criterion in the Content-oriented Framework of Standards, Environmental aspects of business practices, and for one criterion in the Quality-oriented Framework of Standards, Relevance. The contents originate from the website of the Transparency Benchmark program (http://www.transparantiebenchmark.nl/en).

[4] We thank the Dow Jones Sustainability Indices and RobecoSAM for providing us with data on the historical constituents of the DJSI.

[5] Our sample construction procedure can be summarized into the following steps. First, we obtain the CSR disclosure score for public firms in the Netherlands from its Ministry of Economic Affairs, Agriculture, and Innovation. The initial sample has 735 firm-year observations. Second, we match the data with Compustat Global for firms' fundamental
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[8] One caveat worth mentioning is that we assume managers believe that high-quality disclosures will reduce financing costs. We find support for this assumption in later sections when we examine the economic outcome of CSR disclosure quality. Although the sequence is reversed, we choose to tabulate the results here because our analyses of firms' capital needs belong in the section dedicated to determinants of CSR disclosure quality.

[9] We thank Prof. Isil Erel for making the corporate governance data available on her website (http://faculty.msb.edu/aggarwal/Gov.xls). The 41 attributes from RiskMetrics used in the construction of governance measure cover 4 broad subcategories: (1) Board (24 attributes), (2) Audit (3 attributes), (3) Anti-takeover provisions (6 attributes), and (4) Compensation and ownership (8 attributes). Board attributes capture the aspects of the board of directors such as board independence, composition of committees, size, transparency, and how the board conducts its work. Audit includes questions on the independence of the audit committee and the role of auditors. Anti-takeover provisions are drawn from the firm's charter and by-laws and refer to dual-class structure, role of shareholders, poison pills, and blank cheque preferred. Compensation and ownership deals with executive and director compensation on issues related to options, stock ownership and loans, and how compensation is set and monitored.

[10] In untabulated results, we find that effect of governance on CSR disclosure quality is
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lagged i .

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existing CSR reporting is that of last year. The lagged nature of CSR disclosure quality

captured in the current year's rating justifies our selection of contemporaneous variables; and (2) we conduct change analyses in Section 4.4, finding a positive association between the change in CSR disclosure quality and the change in a firm's economic consequence including analyst coverage, institutional ownership, and stock liquidity.

[14] Our results are insensitive to excluding PERFORM and its interaction with SCORE.

[15] In unreported results, we find that there are 12 main types of institutional owners. Among them, investment advisors account for the largest average ownership stake, with a mean value of 21.03% and a median value of 20.2%. Ranked after the investment advisors are mutual funds, which hold, on average, 5.1% of the sample firms' shares. Pension funds have an average ownership of 1.67%, while insurance companies have an average ownership of 1.16%. Of the remaining institutional owners, none hold larger than 1% of the sample firms' shares on average.

[16] The standard error becomes 0.000 due to rounding at the third digit after the decimal. It is 0.00043 if we require rounding at the fifth digit after the decimal.

[17] We check whether our results are robust towards the consideration that both P/E ratio and CSR disclosure quality are correlated with growth. We include the growth dummy
variable otherwise,
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that the s with high
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