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Determinants and Economic Consequences of Non-financial Disclosure Quality

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Abstract

This paper examines the determinants and economic consequences of non-financial

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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](https://doi.org/10.1080/09638180.2015.1013049).

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Notes

¹An extended version of this article is available on the SSRN website (<https://ssrn.com/abstract=2488888>).
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²The program was implemented in the Netherlands in 2011. The government
and universities (Source: <http://www.transparantiebenchmark.nl/en>). we restrict our



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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.

³In 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>).

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

⁵Our 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 information. The data are further supplemented with information from FactSet, leaving us 568 observations. Third, we require non-missing values for the following list of variables which will be utilized throughout different analyses in this study (SCORE, PERFORM, SIZE, MTR, LEVERAGE, ROA, and STDRQA, with definitions outlined in the

Appendix 1. The sample size will be reduced to 568 observations. Sample size will be reduced to 568 observations. For example, accrual (accrual) and debt issuance (issuance) are included in the sample.

⁶Using the following variable (variable) and leaving (leaving) the variable (variable) out of the sample.

⁷Our information (information) is obtained using (using) its annual (annual) reports (reports) and its employment (employment) data. The results (results) are omitted (omitted) from the sample.



⁸One 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.

⁹We 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.

¹⁰In untabulated results, we find that effect of governance on CSR disclosure quality is weakened for firms with low CSR performance. The evidence is similar when we use the lagged institutional ownership as the proxy of corporate governance quality.

¹¹Note that our sample's standard deviation is a constant and that this step has no effect on

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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.

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

¹⁵In 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.

¹⁶The 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.

¹⁷We 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, coded one for observations with higher-than-median MTB and zero otherwise, and then interact the growth dummy variable with SCORE. Untabulated results show that the coefficient of CSR disclosure quality is significantly positive for firms with high and low growth, suggesting that our results are not affected by the inclusion of growth in the model.

¹⁸Our in-sample results are robust to excluding firms with zero analyst coverage, zero institutional ownership, and zero stock liquidity. We also conduct change analyses for our sample firms in the current year.



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