Emilia Mäntyniemi

The relationship between corporate social responsibility and financial performance

The effect of Directive 2014/95/EU in Finland, Sweden, and Denmark

School of Accounting and Finance
Master's Thesis in Accounting and Auditing
Master's Degree Programme in Accounting and Auditing

Vaasa 2024

UNIVERSITY OF VAASA
School of Accounting and Finance
Author: Emilia Mäntyniemi
Title of the Thesis: The relationship between corporate social responsibility and financial performance: The effect of Directive 2014/95/EU in Finland, Sweden, and Denmark
Degree: Master of Science in Economics and Business Administration
Programme: Master's Degree Programme in Accounting and Auditing
Supervisor: Tatiana Garanina
Year: 2024 **Pages:** **106**

ABSTRACT:
Corporate social responsibility (CSR) has become an essential topic for corporations because of the increasing awareness of environmental and social issues. For several decades, researchers have studied whether CSR enhances corporate financial performance (CFP), but the empirical results have been contradictory. Most corporations publish CSR reports nowadays, and in recent years, CSR reporting has become mandatory in many countries. In Europe, Directive 2014/95/EU mandated large publicly listed corporations with an average number of 500 or more employees to start disclosing a non-financial statement from 2017 onwards. Most studies on the CSR-CFP relationship focus on voluntary CSR, but due to the increase in CSR-related regulations, mandatory CSR reporting is gaining increasingly more attention.

Nordic countries are frequently perceived as global leaders in sustainability, and in these countries, corporations are generally expected to engage in CSR. Directive 2014/95/EU made CSR reporting mandatory for certain corporations in Finland, Sweden, and Denmark. This creates an interesting approach to the study of CSR in a Nordic context. The purpose of this thesis is to find what kind of relationship there is between CSR and market-based CFP in countries where corporations are already expected to be sustainable and socially responsible. Moreover, this thesis studies how Directive 2014/95/EU affects this relationship.

The sample consists of 253 corporations from Finland, Sweden, and Denmark that fulfill the criteria of Directive 2014/95/EU. CFP is measured by Tobin's Q and share prices and CSR is measured using the overall ESG performance score and seven category scores. Using a regression analysis approach, this thesis studies the relationship between CSR and CFP over a period of 12 years, from 2011 to 2022. The results show that the relationship is statistically insignificant for the most part and that certain CSR categories have more impact on CFP than others. The results also indicate that Directive 2014/95/EU negatively affects the relationship between CSR and CFP.

This thesis and its results contribute to previous research by providing evidence of the relationship between CSR and market-based CFP in Nordic countries. Additionally, this thesis contributes to the research by showing how a reporting mandate, in this case Directive 2014/95/EU, affects this relationship. The main limitations are that this thesis studies corporations from only three countries and focuses on only market-based CFP.

KEY WORDS: Corporate Social Responsibility, ESG, Financial performance, Market value, Non-Financial Reporting Directive, Nordics

VAASAN YLIOPISTO
Laskentatoimen ja rahoituksen akateeminen yksikkö
Tekijä: Emilia Mäntyniemi
Tutkielman nimi: The relationship between corporate social responsibility and financial performance: The effect of Directive 2014/95/EU in Finland, Sweden, and Denmark
Tutkinto: Kauppatieteiden maisteri
Oppiaine: Laskentatoimi ja tilintarkastus
Työn ohjaaja: Tatiana Garanina
Valmistumisvuosi: 2024 **Sivumäärä: 106**

TIIVISTELMÄ :
Yhteiskuntavastuusta on tullut tärkeä aihe yrityksille, koska tietoisuus ympäristöllisistä ja sosiaalisista ongelmista on kasvanut. Tutkijat ovat monien vuosikymmenten ajan tutkineet, parantaako yhteiskuntavastuu yritysten taloudellista suorituskykyä, mutta empiiriset tulokset ovat olleet ristiriitaisia. Nykyään useimmat yritykset julkaisevat yhteiskuntavastuuraportteja, ja viime vuosina tästä raportoinnista on tullut pakollista monissa maissa. Euroopassa Direktiivi 2014/95/EU velvoitti suuret julkisesti noteeratut yritykset, joiden keskimääräinen työntekijämäärä on vähintään 500, julkistamaan vuodesta 2017 alkaen ei-taloudellisen raportin. Useimmat tutkimukset yhteiskuntavastuun ja taloudellisen suorituskyvyn välisestä yhteydestä keskittyvät vapaaehtoiseen yhteiskuntavastuuseen, mutta sääntelyn kasvun myötä pakolliseen yhteiskuntavastuuraportointiin kiinnitetään yhä enemmän huomiota.

Pohjoismaita pidetään usein kestävän kehityksen globaaleina edelläkävijöinä, ja näissä maissa yritysten odotetaan sitoutuvan yhteiskuntavastuuseen. Direktiivi 2014/95/EU teki yhteiskuntavastuuraportoinnin pakolliseksi tietyille yrityksille Suomessa, Ruotsissa ja Tanskassa. Tämä luo mielenkiintoisen lähestymistavan yritysten yhteiskuntavastuun tutkimiseen pohjoismaisessa kontekstissa. Tämän tutkielman tarkoituksena on tutkia, millainen yhteys yhteiskuntavastuun ja markkinapohjaisen taloudellisen suorituskyvyn välillä on maissa, joissa yritysten odotetaan jo ennestään toimivan kestävästi ja vastuullisesti. Lisäksi tutkielmassa selvitetään, miten Direktiivi 2014/95/EU vaikuttaa tähän yhteyteen.

Otos sisältää 253 yritystä Suomesta, Ruotsista ja Tanskasta, jotka täyttävät Direktiivin 2014/95/EU kriteerit. Taloudellista suorituskykyä mitataan Tobinin Q:lla ja osakekursseilla, ja yhteiskuntavastuuta mitataan käyttämällä ESG-toiminnan kokonaispistemäärää ja seitsemää kategoriapistemäärää. Tutkielma tutkii regressioanalyysia hyödyntäen yhteiskuntavastuun ja taloudellisen suorituskyvyn välistä yhteyttä 12 vuoden ajalta, vuodesta 2011 vuoteen 2022. Tulokset osoittavat, että yhteys on pääosin tilastollisesti merkityksetön, ja että tietyillä yhteiskuntavastuun kategorioilla on suurempi vaikutus taloudelliseen suorituskykyyn kuin toisilla. Tulokset myös osoittavat, että Direktiivi 2014/95/EU vaikuttaa negatiivisesti yhteiskuntavastuun ja taloudellisen suorituskyvyn väliseen yhteyteen.

Tämä tutkielma ja sen tulokset täydentävät aiempaa tutkimusta tarjoamalla näyttöä yhteiskuntavastuun ja markkinapohjaisen taloudellisen suorituskyvyn välisestä yhteydestä Pohjoismaissa. Lisäksi tämä tutkielma edistää aiempaa tutkimusta osoittamalla, miten raportoinnin sääntely, tässä tapauksessa Direktiivi 2014/95/EU, vaikuttaa tähän yhteyteen. Tutkielman merkittävimpiä rajoituksia ovat se, että siinä tutkitaan yrityksiä vain kolmesta maasta, ja että siinä keskitytään vain markkinapohjaiseen taloudelliseen suorituskykyyn.

AVAINSANAT: Corporate Social Responsibility, ESG, Financial performance, Market value, Non-Financial Reporting Directive, Nordics

Contents

Figures

Tables

Abbreviations

CAR	Cumulative abnormal returns
CFP	Corporate financial performance
CSP	Corporate social performance
CSR	Corporate social responsibility
CSV	Creating shared value
ESG	Environmental, social, and governance
GRI	Global reporting initiative
ICB	Industry Classification Benchmark
OLS	Ordinary least square
ROA	Return on assets
ROE	Return on equity
SDG	Sustainable Development Goals
VIF	Variance inflation factor

1 Introduction

Awareness of environmental and social issues has been progressively increasing during the past few decades. Various business failures, neglects, and misconducts have indicated that effective corporate social responsibility (CSR) practices are a necessity for corporations (Saleh et al., 2011). Sustainability and CSR are frequently used as interchangeable terms in literature (Dhaliwal et al., 2011) and in general, CSR refers to the responsibilities that corporations have towards society, including, for instance, social, environmental, and ethical responsibilities (European Commission, n.d.). To communicate their CSR efforts, corporations provide CSR reports (Christensen et al., 2021), and this kind of reporting has become a nearly universally adopted practice and a part of global norms as most corporations worldwide report on sustainability matters nowadays (KPMG, 2022).

To be perceived as legitimate in today's society, most corporations must provide information on their CSR efforts and indicate their commitment and performance on related aspects. In recent years, stakeholders have been pressuring corporations to be increasingly more transparent on sustainability issues (KPMG, 2020). In addition, there is an increasing number of regulations regarding CSR reporting and disclosure which have made these practices mandatory for many corporations worldwide (Haji et al., 2023). The large shift towards mandatory CSR adds a new approach to the research of CSR and has been of interest to several researchers. Since corporations are economic players, the financial effect of their actions is always of interest, and therefore, many researchers have examined how CSR impacts corporate financial performance (CFP). Despite over three decades of research on this relationship, there is no consensus on its nature (Huang et al., 2020). There are significantly fewer studies on mandatory CSR reporting compared to voluntary CSR reporting (Christensen et al., 2021), and therefore, mandatory CSR and its effect on CFP require further examinations to be understood more comprehensively.

1.1 Background of the study

CSR has gained significant attention in academic literature for several decades, partly due to the growing understanding of the impact CSR reporting has on CFP (Pérez et al., 2020). The relationship between CSR and CFP has been examined using different approaches, focuses, and limitations, but despite the large amount of research, there is no unambiguous understanding of how CSR affects CFP as the empirical evidence has been contradictory. Several researchers have found an overall positive relationship between CSR and CFP (e.g., Cahan et al., 2016; De Klerk et al., 2015; Tsang et al., 2022). At the same time, some others have found a negative relationship (e.g., Chen et al., 2018; Grewal et al., 2017; Lioui & Sharma, 2012), and some have not found any significant relationship between the two (e.g., Atan et al., 2018; Guidry & Patten, 2010; Phan et al., 2020). Moreover, some studies have even gotten mixed results about the nature of this relationship (e.g., Omar & Zallom, 2016).

Researchers have tried to explain the complex relationship between CSR and CFP. Some proposed explanations for the contradictory evidence are the differences in selected CSR and CFP measures (Huang et al., 2020; Wang et al., 2016), studied regions and industries (Huang et al., 2020), sample sizes, and methods (Quazi & Richardson, 2012). Additionally, the relationship may vary depending on whether CSR reporting is voluntary or mandatory (Dhaliwal et al., 2011; Mukherjee et al., 2018). CSR reporting and disclosure used to be an overall voluntary activity, but recently it has been shifting towards being a mandatory practice. Many countries around the world have introduced regulations regarding CSR reporting and disclosure, making these practices mandatory for many corporations (Haji et al., 2023). The global expansion of CSR-related regulations makes the research of mandatory CSR more relevant than ever before.

In Europe, the European Commission introduced the Non-Financial Reporting Directive 2014/95/EU which concerns large public-interest corporations that have an average number of 500 or more employees during their financial year. This directive made CSR reporting mandatory for these corporations from 2017 onwards (European Commission,

2014). There are significantly fewer studies on mandatory CSR reporting compared to voluntary CSR reporting (Christensen et al., 2021). Nevertheless, several researchers have applied the perspective of Directive 2014/95/EU to their studies on CSR and the CSR-CFP relationship (e.g., Agostini et al., 2022; Cupertino et al., 2022; Grewal et al., 2017; Mittelbach-Hörmanseder et al., 2021; Phan et al., 2020). The directive is proven to affect the quantity and quality of reporting (Ottenstein et al., 2022), and some research has found evidence that it also affects the relationship between CSR and CFP (e.g., Mittelbach-Hörmanseder et al., 2021).

Directive 2014/95/EU is effective in several countries, and therefore, it enables to study mandatory CSR reporting in different countries and institutional settings. Nordic countries are often perceived as forerunners in sustainability and CSR (Midttun et al., 2015; Strand et al., 2015), and they are frequently ranked at the top in different sustainability rankings (Lueg & Pesheva, 2021). The Nordics are advanced welfare countries (Midttun et al., 2015) that share similar structures and characteristics (Lueg & Pesheva, 2021). Out of all the Nordic countries, Finland, Sweden, and Denmark are EU member countries and thus fall into the scope of Directive 2014/95/EU. Overall, CSR reporting in the Nordic context has not been examined much (Khatri & Kjærland, 2023), and therefore, it is important to study it further. The directive gives an interesting approach to the study of CSR as it allows to inspect how regulation on CSR reporting affects corporations from countries that are already very committed to CSR and sustainability.

The empirical results of the effect of Directive 2014/95/EU on the CSR-CFP relationship have been mixed. To my knowledge, the effect of the directive on the CSR-CFP relationship in the Nordics has not received significant attention in research. Therefore, to better understand the CSR-CFP relationship, the effect of Directive 2014/95/EU on it, and the Nordic context, it is necessary to conduct a study that uses a sample of corporations from Finland, Sweden, and Denmark and examines how the relationship between CSR and CFP behaves under the effect of Directive 2014/95/EU.

1.2 Purpose of the study

More research is needed to gain a more comprehensive understanding of the relationship between CSR and CFP. Most previous research has concentrated on a voluntary approach to CSR (Christensen et al., 2021) but the increasing number of regulations on CSR reporting makes the study of mandatory CSR very current and relevant. Nordic countries are highly committed to CSR, and in these countries, CSR is considered a part of business models (Lueg & Pesheva, 2021). Therefore, CSR commitments are expected and common in Nordic countries. This creates an interesting approach to the research of the relationship between CSR and CFP: does CSR enhance CFP in a setting where corporations are already expected to be sustainable and responsible?

Moreover, Directive 2014/95/EU made CSR disclosure mandatory for certain large corporations operating in the union's member countries. Due to the inclusion of Directive 2014/95/EU, this thesis does not study the entire Nordic region as not all of them are EU member countries and fall into the scope of this regulation. To study the effect of Directive 2014/95/EU on the CSR-CFP relationship in a Nordic context, this study only focuses on Nordic countries that belong to the EU, namely Finland, Sweden, and Denmark. Due to the directive, corporations are more pressured to show good CSR performance and provide more comprehensive CSR disclosures in these countries.

This thesis aims to understand how CSR affects CFP in countries where being sustainable and socially responsible is already expected and seen as usual. Additionally, it aims to find out whether and how Directive 2014/95/EU affects this relationship. Thus, this thesis examines what kind of relationship there is between CSR and CFP, and how Directive 2014/95/EU affects this relationship in Finland, Sweden, and Denmark. More precisely, this thesis focuses on the relationship between CSR and market-based CFP as it measures CFP using two market-based indicators, namely Tobin's Q and share prices. CSR is measured using the overall environmental, social, and governance (ESG) performance score and seven category scores that are retrieved from Refinitiv's

database. This thesis applies regression models and examines the relationship between CSR and market-based CFP using a period of 12 years, from 2011 to 2022.

Altogether, this thesis aims to answer the following questions:

1. What kind of relationship is there between CSR and CFP in Finland, Sweden, and Denmark?
2. How does Directive 2014/95/EU affect the relationship between CSR and CFP?

The first question focuses on the direction of the relationship. Previous research has found contradictory evidence of the direction of the CSR-CFP relationship, and thus more research is needed to understand it more comprehensively. This thesis contributes to research by examining the issue from a Nordic perspective. The second question focuses on the effect of the directive. More research is needed for mandatory CSR disclosure and the effects of Directive 2014/95/EU, and this thesis studies these matters using a sample of corporations that come from a setting where CSR was an expected practice even before the mandate.

Altogether, this thesis contributes to research by providing evidence of the relationship between CSR and market-based CFP and the effect of Directive 2014/95/EU on this relationship. Additionally, this thesis contributes to academic research by studying these issues using a sample of corporations operating in relatively small countries with high CSR commitments. Using recent data, this thesis provides up-to-date results and sheds light on the relationship between CSR and market-based CFP. These results can benefit researchers, corporate managers, investors, and regulators in providing understanding of how CSR and CFP are associated with each other and how the directive changes this association.

1.3 Structure of the study

The remainder of this thesis is structured as follows. The second chapter presents the theoretical framework and builds a basis for the empirical part. It first introduces the concept of CSR and CSR reporting and then discusses these in the context of Finland, Sweden, and Denmark. These are followed by a presentation of Directive 2014/95/EU. Then, three relevant complementary theories for CSR are presented, namely stakeholder, legitimacy, and institutional theories. These theories give a deeper understanding of corporations' motivations to report on CSR. The third chapter consists of a literature review and research hypotheses. The literature review is divided into four parts: the first presents studies that found a positive relationship between CSR and CFP, the second presents studies that found a negative relationship between the two, the third presents studies that did not find a significant relationship, and the fourth discusses the effect of Directive 2014/95/EU on CSR and the relationship. These are followed by the presentation of the hypotheses.

The fourth chapter presents the research methodology and data. It first describes the variables that are used for the regressions and then presents the descriptive statistics and correlation analysis for the variables. These are followed by introducing the regression models, and lastly, the data is described. The fifth chapter presents the empirical results of the relationship between CSR and CFP and the effect of Directive 2014/95/EU on this relationship. This chapter also includes robustness tests and a thorough discussion of the findings. The sixth chapter is the conclusion which summarizes the thesis, presents practical implications, discusses the contribution and limitations of the study, and proposes ideas for future research.

2 Theoretical framework

This chapter outlines the theoretical framework for this thesis, and it consists of two sections, namely corporate social responsibility and key theories in it. The first section focuses on the concept of CSR, related reporting, and Directive 2014/95/EU, and the second section presents three theories that are often applied in studies on CSR. Altogether, this chapter provides a theoretical basis and presents the main concepts that are essential for the empirical part of this thesis.

2.1 Corporate social responsibility

This section discusses the concept of CSR in more detail. It starts with the definition and development of the concept. This is followed by the presentation of Carroll's (1991) CSR pyramid to provide a more thorough understanding of the different components of CSR. Then follows a presentation of CSR reporting and its latest trends. After these, CSR and its reporting are discussed in a Nordic context, and more precisely, this subchapter discusses CSR in Finland, Sweden, and Denmark. Then follows the presentation of Directive 2014/95/EU, which has a major importance in this paper.

2.1.1 Definition and origins

Throughout the decades, researchers have suggested various definitions for CSR and used different terms for it, e.g., social responsibility (Carroll, 1999). In 1953, Howard Bowen (1953) stated that social responsibilities consist of the responsibilities that businessmen have towards society. According to him, these responsibilities include pursuing policies, making decisions, and following procedures that are beneficial for society and its values (Bowen et al., 2013, p. 6; Bowen, 1953, p. 6). Another early definition of the concept was suggested by Keith Davis who referred to social responsibility as a corporation's decisions and actions that are taken not only for direct

economic and technical reasons but also for reasons beyond these (Davis, 1960, p. 70). Gradually, more and more researchers started to acknowledge and define the various kinds of responsibilities that corporations have in addition to economic responsibilities (Carroll, 1999).

The concept of CSR has significantly changed in the last decades (Carroll, 1999; Latapí Agudelo et al., 2019; Lee, 2008). Carroll (1999) discusses that the real development of the concept started in the late 1950s. Nevertheless, it must be noted that earlier literature also exists (Carroll, 1999; Lee, 2008), but in that literature CSR is defined in a significantly different way (Carroll, 1999). Howard Bowen's work from 1953 is commonly known and considered as the first attempt to theoretically explain and understand the relationship between society and corporations (Carroll, 1999; Lee, 2008). In his work, Bowen stated that large corporations' actions and decisions significantly affect citizens. He also acknowledged that social responsibility does not resolve all the problems that societies may have but is rather an important development for achieving higher welfare (Bowen et al., 2013; Bowen, 1953). Around the same time, in the late 1950s and 1960s United States, several laws concerning business conduct and employee and consumer protection were created. Additionally, a consumer rights movement was created because of the growing number of consumer protests, and these created new challenges for corporations (Lee, 2008).

Literature related to CSR significantly expanded during the 1960s as more researchers attempted to define the concept (Carroll, 1999). In 1960, Davis (1960) discussed social responsibility in a management context, and according to him, the term includes two types of obligations, namely socio-economic and socio-human obligations. According to him, businessmen have an economic obligation to the community, meaning that they should economically develop the public welfare, such as employment, inflation, and competition. In addition to that, businessmen are obligated to enhance values, such as cooperation, morale, and self-realization in work (Davis, 1960, p. 70-71). According to Carroll (1999), Davis's definition of the relationship between social responsibility and

business power became well-known and widely accepted during the late 1970s and 1980s.

Lee (2008) argues that the conceptual development of CSR took a big step forward in 1970 when the Committee of Economic Development conducted a study on CSR. This paper provided a wider view on CSR, acknowledged the controversy of the concept, and discussed that being socially minded supports shareholders' interests (Lee, 2008; Wallich & McGowan, 1970). During the 1970s, the definitions of CSR became more precise overall (Carroll, 1999). For instance, Harold Johnson (1971) stated that a responsible corporation does not focus solely on its stockholders' profits but also considers other groups such as its workforce and local community (p. 50). Carroll (1999) notes that Johnson's definition refers to the possibility of a stakeholder approach as Johnson (1971) named several interest groups of a corporation. Another view of Johnson (1971) is that corporations aim to increase their profits by carrying out social actions, which suggests that social responsibility aims at profit maximization.

In the 1980s, fewer new definitions for CSR were presented, but more research was conducted. Additionally, alternative and complementary concepts were discussed. One of these alternative themes that was presented and widely accepted during this time was the concept of corporate social performance (CSP) (Carroll, 1999). Herein it is important to note the difference between the terms CSR and CSP. The term CSP refers to the results achieved from socially responsible actions and can be viewed as an extension of CSR, which refers to corporations' responsibilities more generally (Carroll, 2018). Some other complementary concepts discussed during this decade were corporate social responsiveness, business ethics, and stakeholder theory (Carroll, 1999, p. 284).

Due to several international creations and events, such as the United Nations Summit on the Environment and Development, social responsibility got significant global attention in the 1990s. During this time, there was a growing interest in CSR (Latapí

Agudelo et al., 2019), but very few new definitions were presented for it. During this decade, the concept of CSR was used more as the basis for many related topics (Carroll, 1999). Nevertheless, Carroll (1991) presented a detailed definition of CSR, called the pyramid of CSR, which is presented in the next chapter of this thesis. Other than that, concepts such as stakeholder theory, business ethics theory, and corporate citizenship got more attention in the 1990s (Carroll, 1999, p. 288). During the 1990s and 2000s, CSR started becoming a part of broader objectives such as organizations' reputation and stakeholder management (Lee, 2008), and along the new millennium, CSR got more strategic approaches (Latapí Agudelo et al., 2019).

During the 2000s, CSR continued to gain even more international attention and recognition, and the concept was studied from a strategic perspective. Additionally, different CSR frameworks and implementations were adopted around the world. For instance, in Europe, new social expectations and the increasing awareness of corporations' environmental impacts led to actions, and in 2001, the European Commission published a paper that discussed the European approach to CSR (Latapí Agudelo et al., 2019). After this, many other CSR-related initiatives have been presented in Europe. At the same time, on a global scale, multiple international certifications, such as ISO 26000 standards, were designed to address social responsibility. These frameworks and guidelines gave a more detailed and understandable approach to implementing CSR in businesses. During this decade, CSR started to be considered as a part of corporations' strategic management as well (Latapí Agudelo et al., 2019).

The concept of CSR has been developing even further during the last decade. More alternative concepts, such as shared value creation, have been presented (Latapí Agudelo et al., 2019). Porter and Kramer (2011) presented the concept of creating shared value (CSV) that refers to concurrently creating economic and societal value, which includes considering society's needs and challenges (Porter & Kramer, 2011). Porter and Kramer (2011) state that CSR principally focuses on a corporation's reputation and is limitedly connected to the business, whereas CSV is an essential part

of a corporation's profitability and competitive position. Chandler and Werther (2014) acknowledged the relevance of CSV as well, but their primary focus was on the concept of strategic CSR. They argue that the idea of strategic CSR includes the identification of problems that have a clear market-based solution. Then, these solutions should be delivered in an efficient and socially responsible manner. Moreover, they state that a holistic CSR perspective should be included in a corporation's strategic planning and core operations in a way that considers various stakeholder groups and their interests. This kind of management would enable the corporation to reach the highest economic and social value (Chandler & Werther, 2014, p. 65).

Nowadays, CSR is essential for corporations (Cupertino et al., 2022), and there exist thousands of definitions for it. For instance, many large international organizations and unions have published their definitions for CSR. The United Nations Industrial Development Organization refers to CSR as a managerial approach that includes integrating social and environmental considerations into business activities and stakeholder engagements and adds that CSR is about balancing economic, environmental, and social dimensions (United Nations Industrial Development Organization, n.d.). The European Commission refers to CSR as corporations' responsibility to account for their societal impact. According to the Commission, this includes, for instance, the incorporation of social, environmental, ethical, and human rights consideration into a corporation's strategy and daily operations (European Commission, n.d.). Altogether, the definition of CSR has evolved significantly, but the general idea has remained the same for multiple years.

2.1.2 CSR pyramid

In 1991, Carroll (1991) presented his definition of CSR, also known as *The pyramid of corporate social responsibility*. This definition comprises four components that represent the various kinds of responsibilities that corporations have to their society, namely the economic, legal, ethical, and philanthropic responsibilities.

According to Carroll (1991), economic responsibilities are the base for corporations' existence. He states that corporations were originally established to serve economic purposes and that corporations should commit to being as profitable and competitive as possible. Corporations have economic responsibilities to, above all, their shareholders as they are responsible for aiming to maximize profits for them (Carroll, 1991). The second layer of Carroll's (1991) CSR pyramid considers legal responsibilities. Corporations are expected to follow the laws and regulations, and they must operate under these rules. Carroll (1991) states that it is vital for a successful corporation to have a good reputation regarding complying with laws and regulations, and he also acknowledges that legal responsibilities represent basic notions of fair operations in a corporation (Carroll, 1991).

Ethical responsibilities are the third component of the pyramid, and these responsibilities represent the standards, norms, or expectations that take notice of what the corporation's stakeholders regard as fair. Additionally, these responsibilities include the aspect of respecting and protecting the stakeholders (Carroll, 1991). Carroll (1991) states that sometimes ethical responsibilities may be difficult to deal with. For instance, there can be a situation where society expects corporations to meet recently emerged values and norms, that may insist higher performance than what is required by law at that moment, which can create a challenging situation for corporations. Nevertheless, ethical responsibilities are nowadays considered a legitimate CSR component, and corporations need to reach stakeholders' expectations of societal and ethical norms (Carroll, 1991).

The highest layer depicted in Carroll's (1991) CSR pyramid is philanthropic responsibilities. This component refers to being a good corporate citizen which involves engaging in actions that promote human welfare or goodwill. This consists of using resources to support the community and to advance the quality of life, for instance. The principal difference between philanthropic and ethical responsibilities is that the first is

considered as a voluntary part of a business whereas the second is viewed as mandatory (Carroll, 1991). A significant observation of Carroll (1991) is that philanthropy is not as essential as the other three components but is still highly desired. If a corporation does not make an effort to promote welfare or goodwill, that is, if it is not fulfilling its philanthropic responsibilities, it does not mean that the corporation is seen as unethical (Carroll, 1991).

Figure 1 illustrates the four levels of the CSR pyramid. It is essential to note that, as Carroll (1991) himself states, the CSR pyramid does not perfectly explain everything about CSR but is intended to portray that several distinct components of CSR exist, and when taken together, they constitute the whole. The purpose of the separate components is to help business managers see the different kinds of responsibilities and obligations that corporations have and to enable them to understand the dynamic tension between these responsibilities (Carroll, 1991).

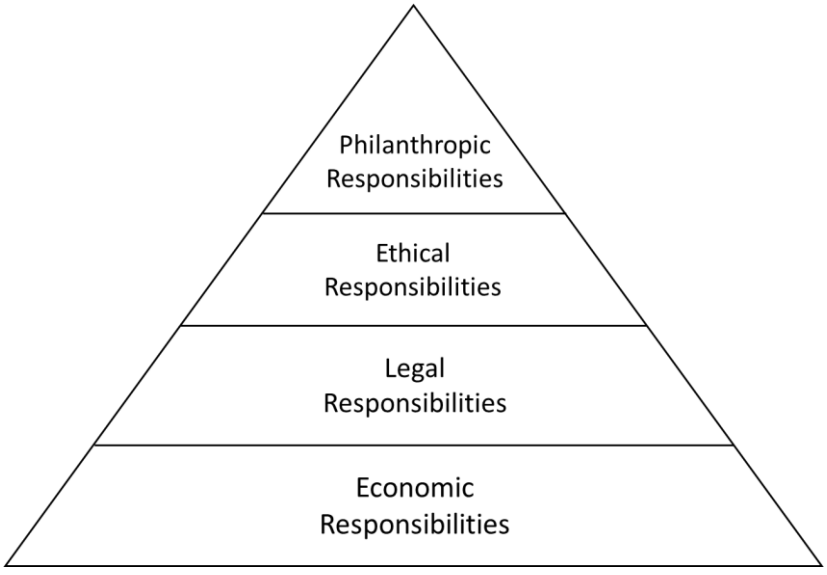

Figure 1. The Pyramid of Corporate Social Responsibility (Carroll, 1991).

2.1.3 CSR reporting

Nowadays, disclosing information about sustainability and social responsibilities is a critical component of corporate reporting. CSR reporting rates have been increasing all over the world, and today, most corporations disclose information about their sustainability practices and performance (KPMG, 2022; KPMG, 2020). CSR reporting includes measuring and publishing information about CSR and related topics and efforts (Christensen et al., 2021, p. 1182). There are several possible purposes for disclosing CSR information which can be divided into six groups, namely stakeholder management, image enhancement, legitimacy and accountability, attitude and behavioral change, sensemaking, and identity and meaning creation (Crane & Glozer, 2016, p. 1232).

Corporations can disclose CSR information in their annual report, or correspondingly, publish a standalone CSR disclosure. These reports include qualitative and quantitative information on the corporation's CSR activities and policies (Christensen et al., 2021), but the exact contents of the reports can vary a lot. Possible, and often recommended, contents for CSR reports are, for instance, corporate ethics, supply chain management, human rights, risk management, employees' safety, current and planned CSR strategy, community engagement, CSR performance, and environmental protection (Vartiak, 2016). According to KPMG (2022), reporting on climate-related risks, carbon reduction, and sustainable development goals has been common in recent years.

The concept of ESG is highly related to CSR reporting. The term ESG consists of environmental, social, and governance dimensions (Han et al., 2016). The environmental dimension consists of matters related to, for instance, environmental impacts, resource use (Clément et al., 2023), and climate change, whereas the social dimension deals with issues such as labor practices, gender equality, and product safety. The governance dimension refers to matters related to, for instance, board diversity, business ethics, and corruption (Singhania & Saini, 2021). ESG scores are one of the primary ways to evaluate corporations' CSR activities (Clément et al., 2023; Han et al., 2016). ESG scores enable quantifying CSR-related matters and are widely used to provide an understanding of the

overall CSR strategies and performance in a corporation (Han et al., 2016). A difference between ESG and CSR is that ESG is generally more expansive than CSR. For instance, ESG includes governance matters more thoroughly, while CSR includes them only indirectly. ESG and CSR are often used as interchangeable terms in CSR-related literature (Abdul Rahman & Alsayegh, 2021), but this study particularly refers to CSR.

As the demand for CSR disclosures has increased, many corporations have chosen to use standardized frameworks and guidelines in their CSR reporting (Mukherjee & Nuñez, 2019). These include frameworks such as the Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures, and Sustainability Accounting Standards Board standards, of which GRI is the most used globally (KPMG, 2022). GRI consists of sustainability reporting standards that can be used by any corporation worldwide. The GRI standards enable corporations to report and get a better understanding of their effects on the economy, environment, and individuals. The standards are divided into three groups: the GRI Universal Standards, the GRI Sector Standards, and the GRI Topic Standards. The GRI Universal Standards apply to all corporations, while the Sector Standards offer industry-specific guidelines for reporting. The Topic Standards consist of guidelines for reporting on different subjects, such as waste, workplace health and safety, and tax (GRI, n.d.).

In general, the use of standardized frameworks is not mandatory, and frequently, neither is the CSR reporting itself. Throughout the years, corporations have voluntarily provided CSR reports for various reasons. Previous literature has found that corporations may voluntarily publish CSR reports to display their good corporate citizenship (Mukherjee & Nuñez, 2019), to respond to stakeholder scrutiny of CSR efforts (Thorne et al., 2014), to satisfy community concerns, or to improve corporate image (Dobbs & van Staden, 2016), for instance. Even though CSR reporting has been mostly voluntary for corporations, many governments worldwide have started to issue regulations regarding this kind of reporting. This is the case, for instance, in the European Union (European Commission, 2021a) and many countries in Asia (Mukherjee et al., 2018). According to KPMG (2022),

sustainability reporting is shifting from voluntary to mandatory, meaning that more and more corporations need to start reporting on these matters in the following years. Many researchers have studied either voluntary or mandatory CSR reporting (e.g., Chen et al., 2018; Christensen et al., 2021; Dhaliwal et al., 2011; Mukherjee & Nuñez, 2019), and according to Christensen et al. (2021), the studies about voluntary CSR have generated more favorable results.

Voluntary and mandatory CSR reporting affect corporations differently. In general, reporting mandates create more short-term costs for corporations (Cupertino et al., 2022). A major reason for this is that corporations tend to start improving and focusing more on their CSR activities when a regulation enters into force. Previous literature suggests that the need to improve CSR performance is principally due to pressure from society, stakeholders, and peer benchmarking (Christensen et al., 2021). At the same time, reporting mandates define aspects that corporations have to report on, thus increasing the credibility of the provided CSR information. When CSR reporting is voluntary, corporations can freely choose what and how to report on their CSR efforts and performance, which allows them to emphasize selected aspects and thus appear more responsible (Gatti et al., 2019). Therefore, mandatory CSR reporting generally improves the accuracy and credibility of the provided information (Christensen et al., 2021). Some researchers (e.g., Gatti et al., 2019) argue that both voluntary and mandatory procedures should be included in corporations' CSR efforts because the combination improves corporate practices, creates higher transparency in CSR communication, and prevents greenwashing.

2.1.4 Sustainability and CSR in Finland, Sweden, and Denmark

Nordic countries are frequently perceived as forerunners in sustainability and CSR (Midttun et al., 2015; Strand et al., 2015). For years, these countries have strongly collaborated to improve their economies, environments, and welfare (Bird, 2017). According to a study by Reyes (2021), Nordic individuals are willing to use economic

resources for the environment, and according to Lueg and Pesheva (2021), Nordic corporations generally view sustainability topics as a part of their business model. Moreover, throughout the years, Nordic governments have taken a strong role in implementing sustainability policies for corporations (Lueg & Pesheva, 2021; Midttun et al., 2015), and they have significantly taken part in several international CSR initiatives, for instance, from the United Nations (Midttun et al., 2015).

Many researchers have studied CSR in the Nordic countries. Some papers study the entire Nordic region (e.g., Lueg & Pesheva, 2021; Reyes 2021), while others focus on some selected countries (e.g., Midttun et al., 2015; Strand et al., 2015). This thesis investigates how Directive 2014/95/EU affects the CSR-CFP relationship, and therefore only studies Finland, Sweden, and Denmark, and not the entire Nordic region. Due to the inclusion of the EU directive, only EU member countries should be included in the sample. Finland, Sweden, and Denmark are members of the EU and thus fall into the scope of this study, while the other Nordic countries are not part of the EU and therefore are not included in the study sample.

Finland, Sweden, and Denmark have high sustainability rankings when measured by the SDG Index, which measures countries' performance on the United Nations' Sustainable Development Goals (SDG). At the midpoint of 2023, Finland had the highest SDG Index out of 166 countries with its score of 86.8 (out of 100), while Sweden had the second highest performance with a score of 86.0, and Denmark the third highest with a score of 85.7 (Sachs et al., 2023). This indicates that these countries are highly committed to these goals and have resources to perform well. At the same time, KPMG's survey shows that the rate of corporate sustainability reporting in Nordic countries is relatively high on a global scale. For the survey sample, the rate of sustainability reporting was 94% in Finland and 98% in Sweden in 2022 (Denmark did not have a rate as it was not included in this survey) (KPMG, 2022).

The Nordics are advanced welfare countries that have a high level of government engagement regarding social and environmental policy issues, and throughout the years, their governments have introduced multiple CSR policies (Midttun et al., 2015). According to a survey by Finnish Business & Society, Finnish corporations have good prerequisites for CSR, but a multitude of them could significantly improve their CSR efforts (Finnish Business & Society, 2023). In Finland, CSR became a part of public debate later than in other Nordic countries, and the Finnish government has considered CSR and related policies less than other Nordic countries. Nevertheless, the government has introduced policies such as The Finnish Accounting Act (Khatri & Kjærland, 2023; Midttun et al., 2015) that required certain corporations to disclose non-financial information in their annual reports (Khatri & Kjærland, 2023). On a global scale, Finland has excellent sustainability and CSR performance when measured by, for instance, the SDG Index (Sachs et al., 2023) and sustainability reporting rates (KPMG, 2022).

In Sweden, the government has been active in introducing CSR policies. For instance, in 2002, an initiative called Globalt Ansvar was introduced, and it aimed to improve corporations' work regarding human rights, labor standards, environmental protection, and anticorruption (Midttun et al., 2015, p. 474). During the 2000s, the government introduced regulations that mandated certain corporations to disclose non-financial information. This also required state-owned corporations to use the GRI guidelines for their non-financial disclosures (Khatri & Kjærland, 2023; Midttun et al., 2015), and this regulation made Sweden the first country to require the use of GRI in CSR reporting (Hichri & Ltifi, 2021). Denmark was the first Nordic country to introduce CSR policies overall (Midttun et al., 2015; Vallentin, 2015), as the first policy in Denmark was introduced as early as 1993 (Midttun et al., 2015). During the last two decades, the Danish government has introduced several other CSR policies that have required certain large corporations to report on matters such as socially responsible investing, climate impact, and human rights (Khatri & Kjærland, 2023). Nowadays, the regulations by the European Union significantly affect CSR reporting in Finland, Sweden, and Denmark. This

thesis acknowledges the many regulations in the individual countries, but primarily focuses on Directive 2014/95/EU.

Despite the strong sustainability performance, all the Nordic countries together have even more goals regarding sustainability, and they aim to achieve a status of the world's most sustainable region by 2030. This includes, for instance, promoting carbon neutrality and circular economy, supporting innovation, and maintaining and improving equality, well-being, and non-discrimination (Nordic Council of Ministers, 2020). In addition to promoting sustainability and preventing climate change, the Nordics also acknowledge that their sustainability policies have the potential to create economic growth and welfare (Bird, 2017). According to Aagaard et al. (2022), Nordic countries have many valuable assets, such as significant technological capital and start-ups, that enable to them capitalize on sustainability. With the right targets and vision, Nordic countries have the potential to create significant value in the form of money and new jobs (Aagaard et al., 2022). On a global scale, Nordic countries have a principal role in the green transition and have the potential to support other regions to overcome sustainability issues and challenges (Aagaard et al., 2022).

2.1.5 Directive 2014/95/EU

The number of regulations regarding CSR reporting has been increasing in recent years. Many governments and institutions around the world have issued regulations that require corporations to report on various CSR matters. Due to this, CSR reporting and disclosure have become a mandatory and essential part of annual reporting for many corporations worldwide (Cupertino et al., 2022; Haji et al., 2023). For instance, in the United Kingdom, corporations that fulfill specified criteria are mandated to report on matters such as their climate-related impacts, risks, and opportunities following the guidelines by the Taskforce on Climate-related Financial Disclosures (Department for Business, Energy & Industrial Strategy, 2022). In the United States, The Securities and Exchange Commission has issued rules that require certain corporations to disclose

information on specified climate-related issues, for example on greenhouse gas emissions and climate-related targets (US Securities and Exchange Commission, 2022). In the European Union, multiple directives have increasingly mandated and guided corporations to report on and disclose CSR-related information (European Commission, 2022).

The European Union considers sustainability as one of its core values and it has done extensive work to enhance economic, social, and environmental sustainable development in its member countries. This includes, for instance, comprehensive sustainability strategies, goals, and regulations (European Commission, 2016). Corporations significantly impact the environment and society, and therefore the European Union considers them an essential part of creating a more sustainable future (European Commission, 2019). Due to the acknowledgment of the importance of corporations, CSR issues have gained considerable attention in the union's functions, resulting in, for instance, detailed CSR-related directives (European Commission, 2016; European Commission, 2014).

The European Commission has executed regulations for corporate reporting (European Commission, 2014). Generally, corporations are obliged to report and disclose financial information from each financial year. Nevertheless, in addition to financial reporting, the European Union has begun to oblige corporations operating in its member countries to disclose non-financial information about their operations and policies. These regulations aim to improve the transparency of corporate reporting and disclosures, to support corporations in managing their sustainability-related impacts, opportunities, and risks, and to make non-financial information more comparable across the EU (European Commission, 2014).

In 2014, the European Commission (2014) introduced the Non-Financial Reporting Directive 2014/95/EU. This directive amended the accounting directive 2013/34/EU because the union saw a need to improve and regulate the reporting and disclosure of

non-financial information. Directive 2014/95/EU came into force from 2017 onwards and mandated a specified group of corporations to start including a non-financial disclosure as a part of their corporate reporting. It concerns large public-interest corporations that have an average number of 500 or more employees during their financial year. According to the directive, these corporations must disclose information on matters related to, for instance, the environment, employees, human rights, anti-corruption, bribery, and diversity. Corporations must describe their business model, policies, performance, impacts, risks, and due diligence processes regarding these matters and present their non-financial key performance indicators (European Commission, 2014).

Directive 2014/95/EU allows for flexibility in non-financial reporting but defines several matters that are beneficial to disclose. Regarding the environmental aspects, corporations are suggested to report on matters such as water and energy use, air pollution, and greenhouse gas emissions. Regarding the social and employee-related aspects, the non-financial statement can describe matters such as health, safety, equality, and working conditions. The statements should also include how corporations work against human rights violations, corruption, and briberies. Thorough auditing of the non-financial information is not required by the directive as it specifies that it is sufficient for auditors to only confirm that the information is provided. The directive aims to give stakeholders a more comprehensive and comparable view of corporations' performance and effects on society and to enhance the change toward a more sustainable economy (European Commission, 2014).

According to a report by the European Commission (2021b), there was a need to revise Directive 2014/95/EU as several problems and new needs related to it were identified. One problem was that in their non-financial reports, corporations did not focus enough on their material sustainability topics (European Commission, 2022; European Commission, 2021b). Moreover, the report stated that there was significant inadequacy in the comparability, reliability (European Commission, 2022; European Commission,

2021b), consistency, accessibility, and usability of non-financial reports (European Commission, 2021b). The directive was also criticized because it lacked a common reporting framework and mandatory assurance of the provided information (Mittelbach-Hörmanseder et al., 2021). Additionally, there was significant evidence that the scope of the directive needed to be extended (European Commission, 2021b).

To address these problems, to advance the quality of non-financial statements, and to contribute to its sustainability goals more efficiently, the European Commission introduced a newer directive, called the Corporate Sustainability Reporting Directive. This newer directive entered into force in 2023 and applies to a larger scale of corporations, including, for instance, non-listed large corporations and public-interest small and medium-sized corporations. It is more detailed and comprehensive than Directive 2014/95/EU and requires its scope of corporations to report in accordance with the European Sustainability Reporting Standards and to provide assurance on the reported sustainability information (European Commission, 2022; European Commission, 2021). Revising and improving the directives is one of the actions that the European Union takes to build a more sustainable economy. Therefore, more improvements and new regulations can be expected in the future. This paper specifically focuses on Directive 2014/95/EU as there exists a significant amount of data that can be used to evaluate the directive's effects on the CSR-CFP relationship.

2.2 Key theories in CSR

Since CSR is a complex topic, it needs several theoretical perspectives to be comprehensively explained (Gray et al., 1995). In previous literature, researchers have tried to explain CSR and its importance through various theories (Frynas & Yamahaki, 2016). Some frequently applied theories are stakeholder theory, legitimacy theory, institutional theory, agency theory (Frynas & Yamahaki, 2016; Mehedi & Jalaludin, 2020), political economy theory, resource dependency theory, and resource-based view (Mehedi & Jalaludin, 2020). This thesis focuses on stakeholder theory, legitimacy theory,

and institutional theory. These three theories have been applied to previous research to understand corporations' motivations for CSR (Fernando & Lawrence, 2014; Mehedi & Jalaludin, 2020) and to theorize the external drivers of CSR. They emphasize the importance of societal legitimacy (Frynas & Yamahaki, 2016) and are therefore relevant in this thesis as it studies how legislation affects CSR and the CSR-CFP relationship in countries with high levels of CSR commitments. The following subchapters discuss these theories separately.

2.2.1 Stakeholder theory

According to stakeholder theory, corporations carry out CSR activities and disclose related information to serve the needs of various stakeholder groups (Mehedi & Jalaludin, 2020). Nowadays, the general viewpoint is that corporations have many kinds of responsibilities to their stakeholders and that corporations are accountable to them (Fernando & Lawrence, 2014). Nevertheless, a more classical point of view is that corporations' only purpose is to maximize profits for shareholders (Carroll, 1991). In 1970, Milton Friedman (1970) proposed his view of the relationship between a corporation and its stakeholders, and according to him, only people can have responsibilities, but a corporation cannot. He views that a corporation's only purpose is to increase profits for shareholders (Friedman, 1970). Conversely, several other researchers (e.g., Fernando & Lawrence, 2014) view that corporations have a diverse range of responsibilities, such as financial, social, and environmental responsibilities, to several stakeholder groups.

The actual adoption of the modern stakeholder theory happened after the mid-1980s (Fernando & Lawrence, 2014). In 1984, Freeman (1984) suggested a different view of a corporation's purposes. He proposed that a corporation is supposed to take into account the needs of other stakeholders in addition to the needs of shareholders (Freeman, 1984). While Friedman (1970) referred to stakeholders mainly as shareholders, Freeman (1984) considered the definition of stakeholders more broadly. According to him, a

stakeholder is anyone who can impact or who is impacted by a corporation and its goals. This refers to, for instance, a corporation's customers, competitors, employees, suppliers, shareholders, and government (Freeman, 1984, p. vi).

Many scholars have categorized stakeholders in different ways. The main purpose of this phenomenon of categorization has been to emphasize the fact that there exist several different stakeholder groups with various expectations. It also emphasizes the viewpoint that a corporation must meet the multiple kinds of expectations of the various stakeholder groups, and not only focus on shareholders (Fernando & Lawrence, 2014). Creating value for all stakeholder groups is central in stakeholder theory (Dmytriyev et al., 2021). Stakeholders have pressure on corporations, and different stakeholders may have conflicting expectations which corporations must consider and balance (Fernando & Lawrence, 2014). In addition, Castelo Branco and Lima Rodrigues (2007) point out that when corporations respond to stakeholders' expectations, they must also consider current social norms and major views of corporate responsibilities that are intertwined with stakeholders' expectations (p. 11).

Stakeholder theory includes two principal ideas: the purpose of the corporation and what kinds of responsibilities its management has to stakeholders. Regarding the purpose of the corporation, managers should define the value the corporation creates and determine the factors that bring the stakeholders together. Regarding the managers' responsibilities towards stakeholders, managers should define the relationships they want to have with stakeholders, and these relationships should help them deliver the purpose of the corporation (Freeman et al., 2004, p. 364). Donaldson and Preston (1995) discuss that stakeholder theory has many dimensions and can be used in various ways, and in their analysis, they specifically focus on three dimensions of the theory, namely descriptive, instrumental, and normative. First, stakeholder theory is frequently utilized to describe different characteristics of a corporation and corporate behavior (Donaldson & Preston, 1995, p. 70). Second, the theory can be utilized to identify connections or the lack of them. Third, the theory is used to

determine how a corporation functions (Donaldson & Preston, 1995, p. 71). They conclude that these three are mutually supportive and that stakeholder theory has a normative base (Donaldson & Preston, 1995, p. 66).

CSR and stakeholder theory are frequently used in studies that focus on social issues in businesses, but there has not been total consensus about how these two concepts relate to one another. Some consider one concept as a subset of the other, some view them as competing concepts, and some use them synonymously (Dmytriyev et al., 2021). Freeman and Dmytriyev (2017) view CSR and stakeholder theory as distinct concepts that both emphasize the importance of including societal interests in corporations' operations. Nevertheless, they state that CSR principally focuses on a corporation's responsibilities to society, while stakeholder theory considers a broader range of corporate responsibilities and emphasizes creating value for stakeholders (p. 9-10).

There have been cases where corporations have been untruthful about their CSR efforts. As a result, people have become more skeptical about CSR claims and started to question the claims' truthfulness. Many think that CSR efforts are used solely to hide problems and to mislead people, that is, many view CSR claims as window-dressing (Connors et al, 2017). Although several empirical findings have implied that corporations that disclose CSR information also have better CFP, some researchers suggest that corporations may use CSR reports as a window-dressing act to gain legitimacy without improving their CSR activities (Ting, 2021, p. 3). Stakeholder theory emphasizes that corporations must consider the needs of various stakeholder groups, and therefore, CSR efforts cannot address only the needs of certain stakeholders. CSR efforts can be seen as window-dressing if, for instance, they solely address environmental protection and not employee relations (Lin et al., 2021, p. 628). This, and many other possible cases, is the reason why it is important to consider multiple stakeholder groups' needs when adapting CSR activities and practices.

2.2.2 Legitimacy theory

According to legitimacy theory, corporations try to make sure that society perceives them as legitimate, meaning that they must operate within society's norms (Deegan, 2009, p. 323). Legitimacy theory suggests that a corporation can exist only if society perceives that it operates within a value system that resonates with the values of the society (Gray et al., 1996, p. 46). This theory is considered as systems-oriented (Deegan, 2002; Gray et al., 1996). Gray et al. (1996) discussed that the systems-oriented view of the organization and society concentrates on the role of information and disclosure in the relationships between organizations, state, groups, and individuals (p. 45). According to the systems-oriented approach, the organization affects and is affected by society (Deegan, 2002, p. 292).

Legitimacy theory also argues that society, politics, and economics cannot be separated from each other (Deegan, 2002, p. 292), meaning that corporations are an essential component of a broader social system. The theory also views that corporations do not have an innate right to resources, or to exist, and therefore, corporations exist only if the society in which they operate views them as legitimate, meaning that corporations must meet the expectations of the society. Additionally, it is considered that a corporation may not survive if society thinks it does not operate acceptably or legitimately (Deegan, 2002, p. 292-293). Nevertheless, society's expectations and norms change over time, which requires corporations to be responsive to continuous changes (Deegan, 2009, p. 323). There is also a possibility for unexpected occurrences, such as financial scandals or major accidents, that can threaten the legitimacy of the organization (Fernando & Lawrence, 2014).

A corporation's legitimacy can also be threatened even when it is complying with the expectations of society. This can be the case if the corporation's disclosures do not convince society of the corporation's compliance, regarding, for instance, CSR. Therefore, corporate managers need to properly demonstrate their compliance and disclose expected CSR information (Lanis & Richardson, 2013). This increases

transparency of the corporation's operations and practices which enables them to gain society's trust and approval. Fernando and Lawrence (2014) discuss that there are activities that enhance legitimacy, such as behaving in an environmentally friendly manner or participating in community development projects. At the same time, major accidents and financial scandals make corporations' reputation worse (p. 154). Consequently, corporations tend to disclose and emphasize positive CSR acts and behavior. Previous empirical evidence has shown that corporations may avoid disclosing negative information about their actions, provide explanations about negative news linked to them, increase the amount of positive news, and decrease the amount of CSR news to improve their legitimacy (Fernando & Lawrence, 2014, p. 156-157).

Previous literature has indicated that corporations report on CSR to legitimize their operations, and this motivation is directly linked to legitimacy theory (Deegan, 2002). When a corporation's performance does not equal society's expectations, a legitimacy gap exists (Castelo Branco & Lima Rodrigues, 2007). In recent years, stakeholders have been pressuring corporations to be increasingly more transparent on sustainability issues (KPMG, 2020) and in addition to that, there is a growing number of regulations regarding CSR. Due to these, to be perceived as legitimate in today's society, most corporations must engage in CSR and report on it.

2.2.3 Institutional theory

Brammer et al. (2012) discuss that studying CSR from the perspective of institutional theory provides enhanced insights of corporations' responsibilities regarding two primary aspects, namely the diversity of CSR and the dynamics of CSR. Moreover, they argue that institutional conditions must be understood to thoroughly explain CSR (Brammer et al., 2012). Nowadays, institutional theory is frequently associated with CSR and used to theorize external drivers of CSR (Frynas & Yamahaki, 2016), but this has not always been the case. According to Brammer et al. (2012), applying institutional theory to understand CSR is a recent development.

Institutional theory studies organizational forms and provides reasons for why organizations in the same field tend to have similar characteristics (Deegan, 2009). The term organizational field is central to institutional theory. According to DiMaggio and Powell (1983), organizational fields are significantly diverse in approach and form at the beginning of their lifecycle, but when a field becomes well established, it becomes more homogenous. In this context, an organizational field refers to a group of entities that altogether compose "a recognized area of institutional life". It comprises suppliers, consumers, regulatory authorities, and other organizations that offer similar products or services (DiMaggio & Powell, 1983, p. 148).

Institutional theory includes two dimensions, namely isomorphism and decoupling (Fernando & Lawrence, 2014). Isomorphism refers to a procedure where one unit adopts similar characteristics as others that go through similar environmental conditions (DiMaggio & Powell, 1983, p. 149). This includes the idea that organizational characteristics are altered so that they become more compatible with environmental conditions (DiMaggio & Powell, 1983). Deegan (2009) suggests that corporations whose structures and processes are significantly different from other corporations may face criticism from society. DiMaggio and Powell (1983) acknowledge that two different types of isomorphism can be identified, namely competitive and institutional isomorphism.

Competitive isomorphism deals with market competition and is particularly relevant for organizational fields that have free and open competition (DiMaggio & Powell, 1983, p. 149-150). Institutional isomorphism can be divided into three processes. The first process, coercive isomorphism, refers to the situation where an organization is pressured by society's expectations and by other organizations on which it is dependent, and due to these pressures, the organization changes to be more like the other organizations. The second process, mimetic isomorphism, results from uncertainty. It makes an organization copy another organization's practices, that it perceives more legitimate, to gain a competitive advantage. The third process, normative isomorphism,

results from the pressure of adopting institutional practices that are relevant in the field (DiMaggio & Powell, 1983). For instance, an institutional practice of corporate reporting is shaped by accounting standards (Deegan, 2009).

Although these three types of isomorphic processes are separately defined, they cannot always be distinguished in practice (DiMaggio & Powell, 1983). Each of them leads to the phenomenon where organizations in one field become more alike, meaning that the organizations adopt similar structures and management practices. Nevertheless, these processes do not necessarily improve organizations' efficiency but make them appear more like other organizations, and thus make them appear more legitimate (DiMaggio & Powell, 1983). The other dimension of institutional theory is called decoupling (Deegan, 2009). It refers to the distinction which results from formal organizational practices being different than actual organizational practices. In other words, decoupling means that formal organizational practice is not included in the organization's actual processes (Dillard et al., 2004). From a decoupling perspective, CSR disclosures can create a certain organizational image that gives a distinct perception from the actual CSR efforts and performance (Deegan, 2009).

According to Deegan (2009), institutional theory provides a supplementary approach to stakeholder and legitimacy theories in explaining organizations' responses to changing expectations and conditions of society. Institutional theory explains the reasons behind an organization's practices from a broader macro perspective, and it connects the practices, such as CSR practices, with society's values and norms. CSR reporting aims at gaining legitimacy, and providing such reports may enhance the organization's reputation and stakeholders' overall perception of the organization's legitimacy (Deegan, 2009). Institutional theory enables a better comprehension of the meaning of CSR in a specific institutional setting (Brammer et al., 2012), but it should be noted that this theory has significant overlaps with stakeholder and legitimacy theories (Deegan, 2009).

3 Literature review and research hypotheses

Many researchers have attempted to understand and explain the relationship between CSR and CFP. A considerable amount of research has been conducted on this relationship, but the results keep being inconsistent. Some researchers have found an overall positive relationship between CSR and CFP (e.g., Agostini et al., 2022; Cahan et al., 2016; De Klerk et al., 2015; Reverte, 2016; Saleh et al., 2011; Tsang et al., 2022). At the same time, some others have found a negative relationship (e.g., Chen et al., 2018; Grewal et al., 2017; Lioui & Sharma, 2012), and some have not found any significant relationship between the two (e.g., Atan et al., 2018; Guidry & Patten, 2010; Phan et al., 2020). Moreover, some studies have gotten mixed results (e.g., Omar & Zallom, 2016).

Huang et al. (2020) conducted a meta-analysis to understand why the research on the relationship between CSR and CFP has been so divided. Their sample consisted of 437 primary studies, and they reported that approximately 40% of these studies found a positive effect of CSR on CFP, approximately 50% found a statistically insignificant effect, and approximately 10% found a negative effect (Huang et al., 2020, p. 1). Several factors can explain the contradictory results in research. First, each study has its own approach which means that differences in CSR and CFP measures (Huang et al., 2020; Wang et al., 2016), studied regions and industries (Huang et al., 2020), sample sizes, and methods can explain some of the contradictions (Quazi & Richardson, 2012). Additionally, the impact of macro-level economic fluctuations may explain some of the disagreement in previous literature (Huang et al., 2020). The studied relationship may also vary depending on whether disclosing CSR information is voluntary or mandatory (e.g., Chen et al., 2018; Dhaliwal et al., 2011).

The aim of this literature review is to show the complexity of the CSR-CFP relationship overall and to build a base for the empirical part of this thesis by presenting studies with relevant insights. The review primarily focuses on research that has studied the effect of CSR on market-based CFP measures as this thesis aims to investigate whether and how CSR impacts corporations' market-based CFP. The next subchapters discuss the

CSR-CFP relationship from four different perspectives, and after these, the research hypotheses development is presented. The first subchapter of the literature review presents studies that have found a positive relationship between CSR and CFP, the second subchapter presents evidence of a negative relationship, the third presents studies that have not found a significant relationship between the two, and the fourth subchapter focuses on the effect of Directive 2014/95/EU on the CSR-CFP relationship. After these, the hypotheses are presented.

3.1 Positive relationship between CSR and CFP

Most previous studies have found a positive relationship between CSR and CFP (Atan et al., 2018; Pérez et al., 2020; Wang et al., 2016). Many researchers argue that investing in CSR enhances CFP (e.g., Saleh et al., 2011). CSR disclosures increase information transparency between the corporation and shareholders, and that way, comprehensive CSR disclosures can be assumed to enhance CFP (De Klerk et al., 2015; Reverte, 2016). CSR efforts can also bring positive media coverage (Christensen et al., 2021) and create long-term customer loyalty which positively affect CFP (Hichri & Ltifi, 2021; Saleh et al., 2011).

Saleh et al. (2011) studied the relationship between CSR and CFP of Malaysian publicly listed corporations. They used return on assets (ROA), stock market return, and Tobin's Q as CFP measures and found a significant positive relationship between CSR disclosure and CFP. More precisely, their results indicate that employee relations and community involvement are positively linked to CFP. Their results suggest that having good relationships between managers and employees enhances CFP. Additionally, in their research context, supporting the development of society generates positive reactions from stakeholders. Nevertheless, they also found that the environmental and product dimensions of CSR disclosure are negatively associated with CFP as they do not add enough value to corporations' reputation (Saleh et al., 2011)

Cahan et al. (2016) examined CSR disclosure from an institutional perspective. In their study, they first examined how the strength of nation-level institutions influences the extent of CSR disclosure and found that CSR disclosure levels tend to be higher in countries that have strong nation-level institutions. This applies to Nordic countries for instance. After this, they focused on the relationship between CSR disclosure and Tobin's Q, and how this relationship varies across countries. CSR disclosure was divided into unexpected and expected portions. The results indicate that unexpected CSR disclosure positively affects Tobin's Q, while there is no significant relationship between expected CSR disclosure and Tobin's Q. Moreover, they found that CSR disclosures generate higher economic advantages for corporations in countries with weaker nation-level institutions compared to countries with strong institutions (Cahan et al., 2016).

De Klerk et al. (2015) approached the topic differently as they examined the relationship between CSR and share prices using a sample of large UK corporations. Moreover, they considered the use of the GRI guidelines in their regression models. They found that CSR disclosure has a statistically significant positive effect on share prices and that this association is particularly strong for corporations that operate in environmentally sensitive industries. They explain that CSR disclosures give additional information to financial information, and thus create a more comprehensive understanding of the corporation which helps investors to better assess the value of the corporation's shares. Moreover, they found that using the GRI guidelines is positively associated with share prices, which can be of particular interest to corporate managers (De Klerk et al., 2015).

Reverte (2016) studied the relationship between CSR and share prices for listed Spanish corporations. The results suggest that the relationship is positive. Reverte (2016) explains that CSR disclosures provide additional value-relevant information for investors and that corporations use CSR disclosures to decrease information asymmetry. He also suggests that integrating CSR disclosures into investment analyses enables a deeper understanding of a corporation's long-term performance. Similar to findings by De Klerk et al. (2015), Reverte's (2016) results suggest that the effect of CSR disclosure on share

prices is more evident in environmentally sensitive industries compared to other industries. Reverte's (2016) study also shows evidence of the indirect effects of CSR on share prices, as he acknowledges that CSR disclosures decrease economic uncertainty and risk for investors and make earnings more predictable.

Hichri and Ltifi (2021) examined the CSR-CFP relationship in a Swedish context. Additionally, they inspected how customer loyalty affects the relationship. They used Tobin's Q to measure CFP and found that CSR performance positively affects CFP. Correspondingly, they also found that CFP positively affects CSR performance, indicating that the relationship is bidirectional. Their results also indicate that CSR performance positively affects customer loyalty, and that customer loyalty positively affects CFP. This is explained by the fact that obtaining a new customer is costly for corporations, but when a customer relationship has lasted for a longer period, that is, when the corporation has a loyal customer, it gains profits instead of mere costs from it. Tsang et al. (2022) used a different approach and examined the role of financial analysts in the CSR-CFP relationship. They used an international sample of corporations and found that voluntary CSR reporting positively affects CFP, measured by Tobin's Q. They state that this finding indicates the relevance of CSR reporting for global investors. Moreover, the findings suggest that analyst following has a strengthening effect on the CSR-CFP relationship and that this strengthening effect is more significant when the CSR report is more thorough (Tsang et al., 2022).

Lueg and Pesheva (2021) studied the effect of CSR on total shareholder returns using a sample of Nordic corporations. They found a positive relationship between CSR and total shareholder returns. Moreover, they found that ESG scores individually, as in environmental, social, and governance scores, positively affect total shareholder returns, but only the governance score has a significant effect. The findings also suggest that some of the corporations in the sample report too much on CSR, which results in unnecessary agency costs and decreased market value. Thus, the authors state that there is an optimal level for CSR disclosure and exceeding it will be costly.

3.2 Negative relationship between CSR and CFP

Some studies have found a negative relationship between CSR and CFP. The negative association is often explained by the costs that CSR efforts cause, especially in the short term. This decreases profits (Kao et al., 2018) and affects the corporation's competitive position (Omar & Zallom, 2016). CSR efforts may also cause inefficient allocation of resources (Hichri & Ltifi, 2021). Moreover, the market may react negatively to CSR initiatives if they expect it to negatively affect the corporation's financial performance (Han et al., 2016).

Perez et al. (2020) studied the relationship between media coverage of CSR and CFP in a Spanish context. Using cumulative abnormal returns (CAR) to measure CFP, they found that positive news often affects CFP positively, while negative CSR news always causes a negative market reaction, and these effects are quite immediate. Moreover, the results suggest that investors react more strongly to CSR news that negatively affects stakeholders. This highlights the phenomenon that negative CSR information is perceived as more useful, thus receiving more weight in corporate assessments (Perez et al., 2020). Perez et al. (2020) also found that negative CSR news affects market value significantly and negatively regardless of the industry, while positive CSR news only affects market value positively in finance and basic industries.

Chen et al. (2018) had a different approach as they studied the relationship between mandatory CSR disclosure, CFP, and social externalities in China. They used ROA and return on equity (ROE) as CFP indicators and found that mandatory CSR disclosure negatively affected profitability. They note that the regulation did not require corporations to use money on CSR, but despite this, profitability decreased. At the same time, social externalities benefitted from the mandate as it resulted in a decrease in wastewater and certain emissions. Moreover, Chen et al. (2018) acknowledge that mandatory CSR disclosure puts more political and social pressure on corporations, changes corporate behavior, and benefits social externalities at the expense of shareholders.

Lioui and Sharma (2012) examined how environmental CSR affects CFP. They used ROA and Tobin's Q to measure CFP and found a significant negative relationship between CSR and the selected CFP measures. They argue that investors consider environmental CSR as possible costs, which is why the direct effect of environmental CSR on CFP is negative. Additionally, the study includes the perspective of R&D, and according to the results, the interaction between environmental CSR and R&D positively affects CFP. This indirect effect is explained by the potential benefits that R&D may bring, and according to Lioui and Sharma (2012), indirect effects in the CSR-CFP relationship should be accounted for to better understand the complex relationship.

Omar and Zallom (2016) examined the relationship between different CSR themes and market value for Jordanian corporations. The examined CSR themes were environment, human resources, community, and products, and they used Tobin's Q to measure market value. Moreover, they focused on three industries, namely the chemical industry, the food and beverage industry, and the pharmaceutical and medical industry. The results suggested that the different CSR themes had different effects depending on the industry. First, in the food and beverage industry, the human resource aspect did not significantly impact market value, while the other three themes decreased it, indicating a negative relationship between CSR and market value. Second, for the pharmaceutical and medical industry, the community theme negatively affected market value, while the others did not have a significant effect. Third, for the chemical industry, none of the four themes affected market value (Omar & Zallom, 2016).

Omar and Zallom (2016) explained the negative relationship between environmental activities and market value in the food and beverage industry by the possibility that the corporations in that industry do not necessarily comply with all the environmental regulations and thus the market reacts negatively. The reason behind the neutral relationship between human resource activities and market value in all three industries was that employees do not seem to be very aware of CSR activities in their corporations

and that the corporations do not meet the social issues for their employees, and thus the human resource activities do not enhance market value. Additionally, they state that the costs and profits related to these activities compensate for each other, which does not end up affecting market value significantly. The negative relationship between the community activities and market value in the two industries was explained by the fact that the costs for such activities tend to be higher than the expected benefits, and thus they indirectly decrease market value. The negative association between the product theme and market value in the food and beverage industry is due to the corporations using more capital to improve the quality of their products, which decreases the financial returns (Omar & Zallom, 2016). These results are a good example of the complexity of the CSR-CFP relationship and how different CSR themes can have different effects. Further, it also shows that the results may significantly vary depending on the industry.

3.3 Neutral relationship between CSR and CFP

Some research has not found a significant association between CSR and CFP. Guidry and Patten (2010) studied the relationship between standalone CSR reports and CFP, and whether the quality of such reports affects market reactions. They focused on the first-time issuance of the reports. Their sample comprised publicly listed corporations in the United States, and CAR were used to measure market performance. Regarding the report quality, the authors used the GRI recommendations to build a measure. The results suggest that the first-time issuance of CSR reports did not generate a significant market reaction. Nevertheless, the quality of the reports regarding the diversity of reported social and environmental indicators had a significant effect on the market reaction. A more thorough report is of higher quality, and the market reacts significantly better to high-quality reports than to lower-quality reports (Guidry & Patten, 2010). Guidry and Patten's (2010) results indicate that report quality is essential, and to increase their reputational values, corporations must publish CSR reports that include comprehensive information on social and environmental matters.

Another example of a study that did not find a significant CSR-CFP relationship was conducted by Atan et al. (2018). They studied the effect of different ESG dimensions on profitability, firm value, and cost of capital using a sample of Malaysian public-limited corporations. They used ROE to measure profitability, Tobin's Q to measure firm value, and weighted average cost of capital to measure cost of capital. According to their results, neither individual nor combined ESG factors have a significant relationship with ROE or Tobin's Q. Moreover, the findings suggest that none of the individual ESG dimensions significantly affect the cost of capital, whereas the combined ESG score has a significant positive relationship with it. They propose that the results may be due to stakeholders not having enough trust in corporations' ESG efforts, which then affects the cost of capital. They also suggest that their study period of three years may be too short to reveal statistically significant relationships between the selected variables (Atan et al., 2018).

3.4 The effect of Directive 2014/95/EU on the CSR-CFP relationship

Researchers have been interested in non-financial disclosure mandates and how they affect CSR activities and disclosure. Many empirical findings suggest that reporting mandates increase the quantity (e.g., Ottenstein et al., 2022) and quality of non-financial disclosures (e.g., Ottenstein et al., 2022; Venturelli et al., 2017), but at the same time, some studies have found mixed results regarding quality changes (Agostini et al., 2022). Ottenstein et al. (2022) discuss that Directive 2014/95/EU has increased the amount of information that corporations provide regarding anti-corruption, bribery, employees, the environment, human rights, and social aspects. Therefore, the directive has improved transparency, but at the same time, Ottenstein et al. (2022) state that it has not increased the comparability of non-financial reports.

Previous literature has found more favorable results for voluntary CSR reporting compared to mandatory CSR reporting, of which there exist significantly fewer studies. Additionally, research on voluntary CSR reporting finds more evidence of capital-market

benefits than research on mandatory CSR reporting (Christensen et al., 2021). As Directive 2014/95/EU has made CSR reporting mandatory for many corporations in the European Union, researchers have studied how this affects the CSR-CFP relationship and whether it enhances profitability or diminishes it (e.g., Cupertino et al., 2022; Phan et al., 2020). The directive enables to study how the institutional setting affects the relationship as it is applied in several countries with diverse institutional backgrounds (Mittelbach-Hörmanseder et al., 2021).

Grewal et al. (2017) studied the market reactions to the events that occurred because of Directive 2014/95/EU. They chose three sample events. The first is the event when the European Commission presented the proposal for the directive, the second is the event when the European Council came to mutual understanding on this proposal, and the third is the event when the European Commission adopted the proposal (p. 17). Grewal et al. (2017) measured market reaction by CAR and found an overall negative market reaction to the sample events. Nevertheless, the market reacted less negatively for corporations that had higher pre-directive ESG performance and disclosure, and correspondingly, the market reacted more negatively for corporations with lower pre-directive efforts. The negative reaction is due to the expectation that the directive results in more costs than benefits for corporations.

Agostini et al. (2022) also applied Directive 2014/95/EU to their study on the CSR-CFP relationship. They studied the quantity and quality of CSR disclosures and used ROA, ROE, and Tobin's Q to measure CFP. The sample included listed Italian corporations. Their results showed that the quantity of CSR disclosure increased after the directive became effective, but regarding disclosure quality, the results were mixed. For instance, disclosure quality measured by the completeness of information did not show significant improvement. The results also suggest that the overall quantity and quality of CSR disclosures positively affect CFP. More precisely, the results indicate a significant positive association between the quantity of CSR disclosure and Tobin's Q, while the quality had positive associations with ROA and ROE. Nevertheless, the results were

different after the introduction of the directive. When CSR disclosure became mandatory, the association between the quantity of CSR disclosure and CFP was significant and positive when the disclosure was published in separate social and environmental reports, but when the disclosure was published in annual reports, the relationship was significant and negative. Lastly, the findings suggest that the quality of mandatory CSR disclosure is not significantly linked to with CFP (Agostini et al., 2022).

The Italian context was also studied by Phan et al. (2020). They examined the role of Directive 2014/95/EU in the relationship between non-financial disclosure and CFP using ROA and Tobin's Q as their CFP indicators. They did not find a statistically significant relationship between non-financial disclosure and CFP during the first two years (2017 and 2018) that the directive was effective. This indicates that the disclosure mandate did not benefit the accounting-based or market-based financial performance of Italian corporations. The results suggest that CSR activities increase costs which results in weaker financial performance. After the mandate, the amount of non-financial information increased, making it more challenging for stakeholders to identify what information was the most relevant to them. In addition, stakeholders could not be certain of the reliability and comparability of the provided non-financial information due to the lack of general reporting standards (Phan et al., 2020).

Cupertino et al. (2022) studied the effect of Directive 2014/95/EU on the CSR-CFP relationship using a sample of 435 listed European corporations. They used relevant sustainability scores from databases to measure non-financial performance, regarding, for instance, greenhouse gas emissions and human rights. As their financial performance indicators, they used cost of debt, ROE, and operating ROA. According to their results, Directive 2014/95/EU negatively affects corporations' operating profitability in the short term because it increases corporations' costs. The results also indicate that the directive positively moderates the association between financial and non-financial performance. The moderating effect is essential particularly for managers and owners, whereas from

the perspective of debtholders, the directive does not have a significant effect as it does not determine short-term CFP (Cupertino et al., 2022).

Mittelbach-Hörmanseder et al. (2021) studied the relationship between CSR disclosure and share prices. Moreover, they examined how the institutional environment and the introduction of Directive 2014/95/EU influenced the relationship. They defined four factors to measure the institutional environment, including the levels of CSR awareness and employee protection, the strength of the legal environment, and the degree of regulation enforcement. Their sample consisted of 600 European corporations and relevant data from the years 2008 to 2016. The results suggest that the association between CSR disclosure and share price was either positive or statistically insignificant before the introduction of the directive. More precisely, the association was positive for CSR topics of social matters, human rights, corruption, and bribery. After the introduction of the directive, the relationship became significantly negative (Mittelbach-Hörmanseder et al., 2021).

Regarding the factors of the institutional environment, the results by Mittelbach-Hörmanseder et al. (2021) suggest a significantly negative interaction between CSR disclosure and the level of CSR awareness, for all CSR topics. The authors propose that the effect of CSR disclosure on CFP is limited when CSR awareness is high. At the same time, the results suggest a positive relationship between the degree of enforcement and CSR disclosure, in terms of environmental, social, employee, and human rights matters. The results also showed a positive relationship between the strength of the legal environment and CSR disclosure, in terms of human rights, corruption, and bribery matters. Overall, these findings indicate that a corporation's institutional environment affects the relationship between CSR disclosure and share prices (Mittelbach-Hörmanseder et al., 2021).

As a conclusion, the CSR-CFP relationship is complex, and the effect of Directive 2014/95/EU is not unambiguous. Depending on the research context, several factors can

be identified to affect and explain the CSR-CFP relationship. The institutional environment, the selection of different financial performance indicators, and the voluntariness/obligatoriness of CSR reporting have proved to have an essential role in the issue.

3.5 Research hypotheses

This section presents the research hypotheses that are based on the literature review and theoretical background. The first two hypotheses are linked to the first research question that considers what kind of relationship there is between CSR and CFP in Finland, Sweden, and Denmark. As shown in the literature review, the CSR-CFP relationship is complex and can be influenced by various factors. Cahan et al. (2016) found that there is no significant association between CSR disclosure and CFP when the disclosure is expected, and this particularly applies to countries that have strong nation-level institutions, such as the Nordic countries. Additionally, according to Mittelbach-Hörmanseder et al. (2021), the effect of CSR disclosure on CFP is limited in countries where CSR awareness is high.

Many previous studies have found a positive relationship between CSR and market-based CFP (e.g., De Klerk et al., 2015; Hichri & Ltifi, 2021; Reverte, 2016; Tsang et al., 2022). CSR disclosure increases information transparency, which allows investors and other stakeholders to evaluate the corporation more comprehensively (De Klerk et al., 2015; Reverte, 2016). CSR information can also enhance a corporation's reputation, and thus lead to enhanced CFP (Saleh et al., 2011). This is a particularly essential consideration in this study as sustainability and CSR topics are central in Nordic countries (Lueg & Pesheva, 2021) and because the level of sustainability awareness is very high in these countries. Nordic individuals are willing to make an effort for the environment (Reyes, 2021), and therefore, CSR commitments and disclosure are valued. Consequently, CSR efforts can be expected to have positive effects on CFP. The first two hypotheses of this thesis assume that there is a positive relationship between CSR and market-based

CFP in Finland, Sweden, and Denmark. Two hypotheses are developed to separately test the relationships between CSR and Tobin's Q and between CSR and share price.

H_1: *There is a positive relationship between CSR and Tobin's Q.*

H_2: *There is a positive relationship between CSR and share price.*

The other two hypotheses focus on the second research question, that is, the effect of Directive 2014/95/EU on the CSR-CFP relationship. Several studies have found that the shift towards mandatory CSR reporting has made the relationship between CSR and CFP less positive (e.g., Agostini et al., 2022; Mittelbach-Hörmanseder et al., 2021). Altogether, previous research on mandatory CSR has generated less favorable results than research on voluntary CSR (Christensen et al., 2021). Cupertino et al. (2022) studied a sample of European corporations that were committed to sustainability and provided CSR reports voluntarily even before Directive 2014/95/EU, and according to their results, the directive positively moderated the relationship between CSR and CFP. The moderating effect of the directive on the CSR-CFP relationship is not yet widely examined, but many studies have inspected the relationship in the context of the directive (e.g., Agostini et al., 2022; Grewal et al., 2017; Phan et al., 2020). In general, these studies have found that after the directive became effective, the relationship between CSR and CFP is insignificant or negative. Considering these insights, the third and fourth hypotheses assume that the directive negatively moderates the CSR-CFP relationship.

H_3: *Directive 2014/95/EU negatively moderates the relationship between CSR and Tobin's Q.*

H_4: *Directive 2014/95/EU negatively moderates the relationship between CSR and share price.*

4 Data and methodology

This thesis studies the relationship between CSR and market-based CFP over a period of 12 years, from 2011 to 2022. Furthermore, it examines the effect of Directive 2014/95/EU on this relationship. CFP is measured by two market-based indicators, namely Tobin's Q and share prices. CSR is measured by using Refinitiv's overall ESG performance score and seven category scores that reflect a corporation's performance regarding different ESG categories. This thesis uses a quantitative approach and conducts a regression analysis partially following Cupertino et al. (2022). Quantitative research methods are necessary in this study setting and are chosen over qualitative methods because the variables of interest are numeric and measurable. Quantitative methods enable to accomplish the aim of this thesis because they enable to properly measure the strength and direction of coefficients between variables which provide an understanding of the relationship between CSR and CFP.

This chapter presents the data and methodology used in the examinations. The first subchapter presents the variables used, including dependent, independent, and control variables. The second subchapter shows descriptive statistics of the collected data, and the third subchapter focuses on the correlations between the variables. The fourth subchapter presents the regression models, and the fifth subchapter describes the data and its collection.

4.1 Variables

4.1.1 Dependent variables

Previous research has used both accounting-based and market-based indicators in the study of the relationship between CSR and CFP (Atan et al., 2018; Gentry & Shen, 2010; Han et al., 2016; Phan et al., 2020). This thesis specifically focuses on market-based indicators because it is interested in finding out how CSR and market-based financial

performance are associated. Market-based financial performance indicators include relevant information from the markets and reflect a corporation's long-term or future CFP (Gentry & Shen, 2010), and thus, these indicators are suitable for this study setting. Correspondingly, accounting-based indicators do not capture this information and therefore are not suitable for this purpose. This thesis uses two market-based indicators, namely Tobin's Q and share prices, which are used as the dependent variables in the regressions. Including two different measures provides a more comprehensive understanding of the CSR-CFP relationship.

Tobin's Q, also known as the q ratio, is the most used market-based CFP measure in previous literature on the relationship between CSR and CFP (Agostini et al., 2022). The variable Tobin's Q was proposed by Brainard and Tobin (1968) and Tobin (1969). It indicates how the market value of a corporation compares to the book value of its existing total assets, and therefore, corporations that are valued higher have higher Tobin's Q (Atan et al., 2018). Tobin's Q is selected as a CFP measure in this thesis for several reasons. First, it can capture the value that CSR reporting brings to corporations (Tsang et al., 2022, p. 10). Second, it reflects a corporation's future performance and is not heavily affected by the differences in accounting methods (Omar & Zallom, 2016) unlike accounting-based measures. Third, it is a convenient indicator for studying corporations from different industries (Nekhili et al., 2017). Following Agostini et al. (2022, p. 88), Tobin's Q is measured by dividing market capitalization by total assets.

In addition to Tobin's Q, share prices are used as a dependent variable to measure CFP. Share price was chosen as an indicator because it captures a diverse range of information about the corporation and its future in a single measure (de Villiers & Marques, 2016, p. 168). Share prices reflect how the market views the corporation's future earnings and risks, and how the market expects these to develop (de Villiers & Marques, 2016, p. 168). CSR disclosures provide complementary information that the market can use when assessing the corporation (De Klerk et al., 2015), and this information allows investors to make more accurate estimates of the corporation's value and future earnings (Reverte,

2016). Therefore, share prices provide a comprehensive measure for CFP. Following Mittelbach-Hörmanseder et al. (2021), this thesis uses share prices at the end of a corporation's financial year.

4.1.2 Independent variables

This thesis includes several independent variables. According to Cupertino et al. (2022), Directive 2014/95/EU emphasizes and requires disclosing information principally regarding corporations' resource use, climate change impacts, employee-related matters, human rights, and issues related to local communities (p. 168). That is, these topics are essential for corporations that fall into the scope of the directive. Following Cupertino et al. (2022), this thesis applies six ESG scores that match with these regulatory requirements. These variables are called the *Resource Use Score, Emissions Score, Workforce Score, Human Rights Score, Community Score*, and *Product Responsibility Score*. Of these, the Resource Use and Emissions scores belong to the environmental pillar. The scores for Workforce, Human Rights, Community, and Product Responsibility belong to the social pillar. These six scores are selected because they reflect the most relevant and material CSR topics in the context of Directive 2014/95/EU. Selecting these scores enables to find how the interaction between these material CSR topics and the directive affects CFP.

In addition to the six scores presented above, Cupertino et al. (2022) included the *CSR Strategy Score* in their study as they assumed that CSR reporting was affected by the requirements of Directive 2014/95/EU, thus also affecting the CSR-CFP relationship. This score belongs to the governance pillar. Following their selection, this thesis also includes the CSR Strategy Score as an independent variable because including scores from all three ESG pillars in the examinations provides a more thorough understanding of the CSR-CFP relationship and because it is essential to find whether and how the integration of CSR in management decisions is associated with CFP. Differently from the methodology of Cupertino et al. (2022), this thesis also includes the *Overall ESG Score* in

the independent variables to measure the overall ESG performance in addition to the separate categories. The Overall ESG score is selected because it indicates a corporation's overall ESG performance and therefore enables to measure the relationship between CSR and CFP when all kinds of CSR information is considered. Including both the overall score and individual category scores provides a more comprehensive understanding of the CSR-CFP relationship and makes it possible to find whether the overall score and the individual material CSR categories affect CFP differently. Altogether, the independent variables that measure CSR-related aspects include in total seven ESG category scores and one overall ESG score rating.

The selected ESG scores reflect different aspects of a corporation's ESG performance (LSEG, 2022). The Resource Use score indicates the sustainability of a corporation's material, water, and energy use. The Emission score refers to the reduction of environmental emissions that are caused by a corporation's production and other processes. The Workforce score includes aspects such as workplace satisfaction, health, safety, diversity, and equality. The Human Rights score quantifies a corporation's performance in respecting human rights. The Community score reflects a corporation's commitment to protecting public health and respecting business ethics. The Product Responsibility score measures the sustainability, safety, and integrity of a corporation's products and services, as well as data privacy. The CSR Strategy score measures how well a corporation includes different ESG matters in its daily decision-making (LSEG, 2022, p. 28). The Overall ESG score is calculated using all 10 category scores (four of which are not included as individual variables in this thesis) and thus indicates a corporation's overall ESG performance and commitment (LSEG, 2022, p. 8).

Following Cupertino et al. (2022), in addition to the ESG variables, the independent variables include a dummy variable called *Regulation*. This variable is related to Directive 2014/95/EU and indicates whether CSR disclosure is voluntary or mandatory. Therefore, it takes a value of 0 when the directive is not yet effective, that is when CSR reporting is generally voluntary. Correspondingly, this dummy variable takes a value of 1 when the

directive is effective, that is when the directive has mandated CSR reporting. As the directive became effective at the beginning of 2017, this variable takes a value of 0 from 2011 to 2016 and a value of 1 from 2017 to 2022. This variable is selected because it enables to study the effect of the directive on the CSR-CFP relationship which is crucial for accomplishing the aim of this thesis. Without this variable, the aim could not be fully accomplished, and therefore it must be included in the variables. Altogether, this thesis uses nine independent variables, eight of which measure different ESG aspects and one of which measures the regulation.

4.1.3 Control variables

Several corporation- and industry-specific characteristics may impact the relationship between CSR and CFP, and thus, relevant previous research has used these characteristics as control variables to mitigate their possible effect on the examined relationship (Cupertino et al., 2022). This thesis applies six commonly used control variables to the regression models, namely firm size, financial leverage, firm age, ROA, country, and industry.

Firm size is selected as a control variable because larger corporations usually have better CFP compared to smaller corporations (Feng et al., 2017) and because previous research has indicated that firm size may affect stakeholders' interest in the corporation's CSR efforts (Velte, 2017). Nevertheless, it is essential to note that the sample of this thesis does not include small corporations. Due to the application of Directive 2014/95/EU, this thesis only studies large corporations but despite this, there are still considerable differences in firm sizes among the sample. Following previous research (e.g., Agostini et al., 2022; De Klerk et al., 2015; Feng et al., 2017; Velte, 2017), this thesis defines the control variable of firm size as the natural logarithm of total assets.

Financial leverage is included as a control variable because it may affect both CSR and CFP (Cupertino et al., 2022). For instance, a high level of debt may create higher risks,

and thus affect CFP (Atan et al., 2018; Omar & Zallom, 2016). Herein, financial leverage is calculated by dividing total debt by total assets (Agostini et al., 2022; Omar & Zallom, 2016; Tsang et al., 2022). Firm age is included in control variables because older corporations tend to have a higher inability to change their practices which may result in weaker CFP (Feng et al., 2017). Correspondingly, younger corporations' better ability to make changes in their practices (regarding CSR) may bring them higher CFP. Firm age measures the total number of years since the corporation's foundation.

ROA is frequently used as a dependent variable in research on the relationship between CSR and CFP (e.g., Agostini et al., 2022; Velte, 2017). It has also been used as a control variable in some previous studies (e.g., Tsang et al., 2022). In this thesis, it is included as a control variable and not as a dependent variable because as an accounting-based indicator, it does not reflect information from the market which is necessary for the dependent variables in this study. It is included as a control variable also because corporations that have higher ROA tend to have higher market performance (Tsang et al., 2022), and it is necessary to mitigate the effect that this may potentially have on the CSR-CFP relationship. Herein, ROA is calculated by dividing a corporation's earnings before interest and taxes by its average total assets. Country is included as a control variable because country-specific characteristics may affect the relationship between CSR and CFP due to different legal and institutional conditions (Breuer et al., 2018). This control variable is necessary because the sample includes corporations from three different countries.

Finally, corporations operating in different industries have different needs regarding investments and expenditures, which affects CFP (Singh & Chakraborty, 2021), and therefore, industry is also used as a control variable to mitigate this effect. Here, corporations are categorized based on the Industry Classification Benchmark (ICB) that was launched by FTSE Russell and Dow Jones in 2005. The ICB is a globally used framework for categorizing corporations and it includes 11 industries (FTSE Russell, 2017). As this thesis does not include financial and real estate corporations in the

examinations, the sample includes corporations from nine different industries defined by the ICB. Following Cupertino et al. (2022) and Singh and Chakraborty (2021), this thesis includes industry dummies as control variables. Each industry is assigned a two-digit code based on the ICB. A more detailed description of the sample's industry codes and industry distribution is presented in the next section.

4.2 Descriptive statistics

The final sample consists of 253 corporations. Of these, 66 (26.1%) corporations are from Finland, 145 (57.3%) are from Sweden, and 42 (16.6%) are from Denmark. Table 1 shows the industry distribution of the sample. The largest industry in the sample is the industrials with more than one-third of the total sample, while the industries of consumer discretionary and health care are the second and third largest ones. The energy, utilities, and telecommunications industries are the smallest industries in the final sample and comprise slightly over 5% of the total sample. Table 1 also shows the two-digit codes for each industry dummy.

Table 1. Sample distribution by industry.

Industry (ICB)	Observations	Share of total
50 Industrials	94	37.2%
40 Consumer Discretionary	56	22.1%
20 Health Care	31	12.3%
10 Technology	25	9.9%
55 Basic Materials	18	7.1%
45 Consumer Staples	16	6.3%
15 Telecommunications	8	3.2%
65 Utilities	3	1.2%
60 Energy	2	0.8%
Total	**253**	**100.0%**

Table 2 presents the descriptive statistics of the sample, including mean, standard deviation, minimum, and maximum values. Many sample corporations did not have ESG

data available for each studied year and therefore there are fewer observations for the ESG variables. Regarding the dependent variables, the mean Tobin's Q of 1.496. A Tobin's Q of more than 1 is considered high and thus the mean of 1.496 indicates that most of the sample corporations' market value is higher than the replacement cost of their existing assets. Nevertheless, there is significant variation in the sample regarding Tobin's Q as the minimum value is 0 and the maximum is very high with a value of 28.590. These values indicate that among the sample, there are corporations that are significantly undervalued or overvalued. These results are relatively similar to some previous studies (e.g., Feng et al., 2017; Tsang et al., 2022). The mean of share prices is 105.050. There is significant variation in the share prices, partly due to the shares belonging to corporations from different countries.

The ESG variables can have a value between 0 and 100, 100 being the highest and indicating better performance regarding the measured aspect. Table 2 shows that every ESG variable has a mean of over 50, meaning that most of the ESG observations reflect higher-than-average ESG performance. Workforce and Human Rights scores have the highest mean values among the ESG variables which indicates that on average, the sample has the best performance regarding these aspects. At the same time, CSR Strategy and Community scores have the lowest mean values, indicating that on average, the sample corporations have the poorest performance regarding these two aspects.

CSR Strategy score has the highest standard deviation of the ESG variables, indicating that there is more variation in this ESG aspect compared to the other scores. The Overall ESG score has the lowest standard deviation of these variables, meaning that there is less variation in these scores compared to the others. The minimum and maximum values for the ESG variables show that there are corporations that have had poor scores for certain ESG categories, but at the same time, some corporations have performed excellently and gained very high scores that are close to 100, that is, the best possible score. Altogether, the descriptive statistics on the ESG variables are relatively similar to the descriptive statistics by Cupertino et al. (2022).

As for the control variables, the mean of financial leverage is 0.242, which indicates that most of the sample corporations have more assets than debt, that is, they do not have excessive amounts of debt. As the minimum value of 0 and maximum value of 1.615 show, some corporations do not have debt, while some corporations have significantly more debt than assets. Therefore, there is significant variation regarding this variable as well. As for firm size, there is significant variation in the sample of corporations, but due to the directive, the sample only consists of large corporations, which can also be seen by the minimum value of this variable. Regarding ROA, the mean is 9.400 %, which indicates that on average, the sample corporations have been good at using their assets to generate profits during the studied period. As the minimum ROA of -85.300 % shows, there are also cases where a corporation has been inefficient and made significant losses. Nevertheless, the maximum of 131.600 % indicates that there are also corporations that have been very efficient and have managed to convert their investments into significant profits.

Table 2. Descriptive statistics.

Variable	Observations	Mean	Std. Dev.	Min.	Max.
Tobin's Q	2 556	1.496	1.852	0.000	28.590
Share Price	2 546	105.050	135.513	0.220	974.600
CSR Strategy	1 576	51.403	29.372	0.000	98.390
Resource Use	1 576	60.492	28.558	0.000	99.710
Emissions	1 576	58.501	27.000	0.000	99.780
Workforce	1 576	65.422	21.639	0.300	99.470
Human Rights	1 576	65.831	28.043	0.000	99.530
Community	1 576	52.326	27.516	0.000	99.850
Product Resp.	1 576	58.850	28.438	0.000	99.790
Overall ESG	1 576	56.899	17.752	3.330	92.920
Leverage	2 841	0.242	0.159	0.000	1.615
Firm Size	2 841	15.071	2.061	7.457	20.289
ROA	2 842	9.400	11.100	-85.300	131.600
Firm Age	2 973	63.520	58.823	0.000	413.000

4.3 Correlation analysis

A correlation analysis is conducted to detect the possibility of multicollinearity problems. In general, a correlation of 0.7 or higher indicates the possibility of multicollinearity (Liu et al., 2014) and needs further observation. Table 3 shows the Pearson correlation matrix for necessary variables. The correlations are presented at the 1% significance level (**) and the 5% significance level (*). The correlations have a value between -1 and 1, -1 indicating a perfect negative correlation and 1 indicating a perfect positive correlation.

Table 3 shows that the dependent variable Tobin's Q has statistically significant negative correlations with all the independent ESG variables, except for the Workforce and Product Responsibility scores. This may indicate a possibility of a negative relationship between Tobin's Q and CSR. The other dependent variable, share price, has statistically significant positive correlations with all the ESG variables, except for the Emissions, Community, and Product Responsibility scores. This may indicate a possibility of a positive relationship between the share price and certain ESG categories. Both Tobin's Q and share prices have a significant negative correlation with financial leverage. In general, corporations with less debt have better financial performance. This can also be seen in the statistically significant negative correlation between leverage and the control variable ROA. Furthermore, both Tobin's Q and share price have a significant positive correlation with ROA. An explanation for this is that corporations with higher efficiency and profitability are often associated with higher market performance. This is in line with several previous studies that have found similar correlations between these variables (e.g., Feng et al., 2017; Phan et al., 2020; Singh & Chakraborty, 2021).

As can be predicted, Table 3 shows that the independent ESG variables have statistically significant positive correlations with each other. The Overall ESG score has strong positive correlations with the ESG category scores which is logical because the Overall ESG score is calculated using these category scores. It is essential to note that some of the correlations between the Overall ESG score and the category scores are higher than the level of 0.7 which indicates the possibility of multicollinearity. Therefore, further

analysis is needed for these variables regarding multicollinearity, and this is done later in this chapter. The ESG variables are also significantly positively correlated with firm size which indicates that larger corporations may have more resources to use on ESG. At the same time, there is a statistically significant negative correlation between leverage and all the ESG variables which may indicate that corporations that have high levels of debt do not have as many resources to use on ESG.

Table 3. Correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) Tobin's Q	1														
(2) Share Price	0.276**	1													
(3) CSR Strategy	-0.125**	0.084**	1												
(4) Resource Use	-0.108**	0.091**	0.615**	1											
(5) Emissions	-0.107**	-0.045	0.579**	0.677**	1										
(6) Workforce	0.044	0.111**	0.482**	0.568**	0.594**	1									
(7) Human Rights	-0.071**	0.110**	0.515**	0.584**	0.467**	0.433**	1								
(8) Community	-0.118**	0.032	0.497**	0.516**	0.468**	0.413**	0.517**	1							
(9) Product Resp.	-0.001	-0.046	0.305**	0.360**	0.356**	0.406**	0.317**	0.346**	1						
(10) Overall ESG	-0.122**	0.053*	0.725**	0.769**	0.731**	0.665**	0.660**	0.678**	0.520**	1					
(11) Regulation	0.102**	0.115**	0.005	-0.200**	-0.093**	-0.174**	0.009	-0.017	0.055*	-0.076**	1				
(12) Leverage	-0.282**	-0.107**	-0.108**	-0.153**	-0.069**	-0.136**	-0.109**	-0.114**	-0.057*	-0.099**	0.055**	1			
(13) Firm Size	-0.054**	0.380**	0.510**	0.454**	0.356**	0.372**	0.410**	0.435**	0.158**	0.533**	0.132**	0.056**	1		
(14) ROA	0.552**	0.198**	0.014	0.025	-0.009	0.135**	0.099**	0.011	0.019	-0.004	-0.009	-0.267**	-0.023	1	
(15) Industry	-0.295**	0.028	0.172**	0.199**	0.132**	-0.028	0.057*	0.042	-0.025	0.106**	0.001	0.152**	0.175**	-0.110**	1
(16) Firm Age	-0.120**	0.134**	0.214**	0.226**	0.157**	0.161**	0.237**	0.200**	0.130**	0.178**	0.03	-0.009	0.310**	-0.037	0.170**

** Correlation is significant at the 1% level, * Correlation is significant at the 5% level

The Overall ESG score has correlations of higher than 0.7 with three ESG category scores, namely with CSR Strategy (a correlation of 0.725), Resource Use (0.769), and Emissions score (0.731). Therefore, variance inflation factors (VIF) were calculated to further detect the possibility of multicollinearity. The VIF for the Overall ESG score was slightly over 6.1, and for the other variables VIF was lower than 3. According to several researchers, a VIF of over 10 indicates a high level of multicollinearity (de Villiers & Marques, 2016; Omar & Zallom, 2016; Reverte, 2016; Velte, 2017). As all the VIFs were lower than 10, multicollinearity should not be a problem.

4.4 Regression models

This thesis uses a quantitative approach and applies an ordinary least square (OLS) linear regression analysis to study the relationship between CSR and CFP. This regression analysis approach was chosen because it is a flexible and simple method for determining an association between a dependent variable and independent variables. It quantifies the coefficients between the variables and shows the strengths and directions of the coefficients. Therefore, the regression analysis approach enables to accomplish the purpose of this thesis and find what kind of relationship there is between CSR and CFP. Two main types of regression models are applied, and both models are formulated partially following Cupertino et al. (2022). The first regression model is used to test H1 and H2, and the second regression model is used to test H3 and H4, that is, the moderating effect of Directive 2014/95/EU. The first regression model, Model 1, is used to estimate the relationship between CSR and market-based CFP during the period from 2011 to 2022. It includes all six control variables to mitigate their possible effect on the CSR-CFP relationship. Model 1 is formulated as follows:

$$CFP_{i,t} = \alpha_0 + \alpha_1(ESG)_{i,t-1} + \alpha_2(Country)_{i,t} + \alpha_3(Leverage)_{i,t} + \alpha_4(Size)_{i,t} + \alpha_5(ROA)_{i,t} + \alpha_6(Age)_{i,t} + \alpha_7 \sum Industry_{i,t} + \varepsilon_{i,t} \quad (1)$$

In Model 1, $CFP_{i,t}$ denotes the dependent variable Tobin's Q or share price for corporation *i* at time *t*. α_0 is the intercept and $\alpha_1 - \alpha_7$ denote the coefficients of the independent variables and control variables. $ESG_{i,t-1}$ denotes the independent ESG variable for corporation *i* at time *t-1*. The time lag is necessary because it enables the dependent variable to reflect and capture the disclosed ESG information. With this, the model captures how this ESG information affects CFP. Each independent ESG variable is used separately in the model, meaning that Model 1 is used eight times for both Tobin's Q and share price to estimate the coefficients between them and the eight different ESG variables. Country, Leverage, Size, ROA, Age, and Industry denote the control variables. $\varepsilon_{i,t}$ indicates the error term. The second regression model, Model 2, is used to estimate the moderating effect of the directive on the CSR-CFP relationship. It differs from Model 1 as it includes the dummy variable Regulation and the interaction term Regulation*ESG to estimate the moderating effect and as it has α_8 and α_9 to denote more coefficients. Including the regulation dummy variable and the interaction term is necessary for examining the effect of Directive 2014/95/EU on the CSR-CFP relationship. Model 2 is formulated as follows:

$$CFP_{i,t} = \alpha_0 + \alpha_1(ESG)_{i,t-1} + \alpha_2(Regulation)_{i,t-1} + \alpha_3(Regulation * ESG)_{i,t-1} + \alpha_4(Country)_{i,t} + \alpha_5(Leverage)_{i,t} + \alpha_6(Size)_{i,t} + \alpha_7(ROA)_{i,t} + \alpha_8(Age)_{i,t} + \alpha_9 \sum Industry_{\,i,t} + \varepsilon_{i,t} \quad (2)$$

More specific descriptions of the variables are presented in subchapter 4.1. The regressions are conducted using the SPSS software.

4.5 Data

Directive 2014/95/EU was used as a guideline in data collection. The directive became effective from the beginning of 2017. This thesis focuses on a period of 12 years, from 2011 to 2022. A period of 12 years was chosen because it provides evidence of the CSR-CFP relationship in the long term and enables to get a thorough understanding of the

relationship. Cupertino et al. (2022) studied a period of a total of six years which includes three years before the directive and three years after the directive. They suggested that future studies could use a longer period, and thus this thesis contributes to this suggestion by using a period of 12 years, including six years before the directive and six years after its implementation.

The sample of this thesis consists of corporations from Finland, Sweden, and Denmark. Data was gathered for publicly listed corporations with 500 or more employees, that is, for corporations that fulfill the criteria of Directive 2014/95/EU. Therefore, corporations with fewer employees were not considered. Corporations operating in financial and real-estate industries were also omitted from the sample because they operate under different rules and are not comparable to non-financial corporations (Hichri & Ltifi, 2021). Thus, omitting these corporations makes the empirical results more reliable. Some corporations were listed in more than one stock exchange but were considered only once in the data, that is, duplications were omitted. Finally, several corporations did not have ESG data, and therefore, these corporations were also excluded from the sample. The final sample includes 253 corporations.

As described in previous subchapters, this thesis utilizes ESG and financial data. ESG data was retrieved from Refinitiv's Asset4 database, which is a reliable external source for a broad range of ESG data. Financial data was gathered from two different databases, namely Orbis and Worldscope databases. Orbis was used to gather necessary data for the dependent variables Tobin's Q and share prices. Data for the control variable of firm age was retrieved from Orbis and corporations' statements. From the Worldscope database, data on a corporation's earnings before interest and tax, total debt, total assets, and industry were gathered, and the first three were used to calculate some of the control variables, for instance, financial leverage, firm size, and ROA.

5 Empirical results

This chapter presents the empirical results for the regressions, analyzes them, and compares them to results from previous research. The first subchapter focuses on the results of the relationship between CSR and CFP, the second subchapter focuses on the effect of Directive 2014/95/EU on this relationship, the third subchapter presents the results for the robustness tests, and the fourth subchapter includes a more thorough discussion of the findings.

5.1 CSR and financial performance

This chapter presents the linear regression results of the relationship between CSR and CFP. Regression Model 1 (presented in section 4.4) was used to study this relationship. Table 4 shows the results for the dependent variable Tobin's Q and Table 5 shows the results for the dependent variable share price. In both tables, the first column shows the independent and control variables, and the other columns show the results for each ESG variable, including the coefficients and t-statistics (in parentheses). Each table presented throughout the results also includes the statistical significance levels: "***" indicates that the result is significant at the 1% level, "**" indicates that the result is significant at the 5% level, and "*" indicates that the result is significant at the 10% level (two-tailed). At the bottom of the tables, R^2, F-test, and the number of observations are reported for each model.

Table 4 presents the results for the relationship between CSR and Tobin's Q. The R^2 values are between 0.487 and 0.490, meaning that approximately 49% of the variation in Tobin's Q can be explained by the model. The F-test values are positive and significant at the 1% level, indicating that the models have sufficient explanatory power. The coefficients show mixed evidence of the association between CSR and Tobin's Q as there are both positive and negative coefficients depending on the ESG variable. Most of these are statistically insignificant, but the results show a statistically significant negative

association (-0.005) between the Human Rights score and Tobin's Q (at the 1% level), and a negative association (-0.003) between the Community score and Tobin's Q (at the 10% level). These findings suggest that engaging in human rights and community matters decreases CFP. In addition to these two significant negative associations, Table 4 also shows that Tobin's Q is negatively associated with the CSR Strategy score and the Overall ESG scores, but these associations are statistically insignificant. Positive and statistically insignificant associations are found for the Resource Use, Emissions, Workforce, and Product Responsibility scores.

The findings of the association between Tobin's Q and the different ESG variables are partially similar to findings by Phan et al. (2020) and Velte (2017) who found a statistically insignificant relationship between ESG variables and Tobin's Q. The findings are also similar to findings by Atan et al. (2018) who found an insignificant positive relationship between Tobin's Q and ESG environmental score which is comparable to the insignificant positive relationship between Tobin's Q and the Resource Use and Emissions scores shown in Table 4. Atan et al. (2018) also found an insignificant negative relationship between Tobin's Q and ESG social score which is somewhat comparable to the negative association between Tobin's Q and the Human Rights and Community scores shown in Table 4, though these associations were statistically significant at the 1% and 10% levels.

Altogether, the results provide slightly mixed evidence of the relationship. Table 4 provides evidence that the relationship between CSR and Tobin's Q is mostly statistically insignificant, but there are two exceptions as the results show a statistically significant negative relationship between the Human Rights score and Tobin's Q, and the Community score and Tobin's Q. The first research hypothesis (H1) predicted a positive relationship between CSR and Tobin's Q, and as the relationship is not positive, H1 is rejected. The two significant negative associations are most likely due to the costs exceeding the benefits of human rights and community involvement. The mostly insignificant relationship between CSR and Tobin's Q suggests that for the most part, the market values corporations equally despite their CSR performance, that is, corporations

with higher CSR performance are not valued higher. The sample consists of corporations from Finland, Sweden, and Denmark where corporate sustainability reporting rates (KPMG, 2022) and sustainability performance are high (e.g., Sachs et al., 2023). In these countries, CSR efforts are valued, but they are also very common and expected, which may explain why corporations with better CSR performance are not valued higher than corporations with lower CSR performance.

Regarding the control variables, Table 4 shows that leverage has a statistically significant negative association with Tobin's Q. Similar findings have been made in many previous studies (e.g., Lioui & Sharma, 2012; Saleh et al., 2011). This negative association indicates that corporations with high leverage are valued lower by the market which can be explained by these corporations carrying higher risk. The regression results also show a significant negative association between Tobin's Q and firm size which is also in line with findings in many previous studies (e.g., Atan et al., 2018; Lioui & Sharma, 2012; Tsang et al., 2022). A significant positive association was found between Tobin's Q and the control variable ROA which is logical as corporations with higher profitability tend to have higher market value. A similar association has been found in many previous studies (e.g., Lioui & Sharma, 2012; Tsang et al., 2022). Table 4 also reports a significant negative association between Tobin's Q and firm age, indicating that in the sample, younger corporations are valued higher. A similar finding has been made by Feng et al. (2017). Altogether, these control variables are significantly associated with CFP when measured by Tobin's Q, and these findings are supported by several previous studies.

Table 4. Regression results of the relationship between CSR and Tobin's Q.

Tobin's Q								
	CSR Strategy	**Resource Use**	**Emissions**	**Workforce**	**Human Rights**	**Community**	**Product Resp.**	**Overall ESG**
Constant	5.505***	5.632***	5.935***	5.783***	5.154***	5.222***	5.758***	5.544***
	(8.094)	(8.134)	(8.688)	(8.69)	(7.712)	(7.573)	(8.750)	(8.047)
CSR Strategy	-0.001							
	(-0.589)							
Resource Use		9.967e−5						
		(0.057)						
Emissions			0.003					
			(1.544)					
Workforce				0.003				
				(1.226)				
Human Rights					-0.005***			
					(-3.015)			
Community						-0.003*		
						(-1.758)		
Product Resp.							0.002	
							(1.525)	
Overall ESG								-0.001
								(-0.335)
Leverage	-0.022***	-0.022***	-0.022***	-0.022***	-0.023***	-0.023***	-0.022***	-0.022***
	(-7.498)	(-7.365)	(-7.335)	(-7.291)	(-7.733)	(-7.657)	(-7.410)	(-7.455)
Firm Size	-0.243***	-0.255***	-0.282***	-0.272***	-0.211***	-0.224***	-0.264***	-0.246***
	(-7.115)	(-7.206)	(-8.115)	(-8.223)	(-6.473)	(-6.632)	(-8.733)	(-6.534)
ROA	0.108***	0.108***	0.107***	0.107***	0.109***	0.108***	0.108***	0.108***
	(24.808)	(24.786)	(24.753)	(24.565)	(25.055)	(24.845)	(24.783)	(24.801)
Firm Age	-0.002***	-0.002***	-0.002***	-0.002***	-0.002**	-0.002**	-0.002***	-0.002***
	(-2.624)	(-2.658)	(-2.712)	(-2.722)	(-2.267)	(-2.554)	(-2.745)	(-2.665)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R^2	0.487	0.487	0.487	0.487	0.490	0.488	0.487	0.487
F-test	96.963***	96.918***	97.228***	97.113***	98.099***	97.319***	97.220***	96.933***
Observations	1550	1550	1550	1550	1550	1550	1550	1550

***p<1%, **p<5%, *p<10%

Table 5 presents the results for the relationship between CSR and share price. The R^2 values are between 0.465 and 0.467, meaning that the model explains approximately 47% of the variation in share price. The F-test values are positive and statistically significant at the 1% level, further showing that the models have sufficient explanatory

power overall. As for the coefficients, the association between CSR and share price is positive overall but mostly statistically insignificant. Table 5 shows that share price has a statistically significant positive association with the Emissions (0.321) and Workforce (0.311) Scores at the 5% level. With the other ESG scores, the association is positive and insignificant, except for the Product Responsibility score, with which the association is negative and insignificant (-0.076). Altogether, the results indicate that there is a positive relationship between CSR and share price, but this relationship is mostly statistically insignificant.

The second research hypothesis (H2) predicted a positive relationship between CSR and share price, but as the regression results show a mostly insignificant relationship, H2 cannot be accepted fully. The significant positive relationships between the Emissions score and share price and the Workforce score and share price support H2, but the other ESG variables do not as they lack significance. Therefore, H2 is partially accepted. An overall positive association between share price and CSR is also found in several previous studies (e.g., De Klerk et al., 2015; Havlinova & Kukacka, 2023; Reverte, 2016). These results are also partially similar to findings by Mittelbach-Hörmanseder et al. (2021) who found a positive association between share price and different ESG topics. Nevertheless, differently to the results shown in Table 5, Mittelbach-Hörmanseder et al. (2021) found a statistically significant positive association between share price and social matters, human rights, and corruption, while Table 5 reports a statistically significant positive association with the Emissions and Workforce scores.

As for the control variables, Table 5 shows a statistically significant negative association between share price and financial leverage, indicating that corporations with high leverage have lower share prices. The results also show that share price has significant positive associations with ROA and firm size. The positive association between share price and ROA indicates that more profitable corporations have higher-valued shares. Similar associations for control variables have been made by E-Vahdati et al. (2023) who found a statistically significant negative association between share price and financial

leverage and significant positive associations between share price and ROA, for part of their sample. Moreover, similarly to the association shown in Table 5, E-Vahdati et al. (2023) and Havlinova and Kukacka (2023) found a significant positive association between share price and firm size.

Table 5. Regression results of the relationship between CSR and share price.

Share Price								
	CSR Strategy	**Resource Use**	**Emissions**	**Workforce**	**Human Rights**	**Community**	**Product Resp.**	**Overall ESG**
Constant	-13.146	7.126	20.743	7.124	-11.748	-7.567	-20.358	0.404
	(-0.255)	(0.135)	(0.402)	(0.141)	(-0.231)	(-0.144)	(-0.406)	(0.008)
CSR Strategy	0.013							
	(0.107)							
Resource Use		0.157						
		(1.200)						
Emissions			0.321**					
			(2.361)					
Workforce				0.311**				
				(1.986)				
Human Rights					0.030			
					(0.248)			
Community						0.050		
						(0.393)		
Product Resp.							-0.076	
							(-0.689)	
Overall ESG								0.188
								(0.845)
Leverage	-0.585***	-0.541**	-0.546**	-0.538**	-0.583***	-0.577***	-0.594***	-0.563**
	(-2.648)	(-2.428)	(-2.485)	(-2.441)	(-2.647)	(-2.604)	(-2.706)	(-2.542)
Firm Size	10.533***	8.869***	7.442***	8.33***	10.405***	10.157***	11.075***	9.142***
	(4.067)	(3.293)	(2.844)	(3.300)	(4.191)	(3.919)	(4.796)	(3.177)
ROA	2.985***	2.972***	2.960***	2.922***	2.976***	2.984***	2.990***	2.986***
	(9.215)	(9.179)	(9.155)	(8.993)	(9.123)	(9.218)	(9.237)	(9.226)
Firm Age	0.046	0.043	0.043	0.042	0.045	0.045	0.048	0.047
	(0.936)	(0.878)	(0.870)	(0.845)	(0.906)	(0.919)	(0.978)	(0.961)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R^2	0.465	0.466	0.467	0.467	0.465	0.465	0.466	0.466
F-test	86.881***	87.059***	87.574***	87.371***	86.887***	86.898***	86.938***	86.968***
Observations	1513	1513	1513	1513	1513	1513	1513	1513

***p<1%, **p<5%, *p<10%

Altogether, Tables 4 and 5 show that the relationships between CSR and Tobin's Q and CSR and share price are different to some extent. For both, the relationship is mostly insignificant, but both have two CSR categories with which they are significantly associated. Tobin's Q has significant negative relationships with the Human Rights and Community scores, and share price has significant positive relationships with the Emissions and Workforce scores. Both Tobin's Q and share price have a significant negative association with leverage and a significant positive association with ROA. With firm size and age, these two dependent variables have contrary associations.

5.2 Directive 2014/95/EU and the CSR-CFP relationship

This chapter focuses on the results of the moderating effect of Directive 2014/95/EU on the CSR-CFP relationship. Regression Model 2 (presented in section 4.4) was used to study the effect of the directive. Table 6 shows the results for Tobin's Q and Table 7 shows the results for share price. To estimate the moderating effect of the directive, Model 2 includes an interaction variable Regulation*ESG which is calculated by multiplying the dummy variable Regulation by the ESG variable in each regression.

Table 6 shows the effect of the directive on the relationship between CSR and Tobin's Q. The R^2 values are between 0.490 and 0.493, meaning that the model explains approximately 49% of the variation in Tobin's Q. The F-test values are positive and statistically significant at the 1% level. The interaction of the directive and ESG is negative in every regression, meaning that the directive has a negative effect on the CSR-Tobin's Q relationship. For five of the ESG variables, this interaction is statistically significant. The negative interaction is significant at the 1% significance level for the Resource Use score (-0.011), at the 5% level for the Workforce (-0.011) and Overall ESG (-0.014) scores, and at the 10% level for the CSR Strategy (-0.005) and Product Responsibility (-0.005) scores. The negative interaction suggests that the effect of CSR became more evident and more negative when Directive 2014/95/EU became effective. The third hypothesis (H3) predicted that the directive negatively moderates the relationship between CSR and

Tobin's Q, and as the interaction is found to be negative and as this negative interaction is significant for five of the ESG variables out of eight, H3 is accepted.

Table 6. The effect of Directive 2014/95/EU on the CSR – Tobin's Q relationship.

Tobin's Q								
	CSR Strategy	**Resource Use**	**Emissions**	**Workforce**	**Human Rights**	**Community**	**Product Resp.**	**Overall ESG**
Constant	4.575***	4.465***	5.101***	4.569***	4.41***	4.352***	5.078***	4.084***
	(6.182)	(5.938)	(6.783)	(6.070)	(5.999)	(5.82)	(7.219)	(5.09)
CSR Strategy	0.002							
	(0.696)							
Resource Use		0.009***						
		(2.645)						
Emissions			0.006**					
			(2.043)					
Workforce				0.010***				
				(2.83)				
Human Rights					-0.005*			
					(-1.766)			
Community						0.000		
						(-0.159)		
Product Resp.							0.005**	
							(2.017)	
Overall ESG								0.008
								(1.593)
Regulation	0.523***	0.953***	0.532**	0.976***	0.371	0.498**	0.483**	1.058***
	(2.866)	(3.718)	(2.323)	(3.134)	(1.617)	(2.482)	(2.464)	(3.166)
Regulation*ESG	-0.005*	-0.011***	-0.005	-0.011**	-0.001	-0.005	-0.005*	-0.014**
	(-1.802)	(-3.079)	(-1.569)	(-2.545)	(-0.457)	(-1.398)	(-1.651)	(-2.585)
Leverage	-0.024***	-0.023***	-0.023***	-0.023***	-0.024***	-0.024***	-0.023***	-0.024***
	(-7.881)	(-7.774)	(-7.663)	(-7.660)	(-8.130)	(-8.090)	(-7.683)	(-7.903)
Firm Size	-0.208***	-0.231***	-0.256***	-0.245***	-0.181***	-0.194***	-0.244***	-0.205***
	(-5.771)	(-6.428)	(-7.098)	(-7.224)	(-5.301)	(-5.496)	(-7.784)	(-5.181)
ROA	0.107***	0.106***	0.107***	0.106***	0.109***	0.107***	0.107***	0.107***
	(24.689)	(24.462)	(24.589)	(24.252)	(24.951)	(24.769)	(24.61)	(24.699)
Firm Age	-0.002**	-0.002**	-0.002**	-0.002***	-0.001**	-0.002**	-0.002***	-0.002**
	(-2.489)	(-2.385)	(-2.589)	(-2.669)	(-2.082)	(-2.325)	(-2.707)	(-2.452)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R^2	0.490	0.492	0.490	0.491	0.493	0.491	0.490	0.491
F-test	86.579***	87.135***	86.526***	86.983***	87.501***	86.824***	86.512***	86.883***
Observations	1550	1550	1550	1550	1550	1550	1550	1550

***p<1%, **p<5%, *p<10%

Table 7 shows the effect of the directive on the relationship between CSR and share price. The R^2 values are between 0.471 and 0.473, meaning that approximately 47% of the variation in share price can be explained by the model. The F-test values are positive and statistically significant at the 1% level. As Table 7 shows, the interaction variable gets both positive and negative values depending on the ESG variable. The only statistically significant interactions are negative at the 5% level for the Emissions score (-0.505) and at the 10% level for the Workforce score (-0.556). Other negative interactions are reported for the Resource Use, Human Rights, and Overall ESG scores, but these interactions are statistically insignificant. Insignificant positive interactions are reported for the CSR Strategy, Community, and Product Responsibility scores. The significant negative interactions suggest that the relationship between the Emissions score and share price and the relationship between the Workforce score and share price became weaker, or less positive after the directive became effective.

Altogether, Table 7 provides mixed evidence of the moderating effect of the directive on the relationship between CSR and share price. For the most part, this interaction is negative, but it is statistically significant only for two ESG variables. The fourth research hypothesis (H4) predicted that the directive negatively moderates the relationship, and as the interaction variable is negative for most regressions, H4 is partially accepted. However, due to the mostly insignificant interactions and the presence of three insignificant positive interactions, it cannot be fully accepted. Altogether, the findings of a negative moderating effect are in line with several previous studies that have found that the relationship between CSR and CFP became less positive when CSR reporting became mandatory (e.g., Agostini et al., 2022; Mittelbach-Hörmanseder et al., 2021). Nevertheless, there are also studies that found a positive moderating effect of Directive 2014/95/EU on the CSR-CFP relationship. For instance, Cupertino et al. (2022) found a positive moderating effect, but it must be noted that they used accounting-based CFP measures which may be one explanation for the contrary result.

Table 7. The effect of Directive 2014/95/EU on the CSR – share price relationship.

Share Price								
	CSR Strategy	**Resource Use**	**Emissions**	**Workforce**	**Human Rights**	**Community**	**Product Resp.**	**Overall ESG**
Constant	-66.993	-70.622	-73.836	-87.081	-104.48*	-60.198	-75.273	-108.428*
	(-1.193)	(-1.231)	(-1.295)	(-1.527)	(-1.862)	(-1.053)	(-1.408)	(-1.774)
CSR Strategy	-0.291							
	(-1.423)							
Resource Use		0.423*						
		(1.742)						
Emissions			0.641***					
			(2.778)					
Workforce				0.723***				
				(2.656)				
Human Rights					0.202			
					(0.996)			
Community						-0.199		
						(-0.918)		
Product Resp.							-0.244	
							(-1.259)	
Overall ESG								0.529
								(1.411)
Regulation	13.382	49.008**	55.907***	65.556***	52.266***	13.528	19.081	65.132***
	(0.977)	(2.565)	(3.246)	(2.821)	(3.021)	(0.896)	(1.277)	(2.612)
Regulation*ESG	0.265	-0.340	-0.505**	-0.556*	-0.381	0.231	0.139	-0.663
	(1.172)	(-1.294)	(-1.987)	(-1.766)	(-1.622)	(0.942)	(0.619)	(-1.647)
Leverage	-0.734***	-0.680***	-0.697***	-0.679***	-0.740***	-0.706***	-0.727***	-0.728***
	(-3.280)	(-3.030)	(-3.142)	(-3.062)	(-3.326)	(-3.146)	(-3.285)	(-3.247)
Firm Size	13.529***	11.196***	10.629***	10.881***	13.848***	12.812***	13.470***	13.051***
	(4.951)	(4.083)	(3.912)	(4.211)	(5.317)	(4.737)	(5.641)	(4.321)
ROA	3.001***	2.919***	2.904***	2.85***	2.937***	2.983***	2.991***	2.949***
	(9.295)	(9.020)	(9.004)	(8.781)	(9.004)	(9.249)	(9.261)	(9.149)
Firm Age	0.052	0.052	0.051	0.046	0.059	0.048	0.055	0.056
	(1.060)	(1.066)	(1.043)	(0.946)	(1.187)	(0.966)	(1.131)	(1.149)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R^2	0.471	0.472	0.473	0.473	0.472	0.471	0.471	0.472
F-test	78.379***	78.502***	79.031***	78.994***	78.473***	78.26***	78.386***	78.457***
Observations	1513	1513	1513	1513	1513	1513	1513	1513

***p<1%, **p<5%, *p<10%

5.3 Robustness tests

To test for the robustness of the empirical results, two different robustness checks are performed. In many relevant previous studies, the robustness of results has been tested by increasing the time lag between the dependent variable and the independent variables (e.g., Agostini et al., 2022; De Klerk et al., 2015; Lioui & Sharma, 2012; Reverte, 2016; Velte, 2020) or by winsorizing the data (e.g., De Klerk et al., 2015). Therefore, these two methods are used to test the robustness of the empirical results. The first set of robustness tests was done by increasing the time lag between the dependent variable and the ESG variables from one year to two years, similar to a robustness test by Velte (2020). Nevertheless, it must be noted that due to the increased time lag, the robustness test results include slightly fewer observations as there was not enough necessary financial data available for the most recent financial year. The second robustness tests were done by winsorizing the data at the 90% level, similar to a robustness test by De Klerk et al. (2015).

The results for the robustness tests are presented in Appendices 1-8. Regarding the first hypothesis, Appendix 1 shows the regression results of the relationship between CSR and Tobin's Q with increased time lag, and Appendix 2 shows the regression results on the relationship after winsorization. The results in Appendix 1 are mostly similar to the main results presented in Table 4, but Appendix 1 does not show a statistically significant relationship between the Community score and Tobin's Q as Table 4 does at the 10% level. The coefficients and significance levels of the control variables remained very similar. The results in Appendix 2 vary more from the empirical results in Table 4. After the winsorization, there is a significant positive association between the Emissions score and Tobin's Q (at the 10% level). This association was insignificant in the main results. Moreover, the negative association between the Human Rights score and Tobin's Q was significant at the 1% level in Table 4 and the 5% level in Appendix 2. The association between the Community score and Tobin's Q was significant and negative at the 10% level in the main results but insignificant after winsorization. Otherwise, the results were

very similar. Therefore, the findings regarding H1 and the relationship between CSR and Tobin's Q seem robust as the relationship remained mostly insignificant.

Regarding the second hypothesis, Appendix 3 shows the results of the relationship between CSR and share price with increased time lag, and Appendix 4 shows the results on the relationship after winsorization. The results in Appendix 3 are mostly in line with the original results shown in Table 5. One difference is that the original results show an insignificant positive association between the CSR Strategy score and share price while the robustness test result shows an insignificant negative association between the two. Another difference is that the robustness tests show a significant positive association between the Resource Use score and share price (at the 10% level) whereas this was insignificant in the original results. Otherwise, the results are very similar. Regarding Appendix 4, the results after winsorization are mostly similar as they also show a positive association between CSR and share price. Nevertheless, in the original results, the Emissions and Workforce scores had a positive association with share price at the 5% level, whereas after winsorization these were significant at the 1% level. Moreover, Appendix 4 shows a significant positive association for the Overall ESG score (at the 10% level) while this was insignificant in the original results. The results of the control variables remained very similar. Altogether, the results of the relationship between CSR and share price seem robust as the relationship remained positive and mostly insignificant, except for a few ESG scores.

As for the moderating effect of Directive 2014/95/EU and hypothesis 3, Appendix 5 shows the results of the effect of the directive on the relationship between CSR and Tobin's Q with increased time lag, and Appendix 6 shows the regression results on this relationship after winsorization. The results in Appendix 5 are mostly similar to the results shown in Table 6 about the interaction term Regulation*ESG as Appendix 5 also shows a negative, and many times significant, interaction. In the original results, the Regulation*Resource Use interaction is significant at the 1% level while it is significant at the 5% level with the increased time lag. In addition, the Regulation*Product

Responsibility interaction term is significant at the 10% level in the original results but insignificant in the robustness test. As for the control variables, the results remain very similar again. Appendix 6 shows that the results remain mostly similar also after the winsorization. The interaction terms are negative and for some of them, the significance level is different after winsorization. For instance, the Regulation*Product Responsibility interaction term was significant at the 10% level in the original data but after winsorization, it was significant at the 5% level. Overall, the findings on the effect of Directive 2014/95/EU on the relationship between CSR and Tobin's Q seem robust as the interaction remained negative and mostly significant.

Regarding the moderating effect of the directive on the relationship between CSR and share price, Appendix 7 shows the results with increased time lag, and Appendix 8 shows the results after winsorization. As Appendix 7 shows, the direction of the coefficients for the interaction terms remained the same. They also remained mostly insignificant, but the Regulation*Emissions interaction that was significant at the 5% level in the original results was insignificant with increased time lag. For the winsorization, there were more differences as the interaction terms for the Resource Use and Human Rights scores were significant after winsorization but insignificant in the original results. Other than that, these results were mostly similar and the results of the effect of the directive seem robust as they did not change drastically in the tests. Altogether, the robustness tests indicate that the empirical results hold also if the time lag is increased or if the data is winsorized at the 90% level.

5.4 Discussion of the findings

This thesis includes four research hypotheses, one of which is accepted, two of which are partially accepted, and one of which is rejected. In summary, Hypothesis 1 predicted a positive relationship between CSR and Tobin's Q. The empirical results show a mostly insignificant relationship and include both positive and negative associations between different ESG variables and Tobin's Q. None of the positive associations are significant,

while two of the negative ones are significant. As the overall relationship between CSR and Tobin's Q is found to be statistically insignificant, Hypothesis 1 is rejected. Hypothesis 2 predicted a positive relationship between CSR and share price. According to the results, this relationship is positive but mostly insignificant as only two of the associations between ESG variables and share price are significant. Therefore, Hypothesis 2 is partially accepted as the relationship is found to be positive, but as the results lack statistical significance, it cannot be fully accepted.

Hypothesis 3 predicted that Directive 2014/95/EU negatively moderates the relationship between CSR and Tobin's Q. The interaction term is negative for each ESG variable and five out of eight of these interactions were statistically significant. Therefore, the results indicate that the directive had a negative effect on the relationship between CSR and Tobin's Q, and therefore, Hypothesis 3 is accepted. Hypothesis 4 predicted that the directive negatively moderates the relationship between CSR and share price. The results provide slightly mixed evidence as the interaction term gets both positive and negative values depending on the ESG variable. Five out of eight of them are negative and three of them are positive. These interactions are mostly insignificant, but two of the negative interactions are statistically significant. Altogether, the effect of the directive on the relationship between CSR and share price is negative but mostly insignificant, and therefore, Hypothesis 4 is partially accepted as the results show some evidence of a negative moderating effect.

In summary, the results are slightly different for Tobin's Q and share price, but it can be stated that according to the results, the relationship between CSR and CFP is mostly insignificant. Nevertheless, it must be noted that the Overall ESG score did not have a statistically significant relationship with CFP whereas some of the individual category scores did. The overall insignificant relationship between CSR and CFP supports a finding by Cahan et al. (2016) who found that CSR and CFP have a neutral relationship when CSR disclosure is expected. The results also support a finding by Mittelbach-Hörmanseder et al. (2021) who found that the effect of CSR disclosure on CFP is limited when CSR

awareness is high. In Finland, Sweden, and Denmark, CSR reporting is very common (KPMG, 2022), sustainability performance is very good (Sachs et al., 2023), people are aware of sustainability issues, and sustainability commitments are expected. Therefore, being sustainable and providing CSR reports is not seen as exceptional in these countries, not even before the directive became effective. Thus, CSR does not automatically improve financial performance and may not generate a significant effect on CFP. Another aspect worth considering regarding the relationship is the costs caused by CSR practices and reporting. In this case, it can be assumed that the costs related to CSR compensated for their financial benefits or that the costs did not significantly exceed the benefits.

Despite the overall insignificant relationship between CSR and CFP, the results also indicate that the Human Rights and the Community scores have significant negative associations with Tobin's Q while the Emissions and the Workforce scores have significant positive associations with share price. At the same time, some categories such as the Product Responsibility score are not significantly associated with either CFP indicator, at least according to the results provided in this thesis. This indicates that certain categories may have a bigger impact on financial performance than others, and this is in line with many previous studies. Regarding the two negative associations between CSR and Tobin's Q, Omar and Zallom (2016) also found a negative association between Tobin's Q and community involvement, and they suggest that this finding could indicate that corporations should focus on profit maximization as suggested by Friedman (1970). Moreover, they suggest that the negative association can be due to the benefits being lower than the financial resources used for community involvement. Overall, the negative association between CSR and Tobin's Q is frequently explained by the increased costs from CSR practices and policies that exceed the financial benefits (Phan et al., 2020).

The finding of an overall (although mostly insignificant) positive relationship between CSR and share price is in line with many previous studies (e.g., De Klerk et al., 2015; Havlinova & Kukacka, 2023; Reverte, 2016). Mittelbach-Hörmanseder et al. (2021) state

that the strength of the relationship between CSR and share price depends on the topic. This can also be seen in the results of this thesis as the Emissions and Workforce scores had the strongest and most significant associations with share price. There are many possible explanations for the overall positive relationship. CSR disclosures give additional information to investors (De Klerk et al., 2015; Reverte, 2016) and increase information transparency which helps investors evaluate corporations better (E-Vahdati et al., 2023; Reverte, 2016). Additionally, stakeholder theory suggests that CSR efforts impact investors' attitudes (E-Vahdati et al., 2023) and therefore, corporations with higher CSR performance are valued highly. The theory also suggests that good CSR performance enables corporations to satisfy the kind of investors who value CSR efforts and do not solely seek high returns (E-Vahdati et al., 2023). Altogether, the positive association between CSR and share price suggests that corporations and their managers can increase the share price by improving their CSR performance and disclosure (De Klerk et al., 2015), and in this case, especially by disclosing evidence of good performance regarding emissions, employees, and working conditions.

There are several possibilities for why the Emissions and Workforce scores had the most significant associations with share price. First, as an example, low community involvement is most likely seen as more acceptable than poor working conditions or corporations causing heavy pollution. Further, regarding the Workforce score, working conditions, employee diversity, and equality are important matters in the Nordic countries and the standards for these are high. Poor working conditions are not acceptable and may lead to negative attention from the public and corporations' stakeholders. Therefore, showing evidence of good working conditions and high levels of diversity and equality shows corporations in a positive light and may improve the corporations' market value. Employees are in an important role regarding daily profit making and therefore investors may view that good working conditions generate more profits for corporations. Disclosing evidence of good working conditions, diversity, and equality is also essential from the perspective of legitimacy theory. Disclosing

information and showing that the corporation performs well in these matters improves the corporation's legitimacy, which can then be reflected in its market-based CFP.

In addition to workforce-related matters, climate change and environmental issues are important in the Nordic countries and gain considerable attention from Nordic individuals and governments. Concern for the environment is significant and corporations are expected to consider the environment in their daily operations and decision-making. Corporations generally cause huge amounts of emissions, causing pollution and accelerating climate change, and stakeholders value it if corporations are transparent about these issues and if they can show their commitment to reducing the emissions that their production and operations cause. The Emissions score measures the reduction of environmental emissions (LSEG, 2022), meaning that the empirical results of this thesis found that a better ability to reduce emissions is associated with higher share prices. Reducing environmental emissions can enhance a corporation's reputation and improve its legitimacy which then can be reflected in its share price. Regarding stakeholder theory, reducing emissions indicates that a corporation also considers other stakeholders in addition to shareholders and that it wants to and can create value for various stakeholder groups. These considerations can explain the significant positive association between the Emissions score and share price.

Altogether, the results of the effect of Directive 2014/95/EU show that the directive negatively moderates the relationship and that the moderating effect is more significant for Tobin's Q compared to share price. The negative effect suggests that the effect of CSR on CFP became less positive when Directive 2014/95/EU became effective. The finding of the negative moderating effect is in line with many previous studies that found that the relationship between CSR and CFP became less positive when CSR reporting became mandatory (e.g., Agostini et al., 2022; Mittelbach-Hörmanseder et al., 2021). One explanation for the negative effect is that as the regulation mandates all large corporations to disclose CSR information, the corporations that have high CSR performance do not stand out as they may have used to, because of the increased

number of CSR disclosures (Mittelbach-Hörmanseder et al., 2021). The increased number of CSR disclosures also creates the possibility of information overload for stakeholders which may result in inefficient assessment (Phan et al., 2020). Due to the directive, corporations with low CSR performance and commitments are also mandated to disclose this information which may lower their market value.

The negative effect of the directive is also explained by the costs it causes (Agostini et al., 2022; Mittelbach-Hörmanseder et al., 2021). The directive creates new additional costs for corporations, particularly for corporations who have not provided thorough CSR disclosures when it was voluntary. Therefore, investors may view that the benefits from CSR are lower than the costs it causes, lowering overall CFP (Grewal et al., 2017). Based on institutional theory, some researchers believe that corporations, particularly the ones that have not provided CSR reports when it was voluntary, provide the reports due to institutional pressure (Agostini et al., 2022) which is Directive 2014/95/EU in this case. One more explanation for the negative effect of the directive may be that a corporation's concern for CSR-related issues is not necessarily seen as genuine if the corporation has never addressed these issues when it was not required by law. Due to the negative moderating effect of Directive 2014/95/EU, corporations and their managers need to convince their stakeholders of their CSR efforts to be associated with higher market-based CFP even after the directive.

6 Conclusion

This thesis aimed to find what kind of relationship there is between CSR and CFP and how Directive 2014/95/EU affects it. This chapter concludes the thesis. The first subchapter provides a summary of the thesis, and the second subchapter discusses the practical implications of these findings. The third subchapter outlines the contribution and limitations of this thesis and proposes ideas for future research.

6.1 Summary of the thesis

CSR and sustainability have become essential topics for corporations and the amount of CSR-related research has been increasing constantly. For many decades, researchers have been interested in examining how CSR and CFP are associated with each other. Previous research has found contradictory evidence of this relationship as some studies have found a positive relationship, some have found a negative relationship, and some have not found any significant relationship between CSR and CFP. Therefore, there is still no unambiguous understanding of it. In recent years, governments and unions have introduced regulations that mandate CSR reporting. In 2014, the European Commission introduced the Non-Financial Reporting Directive 2014/95/EU that mandated large publicly listed corporations to provide non-financial disclosures. The new regulations and phenomenon of mandatory CSR have brought a new dimension to the study of CSR.

The aim was to find what kind of relationship there is between CSR and CFP and how Directive 2014/95/EU affects this relationship. The final sample consisted of 253 corporations from Finland, Sweden, and Denmark that fulfill the criteria of the directive. CSR was measured using seven ESG category scores and an overall ESG score. CFP was measured by Tobin's Q and share prices. This thesis applied linear regression models and studied the relationship between CSR and CFP for a period of 12 years, from 2011 to 2022. The results indicate that the relationship between CSR and CFP is mostly statistically insignificant. For Tobin's Q, the regression results show mixed and mostly

insignificant evidence, whereas, for share price, the results show a positive and mostly insignificant relationship. The effect of Directive 2014/95/EU on the CSR-CFP relationship was found to be negative for both CFP indicators. Two sets of robustness tests were conducted, and these tests generated similar results as the main results.

6.2 Implications

The results imply that CSR generates mostly neutral outcomes for CFP. To avoid negative outcomes on financial performance, managers should pay close attention to the costs related to CSR and estimate the benefits associated with them so that the costs would not exceed the benefits. Additionally, as certain CSR categories may have a bigger impact on CFP than others, managers could identify the categories that are the most essential for them and focus on these categories if they want to gain significant financial benefits from CSR. For instance, the results in this thesis imply that focusing on and improving performance and disclosure on emissions reduction and workforce-related issues can help corporations increase their share price. Nevertheless, because Finland, Sweden, and Denmark have high standards for CSR and sustainability, corporations must show good overall CSR performance and commitment to stay legitimate. As Directive 2014/95/EU has a negative effect on the relationship between CSR and CFP, managers must pay even closer attention to their CSR disclosures and cost allocation related to it. More efficient cost allocation could help corporations to gain more financial benefits from CSR. Managers should also focus on identifying the CSR topics that are the most material to them as this decreases the possibility of information overload and can support investors in assessing the corporations more efficiently.

6.3 Contribution, limitations, and future research

This thesis and its results contribute to previous research by providing evidence of the relationship between CSR and market-based financial performance. Additionally, this

thesis contributes to the research on the shift towards mandatory CSR and the effect of Directive 2014/95/EU on the CSR-CFP relationship, for which there does not exist much research yet. As this thesis studies these matters using a sample of corporations from Finland, Sweden, and Denmark, this thesis also contributes to the research on CSR in the Nordics that are relatively small countries with high CSR commitments.

There are some limitations in this thesis. First, it only studies large publicly listed corporations and does not consider small or medium-sized corporations. The studied relationship could be significantly different with a sample including smaller corporations in addition to large corporations. Nevertheless, due to the application of Directive 2014/95/EU, this limitation was necessary. Second, the examination is limited to non-financial corporations and does not include financial corporations. Third, this thesis focuses on three countries, namely Finland, Sweden, and Denmark. Therefore, a sample including more European countries could generate different results. Fourth, the measurement of CFP is limited to market-based performance, and therefore, this thesis does not provide insights into the CSR-CFP relationship when CFP is measured using accounting-based indicators. Moreover, this thesis measures CFP with two different indicators, Tobin's Q and share price, and therefore the results specifically provide evidence of the relationship between CSR and these two CFP indicators.

Future research could address some of these limitations and provide new insights in many ways. For instance, future research could use a larger sample and include corporations from more than three countries. This would enable them to study the CSR-CFP relationship, for instance, for the whole EU region, or find differences between countries. Future studies could also use different CFP measures and include both accounting- and market-based indicators. Another important approach is to study the effect of the newer EU directive, the Corporate Sustainability Reporting Directive, on the relationship between CSR and CFP. When enough relevant data is available, the study of this newer directive will give important insights into CSR and its impact on CFP. As this directive also applies to non-listed corporations and small and medium-sized

corporations, its effect on the CSR-CFP relationship could be studied using various kinds of samples. This would allow to get a more thorough understanding of how regulations affect the relationship. In addition, the number of CSR-related regulations is increasing globally, and therefore, a similar study setting could be used to study different geographical locations other than Europe and study the effect of their regulations. Altogether, there are many possibilities to study the relationship between CSR and CFP and the effects of regulation on it.

References

Aagaard, P., Andersen, J. R., Dahlqvist, F., & Nauclér, T. (2022, September 1). *Playing offense to create Nordic sustainability champions*. McKinsey & Company. Retrieved October 16, 2023, from https://www.mckinsey.com/capabilities/sustainability/our-insights/playing-offense-to-create-nordic-sustainability-champions#/

Abdul Rahman, R., & Alsayegh, M. H. (2021). Determinants of Corporate Environment, Social and Governance (ESG) Reporting among Asian Firms. *Journal of Risk and Financial Management*, 14(4), 167. https://doi.org/10.3390/jrfm14040167

Agostini, M., Costa, E., & Korca, B. (2022). Non-Financial Disclosure and Corporate Financial Performance Under Directive2014/95/EU: Evidence from Italian Listed Companies. *Accounting in Europe*, 19(1), 78-109. https://doi.org/10.1080/17449480.2021.1979610

Atan, R., Alam, M. M., Said, J., & Zamri, M. (2018). The impacts of environmental, social, and governance factors on firm performance: Panel study of Malaysian companies. *Management of Environmental Quality*, 29(2), 182-194. https://doi.org/10.1108/MEQ-03-2017-0033

Bird, T. (2017). *Nordic Action on Climate Change*. Nordic Council of Ministers. http://dx.doi.org/10.6027/ANP2017-766

Bowen, H. R. (1953). *Social responsibilities of the businessman*. New York: Harper & Row.

Bowen, H. R., Gond, J., & Bowen, P. G. (2013). *Social Responsibilities of the Businessman*. https://ebookcentral-proquest-com.proxy.uwasa.fi/lib/tritonia-ebooks/detail.action?docID=1650798#

Brainard, W., & Tobin. J. (1968). Pitfalls in financial model-building. *American Economic Review*, 58(2), 99-122. https://www.jstor.org/stable/1831802

Brammer, S., Jackson, G., & Matten, D. (2012). Corporate social responsibility and institutional theory: new perspectives on private governance. *Socio-Economic Review*, 10(22), 3-28. https://doi.org/10.1093/ser/mwr030

Breuer, W., Müller, T., Rosenbach, D., & Salzmann, A. (2018). Corporate social responsibility, investor protection, and cost of equity: A cross-country

comparison. *Journal of Banking and Finance*, 96, 34-55. https://doi-org.proxy.uwasa.fi/10.1016/j.jbankfin.2018.07.018

Castelo Branco, M., & Lima Rodrigues, L. (2007). Positioning stakeholder theory within the debate on corporate social responsibility. *Electronic Journal of Business Ethics and Organization Studies*, 12(1), 5-15.

Cahan, S. F., De Villiers, C., Jeter, D. C., Naiker, V., & Van Staden, C. J. (2016). Are CSR Disclosures Value Relevant? Cross-Country Evidence. *European Accounting Review*, 25(3), 579-611. https://doi.org/10.1080/09638180.2015.1064009

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, 34(4), 39.48. https://doi.org/10.1016/0007-6813(91)90005-G

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a Definitional Construct. *Business & Society*, 38(3), 268-295. https://doi.org/10.1177/000765039903800303

Carroll, A. B. (2018). Corporate Social Responsibility (CSR) and Corporate Social Performance (CSP). In The SAGE Encyclopedia of *Business Ethics and Society*, 7, 746-754. SAGE Publications, Inc. https://doi.org/10.4135/9781483381503

Chandler, D., & Werther, W. (2014). *Strategic corporate social responsibility: stakeholders, globalization, and sustainable value creation* (3rd edition). SAGE Publications.

Chen, Y., Hung., M., & Wang, Y. (2018). The effect of mandatory CSR disclosure on firm profitability and social externalities: Evidence from China. *Journal of Accounting and Economics*, 65(1), 169-190.

Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: economic analysis and literature review. *Review of Accounting Studies*, 2021(26), 1176-1248. https://doi.org/10.1007/s11142-021-09609-5

Clément, A., Robinot, É., & Trespeuch, L. (2023). The use of ESG scores in academic literature: a systematic literature review. *Journal of Enterprising Communities: People and Places in the Global Economy*, Vol. ahead-of-print, No. ahead-of-print. http://dx.doi.org/10.1108/JEC-10-2022-0147

Connors, S., Anderson-MacDonald, S., & Thomson, M. (2017). Overcoming the 'Window Dressing' Effect: Mitigating the Negative Effects of Inherent Skepticism Towards Corporate Social Responsibility. *Journal of Business Ethics*, 145, 599-621. https://doi.org/10.1007/s10551-015-2858-z

Crane, A., & Glozer, S. (2016). Researching Corporate Social Responsibility Communication: Themes, Opportunities and Challenges. *Journal of Management Studies*, 53(7), 1223-1252. https://doi.org/10.1111/joms.12196

Cupertino, S., Vitale, G., & Ruggiero, P. (2022). Performance and (non) mandatory disclosure: the moderating role of the Directive 2014/95/EU. *Journal of Applied Accounting Research*, 23(1), 163-183. https://doi.org/10.1108/JAAR-04-2021-0115

Davis, K. (1960). Can business afford to ignore social responsibilities? *California Management Review*, 2(3), 70-76. https://doi.org/10.2307/41166246

De Klerk, M., de Villiers, C., & van Staden, C. (2015). The influence of corporate social responsibility disclosure on share prices: Evidence from the United Kingdom. *Pacific Accounting Review*, 27(2), 208-228. http://dx.doi.org/10.1108/PAR-05-2013-0047

Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures – a theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282-311. https://doi.org/10.1108/09513570210435852

Deegan, C. (2009). *Financial accounting theory* (3rd edition). McGraw-Hill Education.

Department for Business, Energy & Industrial Strategy. (2022). *Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs*. The UK Government. Retrieved July 16, 2023, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1056085/mandatory-climate-related-financial-disclosures-publicly-quoted-private-cos-llps.pdf

de Villiers, C., & Marques, A. (2016). Corporate social responsibility, country-level predispositions, and the consequences of choosing a level of disclosure.

Accounting and Business Research, 46(2), 167-195. https://doi.org/10.1080/00014788.2015.1039476

Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary non-financial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review*, 86(1), 59-100.

Dillard, J., Rigsby, J., & Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing & Accountability*, 17(4), 506-542. https://doi.org/10.1108/09513570410554542

DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48(2), 147-160. https://doi-org.proxy.uwasa.fi/10.2307/2095101

Dmytriyev, S. D., Freeman, R. E., & Hörisch, J. (2021). The relationship between stakeholder theory and corporate social responsibility: differences, similarities, and implications for social issues in management. *Journal of Management Studies*, 58(6), 1441-1470. https://doi.org/10.1111/joms.12684

Dobbs, S., & van Staden, C. (2016). Motivations for corporate social and environmental reporting: New Zealand evidence. *Sustainability Accounting, Management and Policy Journal*, 7(3), 449-472. http://dx.doi.org/10.1108/SAMPJ-08-2015-0070

Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *The Academy of Management Review*, 20(1), 65-91. https://doi.org/10.2307/258887

European Commission. (2014, November 15). *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups*. Retrieved July 1, 2023, from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095

European Commission. (2016, November 22). *Communication from the Commission to the European Parliament, the Council, the European Economic and Social*

Committee and the Committee of the Regions: Next steps for a sustainable European Future. Retrieved July 27, 2023, from https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52016DC0739

European Commission. (2019, January 30). *Reflection Paper: Towards a Sustainable Europe by 2030*. Retrieved July 30, 2023, from https://commission.europa.eu/system/files/2019-02/rp_sustainable_europe_30-01_en_web.pdf

European Commission. (2021a, April 21). *Proposal for a Directive of The European Parliament and of The Council: amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*. Retrieved October 27, 2023, from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189

European Commission. (2021b, April 21). *Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee: on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU*. Retrieved August 13, 2023, from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0199

European Commission. (2022, December 16). *Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting*. Retrieved July 30, 2023, from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464

European Commission. (n.d.). *Corporate sustainability and responsibility*. Retrieved November 3, 2023, from https://single-market-economy.ec.europa.eu/industry/sustainability/corporate-sustainability-and-responsibility_en

E-Vahdati, S., Wan-Hussin, W. N., Mohd Ariffin, M. S. (2023). The Value Relevance of ESG Practices in Japan and Malaysia: Moderating Roles of CSR Award, and Former CEO as a Board Chair. *Sustainability*, 15, 2728. https://doi.org/10.3390/su15032728

Feng, M., Wang, X., & Kreuze, J. G. (2017). Corporate social responsibility and firm financial performance: Comparison analyses across industries and CSR categories. *American Journal of Business*, 32(3-4), 106-133. https://doi.org/10.1108/AJB-05-2016-0015

Fernando, S., & Lawrence, S. (2014). A theoretical framework for CSR practices: Integrating legitimacy theory, stakeholder theory and institutional theory. *The Journal of Theoretical Accounting*, 10(1), 149-178.

Finnish Business & Society. (2023, May 10). *Summary: Sustainability in Finland 2023 Survey*. Retrieved November 10, 2023, from https://fibsry.fi/uutishuone/tutkimukset/summary-sustainability-in-finland-2023-survey/

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston: Pitman.

Freeman, R. E., & Dmytriyev, S. D. (2017). Corporate social responsibility and stakeholder theory: Learning from each other. *Symphonya Emerging Issues in Management*, 1, 7-15. http://dx.doi.org/10.4468/2017.1.02freeman.dmytriyev

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder Theory and "The Corporate Objective Revisited". *Organization Science*, 15(3), 364-369. https://doi.org/10.1287/orsc.1040.0066

Friedman, M. (1970, September 13). The Social Responsibility of Business is to Increase Its Profits. *The New York Times Magazine*.

Frynas, J. G., & Yamahaki, C. (2016). Corporate social responsibility: review and roadmap of theoretical perspectives. *Business Ethics: A European Review*, 25(3), 258-285. https://doi-org.proxy.uwasa.fi/10.1111/beer.12115

FTSE Russell. (2017, September*). Industry Classification Benchmark: Structural enhancements to the industry categorization framework*. Retrieved December 12, 2023, from https://content.ftserussell.com/sites/default/files/research/industry_classification_benchmark-final.pdf

Gatti, L., Seele, P., & Rademacher, L. (2019). Grey zone in – greenwash out. A review of greenwashing research and implications for the voluntary-mandatory transition

of CSR. *International Journal of Corporate Social Responsibility*, 4(6), 1-15. https://doi.org/10.1186/s40991-019-0044-9

Gentry, R. J., & Shen, W. (2010). The relationship between accounting and market measures of firm financial performance: how strong is it*? Journal of managerial issues*, 22(4), 514-530.

Gillan, S., Koch, A., & Starks, L. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, 66.

GRI. (n.d.). *A Short Introduction to the GRI Standards. Global Reporting Initiative*. Retrieved November 5, 2023, from https://www.globalreporting.org/media/wtaf14tw/a-short-introduction-to-the-gri-standards.pdf

Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, 8(2), 47-77. https://doi-org.proxy.uwasa.fi/10.1108/09513579510146996

Gray, R., Owen, D., & Adams, C. (1996). *Accounting and accountability: Changes and challenges in corporate social and environmental reporting*. Upper Saddle River, PrenticeHall.

Grewal, J., Riedl, E. J., & Serafeim, G. (2017). Market Reaction to Mandatory Nonfinancial Disclosure. *Management Science*, 65(7), 3061-3084. https://dx.doi.org/10.2139/ssrn.2657712

Guidry, R. P., & Patten, D. M. (2010). Market reactions to the first-time issuance of corporate sustainability reports: Evidence that quality matters. *Sustainability Accounting, Management and Policy Journal*, 1(1), 33-50. https://doi.org/10.1108/20408021011059214

Haji, A. A., Coram, P., & Troshani, I. (2023). Consequences of CSR reporting regulations worldwide: a review and research agenda. *Accounting, Auditing & Accountability*, 36(1), 177-208. https://doi.org/10.1108/AAAJ-05-2020-4571

Han, JJ., Kim, H. J., & Yu, J. (2016). Empirical study on relationship between corporate social responsibility and financial performance in Korea. *Asian Journal of*

Sustainability and Social Responsibility, 2016(1), 61-76. https://doi.org/10.1186/s41180-016-0002-3

Havlinova, A., & Kukacka, J. (2023). Corporate Social Responsibility and Stock Prices After the Financial Crisis: The Role of Strategic CSR Activities. *Journal of Business Ethics*, 182, 223-242. https://doi.org/10.1007/s10551-021-04935-9

Hichri, A., & Ltifi, M. (2021). Corporate social responsibility and financial performance: bidirectional relationship and mediating effect of customer loyalty: investigation in Sweden. *Corporate Governance*, 21(7), 1495-1518. http://dx.doi.org/10.1108/CG-10-2020-0472

Huang, K., Sim, N., & Zhao, H. (2020). Corporate social responsibility, corporate financial performance and the confounding effects of economic fluctuations: A meta-analysis. *International Review of Financial Analysis*, 70, 101504. https://doi.org/10.1016/j.irfa.2020.101504

Johnson, H. L. (1971). *Business in contemporary society: Framework and issues*. Wadsworth.

Kao, E. H., Yeh, C., Wang, L., & Fung, H. (2018). The relationship between CSR and performance: Evidence in China. *Pacific-Basin Finance Journal*, 51, 155-170. https://doi.org/10.1016/j.pacfin.2018.04.006

Khatri, I., & Kjærland, F. (2023). Sustainability reporting practices and environmental performance amongst nordic listed firms. *Journal of Cleaner Production*, 418, 138172. https://doi.org/10.1016/j.jclepro.2023.138172

Korca, B., & Costa, E. (2021). Directive 2014/95/EU: building a research agenda. *Journal of Applied Accounting Research*, 22(3), 401-422. https://doi-org.proxy.uwasa.fi/10.1108/JAAR-05-2020-0085

KPMG. (2020). *The KPMG Survey of Sustainability Reporting 2020*. Retrieved November 1, 2023, from https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

KPMG. (2022). *Survey of Sustainability Reporting 2022*. Retrieved August 21, 2023, from https://assets.kpmg.com/content/dam/kpmg/se/pdf/komm/2022/Global-Survey-of-Sustainability-Reporting-2022.pdf

Lanis, R., & Richardson, G. (2013). Corporate social responsibility and tax aggressiveness: a test of legitimacy theory. *Accounting, Auditing & Accountability Journal*, 26(1), 75-100. https://doi.org/10.1108/09513571311285621

Latapí Agudelo, M., Jóhannsdóttir, L., & Davídsdóttir, B. (2019). A literature review of the history and evolution of corporate social responsibility. *International Journal of Corporate Social Responsibility*, 4(1), 1-23. https://doi.org/10.1186/s40991-018-0039-y

Lee, M. P. (2008). A review of the theories of corporate social responsibility: Its evolutionary path and the road ahead. *International Journal of Management Reviews*, 10(1), 53-73. https://doi-org.proxy.uwasa.fi/10.1111/j.1468-2370.2007.00226.x

Lin, Y., Liu, N., & Lin, J. (2021). Firms' adoption of CSR initiatives and employees' organizational commitment: Organizational CSR climate and employees' CSR-induced attributions as mediators. *Journal of Business Research*. https://doi.org/10.1016/j.jbusres.2021.11.028

Lioui, A., & Sharma, Z. (2012). Environmental corporate social responsibility and financial performance: Disentangling direct and indirect effects. *Ecological Economics*, 78, 100-111. https://doi.org/10.1016/j.ecolecon.2012.04.004

Liu, Y., Wei, Z., & Xie, F. (2014). Do women directors improve firm performance in China? *Journal of Corporate Finance*, 28, 169-184. https://doi.org/10.1016/j.jcorpfin.2013.11.016

LSEG. (2022, May). *Environmental, social and governance scores from LSEG*. Retrieved December 12, 2023, from https://www.lseg.com/content/dam/data-analytics/en_us/documents/methodology/lseg-esg-scores-methodology.pdf

Lueg, R., & Pesheva, R. (2021). Corporate sustainability in the Nordic countries – The curvilinear effects on shareholder returns. *Journal of Cleaner Production*, 315. https://doi.org/10.1016/j.jclepro.2021.127962

Mehedi, S., & Jalaludin, D. (2020). Application of theories in CSR research focusing study context and corporate attributes. *International Journal of Ethics and Systems*, 36(3), 305-324. https://doi-org.proxy.uwasa.fi/10.1108/IJOES-09-2019-0146

Midttun, A., Gjølberg, M., Kourula, A., Sweet, S., & Vallentin, S. (2015). Public Policies for Corporate Social Responsibility in Four Nordic Countries: Harmony of Goals and Conflict of Means. *Business & Society*, 54(4), 464-500. https://doi-org.proxy.uwasa.fi/10.1177/0007650312450848

Mittelbach-Hörmanseder, S., Hummel, K., & Rammerstorfer, M. (2021). The information content of corporate social responsibility disclosure in Europe: an institutional perspective. *European Accounting Review*, 30(2), 309-348. https://doi.org/10.1080/09638180.2020.1763818

Mukherjee, A., Bird, R., & Duppati, G. (2018). Mandatory Corporate Social Responsibility: The Indian experience. *Journal of Contemporary Accounting & Economics*, 14(3), 254-265. https://doi.org/10.1016/j.jcae.2018.06.002

Mukherjee, A., & Nuñez, R. (2019). Doing well by doing good: can voluntary CSR reporting enhance financial performance? *Journal of Indian Business Research*, 11(2), 100-119. http://dx.doi.org/10.1108/JIBR-07-2018-0199

Nekhili, M., Nagati, H., Chtioui, T., & Rebolledo, C. (2017). Corporate social responsibility disclosure and market value: Family versus nonfamily firms. *Journal of Business Research*, 77, 41-52. https://doi.org/10.1016/j.jbusres.2017.04.001

Nordic Council of Ministers. (2020). *The Nordic Region – towards being the most sustainable and integrated region in the world: Action plan for 2021 to 2024*. Retrieved September 13, 2023, from https://www.norden.org/en/publication/nordic-region-towards-being-most-sustainable-and-integrated-region-world

Omar, B. F., & Zallom, N. O. Corporate social responsibility and market value: evidence from Jordan. *Journal of Financial Reporting and Accounting*, 14(1), 2-29. https://doi.org/10.1108/JFRA-11-2014-0084

Ottenstein, P., Erben, S., Jost, S., Weuster, C. W., & Zülch, H. (2022). From voluntarism to regulation: effects of Directive 2014/95/EU on sustainability reporting in the EU. *Journal of Applied Accounting Research,* 23(1), 55-98. https://doi.org/10.1108/JAAR-03-2021-0075

Phan, H., De Luca, F., & Iaia, L. (2020). The “Walk” towards the UN Sustainable Development Goals: Does Mandated “Talk” through Nonfinancial Disclosure Affect Companies’ Financial Performance? *Sustainability*, 12(6), 2324. https://doi.org/10.3390/su12062324

Porter, M., & Kramer, M. (2011). Creating shared value. *Harvard Business Review*, 89(1), 62-77.

Reverte, C. (2016). Corporate social responsibility disclosure and market valuation: evidence from Spanish listed firms. *Review of Managerial Science*, 10, 411-435. https://doi.org/10.1007/s11846-014-0151-7

Reyes, J. A. L. (2021). How Different Are the Nordics? Unravelling the Willingness to Make Economic Sacrifices for the Environment. *Sustainability*, 13, 1294. https://doi.org/10.3390/su13031294

Quazi, A., & Richardson, A. (2012). Sources of variation in linking corporate social responsibility and financial performance. *Social Responsibility Journal*, 8(2), 242-256. https://doi.org/10.1108/17471111211234860

Sachs, J. D., Lafortune, G., Fuller, G., & Drumm, E. (2023). *Implementing the SDG Stimulus: Sustainable Development Report 2023*. Paris: SDSN, Dublin: Dublin University Press, 2023. Retrieved September 13, 2023, from https://s3.amazonaws.com/sustainabledevelopment.report/2023/sustainable-development-report-2023.pdf

Saleh, M., Zulkifli, N., & Muhamad, R. (2011). Looking for evidence of the relationship between corporate social responsibility and corporate financial performance in an emerging market. *Asia-Pacific Journal of Business Administration*, 3(2), 165-190. https://doi.org/10.1108/17574321111169849

Singh, A., & Chakraborty, M. (2021). Does CSR disclosure influence financial performance of firms? Evidence from an emerging economy. *Sustainability Accounting, Management and Policy Journal*, 12(4), 788-810. http://dx.doi.org/10.1108/SAMPJ-02-2018-0042

Singhania, M., & Saini, N. (2021). Institutional framework of ESG disclosures: comparative analysis of developed and developing countries. *Journal of*

Sustainable Finance & Investment. https://doi.org/10.1080/20430795.2021.1964810

Strand, R., Freeman, R. E., & Hockerts, K. (2015). Corporate Social Responsibility and Sustainability in Scandinavia: An Overview. *Journal of Business Ethics*, 127, 1-15. https://doi.org/10.1007/s10551-014-2224-6

Thorne, L., Mahoney, L. S., & Manetti, G. (2014). Motivations for issuing standalone CSR reports: a survey of Canadian firms. *Accounting, Auditing & Accountability Journal*, 27(4), 686-714. https://doi.org/10.1108/AAAJ-07-2013-1393

Ting, P. (2021). Do large firms just talk corporate social responsibility? The evidence from CSR report disclosure. *Finance Research Letters*, 38, 101476. https://doi.org/10.1016/j.frl.2020.101476

Tobin, J. (1969). A General Equilibrium Approach To Monetary Theory. *Journal of Money, Credit and Banking*, 1(1), 15-29. https://doi.org/10.2307/1991374

Tsang, A., Wang, K. T., Wu, Y., & Lee, J. (2022). Nonfinancial Corporate Social Responsibility Reporting and Firm Value: International Evidence on the Role of Financial Analysts. *European Accounting Review*. https://doi.org/10.1080/09638180.2022.2094435

United Nations Industrial Development Organization. (n.d.). *What is CSR?* Retrieved November 3, 2023, from https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/what-csr

US Securities and Exchange Commission. (2022, March 21). *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. Retrieved July 26, 2023, from https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Vallentin, S. (2015). Governmentalities of CSR: Danish Government Policy as a Reflection of Political Difference. *Journal of Business Ethics*, 127, 33-47. https://doi.org/10.1007/s10551-013-1703-5

Vartiak, L. (2016). CSR reporting of companies on a global scale. *Procedia Economics and Finance*, 39, 176-183. https://doi.org/10.1016/S2212-5671(16)30276-3

Velte, P. (2017). Does ESG performance have an impact on financial performance? Evidence from Germany. *Journal of Global Responsibility*, 80(2), 169-178. http://dx.doi.org/10.1108/JGR-11-2016-0029

Velte, P. (2020). Does CEO power moderate the link between ESG performance and financial performance? A focus on the German two-tier system. *Management Research Review*, 43(5), 497-520. http://dx.doi.org/10.1108/MRR-04-2019-0182

Venturelli, A., Caputo, F., Cosma, S., Leopizzi, R., & Pizzi, S. (2017). Directive 2014/95/EU: Are Italian Companies Already Compliant? *Sustainability*, 9(8), 1385. https://doi.org/10.3390/su9081385

Wallich, H. C., & McGowan, J. J. (1970, December 1). Stockholder interest and the corporation's role in social policy. In Baumol, W. J., Likert, R., Wallich, H. C., & McGowan, J. J. (ed.), *A New Rationale for Corporate Social Policy* (p. 39-59). Committee for Economic Development.

Wang, Q., Dou, J., & Jia, S. (2016). A Meta-Analytic Review of Corporate Social Responsibility and Corporate Financial Performance: The Moderating Effect of Contextual Factors. *Business & Society*, 55(8), 1083-1121. https://doi-org.proxy.uwasa.fi/10.1177/0007650315584317

Appendices

Appendix 1. The regression of CSR and Tobin's Q with increased time lag

Tobin's Q	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	5.806***	6.169***	6.234***	6.343***	5.403***	5.540***	6.038***	5.781***
	(7.93)	(8.332)	(8.497)	(8.942)	(7.542)	(7.4292)	(8.591)	(8.015)
CSR Strategy	-0.001							
	(-0.524)							
Resource Use		0.002						
		(0.978)						
Emissions			0.003					
			(1.344)					
Workforce				0.006				
				(2.910)				
Human Rights					-0.005***			
					(-2.957)			
Community						-0.003		
						(-1.540)		
Product Resp.							0.002	
							(1.207)	
Overall ESG								-0.001
								(-0.297)
Leverage	-0.023***	-0.022***	-0.022***	-0.021***	-0.023***	-0.023***	-0.022***	-0.022***
	(-7.170)	(-6.872)	(-7.052)	(-6.842)	(-7.360)	(-7.299)	(-7.109)	(-7.254)
Firm Size	-0.256***	-0.286***	-0.293***	-0.312***	-0.221***	-0.238***	-0.275***	-0.251***
	(-6.806)	(-7.463)	(-7.718)	(-8.713)	(-6.201)	(-6.433)	(-8.326)	(-6.982)
ROA	0.107***	0.107***	0.107***	0.106***	0.109***	0.107***	0.107***	0.107***
	(23.397)	(23.346)	(23.282)	(23.114)	(23.657)	(23.430)	(23.375)	(23.480)
Firm Age	-0.002***	-0.002***	-0.002***	-0.002***	-0.002**	-0.002***	-0.002***	-0.002***
	(-2.882)	(-2.969)	(-2.980)	(-3.093)	(-2.501)	(-2.822)	(-2.996)	(-2.703)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.508	0.508	0.508	0.511	0.511	0.508	0.508	0.508
F-test	89.684***	89.777***	89.891***	90.794***	90.830***	89.968***	89.844***	89.791***
Observations	1295	1295	1295	1295	1295	1295	1295	1295

***p<1%, **p<5%, *p<10%

Appendix 2. The regression of CSR and Tobin's Q after winsorization

Tobin's Q	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	2.935***	3.032***	3.173***	3.078***	2.802***	2.899***	2.970***	2.964***
	(7.696)	(7.805)	(8.298)	(8.263)	(7.438)	(7.517)	(8.060)	(7.703)
CSR Strategy	0.000							
	(0.182)							
Resource Use		0.001						
		(0.906)						
Emissions			0.002*					
			(2.259)					
Workforce				0.003				
				(2.163)				
Human Rights					-0.001**			
					(-1.165)			
Community						-8.707e-5		
						(-0.095)		
Product Resp.							0.001	
							(1.140)	
Overall ESG								-0.001
								(-0.435)
Leverage	-0.013***	-0.013***	-0.013***	-0.013***	-0.013***	-0.013***	-0.013***	-0.013***
	(-7.482)	(-7.295)	(-7.334)	(-7.260)	(-7.614)	(-7.484)	(-7.493)	(-7.436)
Firm Size	-0.126***	-0.134***	-0.148***	-0.143***	-0.115***	-0.124***	-0.129***	-0.130***
	(-6.460)	(-6.666)	(-7.469)	(-7.557)	(-6.113)	(-6.411)	(-7.442)	(-6.091)
ROA	0.099***	0.099***	0.098***	0.098***	0.099***	0.099***	0.099***	0.099***
	(31.126)	(30.959)	(30.998)	(30.571)	(31.018)	(31.073)	(31.060)	(31.056)
Firm Age	-0.001**	-0.001**	-0.001**	-0.001**	-0.001*	-0.001**	-0.001**	-0.001**
	(-2.046)	(-2.099)	(-2.102)	(-2.156)	(-1.853)	(-1.998)	(-2.084)	(-2.024)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.577	0.577	0.578	0.578	0.577	0.577	0.577	0.577
F-test	140.053***	139.712***	140.387***	140.320***	139.796***	139.584***	139.788***	139.612***
Observations	1550	1550	1550	1550	1550	1550	1550	1550

***p<1%, **p<5%, *p<10%

Appendix 3. The regression of CSR and share price with increased time lag

Share Price	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	-16.292	18.146	28.889	14.837	-5.065	-9.212	-28.176	6.201
	(-0.284)	(0.312)	(0.504)	(0.265)	(-0.090)	(-0.157)	(-0.509)	(0.106)
CSR Strategy	-0.007							
	(-0.051)							
Resource Use		0.235*						
		(1.651)						
Emissions			0.373**					
			(2.498)					
Workforce				0.413**				
				(2.438)				
Human Rights					0.095			
					(0.732)			
Community						0.041		
						(0.296)		
Product Resp.							-0.172	
							(-1.427)	
Overall ESG								0.254
								(1.047)
Leverage	-0.593**	-0.516**	-0.549**	-0.532**	-0.578**	-0.582**	-0.603**	-0.558**
	(-2.430)	(-2.096)	(-2.267)	(-2.193)	(-2.381)	(-2.385)	(-2.492)	(-2.283)
Firm Size	11.102***	8.284***	7.154**	7.869***	10.132***	10.582***	11.937***	8.906***
	(3.766)	(2.742)	(2.417)	(2.776)	(3.612)	(3.606)	(4.582)	(2.752)
ROA	3.299***	3.273***	3.238***	3.222***	3.261***	3.297***	3.308***	3.298***
	(9.335)	(9.272)	(9.173)	(9.110)	(9.141)	(9.337)	(9.376)	(9.344)
Firm Age	0.037	0.032	0.030	0.029	0.032	0.036	0.042	0.037
	(0.687)	(0.598)	(0.572)	(0.543)	(0.592)	(0.671)	(0.788)	(0.704)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.486	0.487	0.482	0.488	0.486	0.486	0.487	0.486
F-test	79.853***	80.206***	80.662***	80.624***	79.922***	79.864***	80.117***	79.995***
Observations	1258	1258	1258	1258	1258	1258	1258	1258

***p<1%, **p<5%, *p<10%

Appendix 4. The regression of CSR and share price after winsorization

Share Price								
	CSR Strategy	**Resource Use**	**Emissions**	**Workforce**	**Human Rights**	**Community**	**Product Resp.**	**Overall ESG**
Constant	-60.077	-53.085	-34.723	-46.720	-55.935	-62.604*	-72.051**	-43.173
	(-1.635)	(-1.414)	(-0.946)	(-1.300)	(-1.539)	(-1.678)	(-2.022)	(-1.163)
CSR Strategy	0.099							
	(1.172)							
Resource Use		0.133						
		(1.438)						
Emissions			0.328***					
			(3.440)					
Workforce				0.366***				
				(3.225)				
Human Rights					0.146			
					(1.737)			
Community						0.067		
						(0.755)		
Product Resp.							-0.002	
							(-0.020)	
Overall ESG								0.389*
								(2.395)
Leverage	-0.537***	-0.523***	-0.516***	-0.504***	-0.540***	-0.548***	-0.565***	-0.518***
	(-3.167)	(-3.055)	(-3.060)	(-2.978)	(-3.194)	(-3.217)	(-3.348)	(-3.055)
Firm Size	10.150***	9.701***	7.859***	8.518***	9.853***	10.566***	11.264***	8.208***
	(5.377)	(4.958)	(4.132)	(4.642)	(5.415)	(5.650)	(6.705)	(3.971)
ROA	3.126***	3.083***	3.065***	2.985***	3.049***	3.117***	3.116***	3.099***
	(10.243)	(10.041)	(10.033)	(9.693)	(9.883)	(10.175)	(10.170)	(10.131)
Firm Age	0.006	-0.001	0.001	-0.004	-0.004	0.002	0.006	0.004
	(0.128)	(-0.015)	(0.016)	(-0.076)	(-0.084)	(0.043)	(0.120)	(0.089)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.513	0.513	0.516	0.515	0.513	0.512	0.512	0.514
F-test	105.528***	105.322***	106.656***	106.460***	105.451***	105.117**	105.039***	105.823***
Observations	1513	1513	1513	1513	1513	1513	1513	1513

***p<1%, **p<5%, *p<10%

Appendix 5. The effect of Directive 2014/95/EU on the CSR – Tobin's Q relationship with increased time lag

Tobin's Q

	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	5.148***	5.363***	5.595***	5.425***	5.012***	4.925***	5.591***	4.861***
	(6.513)	(6.746)	(7.012)	(6.871)	(6.428)	(6.180)	(7.501)	(5.745)
CSR Strategy	0.001							
	(0.426)							
Resource Use		0.008**						
		(2.410)						
Emissions			0.006*					
			(1.863)					
Workforce				0.012***				
				(3.449)				
Human Rights					-0.006**			
					(-2.337)			
Community						-0.001		
						(-0.356)		
Product Resp.							0.004	
							(1.483)	
Overall ESG								0.007
								(1.380)
Regulation	0.372**	0.678***	0.430*	0.771**	0.134	0.353**	0.330*	0.795**
	(2.037)	(2.655)	(1.881)	(2.466)	(0.583)	(1.747)	(1.655)	(2.381)
Regulation*ESG	-0.004*	-0.008**	-0.005	-0.009**	-0.001	-0.003	-0.003	-0.011**
	(-1.334)	(-2.228)	(-1.407)	(-2.075)	(-0.301)	(-1.011)	(-1.136)	(-2.015)
Leverage	-0.024***	-0.023***	-0.023***	-0.023***	-0.024***	-0.024***	-0.023***	-0.024***
	(-7.415)	(-7.151)	(-7.268)	(-7.122)	(-7.620)	(-7.574)	(-7.272)	(-7.370)
Firm Size	-0.230***	-0.270***	-0.273***	-0.291***	-0.201***	-0.215***	-0.260***	-0.236***
	(-5.829)	(-6.918)	(-6.963)	(-7.899)	(-5.410)	(-5.590)	(-7.623)	(-5.522)
ROA	0.107***	0.106***	0.106***	0.105***	0.109***	0.107***	0.107***	0.107***
	(23,280)	(23.019)	(23.108)	(22.729)	(23.604)	(23.364)	(23.226)	(23.282)
Firm Age	-0.002***	-0.002***	-0.002***	-0.002***	-0.002**	-0.002***	-0.002***	-0.002***
	(-2.773)	(-2.744)	(-2.853)	(-3.033)	(-2.386)	(-2.631)	(-2.943)	(-5.273)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0,509	0.511	0.510	0.513	0.512	0.510	0.509	0.510
F-test	79,584***	79.994***	79.692***	80.834***	80.577***	79.793***	79.539***	79.770***
Observations	1295	1295	1295	1295	1295	1295	1295	1295

***p<1%, **p<5%, *p<10%

Appendix 6. The effect of Directive 2014/95/EU on the CSR – Tobin's Q relationship after winsorization

Tobin's Q

	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	2.412***	2.289***	2.620***	2.491***	2.322***	2.385***	2.496***	2.196***
	(5.817)	(5.450)	(6.220)	(5.938)	(5.623)	(5.693)	(6.353)	(4.871)
CSR Strategy	0.001							
	(0.910)							
Resource Use		0.006***						
		(3.487)						
Emissions			0.005***					
			(2.720)					
Workforce				0.006***				
				(2.799)				
Human Rights					-0.001			
					(-0.347)			
Community						0.001		
						(0.845)		
Product Resp.							0.003**	
							(2.186)	
Overall ESG								0.004
								(1.605)
Regulation	0.269***	0.592***	0.343***	0.435**	0.251*	0.282***	0.335***	0.512***
	(2.760)	(3.487)	(2.751)	(2.554)	(2.049)	(2.605)	(3.128)	(2.764)
Regulation*ESG	-0.003*	-0.007***	-0.004*	-0.004*	-0.002	-0.003	-0.004**	-0.006**
	(-1.550)	(-3.551)	(-1.913)	(-1.832)	(-0.899)	(-1.488)	(-2.177)	(2.764)
Leverage	-0.014***	-0.014***	-0.014***	-0.013***	-0.014***	-0.014***	-0.014***	-0.014***
	(-7.847)	(-7.714)	(-7.699)	(-7.605)	(-7.985)	(-7.915)	(-7.792)	(-7.856)
Firm Size	-0.105***	-0.119***	-0.130***	-0.128***	-0.096***	-0.105***	-0.115***	-0.105***
	(-5.099)	(-5.793)	(-6.332)	(-6.599)	(-4.886)	(-5.211)	(-6.412)	(-4.670)
ROA	0.098***	0.098***	0.098***	0.097***	0.099***	0.098***	0.098***	0.098***
	(31.087)	(30.762)	(30.929)	(30.394)	(30.987)	(31.061)	(30.958)	(31.055)
Firm Age	-0.001*	-0.001*	-0.001*	-0.001**	-0.001	-0.001*	-0.001**	-0.001*
	(-1.874)	(-1.739)	(-1.951)	(-2.051)	(-1.634)	(-1.783)	(-1.970)	(-1.821)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.580	0.583	0.581	0.581	0.580	0.580	0.581	0.580
F-test	124.837***	125.936***	125.119***	125.222***	124.593***	124.413***	124.786***	124.682***
Observations	1550	1550	1550	1550	1550	1550	1550	1550

***p<1%, **p<5%, *p<10%

Appendix 7. The effect of Directive 2014/95/EU on the CSR – share price relationship with increased time lag

Share Price

	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	-52.285	-48.855	-38.305	-73.090	-74.012	-40.503	-67.442	-75.951
	(-0.841)	(-0.779)	(-0.610)	(-1.178)	(-1.198)	(-0.641)	(-1.151)	(1.136)
CSR Strategy	-0.314							
	(-1.506)							
Resource Use		0.512**						
		(2.071)						
Emissions			0.548**					
			(2.322)					
Workforce				0.846***				
				(3.081)				
Human Rights					0.197			
					(0.952)			
Community						-0.252		
						(-1.147)		
Product Resp.							-0.404**	
							(-2.074)	
Overall ESG								0.478
								(1.254)
Regulation	4.924	45.118**	37.905**	65.846***	37.877**	2.080	7.386	48.291*
	(0.348)	(2.301)	(2.134)	(2.736)	(2.103)	(0.132)	(0.473)	(1.882)
Regulation*ESG	0.323	-0.361	-0.304	-0.639*	-0.261	0.340	0.260	-0.479
	(1.379)	(-1.333)	(-1.157)	(-1.954)	(-1.068)	(1.334)	(1.112)	(-1.155)
Leverage	-0.736***	-0.659***	-0.688***	-0.685***	-0.724***	-0.704***	-0.742***	-0.711***
	(-2.959)	(-2.641)	(-2.793)	(-2.784)	(-2.930)	(-2.830)	(-3.019)	(-2.855)
Firm Size	13.425***	10.262***	9.629***	10.307***	12.865***	12.538***	13.934***	12.035***
	(4.324)	(3.338)	(3.133)	(3.547)	(4.371)	(4.093)	(5.170)	(3.545)
ROA	3.324***	3.210***	3.200***	3.126***	3.235***	3.294***	3.319***	3.267***
	(9.420)	(9.076)	(9.063)	(8.816)	(9.048)	(9.356)	(9.424)	(9.274)
Firm Age	0.042	0.042	0.038	0.034	0.044	0.035	0.050	0.046
	(0.787)	(0.789)	(0.718)	(0.645)	(0.816)	(0.652)	(0.943)	(0.868)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.490	0.491	0.492	0.493	0.490	0.490	0.491	0.490
F-test	71.579***	71.842***	72.040***	72.466***	71.438***	71.511***	71.875***	71.494***
Observations	1258	1258	1258	1258	1258	1258	1258	1258

***p<1%, **p<5%, *p<10%

Appendix 8. The effect of Directive 2014/95/EU on the CSR – share price relationship after winsorization

Share Price

	CSR Strategy	Resource Use	Emissions	Workforce	Human Rights	Community	Product Resp.	Overall ESG
Constant	-102.183**	-121.579***	-98.928**	-119.424***	-118.112***	-97.409**	-112.766***	-130.261***
	(-2.550)	(-2.982)	(-2.435)	(-2.951)	(-2.950)	(-2.396)	(-2.961)	(-2.992)
CSR Strategy	-0.016							
	(-0.111)							
Resource Use		0.477***						
		(2.813)						
Emissions			0.548***					
			(3.374)					
Workforce				0.717***				
				(3.737)				
Human Rights					0.281*			
					(1.993)			
Community						-0.102		
						(-0.676)		
Product Resp.							-0.053	
							(-0.384)	
Overall ESG								0.782**
								(2.962)
Regulation	14.021	47.398***	37.288***	52.153***	35.190***	8.523	17.213	56.660***
	(1.492)	(3.567)	(3.081)	(3.177)	(2.953)	(0.809)	(1.629)	(3.172)
Regulation*ESG	0.057	-0.444**	-0.346*	-0.490**	-0.281*	0.158	0.008	-0.685
	(0.366)	(-2.425)	(-1.934)	(2.193)	(-1.734)	(0.920)	(0.052)	(-2.377)
Leverage	-0.641***	-0.624***	-0.617***	-0.601***	-0.633***	-0.640***	-0.658***	-0.628***
	(-3.736)	(-3.627)	(-3.626)	(-3.536)	(-3.708)	(-3.715)	(-3.871)	(-3.666)
Firm Size	12.295***	11.538***	10.052***	10.454***	12.143***	12.360***	12.939***	11.097***
	(6.161)	(5.795)	(5.084)	(5.566)	(6.359)	(6.321)	(7.451)	(5.096)
ROA	3.120***	3.020***	3.034***	2.922***	3.030***	3.103***	3.104***	3.078***
	(10.251)	(9.871)	(9.965)	(9.520)	(9.843)	(10.168)	(10.160)	(10.110)
Firm Age	0.010	0.013	0.008	0.003	0.009	0.007	0.012	0.015
	(0.222)	(0.279)	(0.180)	(0.061)	(0.180)	(0.139)	(0.248)	(0.325)
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
R2	0.517	0.519	0.521	0.522	0.518	0.517	0.517	0.519
F-test	94.506***	95.153***	95.796***	96.126***	94.679***	94.293***	94.233***	95.257***
Observations	1513	1513	1513	1513	1513	1513	1513	1513

***p<1%, **p<5%, *p<10%