Is CSR Reporting Guidance Efficient? Comparative Evidence from E.U. and U.S. Companies

ABSTRACT. We examine whether better environmental, social and governance (ESG) sustainability disclosure is attained under voluntary or mandatory disclosure requirements. We use the regulatory differences between the United States (US) and European Union (EU) settings, as firms in the US disclose ESG information on a voluntary basis, whereas their EU counterparts are now required to disclose such information in their financial year of 2017 and onwards. Drawing on a sample of 24,506 observations from the US and EU, of 28 countries in the 2006-2018 period, we report three main findings: (1) for the full sample period, US firms have an overall better ESG disclosure relative to EU firms; (2) US firms outperform EU firms under voluntary disclosure requirements (2006-2016); (3) after 2017, the relative ESG disclosure of US firms decreases relative to EU firms. Taken together, our results suggest that the 2017 adoption of disclosure guidelines in the EU is associated with significant improvements in EU firms' ESG disclosure. We add to the literature as the first empirical study to assess whether the EU disclosure guidance has an effect on the disclosure of non-financial ESG sustainability information. Our results are robust after performing additional analyses in addressing potential endogeneity concern and thus underscore the importance of more rigorous ESG sustainability disclosures.

Keywords: ESG sustainability disclosure, listed firms, CSR, disclosure guidance.

JEL classification: E01, F18, F64, G28