# Three Essays on Corporate Social Responsibility Activities and Reporting

PADERBORN UNIVERSITY

DOCTORAL THESIS

Submitted to the

Faculty of Business Administration and Economics of
Paderborn University

to acquire the academic degree of
– doctor rerum politicarum –

by

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born on 31 May 1992 in Charkow

**2023**

# Acknowledgments

Ich möchte an dieser Stelle allen Menschen danken, die mich während der letzten Jahre unterstützt und an mich geglaubt haben, und ohne derer ich die Herausforderung einer Promotion nicht hätte meistern können. Mein größter Dank geht an meinen besten Freund und Partner Matthew. Nach meiner Familie ist er die erste Person, die an mich und meine beruflichen Träume ohne Einschränkung glaubt. Ohne seine Unterstützung würde ich jetzt wahrscheinlich nicht das ehrgeizige Ziel einer wissenschaftlichen Karriere anstreben. Neben Matthew möchte ich vor allem meiner Mutter danken, die mir mit ihrer Liebe viel Kraft und Stabilität während der Promotion gegeben gat. Dieter, Anton und Laila danke ich für ihre Unterstützung und die gemeinsame Zeit, die mir stets frischen Wind und Motivation für die nächste Etappe gegeben hat.

Ich möchte außerdem meinen Kolleg:innen an der Universität Paderborn für ihre Freundschaft und die gemeinsame Zeit danken. Die Gespräche vor dem Q-Gebäude, in den Büros und in der Kaffeeküche werden mir immer positiv in Erinnerung bleiben und ich schätze mich glücklich, dass sie Teil meines Unterstützungsnetzwerkes waren. Sabina, Vanessa, Caro, Rey, Pia, Alex und alle anderen Freund:innen aus dem TAF Department haben meine Zeit an der Universität Paderborn angenehmen und unvergesslich gemacht.

Urska Kosi möchte ich dafür danken, dass sie mir die Möglichkeit einer Promotion gegeben hat. Ohne diese würde ich jetzt nicht die Arbeit machen, die mir so viel Freude bereitet. Die Herausforderungen, die sie mir geboten hat, haben mir ein hohes Grad an Selbstständigkeit und Eigeninitiative beigebracht, und ihre Ratäschläge und ihr Blick für Details haben mich gelehrt, als Forscherin und Dozentin gründlich zu arbeiten und Fehler zu vermeiden.

Während meiner Promotion habe ich eine Vielzahl von inspirierenden Menschen getroffen, denen ich für ihre Unterstützung, Freundschaft und professionelle Ratschläge danken möchte. Vanessa Flagmeier habe ich sowohl als Kollegin als auch als Ko-Autorin sehr zu schätzen gelernt. Ihre persönliche und authentische Art macht die Zusammenarbeit sehr angenehm. Ich möchte auch Saskia Kohlhase danken, dass sie mit ihrem Rat und ihrer Hilfsbereitschaft stets verfügbar war. Ich schätze enorm ihre ehrliche Meinung und ihre Erfahrung als erfolgreiche Wissenschaftlerin.

Ich danke außerdem André Uhde für seine Unterstützung und sein konstruktives Feedback. Er nimmt sein Beutreuungsverhältnis sehr ernst und ich schätze mich glücklich, ihn als Zweitgutachter in meiner Kommission zu haben. Ich danke außerdem Michael Ebert und René Fahr als Mitglieder meiner Promotionskommission, sowie Matthias Pelster und Jan Riepe für ihre ausführlichen und kompetenten Kommentare zu meiner Dissertation. Zuletzt möchte ich dem gesamten TAF Department an der Universität Paderborn für ihr freundliches und konstruktives Feedback während zahlreicher Brownbag Präsentationen danken. Ohne dieses Feedback hätte ich meine Forschung nicht in zahlreichen Überarbeitungsschleifen verbessern und auf ein besseres Niveau bringen können.

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# 1 Introductory Summary

The world is facing interrelated ecological and social crises with far-reaching consequences for modern society, such as climate change, the loss of biodiversity and a global food crisis (e.g., Economist, 2022; UNFCCC, 2016). To illustrate, the Intergovernmental Panel on Climate Change assesses that climate change leads to rising sea levels, more frequent and intense extreme weather events and biodiversity loss, with significant impacts on the Earth's ecosystem, economies and societies (Allan et al., 2021). It may lead to a substantial increase in morbidity and mortality, a significant loss in worker productivity and the emergence and transmission of climate-sensitive infectious diseases (Kazmierczak et al., 2022). Addressing these challenges is necessary to ensure prosperity of the planet and human species, and it requires concerted efforts from governments, organisations, civil society and individuals worldwide.

It has become a widespread notion that companies play a critical role in the solutions to these modern crises, given the resources they control and the impact they have on society and the environment (e.g., UN, 2016; World Economic Forum, 2023). Corporate social responsibility (CSR) has since become widespread and constitutes 'the responsibility of enterprises for their impacts on society' (EU, 2011, p. 6).[1] The European Commission (EC) clarifies that, in order to meet this responsibility, companies must have in place processes to 'integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders' (EU, 2011, p. 6). The focus lies on mitigating adverse externalities and including both shareholder and stakeholder interests in decision making.

There has been a long-standing debate about whether companies should engage in CSR activities or focus solely on generating profits. Friedman (1970) famously argued that the pursuit of CSR activities could lead to a diversion of resources from the company's primary goal of maximising profits, ultimately harming shareholders' interests. He further argued that corporations do not have a social conscience; only individuals do, and it is the individual's responsibility to engage in philanthropy and social activities. This view has been challenged by various scholars who argue that corporations have a broader role in society be-

[1] Other terms often used in literature to refer to a common underlying concept are 'corporate sustainability', 'environmental, social and governance (ESG)', 'corporate philanthropy' and 'non-financial'. Although one could discriminate between these terms (see, e.g., Sheehy, 2015), they are mostly used interchangeably.

yond just generating profits. For instance, Carroll (1979) suggested that companies should take into account economic, legal, ethical, and philanthropic responsibilities to all stakeholders, including customers, employees, suppliers, and the community. Similarly, Freeman (1984) proposed that companies should consider the interests of all stakeholders in their decision making processes, including shareholders, employees, customers, suppliers, and the community. Since then, a plethora of initiatives have emerged with the aim of guiding companies to consider the interest of wider society and the environment in their business operations and activities.[2]

While the debate around the role of CSR in businesses continues, empirical studies have shown that engaging in CSR activities can have benefits for companies, including improved reputation, increased consumer purchase intentions and higher employee job satisfaction (Grimmer and Bringham, 2013; Minor and Morgan, 2011; Zhao et al., 2020). A meta-analysis by Orlitzky et al. (2003) found a positive relationship between CSR and financial performance, suggesting that companies engaging in CSR activities are more likely to financially outperform their peers. In reality, many companies across the world are found to engage in CSR activities, and the extent varies across companies, sectors, and regions. The United Nations Global Compact, a voluntary initiative that encourages companies to adopt sustainable and socially responsible policies, reported that over 21,000 companies from more than 160 countries had signed up as members by March 2023.[3]

The academic discussion has therefore shifted from whether companies should engage in CSR to exploring the underlying reasons for and approaches to CSR. Bénabou and Tirole (2010) describe three motives for companies to engage in CSR. First, 'win-win' CSR is characterised by the alignment of CSR activities with corporate performance. Also known as 'doing well by doing good', CSR activities under this perspective have a positive repercussion on firms' performance, mainly by taking a long-term perspective to profit maximisation. Second, delegated CSR involves the sacrifice of money to further social goals on behalf of a company's stakeholders. In particular, stakeholders that want to further a social cause may delegate related activities to companies that they engage with, and forgo economic resources in return. Similar to 'win-win' philanthropy, delegated philanthropy is often in line with profit maximisation because it meets stakeholder demands and contributes to a favourable

[2] Examples of such initiatives include the Triple Bottom Line, Integrated Reporting and the Equator Principles.

[3] https://unglobalcompact.org/what-is-gc/participants

corporate image. Third, insider-initiated CSR reflects the management's or board members' personal desires to engage in philanthropic activities and often arises as a result of corporate governance frictions. It is not motivated by profit maximisation or the desire to contribute to society and, similar to the critique raised by Friedman (1970), it is viewed as spending other people's money.

Regardless of the underlying motives to engage in CSR, many companies voluntarily communicate their CSR activities to their stakeholders. To do so, they can use a wide range of channels, such as corporate websites, social media channels, annual reports and stand-alone CSR reports. The focus of my thesis are stand-alone CSR reports published on a periodic basis. Generally speaking, CSR reports describe how a company manages its social and environmental challenges. The European Union (EU) stresses the importance of CSR reporting in helping companies manage their non-financial performance and their impact on society (EU, 2014). Similarly, the Global Reporting Initiative (GRI) describes CSR reporting as an organization's practice of publicly disclosing 'its most significant impacts on the economy, environment, and people, including impacts on their human rights and how the organisation manages these impacts' (GRI, 2021, p. 4). It is intended to help a wide range of stakeholders make informed decisions about a company's contribution to sustainable development.

In most jurisdictions, CSR reporting has been traditionally voluntary. When prepared on a voluntary basis, CSR reports may be selective and lack comparability, making it challenging to benchmark companies' CSR performance. Companies may choose to report on positive outcomes and omit negative ones, leading to incomplete and potentially misleading information. Moreover, some companies may engage in greenwashing by reporting misleading or exaggerated information about their sustainability performance to enhance their reputation, without actually making meaningful progress on environmental or social issues. This can lead to an overall distrust towards companies that claim to be responsible, resulting in the so-called greenwashing crisis Delmas and Burbano (2011).

In a quest to overcome these limitations, there is a growing trend towards standardised reporting frameworks and mandatory reporting requirements that aim to increase the consistency and transparency across companies and industries. Set forth by governments or stock exchanges, CSR reporting regulation requires certain companies to publish CSR reports on a regular basis. Mirroring this development, the number of CSR and CSR-related mandates and guidelines around the world has increased from 383 in 2016 to over 600 between in 2020 (van de Wijs and van der Lugt, 2020). The regulatory landscape is very diverse and includes the requirement to report on a wide range of activities, including social, environmental, employee and human rights matters (e.g., Chinese *Notices on Doing a Good Job*), or focus on a specific topic (e.g., Canadian *Extractive Sector Transparency Measures Act*). Some regulators require companies to have their CSR reports independently audited or verified by third-party auditors (e.g., Article 225 of the French *Grenelle II Law*), while others do not. The penalties for non-compliance with CSR reporting regulations can also vary from country to country, as can the enforcement mechanisms used to ensure compliance. Some countries have strict penalties for non-compliance (e.g., French *New Economic Regulations Act*), while others rely more on self-regulation and voluntary compliance (e.g., Danish *Financial Statements Act*).

Mirroring the diversity in regulatory designs, CSR reporting regulations have a wide range of consequences that vary across jurisdictions. In the first essay, I summarise the literature on mandatory CSR reporting, classifying the findings into first-order consequences and second-order consequences. The essay informs regulators and researchers about the consequences of mandatory CSR reporting and derives possible implications of the forthcoming Corporate Sustainability Reporting Directive (Directive 2022/2464; hereafter CSRD) in Germany. The second and third essays are empirical in nature and investigate the extent of CSR activities and reporting by a group of non-publicly listed savings banks in Germany (*Sparkassen*). In exploiting the unique institutional features of the industry, the essays provide insight into the companies' incentives to engage in CSR reporting and activities. They add to the existing academic literature by leveraging granular, partly hand-collected datasets that allow for a more direct measuring of the underlying economic phenomena.

The first essay is based on a single-authored paper published in the journal *Sustainability Management Forum* in 2018 (Gulenko, 2018). Being a relatively recent phenomenon, this review, when initially published, presented the first structured review of the literature on mandatory CSR reporting. For the purpose of this doctoral thesis, I updated the review to include the most recent literature published since 2018. To synthesise the literature findings, I summarise them based on first-order and second-order consequences, which helps interested readers get a swift overview over the research landscape and identify areas that have received little attention so far. First-order consequences include compliance, reporting quantity and reporting quality, with reporting quantity being the most extensively studied research area. Second-order consequences result from first-order consequences and comprise a plethora of aspects, ranging from companies' greenhouse gas emissions and other CSR activities, share price and firm value, to companies' investment decisions and corporate governance characteristics. Intriguingly, while compelling evidence exists that companies improve their CSR performance after a CSR reporting mandate (e.g., Downar et al., 2021; Fiechter et al., 2022; Rauter, 2020), there is little evidence on stakeholders' adverse reaction to mandatory CSR information (e.g., Jin and Leslie, 2003), leaving a relevant research gap to be explored by future research.

In the second part of this essay, I use these findings to cast light on the possible implications of the upcoming CSRD, which mandates CSR reporting in Germany for fiscal years 2024 and later.[4] Focusing on Germany allows me to draw economically meaningful conclusions from the CSRD. Moreover, because CSR reporting was voluntary prior to the introduction of European legislation, the consequences of the CSRD are likely to be stronger in Germany than in jurisdictions with national CSR reporting mandates (e.g., France, Spain and Denmark). By delivering a comprehensive review of current literature and applying the findings to a specific case study, this essay informs policy-making decisions and contributes to the ongoing dialogue surrounding corporate social responsibility and its reporting.

The second essay, co-authored with Saskia Kohlhase and Urska Kosi, empirically investigates the variation in CSR reporting practices by a large sample of German savings banks. Two distinct institutional features (municipal trusteeship and the regional principle) allow us to measure the characteristics of savings banks' stakeholders that are associated with the stakeholders' sustainability orientation. We leverage this data to investigate whether the sustainability orientation of the stakeholders is associated with the banks' extent of mandatory CSR reporting. Empirical evidence on the relationship between stakeholders' sustainability orientation and banks' CSR reporting is informative about the degree to which banks cater to stakeholders' demand for CSR information and thus fulfil a central aim of the NFRD (EU, 2017, p. 5).

Our results indicate that banks with more municipal trustees belonging to a left-wing or green party have longer CSR reports, and provide more information on environmental,

[4] The initial publication focused on the EU Non-Financial Reporting Directive (Directive EU/2014/95; hereafter NFRD), which was mandatory for fiscal years 2017 and later. To increase the timeliness of this essay, published in my doctoral thesis, I shifted the focus to the recent CSRD.

social, employee and human rights matters. To a lesser degree, their CSR reporting is also associated with the sustainability orientation of corporate clients and the competition for private clients. On aggregate, this evidence suggests that banks cater to their municipal trustees' and, to a lesser extent, to their clients' demand for CSR information. Our findings are informative to regulators that aim to design CSR reporting mandates that leave considerable reporting discretion with the aim to nudge companies to meet the information demands of their stakeholders.

The third essay is co-authored with Vanessa Flagmeier and focuses on local politicians that chair savings banks' supervisory boards. As political insiders, they can influence banks' decisions to engage in CSR activities, which they may use to further their own political agenda. We use the electoral cycle as an external shock to politicians' incentives to claim credit for savings banks' CSR activities, arguing that their incentives are stronger when an election is imminent. Our aim is to investigate whether political insiders drive the level of banks' CSR activities and reporting. A helpful feature of the German banking industry that enables our study is the existence of a politically independent control group of cooperative banks, which allows us to control for unobserved variation in CSR activities that are not associated with political insiders. Equipped with this institutional setting, we measure the level of banks' CSR activities by counting the newspaper articles on banks' CSR activities published in a given year under the mention of a local politician.

Using a difference-in-differences research design, we find a 15-23% higher level of politically-associated CSR activities in savings banks during election years, compared to the control group of cooperative banks. Further exploring cross-sectional variation in these results, we find that they are mostly prevalent in savings banks whose politicians are members of a left-wing party and participate in highly contested elections. The essay presents early empirical evidence on the existence of insider-initiated CSR and political credit claiming for CSR activities (Bénabou and Tirole, 2010).

This collection of essays provides valuable insights into the causes and consequences of corporate social responsibility activities and reporting. The first essay reviews literature on CSR reporting, highlighting first-order consequences of compliance, reporting quantity and quality, as well as second-order consequences such as greenhouse gas emissions, share price, firm value, investment decisions and corporate governance. The second essay investigates the relationship between stakeholders' sustainability orientation and the extent of mandatory CSR reporting in German savings banks, finding evidence that banks cater to their municipal trustees' and clients' demand for CSR information. The third essay explores the influence of politicians on banks' CSR activities during election years, presenting early empirical evidence of insider-initiated CSR and political credit claiming for CSR. Collectively, these essays offer important implications for regulators such as the EC designing CSR reporting regulation, companies, and researchers in the field of mandatory CSR reporting, providing a comprehensive review of existing literature and applying the knowledge to specific case studies. By contributing to the ongoing conversation surrounding corporate social responsibility and its reporting, this work can inform policy-making decisions and encourage future research in the field.

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# Mandatory CSR Reporting: Literature Review and Implications for Germany*

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**Abstract**

Regulators increasingly introduce reporting regulation that requires companies to prepare CSR reports. In this paper, I conduct a systematic review of the literature on mandatory CSR reporting published since the year 2000, and synthesise the findings to highlight both first-order and second-order consequences. By doing so, I aim to provide a comprehensive and up-to-date overview of the potential impacts of mandatory CSR reporting on companies and society at large. Furthermore, I leverage these findings to shed light on the implications of the recent European Corporate Sustainability Reporting Directive, which mandates CSR reporting in the European Union for fiscal years 2024 and beyond. Specifically, I focus on Germany, and use the insights gained from the literature review to provide a nuanced analysis of the potential consequences of this new regulatory framework. Overall, my study provides valuable insights for regulators and standard setters seeking to develop evidence-based regulation, as well as researchers working in the field of mandatory CSR reporting. By offering a comprehensive review of the existing literature, and by applying this knowledge to a specific case study, my work can inform policy decisions and contribute to the ongoing conversation around corporate social responsibility and reporting thereof.

**Keywords:** Corporate Social Responsibility, Mandatory Reporting, Literature Review, CSRD, Directive (EU) 2022/2464, Germany

**JEL Codes:** K22, M14, M41, M49, Q56

*This essay is based on a singled-authored paper published in *NachhaltigkeitsManagementForum — Sustainability Management Forum* in 2018 (Gulenko, 2018). I updated the published version of the paper for my dissertation, such that it covers the most recent literature and focuses on the timely Directive (EU) 2022/2464, instead of Directive 2014/95/EU.

# 1 Introduction

In recent years, more and more regulators require companies to disclose information on their activities related to corporate social responsibility (CSR). CSR issues are increasingly relevant for a wide range of stakeholders and shareholders alike, and in order to ensure a level playing field in reporting practices, many consider disclosure mandates to be a necessary step. Mirroring this development, the number of CSR and CSR-related mandates and guidelines around the world has increased from 383 to over 600 between 2016 and 2020 (van de Wijs and van der Lugt, 2020). The considerable increase in mandates underlines the fast pace at which regulation on CSR reporting develops. It leaves little time for academic research, which usually follows a lengthy publication process that may take several years. This amplifies the need to review existing literature as a way to inform standard setters and practitioners about the possible consequences of CSR reporting mandates. In other words, academic literature reviews can be particularly helpful in the context of mandatory CSR reporting because they can leverage existing literature to inform about current questions and issues.

The objective of this paper is twofold. First, I provide a systematic review of the literature on mandatory CSR reporting and consequences thereof. My literature review differs from prior literature reviews on CSR reporting because it focuses exclusively on mandatory CSR reporting (Dienes et al., 2016; Fifka, 2012, 2013; Hahn and Kühnen, 2013). It also differs from Dinh et al. (2022) because it provides a content-related review structured around the consequences of mandatory CSR reporting. Such a review may inform regulators who design CSR reporting mandates, as well as researchers seeking to find gaps in the literature of mandatory CSR reporting. The second objective of this paper is to describe the implications of mandatory CSR reporting for German companies, based on the findings from the literature review. My focus lies on the recent Corporate Sustainability Reporting Directive, introduced by the European Commission (EC) in late 2022 (Directive (EU) 2022/2464; hereafter CSRD). Applicable for fiscal years 2024 and later, it represents a significant change in the reporting landscape of German companies, possibly having wide-reaching consequences for their reporting practices as well as other, second-order consequences. My focus on Germany is motivated by its economic significance within the European Union (EU) and the fact that the country does not have other national legislation on sustainability reporting. The former make my inferences more meaningful on a European level and the later increases the generalisability of the findings to other countries with first-time adoption of CSR reporting mandates.

I structure my review around first-order consequences and second-order consequences. First-order consequences include compliance, reporting quantity and reporting quality. Related to first-order consequences, prior literature suggests that CSR reporting mandates cause a slight increase in reporting quantity and quality of affected companies, and that the effect is mainly concentrated among first-time reporters (e.g., Agostini et al., 2022; Ottenstein et al., 2022). Report credibility increases because reporting companies increasingly implement third-party assurance, even if this is not required by the mandate (Ioannou and Serafeim, 2017; Ottenstein et al., 2022).

Second-order consequences encompass all consequences that do not fall under, and may arise from, first-order consequences. They are highly diverse and range from consequences for companies' CSR activities, consequences for capital markets and firm value, as well as consequences for firm financial performance. They also include, e.g., earnings management, investment decisions and dividend payments, as well as corporate governance and stakeholder reactions. Among the second-order consequences, the evidence on the effect of mandatory CSR reporting on companies' CSR activities seems to be most compelling. Empirical evidence shows that companies reduce their greenhouse gas (GHG) emissions and increase their CSR activities when having to publicly report them, and the effect is more pronounced for companies with low pre-regulation CSR performance (Bauckloh et al., 2023; Jouvenot and Krueger, 2021; Fiechter et al., 2022). Other consequences include, for example, higher analyst forecast accuracy (Cormier et al., 2015), higher CSR rating disagreement (Christensen et al., 2022) and an increased number of CSR-related board committee members (Boamah, 2022).

The second part of this study reveals that, consistent with these findings, one can expect a significant increase in CSR reporting quantity and quality subsequent to the CSRD introduction in Germany. The effect may be stronger than suggested by prior literature because the CSRD prescribes a level of reporting detail that is significantly higher than most prior reporting mandates. One may also expect a decrease in companies' GHG emissions, which is amplified by the public awareness in Germany around air pollution in big cities. However, because the CSRD mandates a comprehensive CSR report, rather than GHG emissions disclosure in particular, gauging the magnitude of the effect should be subject to future studies. Moreover, in contrast to prior CSR reporting mandates, the CSRD targets a large number of small and medium-sized companies. The ownership structure and stakeholder proximity of these companies differs from that of large listed companies. Prior studies that focused mainly on listed companies (see Dinh et al., 2022) may therefore be less applicable to these companies, which leaves some of the relevant questions subject to future research.

# 2 Terminology and research question

## 2.1 Terminology

As this study revolves around European CSR regulation, I follow the EC's definition of CSR. CSR was re-defined by the EC in year 2011 amid its new strategy on corporate sustainability as 'the responsibility of enterprises for their impacts on society' (EU, 2011, p. 6). The Commission clarifies that, in order to meet this responsibility, companies must have in place processes to 'integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders' (EU, 2011, p.6). The focus lies on mitigating adverse externalities and including both shareholder and stakeholder interests in decision making.

With this definition of CSR in mind, CSR reporting constitutes the disclosure of information on how a company manages its social and environmental challenges.[1] The EU stresses the importance of CSR reporting in helping companies manage their CSR performance and their impact on society (EU, 2014). Similarly, the reporting standards of the Global Reporting Initiative (GRI) describe CSR reporting under the GRI Standards as an organization's practice of publicly disclosing 'its most significant impacts on the economy, environment, and people, including impacts on their human rights and how the organization manages these impacts.' (GRI, 2021, p. 4). It is intended to help a wide range of stakeholders make informed decisions about a company's contribution to sustainable development.

While many companies disclose CSR reports on a voluntary basis, others have to comply

[1] Other terms that are used in the literature include 'corporate sustainability', 'environmental, social and governance (ESG)' and 'non-financial performance'. Although one could discriminate between these terms (e.g., Bansal and Song, 2017; Montiel, 2008), most studies use them interchangeably. Likewise, I do not differentiate between CSR reporting, sustainability reporting, ESG reporting and non-financial reporting, and refer to all four as CSR reporting.

with a regulation that requires them to do so. Set forth by governments or stock exchanges, CSR reporting regulation requires certain companies to publish a CSR report on a regular basis. Such regulations can require companies to report on a wide range of activities, including social, environmental, employee and human rights matters (e.g., Chinese *Notices on Doing a Good Job*), target a specific sector or focus on a specific topic (e.g., Canadian *Extractive Sector Transparency Measures Act*). For the purpose of this study, I consider both types of regulations, and refer to the latter as topic-specific CSR reporting regulation.

## 2.2 Research question and prior literature

The first objective of this study is to collect and consolidate findings from prior literature that may inform about the possible consequences of mandated CSR reporting. To meet this objective, I systematically review studies that have examined mandatory CSR reporting and its consequences in settings where a mandate has existed for a longer time – such as Denmark, France, Malaysia and China. The first research question is therefore stated as follows:

***RQ1:*** *What consequences of mandatory CSR reporting does prior literature expose?*

The second objective of this paper is to use the findings from RQ1 and other relevant institutional details to derive implications of mandated CSR reporting for Germany. I focus on Germany and the potential consequences that the European CSRD may have for German companies and their stakeholders. My choice is motivated by the leading role that the EU plays in the global CSR reporting landscape. Within the EU, I focus on Germany as the largest economy in Europe because this allows me to draw meaningful conclusions for Europe as a whole (Eurostat, 2021).

Moreover, because there was no mandatory CSR reporting in Germany prior to the European Non-Financial Reporting Directive (Directive 2019/95/EU, hereafter NFRD), CSR reporting in Germany is largely shaped by European regulations – as opposed to, e.g., France, Spain and Denmark. Due to this, the implementation of the CSRD is not influenced by other national legislation. Any findings in the German context are therefore more likely to hold in other countries that introduce a new CSR reporting mandate. Lastly, the German legal environment provides strict enforcement levels (Daske et al., 2008), which increases the likelihood of future compliance with the CSRD. Taken together, the focus on Germany allows for sharper predictions of the potential consequences of the CSRD in the German setting and opens the door for generalization to other countries. The second research question is therefore formulated as follows:

***RQ2:*** *What are the implications of the CSRD for German companies?*

This study is related to other reviews of the literature on CSR reporting. Most of these reviews focus on voluntary CSR reporting (Dienes et al., 2016; Fifka, 2012, 2013; Hahn and Kühnen, 2013) or voluntary topic-specific CSR reporting such as environmental reporting (Berthelot et al., 2003; Lee and Hutchison, 2005) and reporting on GHG emissions (Hahn et al., 2015). With the exception of Berthelot et al. (2003), who also include literature on mandatory environmental reporting, all studies focus exclusively on voluntary reporting and what drives companies to voluntarily report on CSR and CSR-related issues. My study adds to these reviews by synthesizing the literature on mandatory CSR reporting. Studies on mandatory CSR reporting differ from voluntary CSR reporting studies with respect to the institutional settings that they investigate and the theoretical underpinnings that they use to explain their findings. For these reasons, they warrant a separate literature review.

First, this study is related to Dinh et al. (2022), who present a review of the literature on mandatory CSR reporting with a European focus. Their aim is to map the literature and uncover gaps in terms of institutional settings and sample selection. They do not, however, summarise the papers based on consequences studied. This study is also related to Christensen et al. (2021) who review prior research on mandatory and voluntary CSR reporting to assess the possible consequences of a CSR reporting mandate in the US. They review a large number of studies on voluntary and mandatory disclosure on CSR, CSR-related and financial matters. In contrast, the aim of this study is to systematically review the literature that was conducted in mandatory CSR reporting settings. Contrary to Christensen et al. (2021), I therefore exclusively review studies on mandatory CSR reporting, and exclude those that focus on voluntary CSR reporting. Moreover, my study differs from that of Christensen et al. (2021) because it focuses on Germany. Christensen et al.'s (2021) principal aim is to evaluate the potential consequences of a CSR reporting mandate for US companies. Their inferences from prior literature are therefore tailored to the US setting and its institutional environment. However, because mandatory CSR reporting is very context-specific (Carpenter and Feroz, 2001; DiMaggio and Powell, 1983), the same CSR reporting mandate can have vastly different consequences in different institutional environments – depending on, for example, the prevalent statutory details and pre-regulation voluntary CSR reporting. Bearing in mind the leading role of the EU in developing CSR reporting mandates, a study that takes into account the institutional characteristics of a large European economy may therefore be informative beyond the study of Christensen et al. (2021).

# 3 Method and classification of consequences

## 3.1 Method and descriptive statistics

To answer the first research question, I conduct a systematic literature review to identify and evaluate studies on the consequences of mandatory CSR reporting. I base my methodological approach on Fink (2020), who outlines several steps to a systematic literature review. After identifying the research question (*step 1*), I determine the database for the initial search (*step 2*). Similar to Hahn and Kühnen (2013), I use two databases, namely Thomson Reuters' Web of Science[2] and Elsevier's ScienceDirect[3]. Web of Science covers over 21,000 peer-reviewed scholarly journals published worldwide from a wide range of disciplines (Thomson Reuters, 2023), which is complemented by ScienceDirect, covering over 2,650 peer-reviewed journals (Elsevier, 2023). I do not limit my search to a particular discipline but rather eliminate studies not relevant to my research question in the subsequent selection process.

The next step (*step 3*) is to define the search terms that identify potentially relevant papers for my review. I use three sets of terms to find papers on mandatory CSR reporting. The first set is derived from prior literature (Dienes et al., 2016; Hahn and Kühnen, 2013) and ensures that the papers focus on CSR. It includes the following terms: 'CSR', 'sustainability', 'non-financial', 'responsibility', 'social' and 'environmental'.[4] The second set of search term covers the terms 'reporting' and 'disclosure', and the third set covers the terms 'mandatory', 'regulation', 'obligatory' and 'compulsory'. To be included, a study must contain one term

[2]https://www.webofscience.com/wos/woscc/basic-search

[3]https://www.sciencedirect.com/

[4]As opposed to Hahn and Kühnen (2013) and Dienes et al. (2016), I do not include terms which search for 'Global Reporting Initiative' and 'triple bottom line', as these terms are associated with voluntary rather than mandatory reporting. Moreover, I do not include the term 'integrated reporting'. Integrated reporting is inherently different from separate CSR reporting, as it 'is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created, preserved or eroded over time.' (IIRC 2013, p. 12). Therefore, studies on mandatory integrated reporting might not be sufficiently comparable to studies on mandatory CSR reporting.

from each of the three sets in the title, the abstract or the keywords.[5] Furthermore, I impose three other inclusion criteria. First, I limit my search to papers in English and omit other document types such as book reviews or discussions. Second, the search is limited to papers published since 2000, for two reasons. The first reason is that the regulation of CSR reporting is a relatively recent phenomenon. The number of CSR-related reporting requirements worldwide has increased from 35 in 2006 to 248 in 2016 and 348 in 2020 (Bartels and Fogelberg, 2016; van de Wijs and van der Lugt, 2020). The second reason is that the initial version of the GRI Sustainability Reporting Guidelines was published in 2000. As the GRI guidelines represent the first global guidelines for comprehensive CSR reporting, they are considered an essential driver for growth in CSR reporting (Hahn and Kühnen, 2013). Third, as a further quality criterion, I limit my review to studies published in journals listed in the *JOURQUAL3* ranking.[6] *JOURQUAL3* ranks 651 academic journals based on their relevance for business and economics research and is based on a survey among members of the German Academic Association of Business Research. I use a German ranking to ensure that I include all relevant studies for answering my second research question.[7]

After searching both databases, I obtain an initial sample of 996 papers. Next, I screen the papers for their relevance to my research question. First, I skim each paper's abstract and exclude papers completely unrelated to mandatory CSR reporting. Then I read each paper in more detail and further exclude papers that are outside the scope of this review. Specifically, I focus on empirical and analytical studies examining the consequences of implemented CSR reporting mandates. In this process, I eliminate papers on, e.g., mandatory CSR activities, voluntary CSR reporting, risk disclosure regulation, studies that use mandatory reporting regimes to analyse the effects of CSR activities, carbon trading schemes or corporate governance regulation. After the screening process, I obtain a final sample of 76 papers. Figure 1 shows the distribution of papers over time. The first paper in my sample was published in 2002; until 2012, only a maximum of two papers were published yearly. In 2013, research interest picked up, with an average number of 4 papers being published per year until 2019. However, most of the papers (i.e., 41) in my review were published very recently, namely in the years 2020, 2021 or 2022. Figure 2 shows in which discipline

[5] In sum, the search query is as follows: (CSR OR sustainability OR non-financial OR responsibility OR social OR environmental) AND (reporting OR disclosure) AND (mandatory OR obligatory OR compulsory OR regulation).

[6] https://vhbonline.org/vhb4you/vhb-jourqual/vhb-jourqual-3/gesamtliste

[7] I further have to exclude 13 other journals because I lack full-text access to their papers.

the papers were published.[8] Of the 76 papers, nine were published in general business and economics journals (e.g., *Administrative Science Quarterly*, *Management Science*), and 13 papers were published in interdisciplinary journals with a sustainability-related focus (e.g., *Business Strategy and the Environment*, *Journal of Business Ethics*). The vast majority of papers (i.e., 54) were published in journals with an accounting or finance focus (e.g., *Accounting and Finance*, *European Accounting Review*). In total, the studies subject to this review cover 50 mandates enacted in 32 different countries (see Figure 3 and Table A1 in the Appendix).

[Insert Figures 1, 2 and 3 around here]

## 3.2 Classification of consequences

To summarise the findings, I focus on the consequences that were investigated in each paper and classify them into two broad categories: First-order consequences (Section 4) and second-order consequences (Section 5).[9] First-order consequences encompass all corporate activities that are directly affected by the regulation. Specifically, they include compliance 4.1, reporting quantity 4.2 and reporting quality. Within reporting quality, I further distinguish between overall reporting quality 4.3 and other qualitative characteristics such as credibility, the use of reporting guidelines and assurance 4.4. Second-order consequences encompass all consequences that are not subsumed under first-order consequences and typically result from first-order consequences. To group them into categories, I first identify all second-order consequences that were studied in each paper. Then, in an iterative process, I group them based on common themes.

The first common theme relates to companies' CSR-related activities and whether these activities change after a reporting mandate. I summarise them in Section 5.1 (consequences for CSR activities). Within this theme, some studies focus on GHG emissions (Section 5.1.1), while others look at aggregate CSR performance measures (Section 5.1.3). The remaining studies investigate other specific CSR activities, such as mining-related injuries or payments to host governments (Section 5.1.2). The second significant theme of second-order

[8] I used the *JOURQUAL3* journal classification to determine the discipline focus of the journals.

[9] Another way to categorise consequences of mandatory reporting is to distinguish between intended and unintended consequences (Brüggemann et al., 2013). However, this is problematic in the context of CSR reporting, as the intentions may vary considerably across regulators.

consequences that emerges relates to consequences for firm value and capital markets (Section 5.2). Here, I distinguish between consequences for share price and firm value (Section 5.2.1), financial performance (Section 5.2.3), and information intermediaries (Section 5.2.4). The remaining consequences are subsumed under Section 5.3 and include tax avoidance and earnings management (Section 5.3.1), investment decisions, cash holdings and dividend payments (Section 5.3.2), corporate governance (Section 5.3.3) and stakeholder reactions (Section 5.3.4). Table 1 provides an overview over the papers and the consequences that they study.

[Insert Table 1 around here]

# 4 Review of first-order consequences

## 4.1 Compliance

CSR reporting mandates frequently target companies that did not prepare CSR reports voluntarily before. However, it is unclear how many companies comply with such a mandate, particularly in the absence of strict enforcement. Nine out of 76 papers examine companies' compliance with CSR reporting mandates and the determinants thereof. Out of these, four studies find a low level of compliance. Criado-Jiménez et al. (2008) and Llena et al. (2007) find that only 35%-65% of companies provide the required information under the Spanish *ICAC-2002* on environmental disclosure in annual reports. While this constitutes an increase compared to the pre-mandate period (4%-30%), there is still considerable non-compliance. Larrinaga et al. (2002) find even lower levels of compliance (i.e., 20%) with the Spanish *Royal Decree 437/1998*. Vormedal and Ruud (2009) document similar levels of non-compliance with the Norwegian *Accounting Act*, which requires disclosure on employees, gender equality and the environment in the annual report. Three studies, on the other hand, find a high level of compliance. For example, all Polish companies comply with the NFRD (Matuszak and Rozanska, 2021), and all Chinese companies adhere to the *Notices on Doing a Good Job*, introduced by the Chinese Securities Regulatory Committee (Dong and Xu, 2016). Similarly, Frost (2007) finds high compliance among Australian companies affected by the *Corporations Act 2001*, where companies' directors are personally liable for non-compliance.

In a quest to understand the reasons for non-compliance, Pedersen et al. (2013) interviewed the executives of six companies failing to comply with the Danish *Financial Statements Act*, which requires them to report on CSR in the annual report. The stated reasons for non-compliance include high compliance costs, weak enforcement, unawareness of the regulation, and delayed implementation of the necessary reporting processes. In a different study, Peters and Romi (2013) investigate the determinants of compliance with the US *Item 103 of Regulation S-K*, which requires companies to disclose information on environmental sanctions. With a compliance rate of 28%, companies are more likely to comply with the regulation if they operate in environmentally sensitive industries, are subject to more significant penalties, and voluntarily participate in a supplemental environmental project. Peters and Romi's (2013) findings suggest that compliance with mandatory CSR reporting requirements is heterogeneous and can be explained by factors that determine companies' compliance costs and reporting incentives.

## 4.2 Reporting quantity

From all consequences, reporting quantity is most frequently studied. 21 out of 76 papers draw some conclusions about how reporting mandates affect reporting quantity.[10] While the general notion is that a CSR reporting mandate leads to increased reporting quantity, the extent of the increase is an empirical question. Under a comply-or-explain approach and in the absence of strict enforcement, companies may find it costly to provide CSR information and therefore choose not to disclose any information (Ioannou and Serafeim, 2017; Ottenstein et al., 2022). In addition, companies that have already provided CSR information voluntarily before may not choose to provide more information under a mandate. Collectively, the evidence points to a slight increase in reporting quantity by affected companies after the introduction of a CSR reporting mandate (Arena et al., 2018; Bini et al., 2017; Carini et al., 2021; Dumitru et al., 2017; Frost, 2007; Haji, 2013; Korca et al., 2021; Llena et al., 2007; Ottenstein et al., 2022; Yang et al., 2021; Zanellato and Tiron-Tudor, 2022). For example, Ottenstein et al. (2022) find that companies affected by the NFRD increase their CSR reporting by four percentage points compared to a propensity-score matched control group of non-disclosing companies. Corroborating these findings, Zanellato and Tiron-Tudor

[10] One paper can cover multiple consequences, such that the papers summarised in each section sum up to more than 76 (see Table 1 for more details).

(2022) document a two percentage-point increase after the introduction of the NFRD.

That being said, some studies document that the increase is primarily observed in companies with low pre-mandate levels of CSR reporting and companies without separate CSR reports (Agostini et al., 2022; Cuomo et al., 2022; Matuszak and Rozanska, 2021). For example, in the Italian setting, Agostini et al. (2022) find that companies providing CSR disclosure within the annual report increase their disclosure after the introduction of the NFRD. However, CSR disclosure within *separate* CSR reports does not significantly increase or even slightly decreases (Agostini et al., 2022; Cordazzo et al., 2020). Cordazzo et al. (2020) interpret these findings as companies reducing their disclosure to meet the minimum disclosure requirements and moving towards a pragmatic legitimacy approach Suchman (1995).

It is important to note that, due to the nature of their research design, most studies cannot disentangle the regulatory effect from a general time trend. This hinders the ability to make strong causal inferences from the findings. To overcome this limitation, Hummel and Roetzel (2019) and Ioannou and Serafeim (2017) implement a difference-in-differences research design that allows them to draw more robust causal inferences. Both document an increase in reporting quantity among treated companies. Hummel and Roetzel (2019) find a significant increase in reporting of GHG emission and gender information among UK companies affected by the *Companies Act 2006*, relative to a control group of US companies. Likewise, investigating four CSR reporting mandates in China, Denmark, Malaysia and South Africa, Ioannou and Serafeim (2017) find that treated companies' CSR reporting increases by 30%-50% after the introduction of the respective mandate, compared to a propensity-score matched sample of international, non-disclosing companies. Collectively, the evidence suggests that CSR reporting mandates have a positive impact on reporting quantity by companies with low pre-mandate CSR reporting, but little or no impact on companies with high pre-mandate CSR reporting.

## 4.3 Overall reporting quality

Seventeen out of 76 studies investigate the quality of mandatory CSR reports. When comparing these studies, it is important to note that quality measures vary considerably across studies. In this section, I summarise studies that use self-developed scales to assess the quality of CSR reports. Under such an approach, the authors compile a list of disclosure items they deem relevant in their setting. Such a list can stem from, e.g., the mandate itself or other voluntary disclosure guidelines. Based on this list, they manually review CSR reports to assess whether and to what extent each item is disclosed. For example, Dumitru et al. (2017) compile a list of disclosure items based on the NFRD and use a scale from 0 to 3 to assess the disclosure quality of each item. A score of 0 indicates that the item is not disclosed, 1 indicates disclosure using textual information, 2 indicates disclosure using quantitative information, and 3 includes textual and quantitative information. CSR reports that receive higher scores are considered to be of higher quality.

Most studies find an average increase in CSR reporting quality after the introduction of a mandate (Arvidsson and Dumay, 2022; Chelli et al., 2014, 2018; Leong, 2014; Lippai-Makra et al., 2022). However, one has to be mindful of some caveats that may limit the generalisability of these findings. For example, some studies use a research design that compares the CSR reporting pre-mandate to CSR reporting post-mandate (e.g., Haji 2013). Such results may be driven by companies that are first-time reporters and may therefore not generalise to companies that have disclosed CSR reports voluntarily before the mandate. Studies that use a cross-country comparison as a research design are subject to similar concerns (e.g., Dumitru et al. 2017).

Despite these shortcomings, several studies provide insights from cross-sectional tests that call for further research. For example, Dong and Xu (2016) reveal that companies included in the Social Responsibility Index jointly established by the Shanghai and Shenzhen Stock Exchanges do not provide higher-quality CSR reports under the *Notices on Doing a Good Job* than companies not included in the index. Reporting quality may also vary across different topics of a CSR report, e.g., the environment, employees and community-related issues. For example, Korca et al. (2021) find that overall mandatory reporting quality by Italian companies under the NFRD is relatively low. Lombardi et al. (2022) complement their findings with evidence that Italian companies do not provide all the required information on climate-related issues under the NFRD. Kansal et al. (2018), on the other hand, find that reporting on employee and community-related issues is of higher quality than reporting on carbon and GHG emissions under the Indian *Guidelines on Corporate Governance*.

In conclusion, the quality of mandatory CSR reports has been the focus of several studies, which often use self-developed scales to assess the reports' quality. While most studies find an average increase in CSR reporting quality after the introduction of a mandate, the generalisability of these findings is limited by various caveats. Additionally, reporting quality may vary across different CSR topics, with some areas receiving more attention than others. These insights highlight the need for further research to better understand the effectiveness of mandates in promoting qualitative disclosures.

## 4.4 Other qualitative characteristics

Eight out of 76 studies use proxies to measure more specific qualitative characteristics of CSR reports. The first such characteristic is the reporting of negative information. The GRI lists *Balance* as one of the eight reporting principles fundamental to achieving high-quality CSR reports (GRI, 2021), which requires companies to 'report information in an unbiased way and provide a fair representation of the organization's negative and positive impacts' (GRI, 2021, p. 24). Correspondingly, two studies investigate how companies provide negative information in their mandatory CSR reports (Larrinaga et al., 2002; Yang et al., 2021). One of these studies is Larrinaga et al. (2002), who examine the Spanish *Royal Decree 437/1998*, which requires utility companies to disclose environmental information as part of the financial statement notes. Some of the required information is considered to be negative, such as fines and reparation for past pollution, provisions from litigation and poor environmental performance. Much of this information should be material for Larrinaga et al.'s 2002 sample companies of large industrial firms. However, only two companies disclose any of the required items, the remaining companies omitting information that is required under the mandate.

The second qualitative characteristic studied in the literature is the credibility of CSR reports. Credibility can support information users in making informed assessments and decisions about the organization's impact (GRI, 2021). Due to its multi-faceted nature, studies use various proxies to measures the credibility of mandatory CSR reports. For example, Lock and Seele (2016) define credibility as a four-dimensional concept comprising truth, sincerity, appropriateness and understandability. To operationalise these dimensions, they define aspects such as assurance, accuracy, stakeholder relationships and readability, and manually assess the prevalence of these aspects in 237 CSR reports from 11 countries, two of which have CSR reporting mandates in place – the French *Grenelle II* and the Spanish *ICAC-2002*. They do not find that CSR reports from French and Spanish companies are significantly more credible than other companies' CSR reports, thus not indicating increased credibility under a mandate.

To increase the credibility of their CSR reports, companies can seek assurance by an independent third party. Relatedly, Ottenstein et al. (2022) find that companies subject to a CSR reporting mandate are 19% more likely to receive *voluntary* external assurance compared to a control group of companies not subject to regulation. Their findings suggest that, even in the absence of an assurance requirement, reporting regulation can incentivise companies to enhance the credibility of their CSR reports by seeking independent assurance. Ioannou and Serafeim (2017) find similar results in their study on mandates in China, Denmark, Malaysia and South Africa. In addition, they find that companies with previously high levels of CSR reporting are more likely to seek assurance than companies with low pre-mandate reporting. Assurance may therefore represent a tool for companies to differentiate themselves from other companies when CSR reporting alone no longer constitutes a viable signal.

# 5 Review of second-order consequences

## 5.1 Consequences for CSR activities

### 5.1.1 Greenhouse gas emissions

CSR reporting regulation often pursues public policy objectives, such as reducing GHG emissions and improving mine safety. Known as targeted disclosure regulation, the aim is to empower stakeholders to nudge companies towards the desired behaviour (Andreicovici et al., 2022). The literature has therefore taken considerable interest in identifying whether companies change their behaviour into a more desirable direction after being subject to mandatory CSR reporting. Out of 12 studies investigating whether CSR reporting regulation has such real effects, four focus on GHG emissions.[11] These studies provide compelling evidence that GHG emissions intensity decreases after companies are subject to public disclosure regulation. For example, Tomar (2022) and Bauckloh et al. (2023) investigate the US Environmental Protection Agency's *Greenhouse Gas Reporting Program (GHGRP)*, which

[11] GHG emissions are typically operationalised as carbon dioxide equivalent (CO2e) emissions intensity, which is calculated as CO2e emissions divided by a scalar that controls for firm size (e.g., revenues).

requires carbon emitters, fossil fuel and industrial gas suppliers, and facilities that store carbon dioxide underground to report their emissions levels publicly. (Tomar, 2022) finds that facilities reduce their GHG emissions by 7.9% after the *GHGRP* disclosure regulation, while (Bauckloh et al., 2023) identifies an 18.5% reduction. The *GHGRP* also allows for an assessment of the role of public (versus non-public) disclosure in the success of the program, with the results indicating that public disclosure is crucial for curbing emissions.

Similarly, the UK's *Companies Act 2006* requires all firms listed on the London Stock Exchange to disclose their annual GHG emissions, with Downar et al. (2021) finding an 8% reduction in emissions among UK listed companies relative to a control group of European companies. Similarly, Jouvenot and Krueger (2021) reports a 16% reduction for affected companies, while Chen et al. (2018) show that companies listed on the Shanghai or Shenzhen Stock Exchanges reduce their industrial wastewater and sulfur dioxide emissions after being required to disclose CSR activities under the *Notices on Doing a Good Job*. Matisoff (2013), on the other hand, finds contradictory results in his study of US state-level climate reporting. His findings suggest that affected companies do not change their GHG emissions, emissions intensity, or output at the plant level. It is important to note, however, that variations in state regulation details can impact these findings. Overall, one can say that empirical evidence strongly suggests that public disclosure of emissions levels nudges companies to reduce their emissions.

### 5.1.2 Other CSR activities

Empirical evidence on other CSR activities exists, for example, on mine-operating companies that have to report on violations of health or safety standards under *Section 1503* of the US Dodd-Frank Act. Christensen et al. (2017) finds that they exhibit a decrease in mining-related citations and injuries after having to include safety records in their financial reports. In another study, (Jin and Leslie, 2003) find that, after mandating restaurants to publicly display their hygiene grade cards from the Department of Health Services hygiene inspection, forborne illnesses and hospitalisations decrease in Los Angeles. Furthermore, Rauter (2020) looks at two regulations that require companies in the extractive industry to publicly disclose payments made to governments: The Canadian *Extractive Sector Transparency Measures Act* and the European Directives 2013/34/EU and 2013/50/EU. He finds evidence in line with disclosing companies increasing their payments to host governments, decreasing their investments and obtaining fewer extraction licenses relative to non-disclosing competitors. Finally, in the Chinese setting, Ren et al. (2022) show that mandatory CSR reporting companies engage in higher green innovation after the securities regulator requires them to publish a CSR report relative to a control group of non-affected companies. However, again, the effect is more substantial for higher exposed companies – i.e., those located in areas with high environmental enforcement intensity and higher levels of media coverage.

#### 5.1.3 Aggregate CSR activities

While the *Companies Act 2006* and *Section 1503* require the disclosure of specific CSR information, CSR reporting regulation typically requires companies to disclose a broader set of information. Hence, real effects of reporting regulation can manifest in a broad range of CSR activities, e.g., a reduction in water consumption, employee health programs and child labour policies. Accordingly, four studies investigate whether companies increase their overall CSR activities after being required to publish an annual CSR report (Arvidsson and Dumay, 2022; Cuomo et al., 2022; Fiechter et al., 2022; Jackson et al., 2020). First, Fiechter et al. (2022) show that affected companies exhibit increased CSR activities, measured as the Thomson Reuters Asset4 score, in the year they first had to publish a CSR report under the NFRD. Furthermore, the authors also find that the real effects materialise as early as 2016 (all activities) and 2015 (social activities). In other words, companies increase their CSR activities in anticipation of the imminent mandate. In the cross-section, Fiechter et al. (2022) find that companies with lower CSR reporting and activities prior to the mandate are more affected by the mandate, i.e., increase their CSR activities to a higher degree.

Cuomo et al. (2022) and Jackson et al. (2020) support these results by finding that the effect of a CSR reporting mandate on CSR performance is more substantial for companies that newly adopted reporting after the mandate (Cuomo et al., 2022) and companies with previously low levels of CSR performance (Jackson et al., 2020). Other factors that determine the magnitude of the effect are small company size, high analyst following and a strong legal system (Cuomo et al., 2022). Arvidsson and Dumay (2022) do not find evidence in line with Swedish listed companies increasing their CSR performance after the introduction of the NFRD. However, their sample comprises only 27 large listed companies, which are arguably less exposed to the NFRD.

## 5.2 Consequences for firm value and capital markets

### 5.2.1 Market reaction

CSR reporting mandates impact firm value to the degree that they impose costs and benefits on the disclosing company. When the costs outweigh the benefits, the impact on firm value can be negative and vice versa. Costs of CSR reporting mandates include, for example, the direct costs from reporting, reputational costs and costs from real activities that managers implement in response to the mandatory disclosure (Ioannou and Serafeim, 2017). Benefits of mandatory CSR reporting include, for example, the reduced risk from increased disclosure and improved CSR performance (e.g., through employee retention, reputational benefits, and improved process efficiency).

To gauge how the capital market assesses the firm value implications of CSR reporting mandates, Grewal et al. (2019) look at three events predating the NFRD that revealed information about the likelihood of the NFRD being passed.[12] Using a control group of non-treated firms, they find an average adverse market reaction of -0.8% for all three events cumulatively. This adverse reaction is concentrated among companies with low pre-regulation CSR reporting and performance. In contrast, companies with high pre-regulation CSR disclosure and performance exhibit a positive market reaction of 0.5%. The results suggest that, on average, equity investors expect weak-CSR companies to suffer a net loss and strong-CSR companies to experience a net benefit from the NFRD. Like Grewal et al. (2019), Chen et al. (2018) measure the market reaction to the announcements of the Chinese *Notices on Doing a Good Job*. Their data shows an adverse market reaction for treatment companies of -2.4% and control companies of -1.9%, suggesting that investors anticipate net costs for affected and non-affected companies. Chen et al. (2018) interpret the results as investors anticipating similar regulation for non-affected companies.

Andreicovici et al. (2022) conduct an event study surrounding the announcement of *Section 1504* of the US the Dodd-Frank Act on disclosure of payments to governments by oil and gas companies. They conjecture that an observed adverse market reaction during the event windows may indicate reputational risk for the affected companies. In line with this argument, they find that companies with CSR issues such as foreign corruption, which

[12] The three events are (1) the presentation of the EC proposal for the directive, (2) the reaching of an agreement in the European Council, and (3) the adoption of the proposal by the EC.

are central to the regulation, experience a more negative market reaction during the event windows. They complement their findings with interviews with representatives from pressure groups, which show that these pressure groups view the mandated information as providing reliable information that would help them back their claims, avoid making false allegations, and thus enhance the credibility of their campaigns. The results of Andreicovici et al. (2022) indicate that CSR reporting mandates are value-destroying for companies exposed to significant reputational risk from pressure group campaigns.

### 5.2.2 Firm value

The observed adverse market reactions to CSR reporting mandates, especially among low-CSR companies, raises the question whether this relationship is also reflected in firm value. To answer this question, Ioannou and Serafeim (2017) study whether the extent of mandatory CSR reporting is associated with companies' firm value, measured as Tobin's Q. They find, on average, a positive relationship between the level of predicted disclosure under the mandate and firm value, compared to a control group of non-disclosing companies. They conclude that the average effect of mandated CSR disclosure is value-enhancing rather than value-destroying. A sample split further shows that the positive firm value effect is stronger for companies with low pre-mandate CSR reporting than for companies with high pre-mandate CSR reporting. The conflicting findings of Ioannou and Serafeim (2017) with the observed adverse market reaction call for further research to investigate the relation between mandated CSR reporting and firm value.

Another question is whether the relation between CSR reporting and firm value changes when reporting becomes mandatory, i.e., whether the value relevance of mandated CSR reporting is different from the value relevance of voluntary CSR reporting. According to a study conducted by Baboukardos (2017), CSR reporting under a mandate can be more credible, giving investors more confidence in the reported data, and leading to a lower discount for negative information than under voluntary reporting. In other words, mandatory CSR reporting may alleviate investor concerns regarding the accuracy of disclosed information, thereby attenuating the negative relation between negative environmental impact and firm value. Baboukardos (2017) uses the UK *Companies Act 2006* to examine the change in value relevance of GHG emissions disclosure when reporting becomes mandatory. He finds that, under voluntary reporting, investors are more skeptical about the accuracy of disclosed information, therefore pricing higher-than-reported GHG emissions into their valuation. After the *UK Companies Act 2006* becomes effective, the magnitude of the negative association is significantly smaller. Furthermore, the decrease is only observed in companies that belong to energy-intensive industries, where precise information on GHG emissions is most relevant for firm value. This evidence suggests that CSR reporting mandates provide value to investors by increasing the credibility of reported information and thus providing more precise information for valuation models.

Similar to Baboukardos (2017), Mittelbach-Hoermanseder et al. (2021) study the association between share price and the quantity of CSR disclosure, before and after the announcement of the NFRD in Europe. Before the announcement, the relationship is either positive or statistically insignificant. However, after the announcement in 2014, CSR disclosure becomes negatively related to the share price. According to Mittelbach-Hoermanseder et al. (2021), the anticipated CSR reporting mandate leads companies to disclose a more balanced set of positive and negative information, while the voluntary regime allows them to be more selective in reporting and disclosing primarily positive information. In addition, cross-sectional tests reveal a lower share price relevance of CSR reporting in countries with higher levels of CSR awareness and employee protection and lower levels of enforcement and strength of the legal environment.

### 5.2.3 Financial performance

One possible reason for a decrease in firm value is that companies' financial performance decreases after having to report on their CSR activities. The notion is that companies want to avoid the reputational costs associated with reporting poor CSR performance, and thus engage in CSR activities to increase their CSR performance. These additional CSR activities constitute expenditures that cause lower short-term financial performance. If this were not so, the argument goes, companies would have already engaged in these activities before the mandate. In line with this notion, Chen et al. (2018) find that companies required to report on CSR under the Chinese *Notices on Doing a Good Job* experience a decrease in profitability, measured as return on assets (return on equity), of 26% (20%) after the introduction of the mandate, compared to a propensity-score matched group of non-disclosing companies. In line with these findings, Cupertino et al. (2022), using a simple OLS research design, find that companies affected by the NFRD exhibit a reduction in their return on equity and operating return on assets after the introduction of the mandate. Going a step further, Ben Saad and Belkacem (2022) explore whether companies with high CSR performance are affected differently by the French *Grenelle II* than companies with lower CSR performance. The findings suggest that high-CSR performing companies experience an increase in financial performance after the introduction of the mandate, while low-CSR performing companies experience a decrease in financial performance. The results of Ben Saad and Belkacem (2022) suggest that the level of pre-mandate CSR performance determines the degree to which a reporting mandate impacts companies' financial performance.

Flipping the perspective, Sun et al. (2019) investigate to what extent financial performance explains variation in CSR reporting quality under a voluntary and a mandatory approach, i.e., whether financially stronger companies engage in higher-quality CSR reporting practices. They find that financial performance, measured as return on assets, explains companies' choice to issue a voluntary standalone CSR report and the quality of the reports but is not associated with the quality of mandatory CSR reports under the *Notices on Doing a Good Job*. They conjecture that financial strength determines companies' decision to engage in voluntary CSR reporting but that it is less relevant in explaining reporting under a mandate. One concern in Sun et al.'s 2019 study is the direction of the relationship between financial performance and CSR reporting practices. For example, Agostini et al. (2022) examine whether CSR reporting determines companies' financial performance. Like Sun et al. (2019), they find a positive relationship between return on assets and return on equity for voluntary CSR reporting, but no significant relationship for mandatory CSR reporting. The different narratives in the studies by Sun et al. (2019) and Agostini et al. (2022) highlight the complex relationship between CSR reporting and financial performance and call for more conceptual and empirical research in this area.

### 5.2.4 Information intermediaries

Finally, two studies investigate the use of mandatory CSR reports by financial information intermediaries. First, Cormier et al. (2015) study the relationship between analysts' earnings forecasts and mandatory CSR reporting under the Canadian *National Instrument 51-102*, which requires companies to provide information on their environmental obligations and risks. Similar to financial information, CSR-related information can provide input to corporate valuation models. In line with this notion, Cormier et al. (2015) find a positive association between the level of disclosure under the *National Instrument 51-102* and analysts' forecast consensus.

Second, Christensen et al. (2022) investigate the role of CSR information in the disagreement among CSR rating agencies. While more information would typically reduce the information asymmetry between managers and raters, thus leading to more precise ratings and lower disagreement, Christensen et al. (2022) find the opposite. Using an international sample and 25 different disclosure mandates as shocks to the level of CSR information, Christensen et al. (2022) find that CSR rating disagreement *increases* after CSR reporting becomes mandatory. The authors argue that, in the absence of detailed CSR information, rating agencies use similar rules of thumb and imputation techniques which result in similar ratings. They diverge, however, when interpreting CSR information, as it leaves more room for interpretation. It is important to note that these findings do not necessarily imply that reporting mandates are useless per se. Instead, the study may indicate that CSR rating agencies are still very much in the process of finding best practices when interpreting CSR information.

## 5.3 Other consequences

### 5.3.1 Tax avoidance and earnings management

Three studies suggest that Chinese companies disclosing CSR information under the *Notices on Doing a Good Job* or the *Environmental Protection Law* exhibit lower earnings management after the mandate (Gong and Ho, 2021; Wang et al., 2018; Xi and Xiao, 2022). The notion is that mandatory CSR disclosure leads to higher public scrutiny through investors, the media and other stakeholders, constraining managerial misbehaviour. Using a similar line of reasoning, Fallan and Fallan (2019) and Lin et al. (2017) contend and find that mandatory CSR reporting is associated with lower tax avoidance. However, lower institutional quality can mitigate the disciplining effect of mandatory CSR reporting, underlining the importance of law enforcement and investor protection (Lin et al., 2017). These findings contrast the mixed evidence on voluntary CSR reporting, where high CSR-reporting companies may engage in higher tax aggressiveness and earnings management – especially in the absence of political costs (Fallan and Fallan, 2019; Yip et al., 2011). It seems that voluntary CSR reporting constitutes a concealment strategy for corporate misbehaviour, while mandatory CSR reporting works as a disciplining instrument – therefore making a case for mandatory CSR reporting.

### 5.3.2 Investment decisions, cash holdings and dividend payments

Agency theory suggests that managers as agents may not act in the best interests of their principals, i.e., shareholders. As a result, frictions like information asymmetry may exacerbate the agency problem, resulting in increased agency costs. By introducing new reporting requirements, mandatory CSR reporting may help reduce the information asymmetry between managers and shareholders and decrease agency costs for shareholders. On the other hand, managers can use CSR reporting and activities as a concealment strategy for self-interested behaviour, thus exacerbating the agency problem. Four studies investigate whether mandatory CSR reporting reduces or exacerbates agency costs related to investment inefficiency (Liu and Tian, 2021), cash holdings (Rossi and Harjoto, 2020; Xue, 2021) and dividends (Ni and Zhang, 2019).

Liu and Tian (2021) argue that the increased information disclosure through mandated CSR reporting can improve the ability of shareholders to evaluate companies' investment opportunities and monitor managers' resource allocation decisions, thus leading to lower investment inefficiency. They find evidence in line with a reduction in over-investment by 25.5% for companies that start mandatory CSR reporting following the Chinese *Notices on Doing a Good Job*. Their findings are concentrated among companies that are more affected by the monitoring effect, i.e., state-owned companies, companies with a high control-ownership wedge and lower institutional shareholdings, and companies operating in high-polluting industries.

In another study, Xue (2021) examines the impact of mandatory CSR reporting on companies' cash holdings, which she predicts to be negative. Theoretically, the increased transparency resulting from mandatory CSR reporting reduces information asymmetry between management and shareholders, resulting in enhanced monitoring and reduced cash holdings that arise from agency problems. Additionally, decreased information asymmetry between a company and its creditors relieves financial constraints and the need to hold cash as a precaution. Finally, a CSR reporting mandate may lower CSR risk and increase the capacity for risk-taking in other areas, such as cash holdings. In line with these expectations, Xue (2021) finds that Chinese companies that are subject to the *Notices on Doing a*

*Good Job* reduce their cash holdings by an average of 10.5% after the mandate's introduction, compared to a matched sample of non-disclosing companies. Further tests show that corporate characteristics associated with financial constraints, corporate governance, and risk-taking help explain the relationship between mandatory CSR disclosure and corporate cash holdings, providing evidence for all three channels. These findings are consistent with those of Rossi and Harjoto (2020), who found that Italian companies exhibit lower cash holdings after implementing the NFRD.

The reduced monitoring and agency costs resulting from mandatory CSR reporting can also increase investors' ability to extract cash dividends. Ni and Zhang (2019), however, find that companies subject to the *Notices on Doing a Good Job* reduce their dividend payouts by more than 28.6-37.5% compared to a control group of non-disclosing companies. They interpret the findings as being in line with stakeholders pressuring companies to spend their cash on improving CSR performance, resulting in a wealth transfer from shareholders to stakeholders. In addition, they find that companies with weaker corporate governance exhibit a more substantial effect, further supporting the argument of a transfer of power from shareholders to stakeholders.

### 5.3.3 Corporate governance

While corporate governance mechanisms often mediate the relationship between CSR reporting mandates and conquences thereof (e.g., Caputo et al., 2021; Cosma et al., 2021; Hummel and Roetzel, 2019), they can also be a consequence themselves. When CSR reporting becomes mandatory, companies must ensure that they correctly implement the requirements of the regulation. CSR reporting mandates can therefore trigger companies to implement internal structures that monitor a company's reporting practices. For example, Boamah (2022) uses a difference-in-differences research design to examine whether companies increase the number of directors on their environmental-related board committees after the passage of the UK *Companies Act 2006*. He finds that affected companies increase the absolute (relative) number of directors by 7.8% (2.6%) compared to a control group of non-disclosing European companies.

Aureli et al. (2020) parallel the findings in a case study on the Italian wood and glass processing company Biesse Group, documenting changes in the company's CSR-related corporate governance structures. After the introduction of the NFRD, Biesse Group introduced an internal audit committee dedicated to managing the processes related to preparing its CSR report. The committee helped to implement the infrastructure necessary to collect reliable and timely data within the company. In addition, it served as a technical advisor to the board and helped the company develop a more proactive response strategy to the stakeholder pressure arising from the NFRD.

### 5.3.4 Stakeholder reactions

Targeted disclosure aims at empowering stakeholders to influence companies' actions through public pressure (Andreicovici et al., 2022). However, evidence of stakeholders' reactions to companies' mandated CSR reporting remains scarce. Sharkey et al. (2022) investigates changes in employees' evaluations of their employer on the review platform Glassdoor, after the UK *Equality Act 2010* becomes mandatory, requiring companies to report gender pay gap information.[13] They find no evidence of a deterioration in the evaluations of companies that report significant gender-based pay gaps. However, companies that reported pay parity under the *Equality Act 2010* experience an increase in the likelihood of receiving a five-star rating on Glassdoor. The effect seems to be short-lived, as the likelihood of a five-star rating reverts to pre-mandate levels in month two of the post-mandate period.

Focusing on consumers, Jin and Leslie (2003) find that, under mandatory disclosure of hygiene quality, restaurants with the highest hygiene grade (A-grade) experience a 5.7% increase in revenue compared to the pre-mandate period. B-grade restaurants experience an increase in revenue by about 0.7%, and C-grade restaurants experience a 1% decrease in revenue. The study suggests that consumers use publicly displayed information on restaurant hygiene to decide about their restaurant visits. Finally, Zhong et al. (2022) investigate suppliers' reaction to CSR reporting under the Chinese *Notices on Doing a Good Job*. Reporting companies receive less trade credit from their suppliers after the mandate, compared to a propensity-score matched control group of non-disclosing companies. The effect is stronger for high-polluting and state-owned companies, which are more exposed to the mandate than their peers. In sum, the empirical evidence on stakeholder reactions to mandated CSR reporting remains very scarce. Hence, while there is compelling evidence that companies change their real behaviour in response to a CSR reporting mandate (see Section 5.1), the specific incentives for such behaviour change are considerably under-researched.

[13] https://www.glassdoor.com

# 6 Implications of the CSRD for German companies

To answer the second research question, I combine the findings from Sections 4 and 5 to make inferences from prior literature about the implications of the CSRD for Germany. The CSRD was passed by the EC on 14 December 2022 and requires member state governments to implement it by 6 July 2024. As per the directive, an estimated 50,000 companies, including listed small and medium-sized companies (SMEs) across the EU, will have to prepare CSR reports starting with the fiscal year 2024 (EU, 2021).

Following the structure of Sections 4 and 5, I categorise the implications of the CSRD for German companies around first-order consequences and second-order consequences. However, it is essential to note that the reliability of inferences drawn from prior literature depends on the similarity between the institutional settings studied by the literature and the institutional setting of the CSRD in Germany. In this context, it is important to note that the CSRD is unprecedented in the breadth of its reporting requirements and the level of detail it demands. Where possible, I therefore take into account differences in reporting requirements between the CSRD and other CSR reporting mandates, variations in the level of CSR reporting prior to the regulation, and other institutional details that can affect companies' compliance with the mandate.

## 6.1 Implications related to first-order consequences

### 6.1.1 Compliance

As summarised in Section 4.1, prior research suggests that companies do not always comply with CSR reporting mandates, and compliance can vary with a country's enforcement level (e.g., Criado-Jiménez et al., 2008; Llena et al., 2007; Vormedal and Ruud, 2009). In Germany, paragraph 331 of the German Commercial Code stipulates severe penalties for disclosing incorrect information under the NFRD, with members of management and supervisory boards potentially facing personal fines or imprisonment. While it is unclear whether these penalties are practically enforced, German companies have shown a high level of compliance with the NFRD (Loew and Braun, 2019; Wulf et al., 2018). Given the high compliance rates and the overall strong regulatory enforcement levels in Germany, it is reasonable to assume that most German companies will also comply with the CSRD.

Assuming high compliance rates, an estimated 15,000 German companies will prepare a CSR report under the CSRD, which is a significant increase from the approximately 500 companies covered by the NFRD (Kluge and Sick, 2016; KPMG, 2023). This large number of German companies falling under the scope of the CSRD is in part due to the relatively high number of SMEs in Germany compared to other European countries. In this context, it is important to note that the implementation of the CSRD occurs in a staggered manner, with the first CSR reports due in 2025 (prepared for the fiscal year 2024) and a year-by-year scope expansion until 2029 (prepared for the fiscal year 2028). This staggered implementation will result in a gradual increase in reporting companies from approximately 500 to 15,000 until 2029 (Kluge and Sick, 2016; KPMG, 2023).

### 6.1.2 Reporting quantity

The literature review suggests that companies experience a slight increase in CSR reporting quantity following a mandate (Ottenstein et al., 2022). However, the magnitude of the increase depends on whether companies already prepared voluntary reports before, with first-time reporters experiencing a larger upward shift in reporting quantity. German companies had a high level of voluntary CSR reporting, even before the NFRD, compared to their peers from other countries (Adams et al., 1998; Adams and Kuasirikun, 2000; Chen and Bouvain, 2009; Greiling et al., 2015). Under the NFRD, they continue to fare well compared to Italian and Swedish companies (Mion and Loza Adaui, 2019; Wulf et al., 2018), with report length ranging from 4 to 225 pages, and an average of 41 pages (DRSC, 2021).

Such experienced reporters would typically not exhibit a significant increase in reporting quantity after a CSR reporting mandate, because they already fulfill much of mandates' rather loose requirements. However, the CSRD may have a stronger impact than most other mandates because the directive requires companies to report under European Sustainability Reporting Standards (ESRS). Developed by the Sustainability Reporting Board of the European Financial Reporting Advisory Group, the ESRS are expected to contain a comprehensive set of detailed reporting requirements that will be further complemented with sector-specific standards (EFRAG, 2022). As a result, even experienced reporters will need to restructure their CSR reports according to the ESRS and disclose a significant amount of previously unreported information.

For first-time reporters, the effect of the CSRD is expected to be even larger. SMEs in Germany tend to have less developed CSR reports (Dietsche et al., 2015; Hobelsberger and Scholl, 2018), leaving more room for an increase in report length. While it is unclear how many German companies are in fact first-time reporters under the CSRD, it is safe to say that a large portion of the companies under the scope of the CSRD are SMEs. For these, one can expect a substantial increase in CSR reporting quantity on average. As a result, one can expect that the quantity of reported CSR information by German companies will significantly increase on average under the CSRD – both for first-time and experienced reporters.

### 6.1.3 Reporting quality

Similar to reporting quantity, the implementation of a CSR reporting mandate can lead to an improvement in the quality of CSR reports, particularly among first-time reporters (Leong, 2014; Lippai-Makra et al., 2022). Given the detailed reporting requirements imposed by the ESRS, we would expect the CSRD to have a similar, if not greater, impact on the quality of CSR reports of German companies. Compared to other CSR reporting mandates, the ESRS require a more extensive and detailed set of qualitative and quantitative information across a large number of disclosure items. As such, this increase in reporting requirements should be reflected in an overall higher reporting quality score, both for first-time and experienced reporters.

For instance, a report by DRSC (2021) shows that only 27% of German companies currently report environmental key performance indicators (KPIs) under the NFRD, with an average of 3 KPIs reported. This is largely due to companies not deeming most KPIs material under the materiality approach of the NFRD (DRSC, 2021; Behncke and Fink, 2018). However, under the CSRD, companies will have to report on environmental matters as defined by the Standards E1, E2, E3, E4 and E5 of the ESRS, which collectively require the disclosure of 32 items.[14] This will significantly increase the scope and depth of reported information. As such, we can expect the CSRD to lead to a considerable increase in reported information and degree of detail, which should translate into an improvement in the quality of CSR reports for German companies.

[14] https://www.efrag.org/lab6

### 6.1.4 Other qualitative characteristics

As discussed in Section 4.4, it is common for companies to withhold negative information under a CSR reporting mandate (Larrinaga et al., 2002). This is in part due to the comply-or-explain approach, which often allows companies to provide an explanation for non-disclosure without being considered non-compliant. In addition to the comply-or-explain approach, a narrow materiality approach may allow companies to omit much information. In Europe, the NFRD requires companies to report on sustainability-related matters only if these matters are material under both the financial ('outside-in') and the impact ('inside-out') materiality approach. This is criticised as allowing companies to omit a large amount of negative information that is not material under one of the two approaches (Behncke and Fink, 2018; DRSC, 2021; Loew and Braun, 2019). The CSRD takes a different approach, requiring companies to report on all disclosure requirements, which also includes negative information. By eliminating the comply-or-explain loophole, the CSRD may be more effective than other mandates at compelling companies to disclose negative information. It is therefore likely that the amount of negative information disclosed under the CSRD will be higher than what companies previously disclosed voluntarily.

Another change that can be expected under the CSRD comes from the requirement to integrate the CSR report into the management report, thus removing the option of a stand-alone report. The aim is to increase the availability of CSR information and foster the perception that CSR information is just as important as financial information. In Germany, most companies choose to publish a stand-alone CSR report instead of integrating it into the annual report (DRSC, 2021). From fiscal year 2024 onwards, they will have to move their CSR information to the management report. Even more impactful is the requirement by the CSRD to seek third-party assurance for mandatory CSR reports. This requirement is expected to increase the fraction of assured reports in Germany from the current level of around 80% (Engel and Koenen, 2018) to nearly 100%. Although the CSRD only requires limited assurance, it is likely to improve the credibility and reliability of CSR reports over time. Furthermore, the large number of assurers that will have to assure CSR reports may lead to more standardised and reliable assurance statements over time (Gillet-Monjarret, 2018).

## 6.2 Implications related to second-order consequences

### 6.2.1 Greenhouse gas emissions

Research suggests that companies tend to reduce their GHG emissions after having to publicly disclose them. These studies mostly examine settings where the requirement relates to emissions information specifically, putting it at the forefront of stakeholders' awareness (Bauckloh et al., 2023; Downar et al., 2021; Tomar, 2022). However, even under a general CSR reporting mandate, the effect seems to hold (Chen et al., 2018). In Germany, the CSRD may therefore have a similar effect on companies that have not previously disclosed information on their emissions. In this context, it is worth noting that air pollution levels in German cities have been a publicised topic in recent years, to the extent that the Federal Administrative Court has allowed the introduction of bans for diesel-powered cars in certain cities (Federal Administrative Court, 2018). This public awareness around air pollution and potential scrutiny on environmental performance could put pressure on German companies to reduce their emission levels after having to publicly disclose it. As such, it is possible that mandatory CSR reporting under the CSRD could encourage German companies to take action to reduce pollution levels, as seen in prior studies.

### 6.2.2 Aggregate and specific CSR activities

Research shows that companies tend to increase their CSR activities after having to publish a comprehensive CSR report. This effect is stronger for companies with low pre-regulation CSR reporting and performance (Cuomo et al., 2022; Fiechter et al., 2022; Jackson et al., 2020). One can expect similar consequences from the CSRD, which, unlike its predecessor, targets a large number of first-time reporters. However, it remains an interesting empirical question to examine whether the findings related to other specific CSR activities, such as mining-safety injuries and extraction licenses (Christensen et al., 2017; Rauter, 2020), can also be observed in Germany under the CRSD. The broad nature of the CSRD, which requires a comprehensive CSR report, may limit the generalisability of these findings to the German setting. On the other hand, the ESRS also provide very specific disclosure requirements, to be complemented by sector-specific standards. It is worth exploring whether such disclosure requirements have a similar effect when incorporated into a broader CSR report.

### 6.2.3 Firm value and financial performance

Based on prior research, it is reasonable to expect that German companies with a low level of CSR reporting prior to the mandate will experience net costs associated with the CSR reporting requirement, compared to companies with a high level of pre-regulatory CSR reporting and performance (Grewal et al., 2019; Andreicovici et al., 2022). This may become even more pronounced over time, as sector-specific reporting requirements are introduced under the ESRS that require less sustainable industries to report information that bears significant reputational risk. These new requirements will likely put additional pressure on companies with a weaker CSR track record, nudging them to introduce new CSR activities that may lead to a decrease in short-term financial performance. Relatedly, reporting under the CSRD will be more credible due to the requirement for third-party assurance. Along with the detailed disclosure requirement, this allows for a more accurate assessment of a company's sustainability performance, possibly making the reported information more relevant to investors' valuation models (Baboukardos, 2017; Mittelbach-Hoermanseder et al., 2021).

### 6.2.4 Tax avoidance and earnings management

CSR reporting mandates increase companies' transparency and accountability, and can subject companies to greater public scrutiny from various stakeholders, such as investors and the media. This increased visibility places pressure on companies to operate in a more responsible manner and can reduce the likelihood of engaging in unethical or illegal behavior, resulting in lower instances of earnings management and tax avoidance (e.g., Gong and Ho, 2021; Lin et al., 2017).

However, the disciplining effect of mandated CSR reporting is not uniform across different institutional contexts. When institutional quality is higher, companies are more likely to face greater consequences for unethical behavior. Regulatory bodies and civil society organizations are better equipped to hold companies accountable in such contexts, which can amplify the disciplining effect of mandatory CSR reporting. Considering the institutional context of Germany, which has a well-established regulatory framework and robust civil society organizations, we may expect a similar effect (Priller et al., 1999). The requirements under the CSRD may serve to enhance transparency and accountability, leading to increased pressure on companies to behave in a more ethical and responsible manner, reducing their propensity for earnings management and tax avoidance.

### 6.2.5 Investment decisions, cash holdings and dividend payments

Previous research suggests that mandatory CSR reporting can have a positive impact on the ability of shareholders to monitor the allocation of resources by managers. This improvement in monitoring can, in turn, enhance investment efficiency and decrease cash holdings (Liu and Tian, 2021; Xue, 2021). To build on this previous work, investigating the impact of the CSRD in Germany could be an interesting avenue for future research. The CSRD applies to a wide range of companies with differing ownership structures, including both listed and large and medium-sized non-listed companies. These ownership structures can give rise to varying levels of agency problems. Given these differences in ownership structures, it is reasonable to expect that the impact of the CSRD on investment inefficiency and cash holdings may be more pronounced for listed companies with more dispersed ownership structures. In contrast, for family-owned companies, the effect may be less pronounced. These differences in the expected impact of the CSRD across different ownership structures could provide valuable insights into the effectiveness of the regulation and its ability to address agency problems.

### 6.2.6 Corporate governance and stakeholder reactions

The implementation of a CSR reporting mandate can serve as a catalyst for companies to prioritise environmental and social issues in their decision-making processes. As companies seek to comply with the reporting requirements, they may realise the need to improve their existing CSR practices and governance structures to ensure they align with their stated values and goals. One way that companies can achieve this is by increasing the number of directors on their environmental-related board committees (Boamah, 2022). With the adoption CSRD, we may expect to observe an increase in the number of directors on CSR-related board committees in Germany as companies seek to comply with the new reporting requirements and improve their sustainability practices.

While consumers can certainly use the information in CSR reports to pressure companies to improve their behavior, there is limited empirical evidence to support this claim. Jin and

Leslie's (2003) research provides one of the few examples of a direct effect of disclosure on consumer behavior, but this effect was only observed in a specific setting where consumers were presented with relevant information just before making their purchase decision (restaurant hygiene cards). In the context of the CSRD in Germany, it may be challenging to draw such a direct link between consumer behavior and the level of CSR disclosure provided by companies, because the information is relatively costly to obtain for consumers.

# 7 Conclusion

In this paper, I review literature on mandatory CSR reporting and summarise the findings based on first-order and second-order consequences. I then use these findings to derive implications of the upcoming European CSRD for Germany. Given the unprecedented breadth and degree of detail that the mandate specifies, as well as the high enforcement level in Germany, one can expect a significant upward shift in CSR reporting quantity and quality, even for experienced reporters. Moreover, it is likely that companies will implement new CSR activities after having to publish a CSR report under the CSRD. The magnitude of this effect depends on the level CSR activities prior to the CSRD, which is currently unknown for most of the affected companies, and therefore remains subject to future research.

This study is subject to a number of limitations, including the following. First, it does not claim to be an all-encompassing review of existing literature. Given the considerable interest that researchers have taken in the subject in recent years, this is impossible to achieve. However, I aim to be transparent about the criteria underlying my search and inclusion process, and welcome future researchers to conduct reviews with a different focus. Second, the accuracy of the conclusions that I draw for the second research question depend on several factors that are subject to future investigations. First, I base my conclusions on the assumption that German companies will, to a very large extent, comply with the CSRD. However, smaller companies with fewer resources may find it less costly not to fully comply with the CSRD and instead bear the risk of being fined for non-compliance. Second, the CSRD is unprecedented in its scope, targeting 15,000 companies in Germany alone, including SMEs (KPMG, 2023). Since we know relatively little about SMEs' companies' CSR reporting and activities (Dinh et al., 2022) – both in voluntary and mandatory settings, it is challenging to draw definitive conclusions from prior literature. Much of the consequences that arise from the CSRD should therefore remain subject to future research.

Mandatory CSR reporting is a fruitful area of research that will continue to benefit from vigorous and diverse research. This paper has exposed some research areas which are well-researched, and others that would benefit from more research. Well-researched consequences include reporting quantity, overall reporting quality and GHG emissions. We know, however, relatively little about the firm-level costs and benefits of CSR reporting mandates (see, for example, Andreicovici et al., 2022). For example, while companies seem to react to mandates by improving their CSR performance, we know little about their incentives to do so, i.e., whether they fear reputational costs and consumer backlash, or whether they undergo corporate governance changes that are triggered by the mandate. On a theoretical side, future research can explore whether theories explaining voluntary reporting also hold under a mandatory regime (Carini et al., 2021; Mio et al., 2015, 2020). Methodologically, future research can use interviews with preparers and other stakeholders to gain insights about the reasons for (non-) disclosure and compliance, and different degrees of reporting quality (Brown et al., 2021; Muserra et al., 2020; Senn and Giordano-Spring, 2020). Alternatively, it may be fruitful to study comment letters to explore stakeholders' attitudes towards CSR reporting. Such studies, among others, can help us gain a better picture of its consequences and continue to inform standard setters seeking to regulate CSR reporting.

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# Appendix

**Table A1: Overview over the CSR reporting mandates subject to this review**

| Country | Law | Regulator | Enacted | Start date | Studies |
|---|---|---|---|---|---|
| Argentina | Law 2594 | Government | 2008 | 01/01/2008 | Christensen et al. (2022) |
| Australia | New South Wales Environmental Planning and Assessment Act 1979 | Government of New South Wales | 1979 | 01/01/1979 | Leong (2014) |
| Australia | Corporations Act 2001 s. 299(1)(f) | Government | 1998 | 07/01/1998 | Frost (2007); Yang et al. (2021) |
| Canada | Extractive Sector Transparency Measures Act | Government | 2014 | 01/06/2015 | Brown et al. (2021); Rauter (2020) |
| Canada | National Instrument 51-102 | Canadian Securities Regulator | 2004 | 01/01/2004 | Chelli et al. (2018); Cormier et al. (2015) |
| Chile | General Standard No. 385 | Government | 2012 | 01/01/2015 | Christensen et al. (2022) |
| China | SSE and SZSE Notices on Doing a Good Job | Chinese Securities Regulatory Commission | 2008 | 01/01/2008 | Chen et al. (2018); Christensen et al. (2022); Dong and Xu (2016); Gong and Ho (2021); Lin et al. (2017); Liu and Tian (2021); Ni and Zhang (2019); Ren et al. (2022); Sun et al. (2019); Wang et al. (2018); Xue (2021); Zhong et al. (2022) |
| China | Environmental Protection Law of the People's Republic of China | Government | 2014 | 01/01/2015 | Xi and Xiao (2022) |
| Denmark | Financial Statements Act | Government | 2008 | 01/01/2008 | Christensen et al. (2022); Jackson et al. (2020); Pedersen et al. (2013) |
| EU | Directives 2013/50/EU and 2013/50/EU | Member States Governments | 2013 | 01/01/2016 | Rauter (2020) |
| EU | NFRD (Directive 2014/95/EU) | Member States Governments | 2016 | 01/01/2017 | Cosma et al. (2021); Cuomo et al. (2022); Cupertino et al. (2022); Fiechter et al. (2022); Grewal et al. (2019); Mio et al. (2020); Mittelbach-Hoermanseder et al. (2021); Ottenstein et al. (2022); Pizzi et al. (2022); Zanellato and Tiron-Tudor (2022) |

**Table A1 (continued): Overview over the CSR reporting mandates subject to this review**

| Country | Law | Regulator | Enacted | Start date | Studies |
|---|---|---|---|---|---|
| Finland | Accounting Act | Government | 1997 | 01/01/1998 | Christensen et al. (2022) |
| France | New Economic Regulations Act | Government | 2001 | 01/01/2001 | Chelli et al. (2014,0); Jackson et al. (2020); Senn and Giordano-Spring (2020) |
| France | Grenelle II; Grenelle II Article 225 (Assurance) | Government | 2010 | 01/01/2011 | Ben Saad and Belkacem (2022); Chelli et al. (2018); Christensen et al. (2022); Gillet-Monjarret (2018); Jackson et al. (2020); Lock and Seele (2016); Senn and Giordano-Spring (2020) |
| Greece | Modernisation Directive 2003/51/EC (Law 3487) | Government | 2006 | 01/01/2007 | Christensen et al. (2022) |
| Hong Kong | HKEx Environmental, Social and Governance Reporting Guide | Stock Exchange | 2015 | 01/01/2016 | Christensen et al. (2022) |
| Hungary | NFRD (Amd. Act C of 2000 on Accounting of 15/05/2016) | Government | 2016 | 01/01/2017 | Lippai-Makra et al. (2022) |
| India | No. 18(8)/2005-GM Guidelines on Corporate Governance for Central Public Sector Enterprises | Government | 2010 | 04/01/2010 | Kansal et al. (2018) |
| India | Securities and Exchange Board CIR/CFD/DIL/8/2012 | Securities Regulator | 2012 | 01/01/2012 | Christensen et al. (2022) |
| Indonesia | Bapepam-LK Rule X.K.6 | Capital Market Supervisory Agency | 2006 | 01/01/2006 | Arena et al. (2018) |
| Indonesia | Decision of the Chairman of the Capital Markets Supervisory Agency No. KEP-431/BL/2012 | Government | 2012 | 01/01/2012 | Christensen et al. (2022) |
| Israel | Public Reporting Directives [1] (10/11) Section 620-E | Government | 2012 | 01/01/2012 | Christensen et al. (2022) |

**Table A1 (continued): Overview over the CSR reporting mandates subject to this review**

| Country | Law | Regulator | Enacted | Start date | Studies |
|---|---|---|---|---|---|
| Italy | Modernisation Directive 2003/51/EC (Legislative Decree No. 32/2007) | Government | 2003 | 01/01/2008 | Bini et al. (2017); Mio et al. (2015) |
| Italy | NFRD (Legislative Decree No. 254/2016) | Government | 2016 | 01/01/2017 | Agostini et al. (2022); Aureli et al. (2020); Caputo et al. (2021); Carini et al. (2021); Cordazzo et al. (2020); Korca et al. (2021); Lombardi et al. (2022); Mazzotta et al. (2020); Muserra et al. (2020); Pizzi et al. (2021); Rossi and Harjoto (2020) |
| Malaysia | Bursa Malaysia Appendix 9c of Listing Requirements | Bursa Malaysia | 2007 | 01/01/2007 | Arena et al. (2018); Christensen et al. (2022); Haji (2013) |
| Nether-lands | Guideline 400 (RJ-Uiting 2009-8) and Parliamentary Paper 26485, No. 86 | Government | 2009 | 01/01/2010 | Christensen et al. (2022) |
| Nigeria | Sustainable Banking Principles | Government | 2012 | 01/01/2012 | Christensen et al. (2022) |
| Norway | Accounting Act, Section 3-3a, Subsections 9, 10 and 11 | Government | 1977 | 01/01/1978 | Fallan and Fallan (2019); Vormedal and Ruud (2009) |
| Norway | Statute 44; LOV-2013-04-19-15 | Government | 2013 | 01/01/2013 | Christensen et al. (2022) |
| Pakistan | S.R.O. 983(I)/2009 Companies (CSR) General Order | Government | 2009 | 01/01/2010 | Christensen et al. (2022) |
| Peru | Resolution SMV No. 033-2015-SMV/01 | Government | 2015 | 01/01/2015 | Christensen et al. (2022) |
| Poland | NFRD (Amd. Act 61 of 15/12/2016) | Government | 2016 | 01/01/2017 | Matuszak and Rozanska (2021) |
| Portugal | Law No. 141/85 Decree-Law No. 9/92 | Government | 1985 | 01/01/1985 | Christensen et al. (2022) |

**Table A1 (continued): Overview over the CSR reporting mandates subject to this review**

| Country | Law | Regulator | Enacted | Start date | Studies |
|---|---|---|---|---|---|
| Quatar | Sustainable Development Industry Reporting Program | Government | 2010 | 01/01/2013 | Christensen et al. (2022) |
| Romania | Regulation No. 1/2006 on Issuers of and Operations with Securities | National Securities Commission | 2006 | 01/01/2007 | Dumitru et al. (2017) |
| South Africa | King III | Johannesburg Stock Exchange | 2009 | 01/01/2010 | Ackers and Eccles (2015); Christensen et al. (2022) |
| Spain | Royal Decree 437/1998 | Government | 1998 | 01/01/1998 | Larrinaga et al. (2002) |
| Spain | ICAC-2002 | Government | 2002 | 01/01/2002 | Criado-Jiménez et al. (2008); Llena et al. (2007); Lock and Seele (2016) |
| Sweden | Guidelines for External Reporting by State-Owned Companies | Government | 2007 | 01/01/2008 | Christensen et al. (2022) |
| Sweden | NFRD (Annual Report Act ÅRL; 2016/17:CU2) | Government | 2016 | 01/01/2017 | Arvidsson and Dumay (2022) |
| Thailand | Rules, Conditions and Procedures for Disclosure regarding Financial and Non-financial Information of Securities Issuers | Government | 2014 | 01/01/2014 | Christensen et al. (2022) |
| Turkey | Communiqué on Corporate Governance | Government | 2014 | 01/01/2014 | Christensen et al. (2022) |
| UK | Companies Act 2006 | Government | 2013 | 10/01/2012 | Baboukardos (2017); Boamah (2022); Downar et al. (2021); Hummel and Roetzel (2019); Jackson et al. (2020) |
| UK | Statutory Instruments 2013 No. 1970 | Government | 2013 | 01/01/2013 | Christensen et al. (2022) |
| UK | The Equality Act 2010 | Government | 2017 | 04/04/2018 | Sharkey et al. (2022) |

**Table A1 (continued): Overview over the CSR reporting mandates subject to this review**

| Country | Law | Regulator | Enacted | Start date | Studies |
|---|---|---|---|---|---|
| USA | Item 103 of Regulation S-K | Securities and Exchange Commission | 1933 | 05/27/1933 | Peters and Romi (2013) |
| USA | Los Angeles County Ordinance 97-0071 | Los Angeles County Government | 1997 | 01/06/1998 | Jin and Leslie (2003) |
| USA | Greenhouse Gas Reporting Program | Environmental Protection Agency | 2009 | 01/01/2010 | Bauckloh et al. (2023); Matisoff (2013) |
| USA | Section 1502 of the Dodd-Frank Act | Securities and Exchange Commission | 2010 | 07/21/2011 | Baudot et al. (2021); Dalla Via and Perego (2018) |
| USA | Section 1503 of the Dodd-Frank Act | Securities and Exchange Commission | 2010 | 07/21/2011 | Christensen et al. (2017) |

# Figures

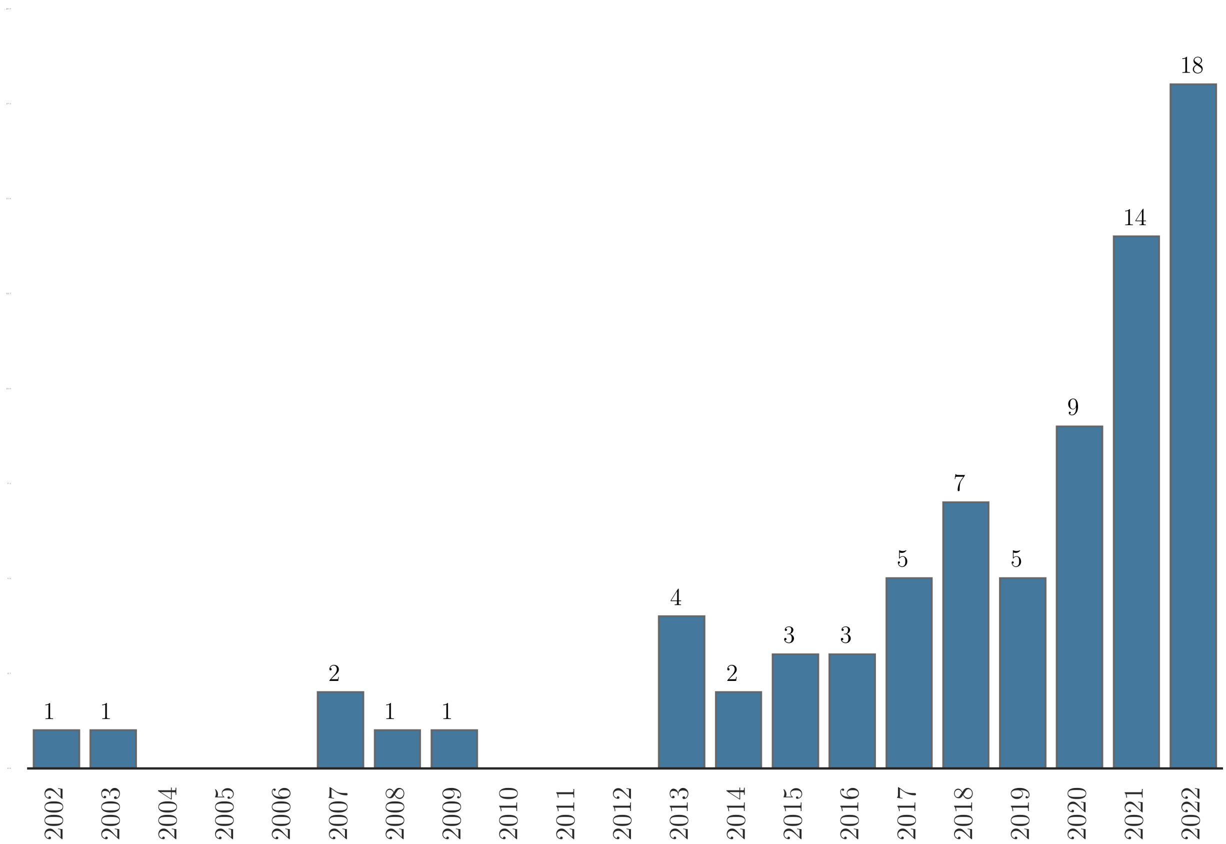


**Figure 1: Distribution of studies across time**

**Note:** This figure shows the distribution of reviewed studies across time (N=76). In 2000 and 2001, no study was published that satisfied the selection criteria of this review.

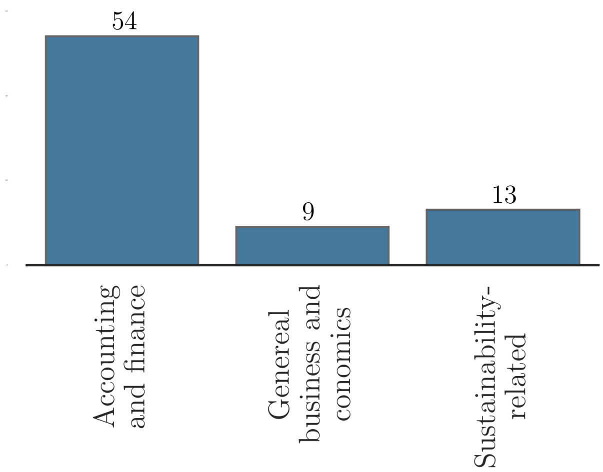


**Figure 2: Distribution of studies across disciplines**

**Note:** This figure shows the journal discipline where the reviewed studies were published (N=76). The journal classification is based on *JOURQUAL3*.

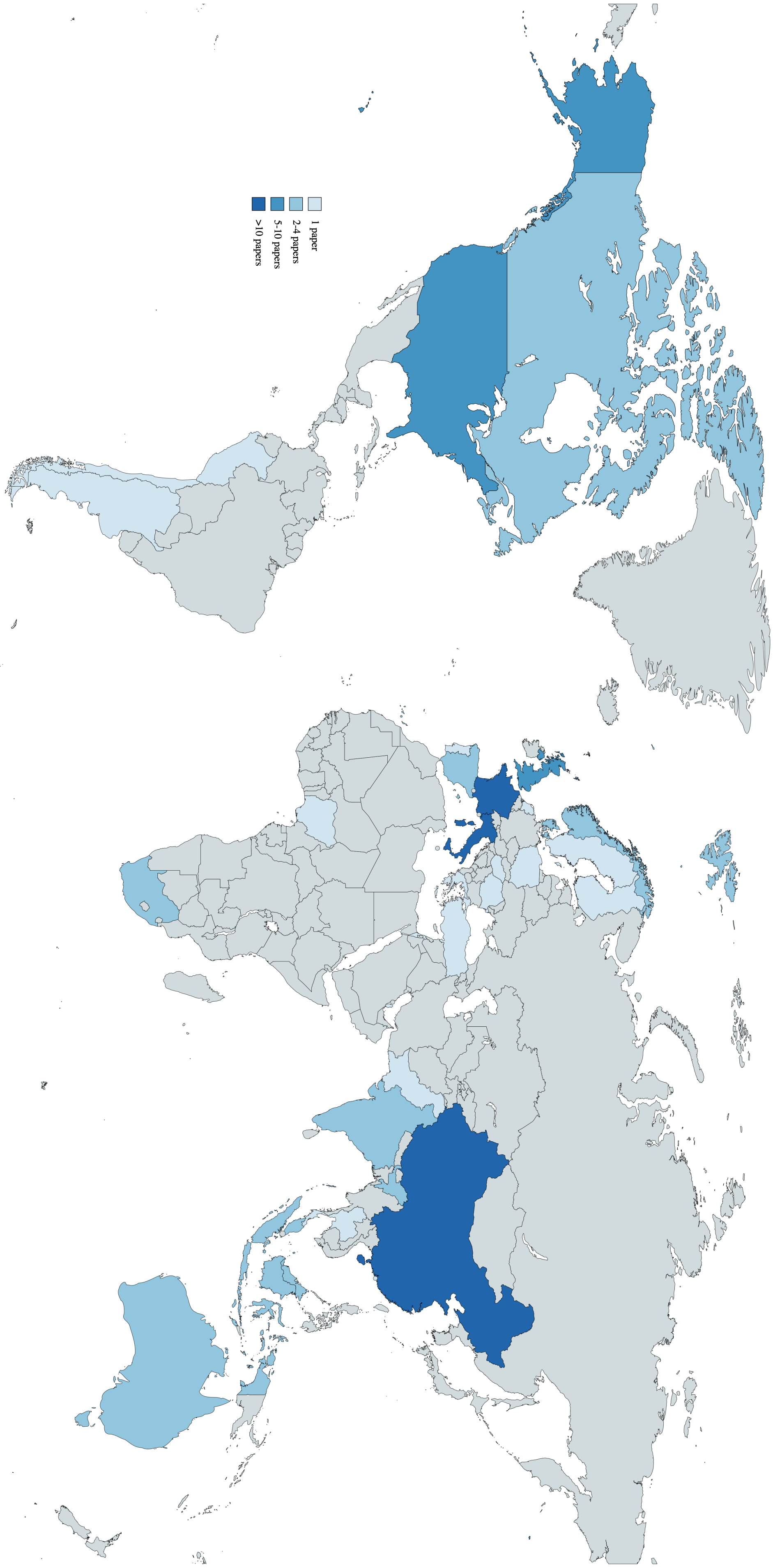


**Figure 3: Distribution of studies across countries**

**Note:** This figure was created with MapChart (https://www.mapchart.net) and shows the countries covered by the reviewed studies. One study can cover several countries.

# Tables

## Table 1: Studies covered by this review

| | |
|---|---|
| **Studies on first-order consequences** | |
| Compliance (Section 4.1) | Criado-Jiménez et al. (2008); Dong and Xu (2016); Frost (2007); Larrinaga et al. (2002); Llena et al. (2007); Matuszak and Rozanska (2021); Pedersen et al. (2013); Peters and Romi (2013); Vormedal and Ruud (2009) |
| Reporting quantity (Section 4.2) | Agostini et al. (2022); Arena et al. (2018); Bini et al. (2017); Brown et al. (2021); Caputo et al. (2021); Carini et al. (2021); Chelli et al. (2014); Cordazzo et al. (2020); Cuomo et al. (2022); Dalla Via and Perego (2018); Dumitru et al. (2017); Frost (2007); Haji (2013); Hummel and Roetzel (2019); Korca et al. (2021); Llena et al. (2007); Matuszak and Rozanska (2021); Muserra et al. (2020) Ottenstein et al. (2022); Yang et al. (2021); Zanellato and Tiron-Tudor (2022) |
| Overall reporting quality (Section 4.3) | Arvidsson and Dumay (2022); Chelli et al. (2014) Chelli et al. (2018); Dong and Xu (2016); Dumitru et al. (2017); Haji (2013); Kansal et al. (2018); Korca et al. (2021); Leong (2014); Lippai-Makra et al. (2022); Llena et al. (2007); Lombardi et al. (2022); Mio et al. (2015) Mio et al. (2020); Pizzi et al. (2022) Senn and Giordano-Spring (2020); Yang et al. (2021) |
| Other qualitative characteristics (Section 4.4) | Ackers and Eccles (2015); Cosma et al. (2021); Gillet-Monjarret (2018); Larrinaga et al. (2002); Lock and Seele (2016); Mazzotta et al. (2020); Ottenstein et al. (2022); Pizzi et al. (2021) |
| **Studies on second-order consequences** | |
| Greenhouse gas emissions (Section 5.1.1) | Bauckloh et al. (2023); Chen et al. (2018); Downar et al. (2021); Matisoff (2013) |
| Other CSR activities (Section 5.1.2) | Christensen et al. (2017); Jin and Leslie (2003); Rauter (2020); Ren et al. (2022) |
| Aggregate CSR activities (Section 5.1.3) | Arvidsson and Dumay (2022); Cuomo et al. (2022); Fiechter et al. (2022); Jackson et al. (2020) |
| Share price (Section 5.2.1) | Chen et al. (2018); Friedman and Heinle (2016); Grewal et al. (2019); Andreicovici et al. (2022) |
| Firm value (Section 5.2.2) | Baboukardos (2017); Mittelbach-Hoermanseder et al. (2021) |
| Financial performance (Section 5.2.3) | Agostini et al. (2022); Ben Saad and Belkacem (2022); Chen et al. (2018); Cupertino et al. (2022); Sun et al. (2019) |
| Information intermediaries (Section 5.2.4) | Christensen et al. (2022); Cormier et al. (2015) |
| Tax avoidance and earnings management (Section 5.3.1) | Fallan and Fallan (2019); Gong and Ho (2021); Lin et al. (2017); Wang et al. (2018); Xi and Xiao (2022) |
| Investment decisions, cash holdings and dividend payments (Section 5.3.2) | Liu and Tian (2021); Ni and Zhang (2019); Rossi and Harjoto (2020); Xue (2021) |
| Corporate governance (Section 5.3.3) | Aureli et al. (2020); Boamah (2022) |
| Stakeholder reactions (Section 5.3.4) | Baudot et al. (2021); Jin and Leslie (2003); Sharkey et al. (2022); Zhong et al. (2022) |

**Note:** The table lists the studies that are part of this review, split into first-order consequences (upper half) and second-order consequences (lower half). One study can cover several consequences.

# CSR Reporting under the Non-Financial Reporting Directive: Evidence from Non-Publicly Listed Firms*

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**Abstract**

We examine variation in mandatory CSR reporting practices based on a large sample of non-publicly listed savings banks in Germany. They do not have typical shareholders but rather are established by municipal trustees and can serve clients only in their distinct operating area. This setting permits us to identify demand for CSR information by their main stakeholder groups – municipal trustees and private and corporate clients. In this way, our analysis focuses on the double-materiality approach to CSR reporting. We find that the demand for CSR information by supervisory board chairpersons belonging to a left-wing or green party and the presence of more supervisory board members belonging to a left-wing or green party is associated with longer CSR reports and more disclosure on environmental, social, employee and human rights matters. In addition, competition for private clients and the sustainability orientation of corporate clients are associated with longer reports and more disclosure on environmental and human rights matters. These findings suggest that savings banks' CSR reports cater to their principal stakeholders' demand for CSR information.

**Keywords:** Corporate Social Responsibility, Mandatory Reporting, Non-Publicly Listed Banks, Stakeholder Groups, NFRD, Directive 2014/95/EU

**JEL Codes:** G20, K22, M14, M40, M48

*Acknowledgements: We greatly appreciate helpful comments and suggestions from Beatriz García Osma, Giovanna Michelon, Nico Lehmann, participants of the 23rd Financial Reporting and Business Communication Conference, the 15th Workshop on European Financial Reporting and the 44th Annual Congress of the European Accounting Association, Accounting Research Seminars at the Paderborn University and the Università di Padova. We sincerely thank the bank employees, who voluntarily participated in our telephone interviews. We also thank the research assistants, who helped with data collection. This work was supported by the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation): Collaborative Research Center (SFB/TRR) – Project-ID 403041268 – TRR 266 Accounting for Transparency. Declarations of interest: none.

# 1 Introduction

Increasing concerns about sustainability matters, and the adoption by 193 countries of the Sustainable Development Goals in 2015 have led firms to progressively adopt more socially and ecologically responsible behavior (United Nations, 2015a; 2015b). Consequently, demand for information about corporate social responsibility (CSR) and firms' environmental, social and governance activities and policies has steadily risen (Amel-Zadeh and Serafeim, 2018). While firms used to disclose much of this information on a voluntary basis (Cho et al., 2015), many countries are introducing reporting mandates. In the EU, the Non-Financial Reporting Directive (Directive 2014/95/EU; hereafter NFRD) lays out rules for disclosing non-financial and diversity information for firms with more than 500 employees, including listed firms, banks, and insurance firms.[1] The NFRD requires firms to disclose a minimum amount of non-financial information but leaves them considerable reporting discretion, which likely creates variation in reporting across firms. We investigate CSR reporting practices by non-publicly listed banks under the NFRD. Our investigation directly responds to the call in prior research to analyse firms other than publicly listed ones (e.g., Contrafatto, 2014; O'Dwyer and Unerman, 2016). The direct inclusion of banks within the scope of the NFRD underscores the importance of this industry to regulators.

We investigate the CSR reporting of savings banks in Germany (i.e., *Sparkassen*) under the European NFRD and drivers of variation in their reporting practices. Savings banks represent approximately 25% of the German firms subject to the reporting mandate, which demonstrates their economic relevance (Kluge and Sick, 2016). Moreover, savings banks' specific governance structure and their ability to mobilise the financial resources necessary to reach the Sustainable Development Goals make them an interesting and relevant research setting for our analysis.[2] The German Savings Bank Acts (e.g., GSBA, 2005) define savings banks' business model and objective as (1) to provide financial services in their business area, with a focus on small and medium-sized firms, (2) to strengthen competition in the

[1] In January 2023, the Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464, CSRD) replaced the NFRD. The CSRD has a larger scope, requiring all large and all (except micro) listed firms to comply with the European Sustainability Reporting Standards (EU, 2022).

[2] Our focus on Germany is due to the country's exceptionally large savings banks industry, which consisted of 390 savings banks as of 31 December 2017. In the European Economic Area, Norway is second in terms of number of institutions, with 99 savings banks as of 1 January 2018 (ESBG, 2018). A cross-country study design is challenging to implement due to differences in governance structures and levels of regionality (ESBG, 2018). Moreover, the use of different languages in CSR reports makes them difficult to compare across countries.

financial services industry, (3) to support municipalities in their economic duties, regional policy and social and cultural commitments (e.g., arts, culture, sport, education), and (4) to promote a savings mentality and the financial education of the population.[3]

This legal framework requires savings banks to focus on a broad group of stakeholders. In addition, these banks do not have typical shareholders as owners but are established under municipal trusteeship. Consequently, we posit that savings banks apply a broader approach to CSR reporting that focuses on informing stakeholders not only about the impact of sustainability matters on banks but also about banks' impacts on society and the environment. This double-materiality approach is distinct from the narrow financial (or single-) materiality approach of publicly listed firms, whose main objective is firm value maximization (Christensen et al., 2021). Finally, in their capacity as financial intermediaries, savings banks play an important role in facilitating governmental sustainability measures (e.g., informing clients about subsidies for sustainable investment) and in this way contribute to sustainable investment in the economy in general.

Despite the mandate, reporting practices are likely to vary because of the discretion inherent in the NFRD. On the one hand, savings banks are a homogeneous group of firms that have a legally prescribed business model and that operate in the same regulatory setting. Therefore, we do not expect factors related to the institutional setting and complementary regulation (e.g., variation in enforcement) to drive variation in their CSR reporting practices. On the other hand, savings banks are established by different municipalities, and their operating areas are geographically distinct. We expect diverse political preferences and geographically varying sustainability orientations to be the main drivers of CSR reporting practices. We draw on stakeholder and legitimacy theory and explore to what extent banks' CSR reports reflect their stakeholders' demand for CSR information. We posit that stakeholders with a more pronounced sustainability orientation demand more CSR information. We build on the idea that firms engage in CSR to 'manage their relationship with stakeholder groups rather than with society as a whole' (Clarkson, 1998, p. 243).

The stakeholder groups of savings banks include their clients, who can be consumers of financial services and suppliers of financial resources, their employees, the local community, and the municipalities as trustees. To capture the variation in these stakeholders' demand

[3]There are 15 Savings Bank Acts, one for each German state with at least one public savings bank.

for CSR information, we exploit the regional principle as a unique institutional feature of the legal framework regulating savings banks (GSBA, 2005). This principle stipulates that banks are allowed to operate in a prespecified geographical area only. The operating area defines where an individual bank is allowed to open branches and provide services to clients. Clients must have their place of residence or place of business in this area. Moreover, the operating area is generally the same as the administrative region of the municipality where the bank was founded (GSBA, 2005). Via the regional principle, banks maintain a strong regional presence and client proximity.

We capture the sustainability orientation of municipal trustees based on variation in the local political majorities across banks' operating regions. Municipal trustees are represented by local politicians who serve as banks' supervisory board members.[4] We capture the sustainability orientation of private and corporate bank clients by means of the ratio of electric and hybrid cars and the ratio of businesses preparing a voluntary CSR report within the operating region, respectively. Finally, we measure the degree of competition for private and corporate clients because savings banks may use CSR reporting to differentiate themselves from other banks. These measures allow us to analyse whether stakeholders' demand for CSR information drives the variation in banks' mandatory CSR reporting. Importantly, prior to the NFRD, savings banks provided neither comprehensive voluntary nor mandatory CSR reports.[5] Their CSR reporting was extremely limited and consisted of information about social and community activities published on their websites or as digital/printed leaflets. In contrast, such reporting is now obligatory under the NFRD, thus allowing us to identify the determinants of *mandatory* CSR reporting.[6] This represents a unique feature of our setting since CSR reporting remains voluntary in many countries or, where it is mandated, the mandate targets large firms that already reported voluntarily prior to the regulation.

[4]The German Savings Banks Acts stipulate that the mayor or country commissioner should serve as the savings bank's supervisory board chairperson (GSBA, 2005). Two thirds of the remaining supervisory board members are appointed mainly from a pool of municipal council members and qualified citizens. Savings banks that operate in several municipalities appoint one of the mayors as the supervisory board chairperson and appoint the remaining supervisory board members from all municipal councils.

[5]Since 2015, European directive 2013/34/EU has required banks to report key performance indicators on environmental or employee matters if the indicators are necessary for understanding the bank's development, performance, or position. This information is provided in the management discussion and analysis section and does not constitute a comprehensive CSR report.

[6]Given the limited evidence on mandatory CSR reporting, we base much of our hypothesis development on voluntary CSR reporting studies. We might therefore expect our results to also hold for banks' voluntary CSR reports, if they provide any. However, only six banks in our sample (i.e., 5%) published a more comprehensive voluntary CSR report in 2015 or 2016.

We select our sample from a universe of 390 savings banks spread throughout Germany as of 31 December 2017. We exclude banks outside the scope of the NFRD and banks with missing data. Our final sample has 365 bank-year observations from 127 unique banks in 2017-2019. For this sample, we compile a dataset that contains banks' financial data, annual financial and CSR reporting data, macroeconomic data from banks' operating areas, and data on banks' stakeholders and their characteristics. We use this dataset to investigate which stakeholders and their characteristics are associated with the extent and topical focus of banks' CSR reporting.

Our findings indicate that savings banks' mandatory CSR reports cater to their municipal trustees and to a lesser extent to their private and corporate clients. First, we find that the political orientation of the mayor serving as the supervisory board chairperson drives the extent and topical focus of banks' CSR reports. An affiliation of the chairperson with a left-wing or green party is associated with longer CSR reports and more disclosure on environmental, employee and human rights matters. Second, we find that the presence of more supervisory board members belonging to left-wing or green parties is positively associated with the relative importance of social matters in banks' CSR reporting. Additionally, the presence of board members from the Green Party is positively associated with more extensive reporting on social matters. Comparing the results for the political party of the mayor and of the political majorities in the supervisory board suggests that banks respond more strongly to the sustainability orientation of the mayor than to that of the supervisory board. Third, savings banks seem to compete for private bank clients by providing longer CSR reports and more extensive information on environmental and human rights matters. Last, CSR reports are more extensive overall when banks are exposed to more sustainability oriented corporate clients.

Our study makes four contributions. First, we document drivers of mandatory CSR reporting by non-publicly listed firms (Contrafatto, 2014; Dinh et al., 2022; O'Dwyer and Unerman, 2016), particularly in the under-researched banking industry. While European banks have been subject to a non-financial reporting mandate since 2017, little is known about the drivers of their reporting practices. Prior studies have investigated mandatory CSR reporting in publicly listed firms and often exclude financial firms (e.g., Qiu et al., 2016). Studies that focus on banks examine only their voluntary CSR reporting (e.g., Branco and Rodrigues, 2008; Contrafatto et al., 2019).

Second, because savings banks have a legal requirement to include various stakeholder groups in their operating decisions, we can better identify stakeholders' demand for CSR information. In particular, the regional principle applicable to savings banks allows us to use geographical variation in stakeholder characteristics as more direct proxies of stakeholders' sustainability orientation. Studies of publicly listed firms naturally emphasise shareholders' demand for information (e.g., Holder-Webb et al., 2009; Khan et al., 2013; Reverte, 2009). Our empirical setting allows us to focus on the double-materiality approach to CSR reporting because typical shareholders and the predominant role of their demand for CSR information are absent. In this way, we extend prior literature that largely relied on cross-sectional variation in firm characteristics as more crude measures of stakeholders' sustainability orientation (e.g., Branco and Rodrigues, 2008; Campbell et al., 2006; Huang and Kung, 2010).

Third, our findings highlight the importance of municipalities as banks' trustees and, to some extent, of banks' private and corporate clients in determining the mandatory CSR reporting practices. While prior studies show that firms may (un)intentionally influence political decisions through their CSR reporting (Morsing and Roepstorff, 2015; Shirodkar et al., 2018; Weyzig, 2009; Zhao, 2012), the political orientation of municipal trustees as a driver for CSR reporting has received little attention so far. We document that savings banks respond to demand for CSR information from local stakeholder groups – particularly their municipal trustees.

Fourth, our study has implications for preparers of CSR reports and standard setters interested in designing a CSR reporting mandate. Our findings document that in their mandatory CSR reports, banks respond to their principal stakeholders' demand for sustainability information – fulfilling a central aim of CSR reporting mandates (e.g., EU, 2014; 2022). With this finding, we contribute to the ongoing debate on the scope of non-financial reporting within the EU (EU, 2022).

# 2 Institutional setting

## 2.1 The Non-Financial Reporting Directive

The European Commission (EC) acknowledged in 2013 that the contemporary level of CSR information quality and quantity did not satisfy users' demand (EU, 2013a). In 2014, the EC passed the NFRD, requiring large public interest firms with more than 500 employees to disclose CSR information for fiscal years starting in 2017.[7] Public interest firms are defined as publicly listed firms, banks, insurance firms, and other firms designated as public interest entities by member states (EU, 2013b). Savings banks fall within the scope of the NFRD and, as of 2017, must publish an annual CSR report if they have more than 500 employees. The report must contain information on the following topics: (1) environmental matters, (2) social matters, (3) employee matters, (4) respect for human rights, and (5) anticorruption and bribery matters. The auditors verify the existence of the CSR report and the supervisory board has the duty to approve it.[8]

The CSR reports of savings banks mandated under the NFRD are based on the double-materiality approach as opposed to the prevailing single-materiality approach used by publicly listed firms. The EC explicitly emphasised double materiality via its 'Guidelines on non-financial reporting: Supplement on reporting climate-related information' (EU, 2019). The double-materiality approach is in line with savings banks' legal requirement to focus on a broad set of stakeholders and local municipalities as trustees.

## 2.2 Governance structure and objective of savings banks

The German banking industry has three pillars – the commercial banking industry (represented by firms such as Deutsche Bank and Commerzbank), the cooperative banking industry (i.e., *Genossenschaftsbanken*) and the state-owned banking industry. Savings banks belong to the state-owned banking industry and are not publicly listed. They are independent banks run by licensed bankers. As Figure 1 illustrates, the Savings Banks Fi-

[7]All EU directives must be transposed into member state law. The *CSR-Richtlinie Umsetzungsgesetz* implemented the NFRD into German legislation.

[8]By statute, savings banks are audited by licensed auditors within the Savings Banks Finance Group. Each of the 12 regional associations has their auditing bureau in charge of the banks that belong to the respective association.

nance Group also consists of twelve associations and includes five central banks (i.e., *Landesbanken*) that provide specialised financial and other services to savings banks (GSBA, 2016). As of 31 December 2017, there were 390 savings banks in Germany. These provide us with a large group of homogeneous banks that operate under the same business model. We know of no other country with a comparably large group of homogeneous banks that would allow us to effectively exploit cross-sectional variation in CSR reporting practices and explore the drivers thereof.

[Insert Figure 1 around here]

Savings banks' governance structure follows a two-tier system, with a management and a supervisory board. The management board consists of banking professionals, who independently run the daily business. To implement the legal requirement that savings banks support municipalities in their economic duties, the supervisory board includes representatives of municipal trustees, among other members. Municipal trustees can be municipal cities, counties, urban municipalities (cities with county status), or special-purpose associations consisting of several municipalities or counties (Koetter and Popov, 2021; Markgraf and Rosas, 2019). The municipalities are represented on banks' supervisory boards by members of the respective municipal or county-level council. In addition, the mayor or county commissioner is generally the chair of the banks' supervisory board. Consequently, supervisory board membership allows local politicians to participate in important decisions such as branch closure, bank consolidation and replacement of bank management.

Savings banks are allowed to operate only in a limited, prespecified geographical area. In this operating area, savings banks can open branches and serve private and corporate clients if their place of residence or corporate headquarters is within this area. The banks' role in their local communities (municipalities) is largely shaped by their public mandate. It is defined in respective laws and regulations (e.g., GSBA, 2005) that stipulate the banks' core responsibilities as follows: (1) to provide financial services in their operating area, with a focus on small and medium-sized firms, (2) to strengthen the competitive environment of the financial services industry, (3) to support the municipality in its economic duties, regional policy and social and cultural commitments (e.g., arts and culture, sports activities, and education), and (4) to promote a savings mentality and the financial education of the population.

In addition, use any excess profit to strengthen its equity base to ensure that it can fulfill its public mandate in the future. At the discretion of the supervisory board, remaining profits may be paid out as dividends to municipal trustees (GSBA, 2005). Nevertheless, dividend payments and profit accumulation are not the primary aims of these banks. Instead, savings banks spend much of their excess income on sponsoring local sports teams or donating to cultural initiatives or public schools. Involvement in the local community through donations represents the primary type of CSR activity that savings banks pursue.

# 3 Related literature and hypothesis development

## 3.1 Related literature

We define CSR as encompassing corporate activities and policies to assess, manage, and govern the firm's activities and positive and negative contributions toward the goal of fostering sustainable development that meets the needs of the present generation without compromising the needs of future generations (Keeble, 1988). Accordingly, CSR reporting refers to the firm's practice of reporting publicly on its economic, environmental, and social impacts and hence its contributions – positive or negative – to sustainable development (GRI, 2020).[9] Regulators' interest in banks' CSR reporting is intensified by banks' distinct role as financial intermediaries. On the one hand, banks engage in their own CSR activities, such as reducing their greenhouse gas emissions and energy consumption (Cerin and Scholtens, 2011). On the other hand, banks can exert influence on the environment and society at large through their lending and investing decisions (Scholtens, 2009; Thompson and Cowton, 2004). In this capacity, banks contribute to sustainable development by facilitating sustainable investments, by integrating borrowers' sustainability risks and performance into their lending decisions (Scholtens, 2009; Thompson and Cowton, 2004) or by offering their clients socially responsible investment products (Cerin and Scholtens, 2011). Thus, the intermediary role of banks amplifies the impact of their CSR policies on the environment and society (Weber, 2014; Wiek and Weber, 2014).

While a mandate standardises corporate reporting, even mandatory reporting regu-

[9] In the NFRD, the term 'non-financial' is used instead of 'CSR'. Other common terms include 'sustainability' and 'environment, social and governance', all of which are used largely interchangeably to refer to a common underlying concept.

lation necessarily leaves considerable leeway to firms to provide private information to outsiders (Watts and Zimmerman, 1986). This implies that other factors beyond the mandate lead to variation in firms' disclosure choices (Ball et al., 2003; Ball and Shivakumar, 2005; Holthausen and Leftwich, 1983; Leuz and Wysocki, 2008). This especially applies to CSR reporting because it covers a wide range of activities that vary considerably across and within industries and because it addresses a diverse set of users (Tschopp and Huefner, 2015). For example, Fiechter et al. (2022) demonstrate the interplay between mandated CSR reporting and other institutional features. They show that firms in environments with weak CSR-related institutions increased their CSR activities in response to the NFRD even before the mandate went into force.

Mandatory CSR reporting can offer information about how a firm is impacted by CSR matters (taking an outside-in approach) and about the effects of the firm's activities on stakeholders such as employees and clients and on the environment and society at large (taking an inside-out approach). A single-materiality approach to CSR reporting would deem information relevant only if it is (financially) material to the firm (aligning with the outside-in approach), whereas the double-materiality approach also includes information under the inside-out approach. The EU adopted the double-materiality approach for the NFRD, which applies to all mandatory CSR reporters (EU, 2014; 2019). Under the double-materiality approach, we can expect greater variation in CSR reporting because it addresses various stakeholders, such as shareholders, employees, clients, suppliers, the environment and society. While CSR reporting incentives have much in common with financial reporting incentives if CSR information is financially material (Christensen et al., 2021), the inside-out approach distinguishes CSR reporting from traditional financial reporting. Thus, CSR reporting cannot be fully explained by financial reporting theories. Instead, social legitimacy theory and stakeholder theory have prevailed in explaining variation in CSR reporting.

Legitimacy theory is grounded in the notion that society grants legitimacy and power to firms, which can lose it if they act in a way that society considers irresponsible (Davis, 1973). Firms are thus pressured to operate in accordance with societal values and norms to maintain their 'license to operate' (Carroll, 1979; Davis, 1973; Garriga and Mele, 2004; Melé, 2009). Stakeholder theory is based on the notion that firms have a responsibility toward stakeholder groups and individuals who can affect or are affected by corporate actions (Clarkson, 1998; Donaldson and Preston, 1995; Freeman, 1984; Melé, 2009; Roberts, 1992). According to legitimacy theory, firms use voluntary CSR reporting to convince society that they operate responsibly and thereby maintain their legitimacy (Aerts and Cormier, 2009; Cho and Patten, 2007; Cho et al., 2015; Patten, 1992).

Stakeholder theory argues that a firm must consider and manage the interests of its stakeholders (Donaldson and Preston, 1995). Related to stakeholder theory, several empirical studies show that firms use voluntary CSR reporting to manage their relationships with their most important stakeholders. For example, environmentally conscious consumers are more likely to purchase from firms with high CSR performance, even if their CSR activities are unrelated to the firms' core products (Grimmer and Bingham, 2013; Marin and Ruiz, 2007; Sen and Bhattacharya, 2001). In a series of experiments, Grimmer and Bingham (2013) found that participants rated a firm's product performance higher if they knew that the firm engaged in charitable giving – an activity that did not objectively affect the product's performance. Similarly, firms targeted by shareholder actions on environmental matters respond with increased public disclosure of information on climate change and greenhouse gas emissions (Reid and Toffel, 2009). Such evidence supports the idea that stakeholders' demand for CSR can drive reporting and that this relation may depend on the sustainability orientation of the stakeholders (Bray et al., 2011; Marin and Ruiz, 2007).

## 3.2 Hypotheses

Since savings banks belong to the same industry and have comparable business models, a large part of the variation in CSR reporting comes from the banks' stakeholders. Based on legitimacy and stakeholder theory, we expect savings banks to use reporting discretion to inform their most important stakeholders about their CSR activities. For a set of stakeholder groups, we identify the characteristics associated with the stakeholders' sustainability orientation that might incentivise banks to provide more CSR information in total or on a particular CSR topic. We focus our analysis on the primary stakeholders because a firm cannot survive without their continued participation. For most firms, the primary stakeholders are shareholders and investors, employees, customers, suppliers, and the local community (Clarkson, 1998; Preble, 2005; Roberts, 1992). As outlined in Section 2, savings banks do not have shareholders in the usual sense but rather have municipal trustees represented by local politicians. Moreover, bank clients can either deposit their financial resources with the bank or request funding from the bank. Thus, bank clients have a double role as customers and suppliers.[10]

*Municipal trustees:* The first stakeholder group that we include in our analysis are banks' municipal trustees, represented by local politicians. Much of the empirical evidence on politically motivated CSR has been collected in settings where state-controlled resources are critical to firms' success (Lin et al., 2015; Wang and Qian, 2011; Zhao, 2012). In contrast, savings banks are managed by independent bankers, and can prosper without the support of municipalities. Nevertheless, in their capacity as supervisory board members, local politicians participate in making important operating decisions such as branch closures, bank consolidations, bailouts in case of distress, and replacement of bank management. Usually, two-thirds of the supervisory board members are appointed by the municipal council, and their term of office is tied to the legislative period of the council (ESBG, 2018). By law, the banks' supervisory board chairperson is the mayor or county commissioner of the municipal trustee. Savings banks are thus interested in maintaining a good relationship with the local politicians who sit on their supervisory boards. Indeed, several empirical studies provide evidence that state-owned banks cater to politicians' interests by, for example, engaging in more generous lending in the run-up to county elections (Carvalho, 2014; Cole, 2009; Dinc, 2005; Englmaier and Stowasser, 2017). In line with this, Markgraf and Rosas (2019) find that mayors with a seat on a savings banks' supervisory board have higher chances of winning reelection than mayors with no seat, with preliminary evidence that this may be a result of increased CSR activities.

Considering the arguments above, we expect that the representatives of municipal trustees have a varying demand for CSR information and as a result influence banks' CSR reporting practices differently. Since green and left-wing parties emphasise environmental and social matters in their political decisions (Carter, 2013; Farstad, 2018), we argue that CSR topics are more salient to green and left-wing political parties than to conservative or Christian democratic parties (Thomeczek, 2017). We thus focus on the party affiliation of local politicians as a potential driver of variation in banks' CSR reporting. We phrase our hypotheses related to municipal trustees as follows:

[10] Other transregional stakeholders, such as national media outlets or nongovernmental organizations, play a less prominent role for savings banks due to their regionally limited operating area.

***H1a:*** *Banks' CSR reporting is positively associated with the supervisory board chairperson belonging to the Social Democratic Party, the Left Party, or the Green Party.*[11]

***H1b:*** *Banks' CSR reporting is positively associated with the proportion of supervisory board members belonging to the Social Democratic Party or the Left Party.*

***H1c:*** *Banks' CSR reporting is positively associated with the proportion of supervisory board members belonging to the Green Party.*

*Bank clients:* The second stakeholder group that we deem relevant are bank clients. Clients influence banks' CSR activities and reporting through several channels. First, clients' growing demand for products with sustainable characteristics may push banks to integrate such products into their product portfolios (McWilliams and Siegel, 2001; Moon, 2007). Second, customers' positive perceptions can be fostered via effective communication of banks' CSR activities even when those activities are unrelated to the core business (Chernev and Blair, 2015; Grimmer and Bingham, 2013; Öberseder et al., 2011). Effective CSR reporting may increase clients' willingness to pay, which would enable banks to recover the costs of CSR activities through higher price (Habel et al., 2016). This is in line with sustainably oriented clients being more likely to purchase from firms with high CSR performance (Bray et al., 2011; Grimmer and Bingham, 2013; Marin and Ruiz, 2007; Mohr et al., 2001).

Surveying approximately 3,500 bank clients, Krause and Battenfeld (2019) have identified characteristics that distinguish customers of social banks from customers of conventional banks. Furthermore, they find that 10-26% of the adult population in Germany exhibits characteristics in line with clients of social banks. Social banks differ from conventional banks in that they fund community-oriented projects and social enterprises (Cornée et al., 2016; Defourny, 2001) and prioritise social aims in addition to financial returns (Green, 1989; Weber and Remer, 2011). Although savings banks are usually not considered social banks (Krause and Battenfeld, 2019), they carry many of the same characteristics because of the legal framework to which they are subject. Thus, we expect that savings banks are especially interested in reporting their CSR activities to socially oriented clients and that they use CSR reporting as a differentiation strategy to attract new clients.

[11] We combine our prediction on mayors belonging to the Social Democratic Party, the Left Party, and the Green Party into one hypothesis because our sample contains only one mayor from the Left Party and five mayors from the Green Party.

Since the incentive to attract new clients is particularly relevant in a highly competitive environment, we posit the following hypotheses for private and corporate bank clients:

***H2a:*** *Banks' CSR reporting is positively associated with the sustainability orientation of private bank clients.*

***H2b:*** *Banks' CSR reporting is positively associated with competition for private bank clients.*

***H3a:*** *Banks' CSR reporting is positively associated with the sustainability orientation of corporate bank clients.*

***H3b:*** *Banks' CSR reporting is positively associated with competition for corporate bank clients.*

# 4 Data and research design

## 4.1 Data

We construct our sample from 390 savings banks operating in Germany as of 31 December 2017. Because CSR reporting became mandatory under the NFRD for banks with more than 500 employees since fiscal year 2017, we exclude banks outside the scope of the NFRD and those that are not under municipal trusteeship.[12] The final sample consists of 365 bank-year observations from 127 distinct savings banks that published a mandatory CSR report in any of the fiscal years 2017, 2018, or 2019. The number of banks per year varies between 118 and 124, due to bank consolidations or fluctuations in the number of employees. Table 1 shows the details of the sample selection process.

[Insert Table 1 around here]

We construct our dataset by combining banks' financial information from Bureau van Dijk's BankFocus database with data from hand-collected CSR reports and demographic and macroeconomic data at the municipality level for each of the 365 bank-years. To

[12]In addition to banks with less than 500 employees, we exclude three banks falling outside the scope of the NFRD because their parent firm (a financial holding) prepares a consolidated CSR report, which exempts the subsidiary from having to prepare an unconsolidated CSR report. We also exclude six privately owned banks (*Freie Sparkassen*) from our sample because they do not have municipal owners.

collect the CSR reports of our sample banks, we visit the banks' websites and the website of the German Federal Gazette (*Bundesanzeiger*).[13] If banks integrated their CSR reports into the annual reports, we extract the CSR reports from the annual reports.[14] We then preprocess the CSR reports by excluding punctuation, numbers, currency symbols, and URLs. Excluding stop words does not materially affect our results, so we opt to include them. Further preprocessing (e.g., transforming to lower-case letters or lemmatisation and stemming) is not necessary because it does not affect our dependent variables. Moreover, we identify each bank's operating area from its annual report. For 144 bank-years, it is the case that the focal bank operates in a single municipality. The rest of the observations operate in more than one municipality. In the latter case, we compute demographic and macroeconomic variables as an average weighted by the number of residents living in each municipality.[15]

## 4.2 Research design

To empirically investigate the drivers of variation in banks' CSR reporting practices, we estimate the following OLS regression as our main model:

$$\begin{aligned} CSR\_reporting_{it} = {} & \alpha + \beta_1 chair\_left\_green_{it} + \beta_2 board\_left_{it} + \beta_3 board\_green_{it} \\ & + \beta_4 priv\_csr_{it} + \beta_5 priv\_competition_{it} + \beta_6 corp\_csr_i \\ & + \beta_7 corp\_competition_i + \delta X_{it} + \gamma_i + \varepsilon. \end{aligned}$$

We provide the variable definitions in Table A1 in the Appendix.

*Dependent variables:* $CSR\_reporting_{it}$ represents a measure of the reporting practices of bank $i$ in year $t$. In line with prior studies, we use various measures. Because longer reports contain more information than shorter reports (Li, 2008; Muslu et al., 2019), we use the natural logarithm of the CSR report's length in words $CSR\_t_{it}$ to measure the information content within the reports.[16] While report length can also be an indicator of information

[13] https://www.bundesanzeiger.de

[14] The NFRD allows firms to publish their CSR report (1) either on the firm's website or on the website of the German Federal Gazette and (2) in a separate report or as part of the annual report.

[15] An average bank in our sample operates in an area covering 3.17 municipalities.

[16] The number of words is a commonly used and relatively inexpensive textual variable. For example, Clarkson et al. (2020) show that it ranks first among the top 50 textual features that can predict firms' CSR performance. The number of words along with number of sentences can predict CSR performance

complexity or readability (Li, 2008), this is likely not a concern in our setting because our sample consists of savings banks only, which are homogenous firms where CSR activities likely exhibit similar complexity in the cross-section. Our sample selection also alleviates concerns that longer CSR reports may be associated with greenwashing or boilerplate reporting rather than true signals of CSR performance (Clarkson et al., 2008) because banks have relatively low-polluting business models and savings banks are legally obliged to support the municipality in its economic duties and social and cultural commitments (e.g., arts, culture, sport, education) (GSBA, 2005). Indeed, savings banks are commonly perceived as sustainable by default (Peylo and Oster, 2019) and thus have little incentive to hide their sustainability performance in boilerplate reports. We therefore expect longer CSR reports by savings banks to reflect more information and thus higher-quality reporting.

Next, we refine this measure by determining the relative importance of particular topics covered by a report. To do so, we identify the beginning and end of texts relating to the six sustainability-related topics specified by the NFRD: (1) environmental, (2) social, (3) employee, (4) human rights, (5) anticorruption and bribery, and (6) strategy matters. We add indicators at the beginning and end of each relevant text string, which can subsequently be read by a computer to extract the report section on a particular topic. We label general information on the CSR strategy and business model of the bank as strategy matters.[17] The section labeling is facilitated by the common structure of the reports because banks follow one of two sets of guidelines – the German Sustainability Code or the savings banks guidelines.[18] Every report is thus clearly structured under the six topics. Compared to topic modeling approaches that use supervised or unsupervised machine learning (e.g., Blei, 2012; Jaworska and Nanda, 2018), this approach is more precise. Rather than introducing bias from authors' subjective labeling or using machine learning models trained on vastly different text corpora, we rely on the banks' original content classification. Table A2 in the Appendix describes how the reporting guidelines are mapped to the six topics.

with 81% accuracy.

[17]Including topics as measures of reporting practices further alleviates the concern that savings banks use boilerplate language because any uninformative text is likely concentrated under the strategy topic.

[18]The German Sustainability Code (*Deutscher Nachhaltigkeitskodex*) was developed by the German Council for Sustainable Development. It is less comprehensive than international initiatives such as the Global Reporting Initiative (GRI), making it particularly attractive to small and medium-sized firms. Firms reporting under the German Sustainability Code must disclose non-financial performance indicators as defined in either GRI or European Federation of Financial Analysts Societies (EFFAS) standards. The savings banks guidelines were developed as a sector-specific supplement to the German Sustainability Code and are more context specific. Savings banks that report under these guidelines do not provide additional non-financial performance indicators.

We expect that some topics are more relevant to banks than others, and this should consequently be reflected in the measures of banks' CSR reporting practices. Variable (1) $ENV\_t_{it}$ measures the length of texts on environmental matters, (2) $SOC\_t_{it}$ the length of texts on social matters, (3) $EMPL\_t_{it}$ the length of texts on employee matters, (4) $HUM\_t_{it}$ the length of texts on human rights matters, (5) $BRIB\_t_{it}$ the length of texts on anticorruption and bribery matters, and (6) $STRAT\_t_{it}$ the length of texts offering general information on the CSR strategy and business model (i.e., the remaining text).

Finally, we are interested in how banks allocate space in their CSR reports to different topics in relative terms. Similar to Byrd et al. (2017), we calculate the percentage of texts on each CSR topic in the total length of the CSR report. Then, we construct the variables $ENV\_p_{it}$, $SOC\_p_{it}$, $EMPL\_p_{it}$, $HUM\_p_{it}$, $BRIB\_p_{it}$ and $STRAT\_p_{it}$ to measure the relative importance of each CSR topic in relation to the length of the report. As banks learn over time, we expect them to devote more of their reports to specific matters and reduce the text on more general CSR information (i.e., strategy).

*Independent variables:* Our main variables of interest are related to municipal trustees and to private and corporate clients. To identify the drivers of the variation in CSR reporting practices associated with municipal trustees' preferences, we leverage two institutional features: (1) the fact that banks' supervisory boards consist mainly of members of the municipal council and (2) the public mandate that banks fulfill duties in their municipalities, such as providing financial support to residents, businesses, and municipalities themselves. Thus, banks are exposed to (the political orientation of) board members and their demand for CSR information. Our measures build on the idea that political and cultural values are associated with the perceived importance of sustainability matters (e.g., Haniffa and Cooke, 2005) and that firms may provide CSR reporting in the face of perceived governmental monitoring (Innes and Sam, 2008). We predict that the left-wing or green political orientation of the supervisory board chairperson is positively associated with CSR reporting. $Chair\_left\_green_{it}$ is an indicator variable that takes the value of 1 if the chairperson is a member of the Social Democratic Party, the Left Party or the Green Party as of 31 December and 0 otherwise.[19] Similarly, we expect positive associations of $board\_left_{it}$ and

[19]The six main political parties (in alphabetical order) in Germany are the Alternative for Germany (*AfD*), the Christian Democratic Union/Christian Social Union (*CDU/CSU*), the Free Democratic Party (*FDP*), the Green Party (*Grüne*), the Left Party (*Die Linke*) and the Social Democratic Party (*SPD*). Three of them (the Left, the Social Democratic, and the Green Parties) are considered more egalitarian than the others on a political spectrum of egalitarianism to elitism (Thomeczek, 2017). Being located on

$board\_green_{it}$ with banks' CSR reporting. Since banks do not publish detailed information on their supervisory boards, we must approximate their political orientation via the municipal council composition. Members of the municipal council usually appoint two-thirds of supervisory board seats (ESBG, 2018), and the board composition usually mirrors the political party alignments of the council. $Board\_left_{it}$ and $board\_green_{it}$ are measured as the percentages of members in the municipal council belonging to either the Social Democratic Party and the Left Party or the Green Party as of 31 December, respectively.[20] If a bank operates in multiple municipalities, we take the municipality with the largest population into account since this municipality likely has the majority in the supervisory board.[21]

Guo et al. (2017) suggest that firms provide more CSR reporting in the presence of more socially responsible customers. Thus, we include two variables to capture the sustainability orientation of banks' private and corporate clients, which we predict to be positively associated with banks' CSR reporting. $Priv\_csr_{it}$ captures the sustainability orientation of (existing and potential) private clients, measured as the average number of of electric and hybrid cars divided by all cars in the municipalities of a bank's operating area, weighted by the number of residents per municipality.[22] $Corp\_csr_i$ measures the sustainability orientation of (existing and potential) corporate clients using the number of voluntary CSR reports published in the German Sustainability Code database by firms registered in a bank's operating area.[23] To make the measure comparable across banks, we divide it by the number of registered firms in the operating area as of 31 December 2017.

Interviews with representatives of savings banks suggest that banks use CSR to differentiate themselves from their competitors and attract clients interested in engaging with

the left side of the spectrum, egalitarianism is colloquially referred to as a left orientation.

[20] We exclude municipal council representatives that do not belong to one of the six main parties because smaller parties often cannot be clearly categorised as egalitarian or elitist.

[21] We explore changes in the political party composition of supervisory boards during our sample period and any potential association of such changes with CSR reporting practices. While municipal elections took place in 12% of our bank-year observations, these elections led to changes in political majorities in fewer than 5% of the observations.

[22] For example, *Sparkasse Nürnberg* operates in (1) the city *Nürnberg*, which had 1,889 electric and hybrid cars, 242,017 total cars and 515,201 residents as of 31 December 2017, and (2) in the county *Nürnberger Land*, which had 720 electric and hybrid cars, 107,172 total cars and 169,752 residents as of 31 December 2017. Computing the percentage of electric and hybrid cars to total cars in each municipality and weighting the average by the number of residents yields a ratio of electric to total cars of 0.75% in the operating area. We proceed similarly for the variables *priv_competition*, *corp_competition* and *gdp_capita*.

[23] We match the number of firms publishing a CSR report with the savings bank that operates in the given area via the zip code. We make sure to include only voluntary reports (i.e., by firms not subject to mandatory reporting). Because some firms provide CSR reports irregularly (e.g., every two years), we collect reports for an extended period (fiscal years 2010-2020) and use the aggregate of all reports.

sustainable firms.[24] Thus, we include $priv\_competition_{it}$ as a measure of the competitive pressure on banks to attract and keep private clients. We define this variable as the average net emigration of residents in a bank's operating area, weighted by the number of residents per municipality. Similarly, we include $corp\_competition_{i}$ as a measure of competitive pressure to attract and keep corporate clients. We define the variable as the number of registered firms as of 31 December 2018 minus the number of firms as of 31 December 2016 in the municipalities in a bank's operating area, divided by the number of registered firms as of 31 December 2018. We take the average of the resulting ratios across the municipalities in a bank's operating area, weighted by the firms per municipality. [25] We predict $priv\_competition_{it}$ and $corp\_competition_{i}$ to be positively associated with banks' CSR reporting.

We also control for bank-specific characteristics and macroeconomic conditions related to CSR reporting practices. To control for variation in CSR reporting due to the greater public visibility and cost advantages of larger banks, we include $size_{it}$, measured as the natural logarithm of total assets in thousand euros (Adams et al., 1998; Gallo and Christensen, 2011). We include $profitability_{it}$ for similar reasons. It is defined as the operating income in year t divided by the average total assets in year $t$ (Beccalli, 2007). We control for the length of the annual report because a longer annual report may indicate a bank's general tendency to disclose more. The variable $ar\_length_{it}$ is measured as the natural logarithm of the number of words contained in the annual report. We use $gdp\_capita_{it}$ to control for the economic situation within a bank's operating area (Halkos and Skouloudis, 2016). It is the average logarithm of the GDP divided by population size in the municipalities of a bank's operating area, weighted by the population size in each municipality.[26] $Year\_2018_{t}$ and $year\_2019_{t}$ are indicators for 2018 and 2019, respectively. They capture changes in banks' CSR reporting due to the learning effects of increased experience.

All banks in our sample follow either the German Sustainability Code or the savings banks guidelines in their CSR reports. We include $guidelines\_spk_{it}$ as an indicator variable

[24] To better understand the savings banks industry and collect anecdotal evidence about potential drivers of their CSR reporting, we conducted ten telephone interviews with representatives of savings banks who are directly involved in the preparation of mandatory CSR reports. Two of the ten interviewees explicitly mentioned that they consider CSR a competitive advantage that must be communicated to existing and potential clients.

[25] Data on registered firms from the Federal Statistical Office is available only until 2018. We therefore use the change between 2016 and 2018 as an approximation for the change during our observation period.

[26] Due to limited data availability from the Federal Statistical Office, data for 2019 are replaced by data from 2018.

if the banks use the savings banks guidelines. If banks follow the German Sustainability Code guidelines, CSR reports tend to be longer because they additionally contain non-financial performance indicators as defined in either Global Reporting Initiative (GRI) or European Federation of Financial Analysts Societies (EFFAS) standards. To control for variation in the report length arising specifically from the reporting of GRI indicators, we include indicator variable $indicators\_gri_{it}$. Finally, we include association fixed effects that control for reporting practices common to all savings banks within one association. There are twelve regional associations that provide various services to their members, e.g., marketing, legal, and educational services (see Section 2).[27] Anecdotal evidence suggests that some associations promote CSR more intensely than others.[28]

# 5 Results

## 5.1 Descriptive summary of CSR reporting practices

We present descriptive statistics for our measures of banks' reporting practices without the logarithmic transformation in Table 2 Panel A. The length of banks' CSR reports ranges from 2,417 to 17,806 words, with an average of 8,329 words. This figure corresponds to half of the words used in an average annual report (16,767 words). Looking at the report subsections, we obtain insights into which specific CSR topics are more or less relevant for banks. On average, employee matters (mean 1,529) and environmental matters (mean 1,332) are the topics most prominently reported on, followed by social matters (mean 721) and anticorruption and bribery matters (mean 718). An average CSR report contains 3,653 words describing the general CSR strategy, which may be the least informative section of the report and could be used for greenwashing. Alternatively, the strategy section may be longer because banks use this section to report on a variety of subjects, such as their business model, general approach to CSR, and responsibilities for CSR matters within the bank. The length of the sections on employee and environmental topics indicates that savings banks are socially and environmentally responsible firms.

[27] Since associations operate within geographically confined regions that often align with the boundaries of federal states in Germany, we do not include additional regional fixed effects. Using state fixed effects instead of association fixed effects yields largely robust results.

[28] For example, a representative of the association in the federal state of Baden-Württemberg coauthored a handbook on CSR for savings banks (Peylo and Oster, 2019).

[Insert Table 2 around here]

Table 2 Panel B reports descriptive statistics of our regression variables for the pooled sample. To mitigate the effect of outliers, we winsorise all continuous variables at the 1st and 99th percentiles. The average space that banks devote to CSR reporting (the log-transformation of the number of words) is represented by *CSR_t* and amounts to 9.0. We also show statistics for specific CSR topics. Most informative are the variables in percentages, which show the relative allocation of space in the report to specific CSR topics. In particular, the topics with the greatest relative coverage in CSR reports correspond to environmental matters, employees, and the general CSR strategy, with means of 15.3%, 18.2%, and 44.4% of the total CSR report, respectively. Social matters account for 9.0% of the report.

Regarding our variables of interest, the mean of *chair_left_green* suggests that 37.0% of all observations have a supervisory board chairperson who belongs to a left-wing or green party (i.e., the Social Democratic Party, the Left Party, or the Green Party). Similarly, the fraction of supervisory board members belonging to a left-wing party ranges from 12.8% to 62.7% with an average of 34.5%. The Green Party has fewer seats on the municipal councils, with 14.2% on average. This variation in the political orientation of municipalities as trustees indicates that banks may be exposed to differing demands for CSR information and may adjust their reporting practices accordingly.

The variable *priv_csr* capturing the share of electric and hybrid cars in the operating area ranges between 0.3% and 2.5% (mean 0.9%) and measures the sustainability orientation of private clients. The negative mean for *priv_competition* shows that municipalities where banks operate experience an average resident inflow of 0.5%. The average inflow of residents may be due to the fact that our sample comprises the largest savings banks, which operate in metropolitan regions and consequently do not suffer from emigration as rural areas do.[29] On the other hand, in regions with an outflow of residents (maximum 0.3%), competition for new private clients may be particularly severe.

The mean of *corp_csr* suggests that on average, 0.02% of firms registered in banks' operating area publish voluntary CSR reports on the German Sustainability Code database. The range extends to 0.1% and indicates the higher sustainability orientation of corporate

[29] *Priv_competition* measures the net emigration in a region. Thus, a positive value represents a net outflow of residents.

clients in some operating areas. Moreover, the negative mean of *corp_competition* indicates an average increase of 0.2% in the number of registered firms in a bank's operating area between 2016 and 2018. On the other hand, banks that face a decrease in registered firms should intensively compete for new corporate clients.

The rest of Panel B reports descriptive statistics for control variables. All savings banks operate profitably, which can be explained by the low risk of their business model and their adaptation to a low-interest-rate environment (Frühauf, 2019; Pertl, 2019). The average GDP per capita in banks' operating areas amounts to EUR 39,490 (the average of the log transformation is 10.5), but the range indicates diverse macroeconomic conditions. A total of 20.5% of banks use the savings banks guidelines to compile their CSR report, while the remaining 79.5% rely on the German Sustainability Code guidelines. Last, *indicators_gri* shows that 49.9% of banks additionally report non-financial performance indicators as defined in GRI standards.

Table 2 Panel C shows descriptive statistics per year. The most interesting variation over time relates to our dependent variables. For example, a steady increase in *CSR_t* from 2017 to 2019 suggests a considerable learning effect during the first three reporting periods of the mandate. In addition, the relative relevance of CSR topics within the report changes over time. For example, *STRAT_p* and *BRIB_p* decrease over time and give more room to environmental, employee, and human rights matters. Among our explanatory variables, the most pronounced time trend changes are observable for the variables *priv_csr* and *priv_competition*. They suggest an increase in the sustainability orientation of private clients as well as an increase in competition for private clients.

Table 3 presents Pearson's correlation coefficients. For example, *board_green* is positively correlated with the total CSR report length and its specific topic coverage, whereas *board_left* mostly shows a negative correlation. A more pronounced sustainability orientation among private clients is also positively associated with the CSR report length and topic coverage. Moreover, we do not observe very high correlation coefficients between the independent variables, indicating that multicollinearity is unlikely to be a concern.

[Insert Table 3 around here]

## 5.2 Regression results

Table 4 presents regression results with the natural logarithm of the length of the total CSR report (*CSR_t*) and its sections (*ENV_t, SOC_t, EMPL_t, HUM_t, BRIB_t and STRAT_t*) as dependent variables. We standardise all continuous variables in the regression models to allow for comparison of the regression coefficients. Column 1 suggests that banks provide longer CSR reports if the supervisory board chairperson is a member of a left-wing or green party. In line with our H1a, the CSR reports of banks whose chairperson is affiliated with a left-wing or green party are on average 9.1% longer than the reports of banks whose chairperson is affiliated with a different party.[30] The high statistical ($p < 0.05$) and economic ($\beta_1 = 0.091$) significance suggests that the mayor, who chairs the supervisory board, is an important stakeholder of banks and drives their CSR reporting. *Chair_left_green* also loads significantly positively for four CSR topics (i.e., *ENV_t, EMPL_t, HUM_t and STRAT_t*) with similar economic significance (i.e., the length of the CSR topic coverage increases by between 8.3% and 11.0%). Concerning the two variables related to municipal trustees, *board_green* exhibits a significantly positive coefficient with respect to social matters (Column 3). Taken together, these results support H1a and, to a limited extent, H1c, suggesting that banks respond more strongly (i.e., report more CSR information) to the information demand of the supervisory board chairperson than to that of the remaining board members.

[Insert Table 4 around here]

Next, we investigate the demand for CSR information on the part of banks' clients. Our regressions yield mixed results. On the one hand, the sustainability orientation of private clients does not seem to be associated with longer CSR reports or individual sections. Contrary to H2a, *priv_csr* shows a negative coefficient ($p < 0.1$) for social matters in the CSR reports (Column 3).[31] On the other hand, banks operating in areas with greater competition for private clients (*priv_competition*) have longer CSR reports (Column 1) and, in particular, more content on environmental and human rights matters (Columns 2 and 5).

[30]The approximation represents a prudent estimate of the true effect. Here, the true effect is 9.53% and can be calculated as $(e^{0.091} - 1) * 100 = 9.53\%$. For better comprehension, we use the approximation throughout the paper. In that case, we only report one decimal point to be consistent with the displayed regression coefficients.

[31]Note that we control for GDP per capita in banks' operating area to control for a potential correlation of individual wealth and electric and hybrid car ownership.

This suggests that banks use extensive CSR reporting to retain existing and attract new clients. Specifically, a one standard deviation increase in regional emigration is associated with 3.2% longer CSR reports (i.e., 267 words) and a 6.6% longer environmental section (i.e., 88 words). This result is in line with H2b. Finally, the sustainability orientation of corporate clients is associated with longer CSR reports (Column 1). A one standard deviation increase in *corp_csr* translates into 2.9% longer reports (i.e., 242 words), which supports H3a. Contrary to H3b, however, competition for corporate clients (*corp_competition*) is not associated with more CSR reporting. The coefficient for the section on general CSR strategy (Column 7) is negative at 10% significance level.

Taken together, our results support our prediction that the mayor (i.e., supervisory board chairperson), as the most prominent representative of the municipal trustee, is associated with the length of the CSR reports and its sections. Mayors affiliated with left-wing or green parties are likely to demand more CSR information, and savings banks seem to respond to this demand accordingly. The same holds for other supervisory board members that belong to the Green Party, although to a lesser extent. Fierce competition for new private clients seems to incentivise banks to increase their CSR reporting and thus use it as a means of differentiation. Moreover, corporate clients with a more pronounced sustainability orientation and thus higher demand for CSR information also induce banks to deploy more comprehensive CSR reporting practices.

Among the control variables, *year_2018* and *year_2019* show consistently and significantly positive coefficients, which range between 0.2 and 0.8. These coefficients imply that banks prepared longer CSR reports in fiscal years 2018 and 2019 than in the first reporting year and clearly indicate bank learning in the preparation of mandatory CSR reports. *Guidelines_spk* are significantly positive in regressions with *CSR_t*, *SOC_t*, and *EMPL_t* as dependent variables. This indicates that banks prepare longer CSR reports, and longer sections on social and employee matters in particular, if they follow the guidelines for savings banks. Similarly, the positive and statistically significant coefficients for *indicators_gri* in Columns 1 to 7 of Table 4 indicate that banks prepare longer CSR reports if they apply the German Sustainability Code guidelines and additionally report non-financial indicators as defined in GRI standards.

The results in Table 5 relate to the allocation of space in the CSR reports. In contrast to the results in Columns 2-7 of Table 4, the dependent variables in Table 4 are calculated by dividing the length of the text string on a CSR topic by the total length of the report. This provides insight into the topical focus of CSR reports and allows comparison of the relative importance of the coverage of specific CSR topics. Interestingly, despite the significantly longer CSR reports of banks with a left-wing or green supervisory board chair (see Table 4), the relative topic mix does not significantly differ. The positive coefficient on *board_left* for the relative importance of the coverage of social matters (Column 2) is significant at the 5% level, which supports H1b. Surprisingly, the presence of more representatives from the Green Party on a supervisory board is associated with the allocation of relatively less space to environmental matters, but this is more than offset by the greater space allocated to social matters. That is, an increase in the presence of supervisory board members from the Green Party by one standard deviation is associated with a decrease in coverage of environmental matters by 0.6 percentage points and an increase in coverage of social matters by 0.8 percentage points. The latter result supports H1c. Given that the means for *ENV_p* and *SOC_p* amount to 15.3% and 9.0%, respectively, this change translates into a 3.9% shorter environmental section and a 8.8% longer social section of the CSR report. The coefficient for *priv_csr* loads negative for social matters, which is not in line with H2a. Table 5 further suggests that banks report more on employee matters in relative terms when the competition for corporate clients in their operating region is higher.

[Insert Table 5 around here]

With respect to the control variables, Table 5 shows positive coefficients for *gdp_capita* in the regressions with *SOC_p*, *EMPL_p* and *HUM_p* as the dependent variables (Columns 2 to 4) and a negative coefficient with *STRAT_p* (Column 6). This indicates that banks in economically more developed regions allocate more space to discussions of social, employee, and human rights matters, which at the same time results in less space allocated to their general CSR strategy. In terms of learning over time, Table 5 shows an increased focus on environmental matters, followed by employee and human rights matters, in 2018. As a consequence, banks put less focus on their general CSR strategy and on bribery matters. In 2019, only the focus on human rights significantly increased, whereas the focus on bribery decreased once again. The coefficients for *guidelines_spk* indicate that savings banks reporting under the industry-specific guidelines provide relatively more information on social and employee matters but less on environmental matters, bribery, and their general CSR strategy. The significantly positive coefficients on *indicators_gri* in Table 5 suggest that the reporting of GRI indicators increases the relative importance of environmental, employee, and human rights reporting at the cost of the general strategy section. This implies that banks place more emphasis on specific CSR topics than on their general CSR strategy when they include GRI indicators in their CSR reports. The decreased relative importance of the general CSR strategy section can be interpreted as a positive development because this section is less informative for banks' stakeholders than other sections. To eliminate potential multicollinearity among bank characteristics and macroeconomic control variables, we rerun our analysis without the variable size, which exhibits correlation with several other explanatory variables (see Table 3). Untabulated results indicate that excluding size does not materially affect our results.

# 6 Conclusion

This study examines drivers of the extent and topical focus of banks' mandatory CSR reporting. We investigate a large, homogeneous group of non-publicly listed savings banks, allowing us to identify the characteristics of their stakeholders. Moreover, our setting permits us to focus on the double-materiality approach to CSR reporting, as the typically predominant demand for CSR information by shareholders is absent. Our analyses focus on municipal trustees and private and corporate clients as savings banks' main stakeholder groups.

Our findings indicate that savings banks' CSR reports cater to the mayor (the bank's supervisory board chairperson) and to other municipal trustees (the members of the supervisory board). In particular, banks provide longer reports and more information on environmental, employee, and human-rights matters if the mayor is affiliated with a left-wing or green party. The social section is longer if more members of the supervisory board belong to the Green Party. With respect to clients, we find that savings banks provide more CSR information and place more emphasis on environmental and human rights matters if the competition for private clients is fiercer. This implies that banks likely use CSR reporting as a tool to compete for private clients. Finally, our findings suggest that banks to some extent respond to the demand for CSR information by their corporate clients but not to the demand by private clients. Overall, our results provide evidence that banks respond to their principal stakeholders' sustainability orientation in their CSR reporting. This is informative for preparers of CSR reports and standard setters, who may be interested in learning that banks' mandatory CSR reporting is associated with principal stakeholders' information demand.

Our study has several limitations. First, while the public mandate of savings banks and their regional business model allow us to identify the drivers of their CSR reporting practices, banks outside the savings banks industry likely have different principal stakeholders. Therefore, our results may not be generalizable to the whole banking industry. Second, we cannot include employees as the third principal stakeholder of savings banks due to data unavailability. To the extent that demand for CSR information by employees is correlated with this demand by municipal trustees and clients, omission of this variable may affect our findings. Third, while CSR reporting practices are highly correlated with CSR activities and performance (Clarkson et al., 2020), our measures of reporting practices do not allow us to make explicit statements about different CSR activities. This does not impair the relevance of our results for banks' CSR reporting practices since savings banks' annual reports are subject to yearly audits. We leave it to future research to address these limitations.

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# Appendix

**Table A1: Variable definitions**

| Variable name | Variable definition | Data source |
|---|---|---|
| **Dependent variables** | | |
| $CSR\_t_{it}$ | ln(1 + number of total words in the CSR report of bank $i$ in year $t$) | |
| $ENV\_t_{it}$ | ln(1 + number of words related to environmental matters of bank $i$ in year $t$) | |
| $SOC\_t_{it}$ | ln(1 + number of words related to social matters of bank $i$ in year $t$) | |
| $EMPL\_t_{it}$ | ln(1 + number of words related to employee matters of bank $i$ in year $t$) | |
| $HUM\_t_{it}$ | ln(1 + number of words related to human rights matters of bank $i$ in year $t$) | |
| $BRIB\_t_{it}$ | ln(1 + number of words related to anti-corruption and bribery matters of bank $i$ in year $t$) | |
| $STRAT\_t_{it}$ | ln(1 + number of words related to general CSR strategy and business model of bank $i$ in year $t$) | Banks' CSR reports, collected from the website of the German Federal Gazette and banks' websites |
| $ENV\_p_{it}$ | Number of words related to environmental matters of bank $i$ in year $t$, divided by total number of words | |
| $SOC\_p_{it}$ | Number of words related to social matters of bank $i$ in year $t$, divided by total number of words | |
| $EMPL\_p_{it}$ | Number of words related to employee matters of bank $i$ in year $t$, divided by total number of words | |
| $HUM\_p_{it}$ | Number of words related to human rights matters of bank $i$ in year $t$, divided by total number of words | |
| $BRIB\_p_{it}$ | Number of words related to anti-corruption and bribery matters of bank $i$ in year $t$, divided by total number of words | |
| $STRAT\_p_{it}$ | Number of words related to general CSR strategy and business model of bank $i$ in year $t$, divided by total number of words | |
| **Explanatory variables** | | |
| $chair\_left\_green_{it}$ | Indicator variable taking the value of 1 if the supervisory board chairperson of bank $i$ is a member of the Social Democratic Party, the Left Party or the Green Party as of 31 December in year $t$, and 0 otherwise | Websites of municipal councils, local politicians, and political parties |
| $board\_left_{it}$ | Number of municipal council members that belong to the Social Democratic Party or the Left Party as of 31 December in year $t$, divided by total number of municipal council members belonging to the six main political parties; if bank $i$ operates in multiple municipalities, we refer to the largest municipality in terms of residents | Municipal council websites |

**Table A1 (continued): Variable definitions**

| Variable name | Variable definition | Data source |
|---|---|---|
| **Explanatory variables (continued)** | | |
| $board\_green_{it}$ | Number of municipal council members that belong to the Green Party as of 31 December in year $t$, divided by total number of municipal council members belonging to the six main political parties; if bank $i$ operates in multiple municipalities, we refer to the largest municipality in terms of residents | Municipal council websites |
| $priv\_csr_{it}$ | Number of electric and hybrid cars, divided by total number of cars as of 31 December in year $t$ in the municipalities where bank $i$ operates; if bank $i$ operates in multiple municipalities, we take the average across municipalities, weighted by the number of residents in each municipality | Federal Motor Transport Authority (*Kraftfahrtbundesamt*) and German Federal Statistical Office tables 12411-01-01-4 and 12411-01-01-5 |
| $priv\_competition_{it}$ | Net emigration of individuals in year $t$ from municipalities where bank $i$ operates, divided by the total number of residents; if bank $i$ operates in multiple municipalities, we take the average across municipalities, weighted by the number of residents in each municipality | German Federal Statistical Office tables 12411-01-01-4, 12411-01-01-5, 12711-91-01-4, and 12711-91-01-5 |
| $corp\_csr_{i}$ | Number of voluntary CSR reports published in the German Sustainability Code database for fiscal years 2010-2020 by firms registered in the operating area of bank $i$ divided by number of registered firms in the operating area as of 31 December 2017 | German Sustainability Code database and German Federal Statistical Office table 52111-03-01-4 |
| $corp\_competition_{i}$ | Number of registered firms as of 31 December 2018 minus number of registered firms as of 31 December 2016, divided by the number of registered firms as of 31 December 2018; if bank $i$ operates in multiple municipalities, we take the average of the resulting ratios across municipalities, weighted by the number of firms registered in each municipality in 2018 | German Federal Statistical Office table 52111-03-01-4 |
| $size_{it}$ | ln(average total assets of bank $i$ in year $t$) | Bureau van Dijk's BankFocus |
| $profitability_{it}$ | Operating income divided by average total assets of bank $i$ in year $t$ | Bureau van Dijk's BankFocus |
| $ar\_length_{it}$ | ln(number of words in the annual report of bank $i$ in year $t$) | Banks' annual financial reports, collected from the website of the German Federal Gazette |
| $gdp\_capita_{it}$ | ln(GDP per capita in year $t$ in the municipalities where bank $i$ operates); if bank $i$ operates in multiple municipalities, we take the average across municipalities, weighted by number of residents in each municipality; data from 2019 is replaced by data from 2018 due to limited data availability | German Federal Statistical Office tables 12411-01-01-4, 12411-01-01-5, and 82111-01-05-4 |
| $guidelines\_spk_{it}$ | Indicator variable taking the value of 1 if the CSR report by bank $i$ in year $t$ is prepared using the savings banks guidelines, and 0 otherwise | Banks' CSR reports |
| $indicators\_gri_{it}$ | Indicator variable taking the value of 1 if the CSR report by bank $i$ in year $t$ contains non-financial performance indicators according to the GRI guidelines, and 0 otherwise | Banks' CSR reports |
| $year\_2018_{t}$, $year\_2019_{t}$ | Indicator variables taking the value of 1 if the CSR report of bank $i$ in year $t$ covers reporting period 2018 and 2019, respectively, and 0 otherwise | Banks' CSR reports |

**Table A2: Mapping of guideline sets into CSR topics**

| **German Sustainability Code** | |
|---|---|
| (1) Strategy | STRAT |
| (2) Materiality | STRAT |
| (3) Objectives | STRAT |
| (4) Depth of the value chain | STRAT |
| (5) Responsibility | STRAT |
| (6) Rules and processes | STRAT |
| (7) Control | STRAT |
| (8) Incentive schemes | STRAT |
| (9) Stakeholder engagement | STRAT |
| (10) Innovation and product management | STRAT |
| (11) Usage of natural resources | ENV |
| (12) Resource management | ENV |
| (13) Climate-relevant emissions | ENV |
| (14) Employee rights | EMPL |
| (15) Equal opportunities | EMPL |
| (16) Qualifications | EMPL |
| (17) Human rights | HUM |
| (18) Corporate citizenship | SOC |
| (19) Political influence | BRIB |
| (20) Conduct that complies with the law and policy | BRIB |
| **Savings banks guidelines** | |
| (1) General information | STRAT |
| (2) Business model | STRAT |
| (3) Overarching concepts and due diligence | STRAT |
| (4) Environmental matters | ENV |
| (5) Employee-related matters | EMPL |
| (6) Social matters | SOC |
| (7) Respect for human rights | HUM |
| (8) Anti-corruption and bribery matters | BRIB |

**Note:** The table describes how the two sets of CSR reporting guidelines used by savings banks (German Sustainability Code and savings banks guidelines) map into the six CSR topics (1) environmental matters (ENV), (2) social matters (SOC), (3) employee matters (EMPL), (4) respect for human rights (HUM), (5) anti-corruption and bribery matters (BRIB), and (6) general CSR strategy (STRAT) matters. The German Sustainability Code prescribes that a CSR report be structured into twenty chapters, of which ten are related to the general CSR strategy. Savings banks guidelines prescribe eight chapters, of which three are related to the general CSR strategy.

# Figures

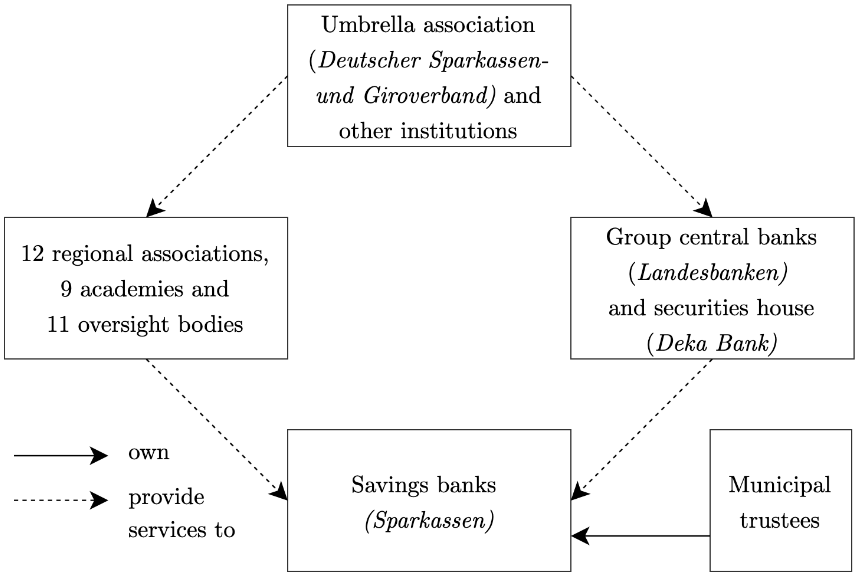


**Figure 1: Structure of the Savings Banks Finance Group**

**Note:** This figure shows the structure of the Savings Banks Finance Group, as of 31 December 2020. Adapted from https:www.dsgv.de/sparkassen-finanzgruppe/organisation/verbandsstruktur.html.

# Tables

**Table 1: Sample selection (distribution over years)**

| | Year 2017 | Year 2018 | Year 2019 | Total |
|---|---|---|---|---|
| Full population | 390 | 385 | 379 | 1,154 |
| Less: Out of scope of the NFRD | 260 | 256 | 255 | 771 |
| *Thereof <500 employees* | *257* | *253* | *252* | *762* |
| *Thereof consolidated in parent firm's CSR report* | *3* | *3* | *3* | *9* |
| Less: Not under municipal trusteeship | 6 | 6 | 6 | 18 |
| Final sample | 124 | 123 | 118 | 365 |

**Note:** This table shows the sample selection process that results in our final sample of 365 bank-year observations. We exclude banks that are out of the scope of the NFRD, namely those with less than 500 employees and those whose parent firm prepares a consolidated CSR report. The latter concerns three banks that are owned by a financial holding rather than a municipality directly. We also exclude six privately owned banks (*'Freie Sparkassen'*) from our sample because they do not have municipal trustees as owners.

**Table 2: Descriptive statistics**

**Panel A:** Descriptive statistics of raw information

| | mean | sd | min | p25 | median | p75 | max |
|---|---|---|---|---|---|---|---|
| Total words in an annual report | 16,767 | 3,157 | 10,233 | 14,629 | 16,552 | 18,600 | 31,200 |
| Total words in a CSR report | 8,329 | 2,773 | 2,417 | 6,297 | 7,931 | 10,388 | 17,806 |
| *CSR topic:* | | | | | | | |
| Environmental | 1,332 | 764 | 160 | 715 | 1,078 | 2,038 | 3,593 |
| Social | 721 | 471 | 97 | 408 | 580 | 901 | 3,060 |
| Employee | 1,529 | 625 | 367 | 1,070 | 1,411 | 1,936 | 5,000 |
| Human rights | 376 | 235 | 0 | 192 | 334 | 508 | 1,428 |
| Anti-corruption and bribery | 718 | 274 | 29 | 513 | 690 | 885 | 1,782 |
| General CSR strategy | 3,653 | 1,227 | 467 | 2,849 | 3,531 | 4,313 | 9,030 |

**Note:** This table shows summary statistics for the banks' annual and CSR reports, measured as total number of words, for the full sample of 365 bank-year observations. For CSR reports, the total report length and the length of a specific CSR topic are reported.

**Table 2: Descriptive statistics**

**Panel B:** Descriptive statistics of variables used

| | mean | sd | min | max |
|---|---|---|---|---|
| CSR_t | 8.973 | 0.333 | 8.199 | 9.694 |
| ENV_t | 7.023 | 0.605 | 5.338 | 8.085 |
| SOC_t | 6.409 | 0.577 | 5.136 | 7.829 |
| EMPL_t | 7.251 | 0.401 | 6.271 | 8.030 |
| HUM_t | 5.730 | 0.666 | 3.951 | 7.014 |
| BRIB_t | 6.503 | 0.395 | 5.100 | 7.396 |
| STRAT_t | 8.148 | 0.341 | 7.208 | 8.932 |
| ENV_p | 15.288 | 5.454 | 4.477 | 28.222 |
| SOC_p | 8.985 | 5.716 | 3.362 | 27.953 |
| EMPL_p | 18.226 | 3.629 | 11.097 | 30.427 |
| HUM_p | 4.264 | 1.666 | 0.890 | 9.289 |
| BRIB_p | 8.832 | 2.398 | 2.954 | 14.733 |
| STRAT_p | 44.394 | 6.926 | 30.858 | 58.881 |
| chair_left_green | 0.370 | 0.483 | 0 | 1 |
| board_left | 34.501 | 10.395 | 12.766 | 62.712 |
| board_green | 14.192 | 6.054 | 3.614 | 36.585 |
| priv_csr | 0.948 | 0.423 | 0.342 | 2.530 |
| priv_competition | -0.476 | 0.269 | -1.175 | 0.320 |
| corp_csr | 0.017 | 0.022 | 0 | 0.103 |
| corp_competition | -0.204 | 1.347 | -2.727 | 3.337 |
| size | 15.477 | 0.481 | 14.714 | 7.077 |
| profitability | 2.587 | 0.278 | 2.053 | 3.430 |
| ar_length | 9.710 | 0.181 | 9.309 | 10.193 |
| gdp_capita | 10.545 | 0.268 | 10.038 | 11.309 |
| guidelines_spk | 0.205 | 0.405 | 0 | 1 |
| indicators_gri | 0.499 | 0.501 | 0 | 1 |

**Note:** This table shows descriptive statistics of variables used in the empirical analysis, for the full sample of 365 bank-year observations. Dependent variables include the log-transformed length of the CSR report and the length of a specific CSR topic (log-transformed and as a percentage to total report length). All continuous variables are winsorised at the 1st and 99th percentile. Details of variable definitions are in Table A1 in the Appendix, including subscripts $i$ and $t$.

**Table 2: Descriptive statistics**

**Panel C:** Descriptive statistics per year

| | Year 2017 (n=124) | | | | Year 2018 (n=123) | | | | Year 2019 (n=118) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | mean | sd | min | max | mean | sd | min | max | mean | sd | min | max |
| CSR_t | 8.731 | 0.243 | 8.199 | 9.322 | 9.012 | 0.305 | 8.199 | 9.694 | 9.188 | 0.276 | 8.199 | 9.694 |
| ENV_t | 6.648 | 0.441 | 5.338 | 7.440 | 7.136 | 0.634 | 5.338 | 8.085 | 7.298 | 0.526 | 6.100 | 8.085 |
| SOC_t | 6.197 | 0.591 | 5.136 | 7.829 | 6.442 | 0.499 | 5.136 | 7.829 | 6.598 | 0.569 | 5.136 | 7.829 |
| EMPL_t | 6.983 | 0.308 | 6.271 | 7.793 | 7.309 | 0.376 | 6.271 | 8.007 | 7.474 | 0.349 | 6.271 | 8.030 |
| HUM_t | 5.341 | 0.523 | 3.951 | 6.669 | 5.756 | 0.641 | 3.951 | 6.974 | 6.113 | 0.596 | 3.951 | 7.014 |
| BRIB_t | 6.338 | 0.300 | 5.100 | 7.146 | 6.579 | 0.404 | 5.100 | 7.396 | 6.598 | 0.419 | 5.100 | 7.396 |
| STRAT_t | 7.955 | 0.323 | 7.208 | 8.669 | 8.146 | 0.306 | 7.235 | 8.932 | 8.351 | 0.273 | 7.459 | 8.932 |
| ENV_p | 13.103 | 3.938 | 4.477 | 28.222 | 16.604 | 5.880 | 4.477 | 28.222 | 16.211 | 5.695 | 5.023 | 28.222 |
| SOC_p | 9.506 | 6.641 | 3.440 | 27.953 | 8.825 | 5.536 | 3.362 | 27.953 | 8.605 | 4.781 | 3.362 | 24.353 |
| EMPL_p | 17.811 | 4.008 | 11.097 | 30.427 | 18.519 | 3.541 | 11.097 | 30.427 | 18.356 | 3.274 | 11.467 | 30.427 |
| HUM_p | 3.647 | 1.462 | 0.890 | 9.289 | 4.187 | 1.580 | 0.890 | 9.289 | 4.992 | 1.685 | 0.890 | 9.289 |
| BRIB_p | 9.402 | 2.190 | 3.358 | 14.732 | 9.133 | 2.301 | 2.954 | 14.732 | 7.920 | 2.461 | 2.954 | 14.732 |
| STRAT_p | 46.548 | 6.836 | 30.858 | 58.881 | 42.720 | 6.855 | 31.194 | 58.881 | 43.876 | 6.556 | 31.372 | 58.881 |
| chair_left_green | 0.363 | 0.483 | 0 | 1 | 0.358 | 0.481 | 0 | 1 | 0.390 | 0.490 | 0 | 1 |
| board_left | 35.261 | 10.138 | 12.766 | 62.712 | 35.244 | 10.300 | 12.766 | 62.712 | 32.939 | 10.670 | 12.766 | 62.712 |
| board_green | 13.449 | 5.266 | 3.614 | 31.818 | 13.478 | 5.389 | 3.614 | 31.818 | 15.718 | 7.148 | 3.614 | 36.585 |
| priv_csr | 0.608 | 0.169 | 0.342 | 1.345 | 0.880 | 0.256 | 0.431 | 1.961 | 1.375 | 0.384 | 0.712 | 2.530 |
| priv_competition | -0.545 | 0.296 | -1.175 | 0.320 | -0.500 | 0.242 | -1.175 | 0.035 | -0.377 | 0.239 | -1.175 | 0.320 |
| corp_csr | 0.016 | 0.022 | 0 | 0.103 | 0.017 | 0.022 | 0 | 0.103 | 0.017 | 0.022 | 0 | 0.103 |
| corp_competition | -0.217 | 1.344 | -2.727 | 3.337 | -0.195 | 1.338 | -2.727 | 3.337 | -0.198 | 1.371 | -2.727 | 3.337 |
| size | 15.420 | 0.486 | 14.714 | 17.077 | 15.473 | 0.478 | 14.714 | 17.077 | 15.544 | 0.474 | 14.783 | 17.077 |
| profitability | 2.703 | 0.271 | 2.053 | 3.430 | 2.608 | 0.280 | 2.053 | 3.430 | 2.443 | 0.216 | 2.057 | 3.320 |
| ar_length | 9.763 | 0.173 | 9.309 | 10.193 | 9.691 | 0.180 | 9.309 | 10.193 | 9.674 | 0.180 | 9.315 | 10.193 |
| gdp_capita | 10.533 | 0.270 | 10.038 | 11.309 | 10.553 | 0.270 | 10.038 | 11.309 | 10.553 | 0.267 | 10.038 | 11.309 |
| guidelines_spk | 0.202 | 0.403 | 0 | 1 | 0.187 | 0.391 | 0 | 1 | 0.229 | 0.422 | 0 | 1 |
| indicators_gri | 0.476 | 0.501 | 0 | 1 | 0.504 | 0.502 | 0 | 1 | 0.517 | 0.502 | 0 | 1 |

**Note:** This table shows descriptive statistics for variables used in the empirical analysis separately for years 2017, 2018 and 2019. Details of variable definitions are in Table A1 in the Appendix, including subscripts $i$ and $t$.

## Table 3: Correlation coefficients between variables

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) CSR_t | 1.000 | | | | | | | | | | | | | | | | | | | | |
| (2) ENV_t | 0.799* | 1.000 | | | | | | | | | | | | | | | | | | | |
| (3) SOC_t | 0.416* | 0.006 | 1.000 | | | | | | | | | | | | | | | | | | |
| (4) EMPL_t | 0.876* | 0.648* | 0.484* | 1.000 | | | | | | | | | | | | | | | | | |
| (5) HUM_t | 0.784* | 0.719* | 0.206* | 0.725* | 1.000 | | | | | | | | | | | | | | | | |
| (6) BRIB_t | 0.640* | 0.684* | -0.015 | 0.506* | 0.586* | 1.000 | | | | | | | | | | | | | | | |
| (7) STRAT_t | 0.894* | 0.644* | 0.232* | 0.656* | 0.647* | 0.554* | 1.000 | | | | | | | | | | | | | | |
| (8) chair_left_green | 0.000 | -0.094 | 0.088 | 0.028 | -0.033 | -0.068 | 0.015 | 1.000 | | | | | | | | | | | | | |
| (9) board_left | -0.178* | -0.231* | 0.031 | -0.078 | -0.170* | -0.140* | -0.180* | 0.438* | 1.000 | | | | | | | | | | | | |
| (10) board_green | 0.298* | 0.289* | 0.022 | 0.261* | 0.267* | 0.291* | 0.275* | -0.160* | -0.319* | 1.000 | | | | | | | | | | | |
| (11) priv_csr | 0.527* | 0.427* | 0.251* | 0.500* | 0.448* | 0.284* | 0.422* | 0.056 | -0.056 | 0.373* | 1.000 | | | | | | | | | | |
| (12) priv_competition | 0.136* | 0.144* | 0.001 | 0.114* | 0.184* | 0.150* | 0.120* | 0.074 | 0.237* | -0.026 | 0.189* | 1.000 | | | | | | | | | |
| (13) corp_csr | 0.062 | 0.043 | 0.000 | 0.072 | 0.046 | 0.052 | 0.043 | 0.077 | 0.116* | 0.116* | 0.267* | 0.071 | 1.000 | | | | | | | | |
| (14) corp_competition | -0.224* | -0.215* | 0.008 | -0.142* | -0.146* | -0.209* | -0.233* | 0.159* | 0.403* | -0.317* | -0.149* | 0.239* | 0.060 | 1.000 | | | | | | | |
| (15) size | 0.266* | 0.218* | -0.005 | 0.246* | 0.255* | 0.246* | 0.254* | 0.086 | -0.048 | 0.324* | 0.360* | 0.054 | 0.252* | -0.136* | 1.000 | | | | | | |
| (16) profitability | -0.308* | -0.316* | 0.024 | -0.209* | -0.346* | -0.191* | -0.298* | 0.086 | 0.294* | -0.130* | -0.328* | -0.069 | 0.070 | 0.129* | -0.106* | 1.000 | | | | | |
| (17) ar_length | -0.104* | -0.201* | 0.047 | -0.030 | -0.077 | -0.095 | -0.065 | 0.143* | 0.209* | -0.004 | -0.076 | 0.062 | 0.144* | 0.239* | 0.359* | 0.341* | 1.000 | | | | |
| (18) gdp_capita | 0.222* | 0.232* | 0.082 | 0.253* | 0.261* | 0.173* | 0.117* | 0.109* | -0.186* | 0.267* | 0.430* | -0.055 | 0.357* | -0.404* | 0.419* | -0.079 | 0.021 | 1.000 | | | |
| (19) year_2018 | 0.082 | 0.134* | 0.040 | 0.102 | 0.027 | 0.137* | -0.003 | -0.018 | 0.051 | -0.084 | -0.114* | -0.063 | 0.001 | 0.005 | -0.007 | 0.054 | -0.075 | 0.015 | 1.000 | | |
| (20) year_2019 | 0.446* | 0.315* | 0.227* | 0.385* | 0.398* | 0.166* | 0.413* | 0.029 | -0.104* | 0.174* | 0.699* | 0.252* | 0.008 | 0.003 | 0.095 | -0.358* | -0.136* | 0.018 | -0.493* | 1.000 | |
| (21) guidelines_spk | -0.138* | -0.454* | 0.648* | 0.036 | -0.241* | -0.527* | -0.248* | 0.060 | 0.092 | -0.198* | 0.025 | -0.106* | -0.016 | 0.095 | -0.178* | 0.163* | 0.106* | -0.051 | -0.033 | 0.040 | 1.000 |
| (22) indicators_gri | 0.492* | 0.686* | -0.161* | 0.413* | 0.543* | 0.548* | 0.387* | -0.185* | -0.284* | 0.354* | 0.175* | -0.067 | 0.031 | -0.263* | 0.272* | -0.213* | -0.121* | 0.295* | 0.008 | 0.025 | -0.507* |

**Note:** This table shows Pearson's correlation coefficients between variables used in the empirical analysis (n=365). * indicates significance at the 5% significance level or better. Details of variable definitions are in Table A1 in the Appendix, including subscripts $i$ and $t$.

**Table 4: Associations of stakeholder demand for CSR with CSR report length**

| | (1) CSR_t | (2) ENV_t | (3) SOC_t | (4) EMPL_t | (5) HUM_t | (6) BRIB_t | (7) STRAT_t |
|---|---|---|---|---|---|---|---|
| chair_left_green | 0.091** | 0.100* | 0.092 | 0.083* | 0.110* | 0.038 | 0.096* |
| | (0.036) | (0.054) | (0.068) | (0.045) | (0.065) | (0.041) | (0.049) |
| board_left | 0.010 | -0.022 | 0.064 | 0.036 | 0.024 | -0.005 | 0.001 |
| | (0.023) | (0.034) | (0.040) | (0.026) | (0.037) | (0.026) | (0.029) |
| board_green | 0.001 | -0.043 | 0.098** | 0.006 | -0.033 | -0.014 | 0.001 |
| | (0.023) | (0.031) | (0.039) | (0.027) | (0.044) | (0.022) | (0.026) |
| priv_csr | -0.011 | 0.041 | -0.104* | -0.012 | -0.090 | 0.036 | -0.009 |
| | (0.031) | (0.053) | (0.061) | (0.043) | (0.059) | (0.045) | (0.040) |
| priv_competition | 0.032** | 0.066*** | 0.042 | 0.019 | 0.077** | 0.026 | 0.024 |
| | (0.015) | (0.023) | (0.029) | (0.019) | (0.036) | (0.019) | (0.018) |
| corp_csr | 0.029* | 0.033 | -0.004 | 0.020 | 0.005 | 0.022 | 0.032 |
| | (0.016) | (0.029) | (0.031) | (0.024) | (0.026) | (0.019) | (0.023) |
| corp_competition | -0.030 | -0.004 | -0.022 | 0.012 | 0.056 | -0.019 | -0.051* |
| | (0.022) | (0.034) | (0.045) | (0.029) | (0.042) | (0.021) | (0.027) |
| size | 0.011 | -0.029 | -0.017 | 0.012 | 0.006 | 0.006 | 0.028 |
| | (0.018) | (0.035) | (0.036) | (0.025) | (0.035) | (0.026) | (0.022) |
| profitability | -0.009 | 0.011 | -0.010 | 0.005 | -0.067** | 0.014 | -0.020 |
| | (0.018) | (0.026) | (0.030) | (0.021) | (0.033) | (0.023) | (0.022) |
| ar_length | 0.025 | 0.009 | 0.012 | 0.022 | 0.060 | 0.005 | 0.032 |
| | (0.020) | (0.029) | (0.040) | (0.026) | (0.043) | (0.024) | (0.026) |
| gdp_capita | -0.033 | -0.026 | 0.050 | 0.008 | 0.053 | -0.026 | -0.080*** |
| | (0.024) | (0.040) | (0.045) | (0.036) | (0.047) | (0.031) | (0.029) |
| year_2018 | 0.281*** | 0.442*** | 0.308*** | 0.331*** | 0.434*** | 0.210*** | 0.195*** |
| | (0.025) | (0.049) | (0.043) | (0.034) | (0.053) | (0.032) | (0.030) |
| year_2019 | 0.435*** | 0.542*** | 0.477*** | 0.484*** | 0.819*** | 0.197*** | 0.380*** |
| | (0.050) | (0.094) | (0.098) | (0.071) | (0.106) | (0.074) | (0.070) |
| guidelines_spk | 0.188*** | -0.132 | 1.203*** | 0.398*** | 0.138 | -0.273*** | -0.024 |
| | (0.060) | (0.088) | (0.080) | (0.086) | (0.127) | (0.061) | (0.075) |
| indicators_gri | 0.371*** | 0.731*** | 0.351*** | 0.447*** | 0.749*** | 0.305*** | 0.229*** |
| | (0.044) | (0.072) | (0.080) | (0.058) | (0.094) | (0.085) | (0.053) |
| Observations | 365 | 365 | 365 | 365 | 365 | 365 | 365 |
| Adjusted R-squared | 0.619 | 0.71 | 0.589 | 0.538 | 0.567 | 0.487 | 0.455 |
| Association-FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Cluster | Bank | Bank | Bank | Bank | Bank | Bank | Bank |

**Note:** The regression analysis examines the determinants of banks' CSR reporting. Column 1 shows the results for an OLS regression model with total CSR report length as the dependent variable. Columns 2-7 show results for the length of specific CSR topics as the dependent variables. All dependent variables are log-transformed. *Chair_left_green*, *board_left* and *board_green* capture demand for CSR information by municipal trustees, *priv_csr* and *priv_competition* capture demand by private clients, and *corp_csr* and *corp_competition* capture demand by corporate clients. Details of variable definitions are in Table A1 in the Appendix. We omit subscripts i and t, which can also be found in Table A1 in the Appendix. All continuous variables are (1) winsorised at the 1st and 99th percentile, and (2) standardised to enhance comparability between regression coefficients. *, **, and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Robust standard errors are reported in parentheses.

**Table 5: Associations of stakeholder demand for CSR with relative topic length**

| | (1) ENV_p | (2) SOC_p | (3) EMPL_p | (4) HUM_p | (5) BRIB_p | (6) STRAT_p |
|---|---|---|---|---|---|---|
| chair_left_green | 0.160 | -0.121 | 0.002 | 0.210 | -0.448 | 0.111 |
| | (0.600) | (0.531) | (0.559) | (0.220) | (0.305) | (1.083) |
| board_left | -0.461 | 0.537** | 0.395 | 0.041 | -0.140 | -0.427 |
| | (0.377) | (0.253) | (0.296) | (0.111) | (0.190) | (0.543) |
| board_green | -0.580* | 0.833*** | 0.108 | -0.051 | -0.206 | -0.130 |
| | (0.303) | (0.234) | (0.262) | (0.108) | (0.196) | (0.436) |
| priv_csr | 0.886 | -1.035* | -0.016 | -0.342 | 0.463 | 0.107 |
| | (0.720) | (0.530) | (0.482) | (0.209) | (0.298) | (0.901) |
| priv_competition | 0.372 | 0.047 | -0.235 | 0.119 | -0.074 | -0.305 |
| | (0.234) | (0.215) | (0.210) | (0.103) | (0.165) | (0.386) |
| corp_csr | 0.033 | -0.187 | -0.068 | -0.032 | -0.009 | 0.247 |
| | (0.387) | (0.262) | (0.294) | (0.099) | (0.169) | (0.528) |
| corp_competition | 0.287 | -0.117 | 0.707** | 0.216 | 0.094 | -0.990 |
| | (0.342) | (0.388) | (0.287) | (0.139) | (0.194) | (0.622) |
| size | -0.578 | -0.507* | 0.094 | 0.037 | -0.023 | 1.027** |
| | (0.454) | (0.281) | (0.292) | (0.118) | (0.185) | (0.493) |
| profitability | 0.237 | 0.098 | 0.219 | -0.220** | 0.156 | -0.460 |
| | (0.268) | (0.234) | (0.253) | (0.101) | (0.174) | (0.430) |
| ar_length | -0.231 | 0.146 | -0.028 | 0.108 | -0.142 | 0.114 |
| | (0.308) | (0.297) | (0.274) | (0.135) | (0.178) | (0.595) |
| gdp_capita | 0.081 | 1.036*** | 0.704** | 0.321** | -0.050 | -2.172*** |
| | (0.513) | (0.375) | (0.349) | (0.142) | (0.195) | (0.584) |
| year_2018 | 2.752*** | 0.176 | 0.778** | 0.633*** | -0.569** | -3.832*** |
| | (0.581) | (0.377) | (0.378) | (0.181) | (0.220) | (0.758) |
| year_2019 | 1.601 | 0.528 | 0.693 | 1.635*** | -1.947*** | -2.628 |
| | (1.270) | (0.928) | (0.850) | (0.388) | (0.525) | (1.607) |
| guidelines_spk | -3.450*** | 11.772*** | 4.313*** | 0.198 | -3.474*** | -9.376*** |
| | (1.050) | (0.709) | (1.014) | (0.355) | (0.435) | (1.491) |
| indicators_gri | 5.219*** | 0.133 | 1.230** | 1.383*** | -0.709 | -7.271*** |
| | (0.791) | (0.510) | (0.485) | (0.261) | (0.466) | (1.031) |
| Observations | 365 | 365 | 365 | 365 | 365 | 365 |
| Adjusted R-squared | 0.553 | 0.750 | 0.209 | 0.316 | 0.367 | 0.339 |
| Association-FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Cluster | Bank | Bank | Bank | Bank | Bank | Bank |

**Note:** The regression analysis examines the determinants of banks' focus on specific CSR topics (dependent variables are percentages of specific topics relative to total CSR report length). *Chair_left_green*, *board_left* and *board_green* capture demand for CSR information by municipal trustees, *priv_csr* and *priv_competition* capture demand by private clients, and *corp_csr* and *corp_competition* capture demand by corporate clients. Details of variable definitions are in Table A1 in the Appendix. We omit subscripts i and t, which can also be found in Table A1 in the Appendix. All continuous variables are (1) winsorised at the 1st and 99th percentile, and (2) standardised to enhance comparability between regression coefficients. *, **, and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Robust standard errors are reported in parentheses.

# CSR and Political Insiders*

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**Abstract**

We study whether political insiders drive the level of companies' corporate social responsibility activities and reporting. Politicians who sit on supervisory boards have incentives to claim credit for corporate CSR activities in order to attract electoral votes during the next election. Using the electoral cycle as an exogenous shock to politicians' incentives for credit claiming, we conduct a difference-in-differences analysis in the German banking industry. Our treatment group are state-owned savings banks and our control croup are politically independent cooperative banks. Our findings indicate that savings banks engage in 15.8-22.9% higher politically associated CSR activities during election years compared to their non-political peers. Cross-sectionally, the effect is concentrated among banks where the political insider is member of a left-wing party and, to a limited extent, exposed to high political competition. Our study contributes to literature on CSR and socio-political literature, and is among the first to document insider-initiated CSR. Our findings have regulatory implications by implying that companies use resources to meet political insiders' rather than stakeholders' demand for CSR activities, which may then no longer be available to pay out dividends or accumulate retained earnings.

**Keywords:** Corporate Social Responsibility, CSR Reporting, State-owned Banks, Corporate Philanthropy, Corporate Charitable Activities

**JEL Codes:** D72, G21, G34, G34, M14

*Acknowledgements: We sincerely thank Christian Hoffmann, Michael Kötter, Urska Kosi, Andreas Pfingsten, Matthias Pelster, Jan Riepe, Thorsten Sellhorn and André Uhde for helpful suggestions and contributed ideas. We are also grateful for the feedback from participants of the 2021 Bankenforschungsworkshop in Münster, the the 17th Interdisciplinary Conference on Intangibles and Intellectual Capital – Sustainability and Integrated Reporting, Governance and Value Creation, the 2022 TAF Brownbag Seminar at Paderborn University and the 2023 ACT Brownbag Seminar at the LMU Munich School of Management.

# 1 Introduction

Companies engage in a wide range of corporate social responsibility (CSR) activities, and several factors explain variation in CSR and reporting thereof (for reviews see, e.g., Christensen et al., 2021; Huang and Watson, 2015). We extend this literature by investigating political insiders (i.e., politicians that sit on companies' supervisory boards) as drivers of companies' CSR activities and reporting. With that, we are among the first to identify insider-initiated CSR (Bénabou and Tirole, 2010) that arises from management's or board members' self-motivated incentives to engage in CSR activities.

To examine whether political insiders drive companies' CSR activities and reporting, we conduct a difference-in-differences analysis in the German banking industry. Our treatment group is composed of savings banks – a large group of public banks with local politicians sitting on the supervisory board. Our control group are cooperative banks that have similar business models and, importantly, are isolated from political influence. This setting carries unique features that allow us to answer our research question. First, in the savings banks setting, the appointment of political directors is a statutory requirement and, therefore, not based on endogenous firm characteristics. This alleviates endogeneity concerns from prior studies on the relation between CSR and political board members (e.g., Bianchi et al., 2019; Fernández-Gago et al., 2018) or political embeddedness (Wang et al., 2018), where political connection is a firm choice.

Second, the timing of municipal elections introduces variation in the political pressure that individual politicians face. To identify whether political insiders drive savings banks' CSR activities, we therefore consider the political cycle as an exogenous shock to politicians' incentives to engage in credit claiming activities. Politicians are under more intense scrutiny from their constituents if an election is imminent than if an election is more distant (Huber et al., 2012). This helps explain extant empirical evidence on the existence of an electoral cycle in a wide range of state-owned companies' activities (Alok and Ayyagari, 2020; Bertrand et al., 2018). Along these lines, we examine whether there is a cycle in state-owned banks' politically associated CSR activities that follows the timing of municipal elections. Geographical variation in the timing of municipal elections increases our confidence that the findings are not due to unobserved confounding events. Third, the German banking setting allows us to introduce cooperative banks as a control group. They engage in similar CSR activities as savings banks, and have a similar clientele and business model. While cooperative banks may also experience influence from (non-political) insiders, they do not operate under municipal trusteeship and are thus isolated from the influence of political insiders.

Our sample consists of savings banks and cooperative banks over the years 2012 to 2020, resulting in 2,120 bank-year observations in total. Our dataset combines banks' financial statement data with data on savings banks' supervisory board chairperson, macroeconomic data on municipal level and detailed hand-collected information on municipal elections. To measure banks' CSR activities, we collect local newspaper articles that cover banks' donations to civil projects under the mention of the mayor or county commissioner (politically associated CSR or charitable activities, henceforth).[1]

Our results show that savings banks exhibit 15.8-22.9% higher politically associated CSR activities during election years than non-election years, compared to their non-political peers. Contrary to our expectations, this increase in politically associated CSR is not reflected in banks' mandatory CSR reporting, suggesting that banks do not report more on their CSR activities during election years. Next, we investigate whether cross-sectional variation in political ideology and competition mediates this relationship. Prior studies suggest that firms which have political directors with a liberal ideology and firms which are Democratic-leaning engage in higher CSR activities (de Andres et al., 2023; Di Giuli and Kostovetsky, 2014). In line with these studies, we find that the increased politically associated CSR activities are concentrated among the sub-sample of banks with a left-wing supervisory board chairperson. We also test whether the electoral cycle in banks' CSR activities is more pronounced for the sub-sample of banks that operate in politically competitive areas, where politicians have increased incentives to fight for constituents' votes (Alok and Ayyagari, 2020; Carvalho, 2014). We find weak evidence supporting this notion.

The study most closely related to ours is de Andres et al. (2023), who analyze the influence of political directors on Spanish savings banks' CSR activities. They document that the proportion of political directors, their political orientation and regional identity are associated with banks' allocation of resources to CSR. Our results corroborate their findings

[1] Banks' CSR activities comprise more than charitable donations, e.g., employee volunteer programs or work-life balance initiatives. We focus on charitable activities as the main type of savings banks' CSR activities.

of political influence on banks' CSR activities for the German setting. More importantly, we extend de Andres et al. (2023) who state that 'the real motivations that drive political directors to increase CSR remain unclear' (p. 28). Through exogenous variation in political incentives via the electoral cycle and a politically independent control group of cooperative banks, we are able to discern a clear political motive of political directors to increase CSR. With this finding, we add to the few studies on banks' CSR determinants (Wu and Shen, 2013). As financial intermediaries with the means to channel capital into sustainable investments, banks represent an important sector when it comes to CSR. However, there is little evidence on their specific motives to engage in CSR activities and reporting (Dinh et al., 2022).

Our study also contributes to literature that aims to identify insider-initiated CSR (Bénabou and Tirole, 2010). Researchers dating back to Davis (1973) and Friedman (1970) have pointed to the possibility of corporate insiders driving corporate CSR practices to further their own agenda. However, in studying insider-initiated CSR, prior studies mainly relied on cross-sectional differences in board composition and CSR practices (Marquis and Lee, 2013; Wang and Coffey, 1992). Our setting allows us to use the electoral cycle as exogenous variation in the incentives of self-motivated political insiders and thus helps us provide more causal evidence on the influence of political insiders on companies' CSR. Our findings are interesting to policy makers and regulators because they imply that banks use resources to meet political insiders' self-motivated demand for CSR activities. These resources may no longer be available to pay out dividends to municipal owners or accumulate in retained earnings to strengthen the equity base. Moreover, CSR activities that are driven by political insiders may be less aligned with stakeholders' or the public's interests. Our findings are generalisable to other settings where politicians may influence companies' CSR activities as insiders, which further strengthens the regulatory implications of our findings.

# 2 Institutional setting

## 2.1 German savings banks and local politicians

The German banking industry has three pillars: the commercial banking industry (e.g., Deutsche Bank, Commerzbank), the cooperative banking industry (*Genossenschaftsbanken*) and the public banking industry. We focus on the public banking industry for its statutory ties to local politicians, which provides us with a unique setting to investigate the relation between insiders' political interests and banks' CSR activities. At the heart of the public banking industry are savings banks (*Sparkassen*), counting 377 institutions as of 31 December 2019. They are organised within the Savings Banks Finance Group, which also contains five central banks (*Landesbanken*) and roughly 130 non-bank institutions.

Strictly speaking, savings banks do not have owners – i.e., they cannot be sold and they cannot be acquired by other banking groups or investors. However, they operate under municipal trusteeship, where trustees can be counties (*Kreissparkasse*), urban municipalities (city with county status) or municipal cities (*Stadtsparkasse*), or special-purpose associations consisting of several municipalities or counties (*Zweckverbandssparkasse*). For simplification, we refer to them as the owners (see also Koetter and Popov, 2021; Markgraf and Rosas, 2019). By force of statute, members of municipal political and administrative bodies are granted seats on the supervisory board (*Verwaltungsrat*). Importantly, the mayor or county commissioner (mayor or politician, henceforth) is typically the chair of the supervisory board and member of the credit committee. In their capacity as members of the supervisory board, local politicians can therefore participate in important decisions such as bank consolidation, branch closure, replacement of bank management and, when a member of the credit committee, granting large loans. It is important to note that, despite of the above, savings banks are independent credit institutions run by licensed bankers and, in their day-to-day operations, operate autonomously.

The close ties between banks and local politicians also manifest in the role that savings banks play for local communities. Due to their public mandate, savings banks aim to provide accessible financial services in their business area, focusing on private customers and small and medium-sized businesses. They also readily fulfill their public mandate by engaging in charitable activities and donating to, e.g., local cultural initiatives, sports teams or schools. They maintain roughly 750 foundations that support a large number of initiatives across Germany. For example, *Sparkasse Zollernalb* sponsors the annual horse show in the municipality of Bisingen, and *Sparkasse Forchheim* donated EUR 4,000 to seven cultural initiatives in December 2020, including the local volunteer firefighters and the water watch. Savings banks' charitable donations in the local community is the primary type of CSR activity they engage in. It helps them stay visible and maintain support from the local population. While these activities serve local communities, we argue that they also benefit local politicians to the degree that they improve electorates' lives and provide positive publicity for the politician. Prior evidence supports the notion that savings banks serve local politicians' political interests. For example, Markgraf and Rosas (2019) provide direct empirical evidence that mayors with a seat on a savings banks' boards have higher chances of winning re-election than mayors without a seat. They also present preliminary evidence that this happens through an increase in charitable activities.

From the banks' perspective, supporting their politicians' interests helps them stay on good terms with them. This can pay off, for example, when a bank experiences financial distress. Politicians can decide to use taxpayers' money to bail out the bank or leave the bail-out process and financing to the savings banks association. Bian et al. (2017) provide empirical evidence that politicians include personal considerations when deciding whether to bail out a bank in distress. The authors show that a bank in distress is 30 percent less likely to be bailed out by local politicians in the year preceding a local election than in other years and fifteen per cent less likely if there is high competition in the electoral process. Further, as members of the supervisory board, local politicians approve banks' profit appropriation – a topic over which they can get into conflict with the bank management.[2]

## 2.2 Savings banks' charitable activities

Savings banks use two channels to engage in charitable activities, as displayed in Figure 1. The first, more direct channel involves donations from the bank to donees directly.

[2]Most banks choose to retain all or most of their earnings for risk reserves and some mayors question the viability of this decision when the bank's risk reserves already fulfill regulatory requirements. In the case of *Stadtsparkasse Düsseldorf*, the conflict over profit appropriation escalated after the mayor of Düsseldorf demanded that the bank pays a dividend to the city out of EUR 140 million profits that the bank earned in the fiscal year 2014. The bank paid out EUR 13.6 million in dividends to the city of Düsseldorf after the conflict was resolved (see also Koetter and Popov, 2021)

Organisers of civic initiatives that seek funding place their applications directly with the bank, which are then collected and channeled to the relevant internal decision making body. Typically, the management and supervisory boards decide on the approval of any donation request. Only occasionally, an independent donation committee responsible for approval is established with the aim to increase transparency of the donation process. As Table 1 demonstrates, the overwhelming majority of savings banks' charitable activities (83.1% in 2020) are carried out in such a way.

[Insert Figure 1 around here]

As shown in Figure 1, the second channel involves in-house foundations. Most savings banks have at least one in-house foundation which they provide with an initial, and sometimes subsequent endowment funds. Oftentimes, it carries the bank's name and is governed by a two-tier system: (1) an obligatory management board (*Vorstand*), oftentimes chaired by the bank's chief executive and containing other bank employees, and (2) a discretionary supervisory board (*Kuratorium*), typically chaired by the bank's supervisory board chairperson (i.e., mayor or county commissioner) and including other local politicians, bank employees and knowledgeable citizens. The governance of such non-for-profit foundations is largely unregulated and instead set forth by individual statutes. Moreover, unless surpassing an exceedingly large size threshold, foundations do not fall under public disclosure requirements, making their operations largely opaque.

Savings banks' foundations support mostly local initiatives from a broad range of areas (e.g., culture, sports, music, arts and nature) but occasionally, they are restricted to serve very specific activities or organizations (e.g., specific museums). Similar to banks, the management and supervisory boards of foundations base their funding decisions mostly on initiators' applications. Due to the long-term nature of endowment funds, foundations provide a particularly sustainable means of supporting civic initiatives. Moreover, they enjoy significant tax benefits compared to savings banks. However, the separate governance system represents an additional administrative layer for banks' charitable activities. As Table 1 shows, only a small portion of the Savings Banks Finance Group's overall charitable activities is carried out through foundations.

[Insert Table 1 around here]

## 2.3 Local elections

As a whole, the German political system is divided into the federal state, 16 states (*Bundesländer*) and 401 municipalities (294 counties and 107 municipal cities). We are interested in municipalities, which represent the smallest geographic unit and the lowest tier of the public administration. They function under so-called self-government, which is considered relatively autonomous compared to other countries (Roth, 1999; van Saldern, 1999). Two characteristics of municipal self-government allow us to conduct our study. First, municipalities have a wide range of mandatory and voluntary tasks to fulfill. Mandatory tasks include, for example, the provision of infrastructure, schools and fire departments. Voluntary tasks are very diverse and range from cultural offerings (e.g., museums, libraries, music schools) to leisure facilities (e.g., swimming pools, green areas) and migration work (Fliedner, 2019). Given the breadth of tasks that municipalities bear, they increasingly face insufficient financial resources to maintain a balanced budget. As a consequence, many are forced to cut on voluntary activities (Prölß, 2018). It is precisely these activities that savings banks support with their donations. Anecdotal evidence suggests that mayors can benefit from savings banks' donations similar to an unofficial shadow budget and they can significantly influence how these donations are distributed (Jost, 2012).

The second defining characteristic of municipal self-government in Germany is the high level of democratic participation, enabling proximity between citizens and local politicians. Citizens participate in elections of new municipal representations every four to eight years and, at the same time, directly elect their mayor.[3] Except for age restrictions, candidates for mayor do not have to fulfill any particular qualification requirements, enabling everyone to stand up for election. Once elected, the mayor functions as the head of the local parliament, responsible for making and executing decisions related to the municipality's administration. To be re-elected as mayor, a candidate must show proximity to voters and commitment to the community. As Kern (2008) showed in a study of municipal elections in state Baden-Wurttemberg between 1973 and 2003, mayors increasingly fail re-election despite standing again for re-election.

[3]Except in the three city-states Berlin, Bremen and Hamburg, where the mayor is not directly elected by the citizens but instead by parliament members. The same is true for the election of county commissioners in the states Baden-Wurttemberg and Schleswig-Holstein. Excluding respective observations from these states does not change our results.

We argue that mayors can become personally involved in savings banks' charitable activities to improve their re-election chances. These activities enhance the electorates' quality of life and oftentimes fall under the voluntary type of activity that receive a smaller budget from municipalities directly. As chairpersons of banks' supervisory boards, mayors can relatively effortlessly associate themselves with the discretionary spending of their banks. In practice, the mayor frequently appears at the ceremonial handover of donations, along with one or multiple other bank representatives. For example, savings bank *Sparkasse Vest Recklinghausen* donated EUR 116,000 to 37 non-profit organizations in October 2021 (see Figure A1 in the Appendix). The mayor of city Dorsten, one of eight municipal owners, who is chair of the supervisory board at the time, attended the ceremonial handover along with the bank's chief executive. The event appeared in the online news outlet *Dorsten Online* with a photo featuring the mayor. Donation ceremonies like this oftentimes appear in the local press, representing a good opportunity for the mayor to attract positive publicity. Figure A1 in the Appendix shows three examples of such news articles.

## 2.4 Cooperative banks

In order to isolate the effect of political insiders on banks' CSR activities, we include cooperative banks as a control group in our analysis. They share significant commonalities with savings banks with respect to business model and operations but importantly, they are independent of political influence.[4] The cooperative banking industry consists of the Cooperative Financial Network and represents the largest banking group in Germany by number of institutions, counting 812 at the end of 2020. While unlike savings banks, cooperative banks can have overlapping operating regions, they also operate very locally. They focus on providing banking services to a local clientele that mainly consists of private customers and small and medium-sized businesses. They are organised in the National Association of German Cooperative Banks and share a common central bank (*DekaBank*), which enables them to offer a full range of universal banking services despite their oftentimes small size.

[4] It is important to note that, while being isolated from political influence, cooperative banks are not isolated from other insiders' influence. Member-owners with a preference for CSR can influence cooperative banks to engage in higher CSR. However, these member-owners are not politically connected in a systematic way. Cooperative banks are therefore a suitable control group that allows us to isolate the effect of *political* insiders on savings banks.

Similar to savings banks, cooperative banks do not pursue profit maximization. Instead, they are obliged to serve their member-owners – i.e., clients who become members of the cooperative and purchase a share in the bank's equity. An annual general assembly allows member-owners to exercise their voting rights with respect to decisions on bank liquidation, mergers with other cooperative banks or amendments to the bank statute. Unlike their state-owned counterparts, cooperative banks have a governance system independent of political influence. The supervisory board consists of knowledgeable private persons with relevant expertise and is elected by the bank's member-owners. The considerable similarity between cooperative banks and savings banks in terms of business model, regionality and non-profit maximization makes them an obvious control group for our study. At the same time, the absence of political influence isolates them from the effect of electoral cycles that we seek to identify in savings banks. With respect to CSR, cooperative banks engage in the local community in a similar manner as savings banks. They support civic projects and initiatives either directly or through in-house foundation. As Table 1 shows, foundations seem to play a relatively less important role for the cooperative banking industry than for the savings banks industry, comprising only 7.6% of the total money spent on charitable activities in 2019.

# 3 Theoretical background and hypothesis development

## 3.1 Related literature

CSR represents corporate activities and policies that help companies 'integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders' (EU, 2011, p.6). CSR reporting thus constitutes the disclosure of information on how a company manages its social and environmental challenges, and it can be voluntary or mandatory. Several factors determine companies' level of CSR activities. Prior literature found that, apart from meeting the demands of investors, consumers and employees, companies use CSR activities to respond to government pressure or the interests of individual politicians. Empirical evidence comes mainly from interventionist economies such as China (Lin et al., 2015), Russia (Zhao, 2012) and Sri Lanka (Beddewela and Fairbrass, 2016), where property rights are not fully protected, and companies depend on politicians' benevolence for their success (Gautier and Pache, 2015). Democracies and liberal economies also provide conditions under which companies engage in politically motivated CSR. For example, companies may channel their donations to benefit powerful politicians. In return, they receive political influence and lobbying power (Bertrand et al., 2020). In these settings, however, politicians are corporate outsiders with limited opportunities to influence companies' CSR activities.

One notable exception is a study by de Andres et al. (2023) that investigates the influence of political directors on Spanish savings banks' level of CSR activities. Spanish savings banks have similarities with German savings banks because they are an essential element of the Spanish financial system and have a similar governance structure. The authors find a higher allocation of resources to CSR activities if there is a higher proportion of directors with political ties on the board. Additional tests indicate that this relationship is more pronounced for directors with liberal ideology and regional identity. de Andres et al. (2023) explicitly focus on the heterogeneity in the savings banks' director characteristics and acknowledge that 'real motivations that drive political directors to increase CSR remain unclear' (p. 28). We extend the study of de Andres et al. (2023) by exploring the specific incentives of political insiders to influence banks' CSR activities.

Prior evidence in political economy science supports the notion that politicians receive personal benefits from sitting on banks' supervisory boards (Alok and Ayyagari, 2020; Bertrand et al., 2018; Carvalho, 2014; Cole, 2009; Dinc, 2005; Inoue, 2020; Li et al., 2020; Ru, 2018; Sapienza, 2004). Markgraf and Rosas (2019) provide direct empirical evidence that mayors with a seat on a savings bank's supervisory board have higher chances of being re-elected than mayors without a board seat. We argue that CSR activities can be one way for politicians to benefit from their board seats. By associating themselves with banks' spending in their constituent's district and, in doing so, claiming credit for banks' CSR activities, they can gain more electoral votes during the next election (Grimmer et al., 2012; Mayhew, 1974).

With our study, we also contribute to the literature on insider-initiated CSR. Bénabou and Tirole (2010) describe three motives for companies to engage in CSR or corporate philanthropy.[5] First, 'win-win' philanthropy is characterised by aligning CSR activities with

[5]Corporate philanthropy or charitable activity is an unconditional transfer of economic resources to another party. It is a voluntary component of CSR (Carroll, 1991) and the primary type of CSR activity by savings banks. We therefore use the terms CSR, charitable activity and philanthropy interchangeably.

corporate performance. Also known as 'doing well by doing good', CSR activities under this perspective positively affect firms' performance, mainly by taking a long-term perspective to profit maximisation. Second, delegated philanthropy involves sacrificing money to further social goals on behalf of a company's stakeholders. In particular, stakeholders wanting to further a social cause may delegate philanthropic activities to companies they engage with and forgo economic resources in return. Like 'win-win' philanthropy, delegated philanthropy often aligns with profit maximisation because it meets stakeholder demands and contributes to a favourable corporate image.

Third and related to our study, insider-initiated corporate philanthropy reflects management's or board members' desires to engage in philanthropic activities and often arises from corporate governance frictions. It is not motivated by profit maximisation or the desire to contribute to society and is largely criticised as spending other people's money (Friedman, 1970). Contrary to win-win and delegated philanthropy, insider-initiated philanthropy is typically associated with a deviation from wealth maximisation. While prior studies mainly investigate politically motivated CSR in a 'win-win' philanthropic situation, little empirical evidence exists on CSR as an insider-initiated activity. Our study fills this gap by focusing on corporate philanthropy as an insider-initiated activity catering to self-motivated political insiders' interests.

## 3.2 Hypotheses

We draw from political and socio-political theories to develop hypotheses on the relationship between political insiders and state-owned companies' CSR activities and reporting. Extant literature suggests that incumbent politicians use focused spending to gain support from their constituency. They direct projects, provide economic resources to their constituents' communities, and receive electorate votes in return (Lazarus and Reilly, 2010). However, because many voters know little about federal spending or are not directly affected by the spending, they are often unable to attribute the spent money to the individual politician. As a result, politicians have to communicate their efforts and claim credit for the expenditure.

While legitimate in principle, several studies show that politicians are not always the actual allocator of the resources they claim credit for. For example, Cruz and Schneider

(2017) find that politicians in the Philippines claim credit for development aid even when they have little or no influence on its actual allocation. Politicians do not need to be the actual decision maker of expenditures to gain an electoral advantage. Instead, it is sufficient for them to merely be associated with the expenditure. While the political misuse of foreign aid is an extreme form of undeserved credit claiming and unethical, more subtle forms of credit claiming are widespread (Mayhew, 1974). While prior studies identified politicians' credit claiming of private companies' activities, we argue that they may leverage state-owned companies to do the same. Credit claiming for state-owned banks' charitable activities appears like a low-cost way to realise higher publicity among their electorate.

Despite the above, several arguments speak against finding higher political credit claiming for state-owned banks' charitable activities. First, state-owned companies' responsibility towards the public interest puts them under public scrutiny. Public awareness limits politicians' ability to control the flow of philanthropic resources and engage in unseemly credit claiming in the first place. Second, as a response to public critique or precautionary measures, state-owned banks may introduce independent committees that autonomously manage the bank's philanthropic activities and prevent political influence. Third, in addition to mere credit claiming activities, politicians may seek to influence the number of charitable donations or the projects they are spent on. Since such insider-initiated philanthropic activities are mostly non-profit-maximising (Bénabou and Tirole, 2010), banks have no economic incentives to engage in them. Ultimately, it is an empirical question whether politicians associate with state-owned banks' charitable activities to gain a political advantage.

*Charitable activities and the political cycle.* We consider the timing of banks' CSR activities to isolate the effect of political insiders on banks' CSR activities. We rely on the notion that constituents tend to scrutinise incumbent politicians' activities more closely when an election is imminent. They are more attentive to politicians' election-year performance than their overall performance, underlying the so-called end bias in retrospective assessment (Achen and Bartels, 2004; Fair, 1978; Huber et al., 2012; Kramer, 1971). The end bias in retrospective assessment helps explain extant empirical evidence documenting an electoral cycle in state-owned companies' behaviour. For example, Alok and Ayyagari (2020) document that state-owned companies announce more capital expenditure projects in election years than in non-election years, particularly projects that are more visible to voters. Several other studies find that state-owned banks ease lending policies closer to an election (Cole, 2009; Carvalho, 2014; Dinc, 2005; Ru, 2018; Sapienza, 2004). German savings banks, in particular, were found to change their business decisions related to branch closure, lay-offs and merger activities and adjust their lending policies in the run-up to an election (Englmaier and Stowasser, 2017). Based on this evidence, we argue that politicians may associate themselves with state-owned banks' CSR activities to a more considerable degree when an election is imminent.[6] Accordingly, our first hypothesis is formulated as follows:

***H1:*** *The level of politically associated charitable activities in savings banks is higher in election years than in other years.*

*Banks' CSR reporting and the political cycle.* Next, we consider the association between the political cycle and savings banks' CSR reporting. The legitimacy theory of CSR argues that companies must ensure they are perceived as legitimate, i.e., as operating within society's norms and expectations (Dowling and Pfeffer, 1975). Several empirical studies corroborate the idea that companies use CSR disclosure to signal their legitimacy (e.g., Deegan et al., 2000; Patten, 1992). CSR reporting thus constitutes a primary tool for corporate legitimization, and companies use it to disclose positive news about their social and environmental engagement. Connecting this rationale to the electoral cycle, we argue that banks tend to report more about their CSR activities during election years because they engage in higher CSR activities during these years. Results in line with this notion can also indicate that banks increase their CSR activities rather than let politicians engage in mere credit claiming. In other words, if savings banks engaged in higher CSR activities during election years, we would expect them to report about it. If, on the other hand, savings banks did not engage in higher CSR activities during election years but experienced mere political credit claiming for their existing CSR activities, we would not expect a higher level of CSR reporting during election years. Our second hypothesis is framed follows:

***H2:*** *The level of CSR reporting in savings banks is higher in election years than in other years.*

[6] An increase in politically associated charitable activities can be attributed to either a real increase in charitable activities by the savings bank, or an increase in political credit claiming for the existing charitable activities, or both. Note that we refer to politically associated charitable activities encompassing all three possibilities.

*The role of political competition.* While the electoral cycle determines political pressure across time, other factors determine it in the cross-section. We first focus on the political competition as a driver of politicians' vote-seeking behaviour. In politically contested regions, incumbent politicians have to exert more effort into being re-elected than in regions with little opposition. Along these lines, several studies find that companies respond to politicians' interests primarily if the election outcome is ambiguous. For example, Carvalho (2014) finds that Brazilian manufacturing firms eligible for government bank lending expand employment before elections only in regions with contested elections. In a similar vein, Alok and Ayyagari (2020) find that state-owned companies in India are more inclined to announce capital expenditures in districts with a close election outcome. We, therefore, expect the increase in politically associated charitable activities by savings banks to be higher in politically contested regions. Our third hypothesis is thus stated as follows:

***H3:*** *The increase in politically associated charitable activities in election years is stronger in politically contested regions.*

*The role of political orientation.* Next to political competition, politicians' positioning on the political left and right spectrum may also determine the level of politically associated charitable activities. Political parties on the left side of the spectrum tend to support higher levels of public spending than those on the right. Therefore, the attitude toward public spending serves in public policy research as a distinguishing feature between left and right parties (Huber and Inglehart, 1995). Because it appeals more to voters that tend to vote for left-wing parties than to voters that tend to vote for right-wing parties, left-wing politicians competing for votes frame their programs accordingly in order to serve their constituents' preferences (Cusack, 1997).[7]

While corporate investments and philanthropy do not constitute public spending, they also improve constituents' lives and serve similar purposes from a politician's perspective. For example, Alok and Ayyagari (2020) find that state-owned companies announce more capital expenditure projects before an election if the incumbent politician belongs to a left-wing party. Similarly, empirical evidence suggests that firms with Democratic or left-

[7]We use the terms left-wing and right-wing to refer to any political positioning left or right of the centre, including centre-left (e.g., Social Democratic Party of Germany (SPD)) and centre-right (e.g., Christian Democratic Union of Germany (CDU)). Our choice of wording is guided by prior literature that most often uses the terms left and right (e.g., Alok and Ayyagari, 2020; Englmaier and Stowasser, 2017; Markgraf and Rosas, 2019). Other terminology that is used and reflects the same political spectrum is liberal and conservative (e.g., Chin et al., 2013).

wing executives and directors and firms that operate in Democratic-leaning states score higher on CSR than their Republican or right-wing counterparts (de Andres et al., 2023; Di Giuli and Kostovetsky, 2014; Rubin, 2014). Accordingly, we argue that politically associated charitable activities are likely stronger under left-wing politicians because they appeal more to left-wing constituents. In line with these arguments, our fourth hypothesis is formulated as follows:

***H4:*** *The increase in politically associated charitable activities in election years is stronger under left-wing politicians.*

Figure 2 shows a summary of the directional relations that underlie our hypotheses.

[Insert Figure 2 around here]

# 4 Data and research design

## 4.1 Sample construction

Our dataset combines data from several sources. As summarized in Table 2 Panel A, the sample size of our treatment group (savings banks) is primarily determined by the availability of balance sheet and income statement data from Bureau van Dijk's BankFocus, and the coverage of banks' charitable activities through local newspapers.[8] Since the availability of financial statement data was limited before 2012, our observation period covers the years 2012-2020. The number of savings banks during that period decreases from 423 in 2012 to 376 in 2020 due to merger activities, resulting in a full population of 3,602 bank-years for the treatment group. From this population, we drop 770 observations because there is no news coverage on these banks' charitable activities. We drop further 598 observations, mainly in the early years of our observation period, because their financial statement data is not available through BankFocus. This reduces our sample size to 2,234. Next, our analysis requires to backward fill electoral data in years when no election took place. In particular for the later years in our sample period, this means that no electoral

[8]The sample size for our treatment and control groups increase in 2012-2013 due to increased coverage by BankFocus. Since 2014, the sample size decreases again because of growing consolidation in the banking industry. When two banks merge, they continue to exist as one bank in our sample. To eliminate the effect of merger activities on our main results, we control for bank mergers in our regression model.

data is available yet to backward fill the non-election years. This reduces our sample size by an additional 804 observations. Finally, we drop 26 singletons from our sample (i.e., banks with only one observation in our sample period), leaving us with 1,404 observations for the treatment group.

[Insert Table 2 around here]

We construct our control group by matching one cooperative bank to each savings bank based on location and size. Matching based on location is critical to ensure that both banks are exposed to the same electoral cycle and associated political pressure. We therefore only consider cooperative banks whose main office is located in the same city as the savings bank's main office. If no cooperative bank meets this condition, we also consider banks that operate branches in the same location or in close proximity thereof. We make sure that the matched cooperative bank operates in the same German state as the savings bank. This ensures that the cooperative banks (control group) are exposed to the same electoral cycle and associated political pressure as the savings banks (treatment group). If several cooperative banks qualify as a control subject for a given savings bank, we choose the bank that is most comparable in terms of total assets.[9] After dropping banks with missing financial statement data or news coverage, we end up with a sample of 716 observations for our control group. As Table 2 shows, the number of yearly observations ranges from 16 (in 2012) to 120 (in 2014).

We also construct a sub-sample of savings banks to explore their level of CSR reporting during election years (H2). To that end, we include only banks that disclose a mandatory CSR report according to the European Non-Financial Reporting Directive (NFRD; Directive 2014/95/EU).[10] Because the NFRD was applicable for financial years 2017 and later, our sub-sample covers the years 2017, 2018, 2019 and 2020. We exclude 1,022 out of 1,530 bank-year observations because they do not meet the size thresholds of the NFRD and do therefore not publish a mandatory CSR report. We exclude further 24 bank-year

[9] It occasionally happens that several smaller savings banks operate in the operating region of one larger cooperative banks. In such a case, the same cooperative bank would be included multiple times in the control sample. To avoid duplicate values, we include each cooperative bank only once in our sample, which results in an slightly smaller control group. Since savings banks tend to be larger than cooperative banks (see Table 4), this does not occur frequently. The smaller size of the control group is therefore mainly due to the unavailability of data.

[10] We limit our analysis to mandatory CSR reports because savings banks do not provide comprehensive CSR reports on a voluntary basis. Their CSR communication is focused on website postings and, to a limited degree, social media posts (Gulenko et al., 2022).

observations that are not under municipal trusteeship and 36 bank-year observations that are not within our full sample. This leaves us with a sub-sample of 448 savings bank-year observations. As detailed in Table 2 Panel B, the observations are almost evenly distributed across the years 2017-2020.

## 4.2 Data

To construct our dataset, we combine financial statement data, data on savings banks' supervisory board chairperson, data on municipal elections, local news data and macroeconomic data on municipality-level. We leverage several sources to collect the necessary data. First, we obtain financial statement data from Bureau van Dijk's BankFocus. It includes, e.g., banks' total assets, profit before taxes and loan loss reserves. Next, we collect data on municipal elections. Because many savings banks operate across multiple municipalities, we first need to identify the municipality where each bank's supervisory board chairperson is politically active. To that end, we collect the chairpersons' names and occupations (e.g., county commissioner or mayor) from banks' annual reports, which are published on the website of the German Federal Gazette.[11] If there was a change in the chairperson holding office during the fiscal year (e.g., due to a statutory rotation or due to a change in political power), we collect the data for both chairpersons that held office in the given year.[12][13]

Using internet search, we then identify the specific municipality where the chairperson holds office or is otherwise politically or non-politically active, as well as the political party he or she is a member of. Having matched savings banks' chairpersons with their municipalities, we continue by collecting data on the elections held in these municipalities. This information can typically be found on the websites of the state statistical offices or on the websites of the municipalities themselves. In case of an election, we collect a wide range of data, including the date of the election, the number of people eligible to vote, the total number of voters, as well as the number of invalid votes. We also collect the names and party affiliations of all contestants, and the number of votes each of them received.

[11] https://www.bundesanzeiger.de

[12] In case of a change, we consider the chairperson that holds office for the larger part of the year. That is, if the change took place during the first half of the year, we consider the latter chairperson; if it took place during the second half of the year, we consider the former chairperson.

[13] We also consider investigating gender as a determinant of politically associated CSR. Recent literature finds that female board representatives are associated with higher CSR activities and reporting (Dawar and Singh, 2016). However, because only 7.8% of our bank-year observations have a female supervisory board chairperson (165 observations), we do not run a separate test on gender.

If no contestant receives an absolute majority in the primary election, German regulation requires a run-off election to be held between the two contestants with the most votes, roughly two weeks after the primary election. In case of a run-off election, we collect the same set of information on the run-off election.

Fourth, to measure our dependent variable, we obtain data on news articles from local newspapers. We are careful to exclude national newspapers because they do not conform to the local nature of municipal election. Two sources fulfill our data requirements: Wiso Wirtschaftspraxis and Nexis Uni. They both contain news articles from local newspapers and, collectively, they cover approximately 200 local daily newspapers in Germany. Wiso Wirtschaftspraxis has a coverage of 135 newspapers and Nexis Uni has a coverage of 66 newspapers. After having defined the media outlets, our aim is to identify all news articles that cover banks' politically associated CSR disclosure. To that end, we search both databases for articles that contain three sets of keywords simultaneously:

1. *'Spende'* (donation)
2. AND *'Bürgermeister'* (mayor) OR *'Landrat'* (county commissioner)
3. AND bank name.

To ensure the largest possible coverage, we use, for the third set of keywords, the official name of the bank as well as common aliases and different name spellings. Table A1 in the Appendix contains four examples of news articles that we have identified during this search. Next, we extract available data from the news articles. This mainly includes the release date of the article, the article title and length, as well as the name of the newspaper. Because Nexis Uni allows the bulk download of full-text articles, we collect the full texts of the articles identified through Nexis Uni. In total, we collect 20,449 news articles – 18,441 from Wiso Wirtschaftspraxis and 2,008 from Nexis Uni.

We complement our dataset with geographic and macroeconomic data to control for factors that might influence both the dependent and explanatory variables. Specifically, we collect data on the population and gross domestic product (GDP) of the municipalities where the politicians hold office, which determines the economic prosperity of a municipality. This data is available through the Federal Statistical Office.[14] Table A2 in the Appendix contains detailed information on the data used. Finally, to test hypothesis 2,

[14]https://www-genesis.destatis.de/genesis/online

we collect mandatory CSR reports for the sub-sample of savings banks that have to report under the NFRD since 2017. Most reports are published on the website of the German Federal Gazette, as part of the annual report or in a separate report. A minority of banks opts to publish the report on their website.

## 4.3 Research design

To test H1 on the influence of the electoral cycle on banks' politically associated charitable activities, we choose a difference-in-differences research design that allows us to investigate the effect of municipal elections as exogenous shocks to savings banks' charitable activities. By including cooperative banks as a control group, we ensure that our results are not affected by unobserved events unrelated to the political cycle.[15] Our difference-in-differences model is specified as follows:

$$\begin{aligned} CSR\_fy_{it} = \alpha_0 + \beta_1 Election_{mt} SavingsBank_i + \beta_2 Election_{mt} \\ + \beta_3 SavingsBank_i + \gamma X_{imt} + \delta S_i + \theta T_t + \rho I_i + \varepsilon_{imt}. \end{aligned} \tag{1}$$

Unfortunately, disaggreted data on savings banks' charitable activities is not available. Therefore, we proxy for banks' politically associated charitable activities with local newspapers articles. The dependent variable $CSR\_fy_{it}$ is calculated as the log-transformed sum of articles published in year $t$ that cover bank $i$'s charitable activities under the mention of a local politician. $SavingsBank_i$ is an indicator variable equal to one if bank $i$ is a savings bank, and zero otherwise. $Election_{mt}$ is an indicator variable equal to one if an election took place in municipality $m$ during year $t$ and zero otherwise.[16] The coefficient of interest $\beta_1$ therefore measures the joint effect of $SavingsBank_i$ and $Election_{mt}$ – i.e., to what extent the electoral cycle influences the politically associated charitable activities of savings banks compared to those of cooperative banks.

[15] The critical assumption underlying this approach is that the CSR activities of savings banks and cooperative banks follow the same trend in the absence of municipal elections. We test for this assumption in Section 5.2.

[16] We ascribe an election early in the year $t+1$ to the charitable activities of year $t$ because a politician is likely to start campaigning for re-election in year $t$ if an election will take place in the first half of of year $t+1$. $Election_{mt}$ is therefore equal to one if an election took place during the last six months of year $t$ or the first six months of year $t+1$ in municipality $m$ where the bank's supervisory board chairperson held office, and zero otherwise.

$X_{imt}$ is a vector of bank and macroeconomic variables that control for factors potentially influencing both the dependent variable and the variable of interest. It includes $TA_{it}$, $Equity\_ratio_{it}$, $ROA_{it}$, $Riskiness_{it}$, $Post\_fusion_{it}$, $Population_{mt-1}$, $GDP\_capita_{mt-1}$ and $GDP\_growth_{mt-1}$. Because larger companies have greater impacts on their stakeholders and the environment, they are more visible and therefore face greater scrutiny and pressure to engage in CSR activities (Gallo and Christensen, 2011; Hahn and Kühnen, 2013). We therefore include $TA_{it}$ as the log-transformed total assets of bank $i$, averaged over years $t$ and $t-1$, controlling for the size of the bank. We also control for a bank's financial performance because higher profitability increases the bank's ability to engage in charitable activities (Hahn and Kühnen, 2013). We therefore include $ROA_{it}$ and $Equity\_ratio_{it}$ as control variables. $ROA_{it}$ is measured as the profit or loss before taxes over average total assets. $Equity\_ratio_{it}$ is calculated as the average equity over average assets and controls for bank leverage that can impact a bank's ability to engage in charitable activities.

Furthermore, we include $Riskiness_{it}$, measured as the loan loss reserves of bank $i$, averaged over years $t$ and $t-1$ and divided by the average total assets. Recent literature found a negative relationship between a bank's CSR performance and its risk-taking behaviour, suggesting that CSR activities help banks manage their stakeholder relations and CSR risks (Di Giuli and Kostovetsky, 2014; Galletta and Mazzù, 2023). Finally, we control for bank consolidation by including the indicator variable $Post\_fusion_{it}$, taking on the value of 1 if bank $i$ experienced a merger in year $t$ or any year during our observation period prior to $t$. $Post\_fusion_{it}$ controls for structural changes within banks that occur after a merger and may affect the ability of a bank to engage in CSR activities. Moreover, it captures the competitive pressure in the banking market that may lead some banks to adopt a differentiation strategy based on CSR activities (Yip and Bocken, 2018).

We also include geographic and macroeconomic variables to control for the macroeconomic strength of the municipalities where banks operate. To reduce the correlation among the independent variables, we lag the three macroeconomic variables in our model. Specifically, we include $GDP\_capita_{mt-1}$ and $GDP\_growth_{mt-1}$ to control for the affluence of the municipalities (Englmaier and Stowasser, 2017). $GDP\_capita_{mt-1}$ is calculated as the log-transformed gross domestic product per capita in municipality $m$ in year $t-1$ and $GDP\_growth_{mt-1}$ is the year-on-year growth of $GDP\_capita_{mt-1}$. The macroeconomic strength of the municipality may determine a bank's level of charitable activities because such activities may be more needed in less affluent regions. Lastly, $Population_{mt-1}$ is the log-transformed number of residents in municipality $m$ in year $t-1$ and captures demographic differences between municipalities that may determine the demand for charitable activities. In the most stringent specification of the model, we include state ($S_i$), year ($T_t$) and bank ($I_i$) fixed effects. Note that the fiscal year of our sample banks corresponds to the calendar year, so that our dependent variable is temporally aligned with the control variables. Variable definitions and data sources can be found in Table A2 in the Appendix.

To investigate the role of the electoral cycle in savings banks' CSR reporting (H2), we employ a sub-sample of savings banks that provide a mandatory CSR report under the NFRD.[17] We then estimate the following OLS regression on this reporting sub-sample:

$$Reporting_{it} = \alpha_0 + \beta Election_{mt} + \gamma X_{imt} + \delta S_{it} + \theta T_t + \rho I_i + \varepsilon_{imt}. \tag{2}$$

The dependent variable $Reporting_{it}$ measures the extent of CSR reporting by bank $i$ for fiscal year $t$. It is measured as the log-transformed total number of words contained in the CSR report ($Reporting\_total_{it}$) and the log-transformed topic-specific number of words in the CSR report ($Reporting\_environment_{it}$, $Reporting\_social_{it}$, $Reporting\_employee_{it}$, $Reporting\_humanrights_{it}$, $Reporting\_bribery_{it}$).[18] The variable of interest is $Election_{mt}$, such that the coefficient $\beta$ measures the effect of the electoral cycle on banks' CSR reporting. To the control variables, we add the variable $AR\_words_{it}$, measured as the total number of words contained in the annual report, which proxies for banks' general tendency to disclose more information. We include the same set of fixed effects as in Model 1.

Next, to assess the influence of political competition on the relationship between the electoral cycle and charitable activities (H3), we construct the variable $Competitors_{mt}$, which measures the level of political contest. To keep the model interpretable and avoid triple interactions, we construct $Competitors_{mt}$ as an indicator variable that takes on the value of one if the total number of competitors in the primary election is larger than the sample median of competitors, and zero otherwise. We then split our main sample into the

[17] We cannot, unfortunately, use a difference-in-differences research design comparable to the Model 1 because only ten cooperative banks from our sample are subject to the NFRD, resulting in a too small control group.

[18] The NFRD prescribes banks to disclosure non-financial information related to the environment, social matters, employee-related matters, respect for human rights, and anti-corruption and bribery. Because savings banks' reports are clearly structured around these five topics, we are readily able to determine the topic-specific amount of text in these reports (see also Gulenko et al., 2022).

group of observations where $Competitors_{mt}$ takes on the value of one and the group where $Competitors_{mt}$ takes on the value of zero and then run the Model 1 regression on the two resulting sub-samples, with the full set of fixed effects.[19] Lastly, we proceed similarly in exploring the effect of political orientation on the relationship between the electoral cycle and CSR disclosure (H4). We define the variable $Chair\_left_{it}$ as an indicator variable equal to one if the supervisory board chairperson of bank $i$ is a member of the Social Democratic Party or the Left party for the larger part of year $t$, and zero otherwise. We then split the sample into the group of observations where $Chair\_left_{it}$ takes on the value of one and the group where $Chair\_left_{it}$ takes on the value of zero. We again run the Model 1 regression on the two resulting sub-samples.[20]

# 5 Descriptive overview and parallel trends

## 5.1 Descriptive overview

To better understand the political landscape of savings banks, we visualise data on the supervisory board chair and municipal elections. Figure 3 shows the occupation of savings banks' supervisory board chairpersons. The left chart shows the distribution of bank-year observations in non-election years and the right chart shows the distribution in election years, for savings banks only. Because elections take place every one to four years, fewer observations fall into election years (n=364) than non-election years (n=1,040). Among all 1,404 bank-year observations, 47.4% of chairpersons are county commissioners and 40.8% are mayors. Some chairpersons (3.8% in total) have a political or administrative occupation distinct from county commissioner or mayor, e.g., district councilor or member of state parliament. Lastly, 8.0% of bank-year observations have a chairperson whose primary occupation is non-political, e.g., directors of small and medium-sized companies or tax consultants. Note that, although the latter have full-time occupations outside of political or administrative offices, they are oftentimes still engaged in local politics or pertain to a political party. The distribution of occupations is similar in election years and non-election years.

[19]Our results do not change if we include members of the party Bündnis 90/Die Grünen (the Greens) into our $Chair\_left$ specification.

[20]For additional robustness, we also report triple interactions instead of sample splits (Table A3).

[Insert Figure 3 around here]

Figure 4 shows the frequency of chairperson changes during our sample period. Unsurprisingly, changes happen more often during election years (50.5%) than during non-election years (19.9%). The data seem to suggest that approximately half of the elections result in a political power change. Changes during non-election years typically happen due to a statutory requirement by banks that operate in multiple large municipalities or that have a history of merger activities. In such cases, banks' statutes dictate a periodic (every one to four years) rotation of supervisory board members to ensure a fair distribution of decision rights among all municipal trustees. Figure 4 suggests that approximately one in six observations experiences such a change in chairpersons during the year.

[Insert Figure 4 around here]

Next, Figure 5 shows the party membership of savings banks' supervisory board chairpersons. The relative distribution in non-election years (left chart) is similar to the distribution in election years (right chart). 54.8% of chairpersons are a member of either the CDU (Christian Democratic Union of Germany) or the CSU (Christian Social Union of Bavaria), the center-right Christian democratic parties of Germany, and 30.3% are a member of the SPD (Social Democratic Party of Germany), the center-left social democratic party of Germany. Interestingly, the third-largest party affiliation pertains to the Freie Wähler (Free Voters), which are local associations participating in municipal politics without having the status of a registered political party. Other major parties such as Die Linke, (the Left), Bündnis 90/Die Grünen (the Greens) or the FDP (Free Democratic Party) seem to play a minor role in municipal politics. However, a large portion of supervisory board chairpersons (6.1%) are not members of any political party despite being politically active (i.e., independent). Lastly, we could not identify any party affiliation or political occupation for a small portion of supervisory board chairpersons (1.0%) and conclude that they are not politically active.

[Insert Figure 5 around here]

We present detailed summary statistics on municipal elections in Table 3. The upper part of the table shows primary elections and the lower part of the table shows run-off elections, separately for savings banks (left-hand side of the table) and cooperative banks (right-hand side of the table). Note that we only include the 546 bank-year observations that are exposed to an election, thereof 364 pertaining to savings banks and 182 to cooperative banks. For savings banks, the mean number of eligible voters during primary elections is 132,755, slightly higher than for cooperative banks (mean=127,784), and ranges form as little as 2,849 to as high as 1,110,571.[21] The electoral participation is close to 50.0% for both savings and cooperative banks in the primary election and ranges between 20.7% and 74.9%. Out of the votes that are cast, 1.6% are on average invalid.

With respect to the contestants, Table 3 shows that an average of 4.5 contenders (3.5+1) stand for election. The winner in savings banks' (cooperative banks') municipalities receives an average of 55.0% (54.7%) of the votes, which is also close to the median. This suggests that in most cases, the outcome of the primary election does not require a run-off election because the winner receives an absolute majority of the votes. Table 3 also shows that the winner is most likely to be a member of the CDU/CSU, followed by the SPD. The relative party affiliation of the winner approximately resembles the overall party affiliation of the chairpersons (Figure 5). The contestant that receives the second-largest share of the votes (i.e., run-up contestant) receives an average of 26.4% (26.5% for cooperative banks). 38.5% (38.5% for cooperative banks) of the elections result in a run-off election because no contestant received an absolute majority.

The lower part of the table shows that run-off elections are more likely to happen in larger municipalities, as indicated by the higher number of eligible voters (170,153 for savings banks and 161,525 for cooperative banks). However, electoral participation is 7.5 (9.0 for cooperative banks) percentage points lower than in the primary election. The winner is less likely to be a member of the CDU/CSU and more likely to be a member of the SPD compared to the primary election. On average, the winner wins by a margin of 17.9 percentage points (18.9 percentage points for cooperative banks).[22]

[Insert Table 3 around here]

[21] The minor differences in descriptive statistics between savings banks and cooperative banks arise due to our matching procedure, which ensures that cooperative banks are included only once in the control group. Therefore, our control group of cooperative banks cover a slightly different set of municipal elections than the treatment group of savings banks.

[22] The winner votes and the run-up contestant votes in the run-off election do not add up to one hundred due to the invalid votes cast during the elections.

Table 4 Panel A presents descriptive statistics for the variables used in the regression analysis for the full sample of 2,120 bank-year observations. We log-transform the variables $CSR\_fy$, $TA$, *Population* and *GDP_capita* in order to normalise their distributions. To eliminate the effect of outliers, we further winsorise all continuous variables at the 1st and 99th percentile. Table 4 Panel B presents the same descriptive statistics for savings banks and cooperative banks separately, along with the t-statistics and $\chi^2$ for the null hypothesis that there is no difference between the means. The dependent variable $CSR\_fy$ in Panel B shows that an average of 3.6 articles are published yearly on savings banks' charitable activities, 1.4 articles more than for cooperative banks.[23] More than 25.0% of our bank-year observations do not have a single article published in the given year. 17.9% (21.4%) of bank-year observations that are savings banks (cooperative banks) experience a municipal election in the given year. Savings banks have an average of EUR 2.4 bn in total assets, and are almost twice as large as cooperative banks (EUR 1.3 bn). They also exhibit a higher equity-to-assets ratio than cooperative banks (9.3% versus 8.7%), but operate slightly less profitably in terms of return on assets (0.4% versus 0.5%). Macroeconomic and election data is not significantly different between savings and cooperative banks, which is a result of our matching procedure.

[Insert Table 4 around here]

Table 5 shows Pearson's correlation coefficients between the variables included in our regression model. Most of the coefficients between the independent variables are not statistically significant. Among the statistically significant coefficients, most are well below 30.0%. However, three correlations stand out. First, banks operating in more populated areas and areas with a higher GDP per capita are larger in terms of total assets. Moreover, areas with higher GDP per capita have a higher year-on-year growth in GDP per capita.[24]

[Insert Table 5 around here]

Lastly, Table 6 shows descriptive statistics of reporting practices for the sub-sample of 448 savings bank-year observations that provide a mandatory CSR report in any of the

[23] $CSR\_fy$ is measured on a log scale and reported accordingly in Table 4. The exponential value is calculated as $e^{1.275} = 3.579$. For better readability, we report the exponential values in the text.

[24] In a sensitivity test, we exclude *GDP_capita* to remove some of the correlation among the explanatory variables. Our results remain unchanged.

years 2017, 2018, 2019 or 2020. *Reporting_total* shows that the average mandatory CSR report contains 10,229 words and ranges between 4,381 and 20,661 words (exponential form of the log-transformed variables). Moreover, out of the five topics mandated by the NFRD (i.e., environment, social, employee, human rights and anti-corruption and bribery), most space is dedicated to the employee section (1,828 words), followed by the environmental section (1,498 words). Least space is dedicated to human rights (397 words). Further, Table 6 shows that the annual report is on average 20,765 words long and that mandatory reporters are, as expected, larger than the full sample of savings banks and operate in more populated regions.

## 5.2 Parallel trends assumption

Our research design heavily relies on the assumption that the counterfactual trend behaviour of treatment and control groups are the same, i.e., the parallel trends assumption (Angrist and Pischke, 2009). In other words, we assume that $CSR\_fy$ would have followed the same trend for savings banks (treatment group) and for cooperative banks (control group) throughout the observation period, had elections not taken place. In order to gauge the validity of this assumption, we assess whether $CSR\_fy$ follows the same trend for savings banks and for cooperative banks in non-election years.

To do so, we present a visual test of the parallel trends assumption in Figure 6. It shows the average level of politically associated CSR disclosure for three years before and after an election. To eliminate imbalance in the data, we use a sub-sample of banks with available data during the six years around an election. This balanced sample consists of 38 savings banks (upper line) and 19 cooperative banks (lower line), for a total of 399 bank-year observations. Visual inspection shows that the difference in $CSR\_fy$ between savings and cooperative banks is relatively stable through the three years before an election. The difference then experiences a temporary expansion in the election year, which again diminishes in the year after the election. Throughout the three years after the election, the difference between treatment and control group again remains relatively stable.

[Insert Figure 6 around here]

To further scrutinise the result of the visual inspection, we implement a more formal test of parallel trends. To do so, we run a fixed effects regression which resembles Model 1 but includes interaction terms that depict the differences in $CSR\_fy$ between savings banks and cooperative banks, for the years around an election. The model is specified as follows:

$$\begin{aligned} CSR\_fy_{it} = \alpha_0 + \beta_{-2}D_{-2it} + \beta_{-1}D_{-1it} + \beta_0 D_{0it} + \beta_1 D_{1it} + \beta_2 D_{2it} + \beta_3 D_{3it} \\ + \gamma X_{imt} + \delta S_{it} + \theta T_t + \rho I_i + \varepsilon_{imts}. \end{aligned} \tag{3}$$

$D_{it}$ are interaction terms operationalised as $Year\_to\_election_t \times SavingsBank_i$, where $Year\_to\_election$ is an indicator variable for the three years before and after an election, respectively.[25] We omit the interaction term for year $t-3$ to avoid the dummy variable trap. $T-3$ therefore represents the baseline, relative to which the other coefficients should be interpreted. Further, we include the same set of control variables and fixed effects as in Model 1. Figure 7 visually presents the results of Model 3. It shows the coefficients for the interaction terms, i.e., $\beta_{-2}$, $\beta_{-1}$, $\beta_0$, $\beta_1$, $\beta_2$ and $\beta_3$ (dots), along with the 95% confidence interval (vertical lines). The plot shows that the difference in $CSR\_fy$ between savings banks and cooperative banks in year $t-2$ is not statistically different from the difference in $CSR\_fy$ in year $t-3$ (baseline). The same is true for years $t-1$, $t+1$, $t+2$ and $t+3$. Much like the visual inspection, the formal test thus supports our assumption of parallel trends.[26] Table A4 in the Appendix contains the detailed results of the formal parallel trends test.

[Insert Figure 7 around here]

[25] For example, $\beta_2$ is the coefficient on the interaction term $Year\_to\_election_2 \times SavingsBank_i$, which is switched on for savings banks during the second year after an election.

[26] Note that, even in the election year, the confidence interval crosses zero and the null hypothesis is not rejected – albeit the coefficient being further away from zero than in any other year. This result may be explained by the small sample size of 399 observations, which we obtain after balancing our sample for the parallel trends test.

# 6 Empirical results

## 6.1 CSR and the political cycle

Table 7 presents the results of our difference-in-differences regression for the first hypothesis on the impact of the electoral cycle on banks' CSR activities. The dependent variable $CSR\_fy$ is our proxy for politically associated CSR. To explore the effect of the variable of interest separately, column 1 shows a model that includes only the interaction term $Election \times SavingsBank$ and the two interacted variables. Because the dependent variable is measured on the logarithmic scale, the coefficient can approximately be interpreted as a percentage change. The coefficient on the interaction term is positive and statistically significant at the 1% level, suggesting that savings banks exhibit 22.9% higher politically associated CSR activities or credit claiming thereof during election years compared to cooperative banks.[27] The magnitude of the coefficient on $Election \times SavingsBank$ is stable after adding the control variables in column 2.

Interestingly, the coefficient on $Election$ is negative and statistically significant in all specifications, suggesting that cooperative banks engage in less politically associated CSR activities during election years. This may point to a crowding-out effect of savings banks' increased CSR activities. That is, savings banks cater to a larger number of civil projects during election years, leaving fewer available civil projects to cooperative banks. Furthermore, while not all control variable coefficients are statistically significant, they mostly show the expected signs. For example, $TA$ has a large positive association with $CSR\_fy$, indicating that larger banks engage in higher levels of politically associated CSR.

We gradually add fixed effects to the model in columns 3-6, with the most stringent specification in column 6 including state, year and bank fixed effects. Across all model specifications, the coefficients of interest exhibit the same direction and statistical significance. Our results extend the finding of de Andres et al. (2023), who document a positive association between CSR resource allocation and the proportion of political directors on savings banks' boards. Our results extend their cross-sectional test by employing a research design that allows for more causal inferences and insights about the reasons for the influ-

[27] The approximation represents a prudent estimate of the actual effect. In the given example, the true effect is 25.73% and can be calculated as $(e^{0.229} - 1) * 100 = 25.73\%$. For better comprehension, we use the approximation throughout the paper.

ence of political insiders on banks' CSR activities. In sum, our results indicate that savings banks engage in 15.8%-22.9% higher politically associated CSR during election years than during non-election years compared to cooperative banks.

[Insert Table 7 around here]

## 6.2 CSR reporting and the political cycle

Table 8 shows the results for hypothesis 2 that the level of CSR reporting in savings banks is higher during election years than in other years. The reporting sub-sample consists of all savings banks subject to mandatory reporting under the NFRD in the years 2017, 2018, 2019 and 2020. Columns 1-6 show *Reporting_total* as the dependent variable, measured as the log-transformed total number of words in the CSR report. The coefficient on *Election* is insignificant after adding control variables and fixed effects. It is interesting to note that the control variable *AR_words* is not significantly correlated with *Reporting_total*. $TA$ is, as expected, positively correlated with *Reporting_total*. However, after adding all three sets of fixed effects, the coefficient turns insignificant – as does the coefficient on the other control variables.

Next, we examine the extent of reporting on the five topics which are specified in the NFRD — environment, social, employee-related, human rights and anti-corruption and bribery. The results show that the length of the sub-sections are not significantly longer during election years than non-election years, as shown in Table 8 and Table A5 in the Appendix. Even the section on social matters, which covers philanthropic activities and contributions to society, does not show significant results after adding state fixed effects, suggesting that banks do not report significantly more on their CSR activities during election years. In sum, our results do not support H2 that savings banks report more on CSR during election years compared to non-election years.

[Insert Table 8 around here]

## 6.3 The role of political contest and orientation

Next, Table 9 explores variation in political competition (H3) and political orientation (H4) as drivers of banks' politically associated CSR during election years. Column 1 presents the baseline results from Model 1, and all model specifications in the table include the full set of control variables and fixed effects.

[Insert Table 9 around here]

Columns 2 and 3 present the results for H3 on the role of political competition. The sample is split into observations where the number of competitors in the primary election is larger than the median (column 2) and those where the number of competitors is smaller than the median (column 3). The regression coefficient on $Election \times SavingsBank$ in column 2 suggests that, for the sub-sample of highly competitive regions, savings banks engage in 22.8% higher politically associated CSR during election years compared to co-operative banks. The coefficient is higher than in the baseline model. For the sub-sample of less competitive regions, the coefficient on *Election* is lower and not significant. While these results support our hypothesis that stronger political competition drives banks' politically associated CSR, they do not hold under a different regression design that uses triple interactions instead of a sample split (A3). In sum, we only provide limited evidence for H3 that stronger political competition is associated with higher politically associated CSR.

Columns 4 and 5 show the results for H4 on the role of political orientation. The sample is split into those banks that operate under a left-wing politician (column 4) and those that operate under a right-wing politician (column 5)[28]. In line with our expectations, the results show that savings banks under a left-wing politician engage in 40.1% higher politically associated CSR in election years compared to cooperative banks. Banks operating under a right-wing politician do not engage in higher CSR during election years, as the coefficient on *Election* is not significant. The results hold when using triple interactions instead of a sample split (see Table A3). Supporting the results of de Andres et al. (2023), we therefore document that political orientation is a strong driver of banks' engagement in politically associated CSR. These results suggest that left-wing politicians use banks' CSR activities to cater to their constituency more so than their right-wing counterparts. In sum, the results suggest that savings banks engage in higher politically associated CSR during election years compared to their non-political competitors, and that this effect is concentrated among banks that operate under left-wing politicians.

[28] Some politicians in column 5 are not right-wing. They can be non-political or belong to a party that is not easily classified into left or right (see Figure 5). However, the majority of politicians in column 5 belong to the CDU/CSU, Grüne or FDP, and can thus be categorized as right-wing.

# 7 Further analyses and robustness tests

## 7.1 Performance implications of politically associated CSR

It would be interesting to know whether the additional CSR activities are reflected in banks' financial performance. The evidence on the performance implications of CSR in general is mixed (Orlitzky et al., 2003). Insider-initiated CSR is, however, generally considered to have a negative impact on firm profitability because it deviates from the optimal, firm value maximizing level of CSR activities. We explore in this additional test whether savings banks' financial performance is different from cooperative banks' financial performance during and around election years. Table 10 shows the results, where $ROA\_m1$, $ROA$, $ROA\_p1$ and $ROA\_p2$ are the return on assets in year $t-1$, $t$, $t+1$ and $t+2$, respectively.

[Insert Table 10 around here]

Table 10 shows no association between $ROA$ and the interaction term, in line with the coefficients on $ROA$ in Tables 7-9. Moreover, the lack of significant results for the relation between the electoral cycle and $ROA$ in years $t+1$ and $t+2$ shows no performance implications of increased politically associated CSR along the lines of Bénabou and Tirole (2010). While this may seem surprising, it is in line with savings banks' public mandate, which allows them not to operate under profit maximisation. In other words, if savings banks do not maximise their profits during non-election years, any deviation during election years is more difficult to detect. $ROA\_m1$ is higher by 0.02 percentage points for savings banks if an election follows in year $t$, and the effect is concentrated among banks that engage in a high level of CSR activities (coefficient = 0.033). This effect translates into a 5-10% higher ROA, given that the mean ROA of savings banks is 0.4%. It indicates that savings banks accumulate financial resources prior to election years, especially if they engage in a high level of politically associated charitable activities.

## 7.2 Placebo test

To probe whether our results indeed point to the influence of political insiders and are not the result of a spurious statistical relation, we perform a placebo test in which we run all of the models on cooperative banks only. Because cooperative banks do not have political ties, we would not expect them to increase their CSR disclosure during election years. The results in Panel A of Table A6 in the Appendix show that cooperative banks have a lower level of CSR disclosure during election years than other years. The adjusted $R^2$ is five to ten percentage points lower than for the full sample (Table 7) – suggesting a lower goodness-of-fit of the model when only cooperative banks are included. Similar results are presented in Panel B, where the two sample splits show that the lower CSR disclosure is concentrated among less contested regions and for cooperative banks who were matched to a savings bank with a left chair. Again, the $R^2$ is lower than for the full sample (Table 9). The results show that cooperative banks do not experience a similar increase in CSR disclosure during election years as do savings banks – supporting the notion that our findings result from savings banks being influenced by political insiders. The negative coefficients on *Election* again indicate that the increased charitable activities by savings banks during election years leads to a crowing out effect of charitable activities for cooperative banks.

## 7.3 Other robustness tests

We perform three other robustness tests to further gauge the validity of our results for H1, H3 and H4, as presented in Tables A7 and A8 in the Appendix. First, we perform two variations of the main models. In the first variation, we include association fixed effects to control for the variation in CSR activities that is determined by regional savings banks associations. Each bank is member of a regional association that may issue recommendations related to, e.g., marketing or communication[29], which may influence the level of banks' CSR disclosure. Panel A of Tables A7 and A8 in the Appendix show that the results remain virtually unchanged. Since seven out of twelve associations are congruent with state borders, we exclude state fixed effects when including association fixed effects.

In the second variation of the baseline model specifications, we exclude banks whose chairperson could not be linked to any political party. These chairpersons presumably have little or no political motives and therefore should not drive banks' CSR disclosure in election years. Since our sub-sample with the alternative disclosure measure does not include any

[29] https://www.dsgv.de/sparkassen-finanzgruppe/organisation/verbaende.html

of these observations, we perform this robustness test only for the main tests. Excluding these observations leaves the results virtually unchanged, as documented in Panel B of Tables A7 and A8.

The last robustness test that we perform relates to the specification of the main variable *Competitors* for hypothesis 3. Specifically, we use a new variable *Contested* instead of *Competitors* to split our sample into highly contested regions and less contested regions. *Contested* is measured as the votes of 1st run-up contestant in primary municipal election, divided by the votes of the winner, in municipality $m$ in year $t$. As Table A9 shows, the results are similar to the baseline model. The coefficient is slightly lower (0.162 instead of 0.228) and slightly less significant. Overall, these results provide confidence that the results of our main tests are not spuriously sensitive to the specification of the variable *Competitors*.

# 8 Conclusion

This study examines whether political insiders drive state-owned banks' CSR activities. While CSR research suggests that corporate insiders drive companies' CSR activities to increase their own benefit, little empirical evidence exists on this, and little is known on insiders' specific incentives to do so. We use the setting of German savings banks to investigate whether corporate political insiders drive the level and timing of banks' CSR activities because it may benefit them politically. Savings banks provide an excellent setting to investigate the influence of self-motivated political insiders on CSR activities because incumbent mayors and county commissioners chair the banks' supervisory boards. They are incentivised to claim credit for banks' CSR activities in order to attract electoral votes during the next election. To isolate the effect of political incentives on banks' CSR activities, we implement a difference-in-differences analysis with cooperative banks as a control group. Cooperative banks provide a suitable control group because they share many similarities with savings banks in terms of business model, clientele and non profit-maximization, but they are isolated from political influence.

We focus on charitable activities as the main CSR activity of savings banks. Our proxy for the level of politically associated CSR uses local news articles on banks' charitable activities under the mention of the incumbent mayor or county commissioner. Our findings indicate that political insiders drive the level and timing of politically associated charitable activities by savings banks. In particular, the presence of political insiders is associated with approximately 15.8-22.9% higher politically associated charitable activities during election years. Moreover, we find that political contest and political orientation mediate the relationship between the electoral cycle and banks' CSR. Banks operating in regions with higher political contest, and banks operating under left-wing politicians exhibit a stronger effect of the electoral cycle on their CSR activities. Lastly, we do not find evidence in line with banks providing more information in their CSR reports during election years.

Overall, our results suggest that state-owned banks' CSR activities are determined by political insiders and their incentives to attract electoral votes. Our study is among the first to identify corporate insiders' influence on CSR activities and their specific incentives to do so. With that, our study contributes to literature on political credit-claiming, politically motivated CSR and literature on corporate insiders' influence on CSR activities.

Our study has some limitations that should be considered. First, our measure of politically associated CSR activities may capture an increase in political credit claiming, an increase in real CSR activities, or both. We are therefore not able to distinguish between politicians' impact on banks' real CSR activities and mere political credit claiming, and our results may capture both. Second, due to the unavailability of full-text news articles in one of the used databases, we are not able to explore the content of the news articles and identify more granular changes in the articles around elections, such as the Euro amount of donations or the specific projects that receive donations.

Lastly, prior research proposed that insider-initiated CSR is different from other types of CSR activities in that it has a negative impact on firm profitability (Bénabou and Tirole, 2010). The question whether CSR activities initiated by political insiders have an effect on long-term firm value remains unanswered in our study due to the inherent difficulty of isolating the effect in our setting. We leave it to future researchers to explore in more detail the consequences of insider-initiated CSR on firm value. Besides addressing the above limitations, we encourage future research to explore other channels of insider-initiated CSR activities and the consequences thereof. These insights might shed more light on the oftentimes conflicting findings on the complex relation between CSR and firm performance (Orlitzky et al., 2003).

The results of this study are interesting to policy makers and regulators. Our results suggest that state-owned banks' CSR activities are influenced by political insiders, who are motivated by their political incentives. This raises questions about the role of politics in the CSR decision-making process of these banks. Politically motivated CSR may result in wasteful spending and inefficiencies in the allocation of resources. This suggests that policymakers and regulators may need to consider ways to ensure that state-owned banks' CSR activities are not unduly influenced by political insiders. This could include enhancing disclosure requirements and increasing the transparency of state-owned banks' decision-making processes. Additionally, policymakers may need to consider the potential conflicts of interest that arise when political insiders hold positions on the supervisory boards of state-owned banks.

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# Appendix

**Finanzspritze in schweren Zeiten: Die Spende der Sparkasse Hochrhein greift den von Corona gebeutelten Vereine unter die Arme**

Sparkasse Hochrhein unterstützt die Vereine der Gemeinde Klettgau mit einer Spende in Höhe von 20.588 Euro.

Die Sparkassen-Vorstände Wolf Morlock (links) und Heinz Rombach überreichen bei einem kurzen Fototermin dem Bürgermeister Ozan Topcuogullari einen Scheck in Höhe von 20.588 Euro. | Bild: Sparkasse Hochrhein

Sparkasse Landshut

**Institutionen aus der Region durften sich über Spenden freuen**

Redaktion Landkreis Landshut, 04.12.2020 - 10:45 Uhr

Freude bei der Spendenübergabe (v. l.): Landrat Peter Dreier, Helmut Muggenthaler, Vorstandsvorsitzender Sparkasse Landshut, Dr. Elisabeth-Maria Bauer, Wolfgang Gensberger und Gerhard Schipper. *Foto: Thomas Joos*

**Kreissparkasse Weilburg spendet 82 500 Euro**

Die Kreissparkasse Weilburg unterstützt in diesem Jahr 62 Institutionen, Vereine und Einrichtungen mit 82 500 Euro.



Freuen sich über die Spendenübergabe (v.l.): Stephan Gürtler, Vorstandsmitglied der Kreissparkasse Weilburg, Landrat Michael Köberle und Stefan Hastrich, Vorstandsvorsitzender der Kreissparkasse Weilburg. Foto: KSK Oberlahn

**Figure A1: Ceremonial donation handovers covered by local news outlets.**

**Note:** This figure shows three articles from local news outlets covering ceremonial donation handovers by savings banks. Sources: Upper – Badische Zeitung (published 22 October 2021), lower left – Idowa/Landshuter Zeitung (published 4 December 2020) and lower right – Weilburger Tageblatt (published 23 April 2020).

**Table A1: Article examples**

| | |
|---|---|
| Source: | Frankfurter Rundschau |
| Title: | Sparkasse fördert Vereine |
| Date: | 11 November 2019 |
| Body: | Als Wertschätzung für ihr ehrenamtliches Engagement haben am Freitag 101 Vereine aus dem Main-Taunus-Kreis **Spenden** in Höhe von insgesamt 150 000 Euro aus dem Fördertopf der **Taunus Sparkasse** erhalten. 'Ohne Ihre wichtige Arbeit würde unsere Gesellschaft nicht funktionieren', sagte **Landrat** Michael Cyriax (CDU), stellvertretender Verwaltungsratsvorsitzender der **Taunus Sparkasse**, bei der Übergabe im **Landratsamt**. Oliver Klink, Vorstandsvorsitzender der **Taunus Sparkasse**, dankte den mehr als 300 Vertretern aus den Vereinen dafür, dass sie 'den Main-Taunus-Kreis so besonders machen' und dort helfen, wo Hilfe gebraucht werde und Menschen miteinander verbinden. |
| Source: | Kölner Stadt-Anzeiger |
| Title: | Der alte Dorfteich ist wieder da |
| Date: | 21 September 2015 |
| Body: | Jahrelang lag der alte Dorfteich vor Haus Torley in Gummersbach-Bernberg trocken, war nur eine grasbewachsene Mulde. Jetzt gibt es ihn wieder, dank des Engagements der Hausbesitzergemeinschaft, des Gartenbau- und Dorfgemeinschaftsvereins Dümmlinghausen, Bernberg und Hesselbach, dank vielen ehrenamtlichen Helfern - und dank der 5000-Euro-**Spende** der Sparkassen- und Bürgerstiftung Gummersbach, die Frank Grebe, Vorstandsvorsitzender der **Sparkasse Gummersbach-Bergneustadt** (4.v.l.), und **Bürgermeister** Frank Helmenstein (M.) als die Kuratoriumsvorsitzenden der Stiftung jetzt übergaben. (...) |
| Source: | Rundschau für den Schwäbischen Wald |
| Title: | Spende für Sicherheit von Jugendlichen |
| Date: | 31 January 2020 |
| Body: | Die **Kreissparkasse Ostalb spendet** 5000 Euro an die Verkehrssicherheitsaktiven 'fiftyFifty-Taxi'. Jugendliche bis 25 Jahre werden damit an Wochenenden im Ostalbkreis vergünstigt nach Hause gefahren. Andreas Götz (Sparkasse) mit Michaela Conrad (**Landratsamt**) und **Landrat** Klaus Pavel bei der Übergabe. |
| Source: | Hallertauer Zeitung |
| Title: | Spende für Sportplatzbau |
| Date: | 19 January 2016 |
| Body: | Pfeffenhausen. Geschäftsstellenleiter Werner Leopold (rechts) überreichte im Beisein von **Bürgermeister**, Karl Scharf an den Vorsitzenden des SV Hornbach, Quirin Zirngibl (Mitte), eine **Spende** der **Sparkasse Landshut** in Höhe von 5000 Euro. Bisher wurden der Spielbetrieb und auch das Training auf einem Spielfeld durchgeführt. Mit dem geplanten Bau eines Trainingsplatzes erhofft sich der Verein die Entlastung des bisherigen Hauptspielfeldes und zusätzliche Trainingsmöglichkeiten. Baubeginn soll im März sein. Für die Errichtung des neuen Spielfeldes sind Gesamtkosten in Höhe von 115000 Euro veranschlagt. In Anbetracht der hohen Investition freute sich Zirngibl über die **Spende** und dankte der Sparkasse für die großzügige Unterstützung. |

**Note:** The table presents four exemplary articles identified using the three search terms (1) *'Spende'* (donation), AND (2) *'Bürgermeister'* (mayor) OR *'Landrat'* (county commissioner), AND (3) bank name. bank name includes the official bank name for each sample bank, as well as common aliases and different name spellings. The search terms are printed in bold. Articles 1 and 2 are extracted from Nexis Uni and articles 3 and 4 from Wiso Wirtschaftspraxis.

**Table A2: Variable definitions**

| Variable name | Unit | Variable definition | Data source |
|---|---|---|---|
| Dependent variables | | | |
| $CSR\_fy_{it}$ | ln | ln(1+number of newspaper articles published in year $t$ that cover bank $i$'s charitable givings under the mention of a local politician) | Wiso, Nexis Uni |
| $Reporting_{it}$ | ln | ln(1+number of (topic-specific) words contained in the CSR report of bank $i$ in year $t$) | Banks' mandatory CSR reports |
| Explanatory variables | | | |
| $Election_{mt}$ | 0/1 | Indicator variable = 1 if an election took place during the last six months of year $t$ or first six months of year $t+1$ in municipality $m$ where bank $i$'s supervisory board chairperson held office, and 0 otherwise | SSO, municipality websites |
| $SavingsBank_i$ | 0/1 | Indicator variable = 1 if bank $i$ is a savings bank, and 0 otherwise | SSO, municipality websites |
| $Competitors_{mt}$ | 0/1 | Indicator variable =1 if the total number of competitors in the primary election of municipality $m$ in year $t$ is larger than the sample median of competitors, and 0 otherwise | SSO, municipality websites |
| $Contested_{mt}$ | % | Votes of 1st run-up contestant in primary municipal election / votes of the winner, in municipality $m$ in year $t$ | SSO, municipality websites |
| $Chair\_left_{it}$ | 0/1 | Indicator variable = 1 if the supervisory board chairperson of bank $i$ is a member of the Social Democratic Party or the Left party for the larger part of year $t$, and 0 otherwise | Various websites |
| Control variables | | | |
| $AR\_words_{it}$ | ln | ln(number of words contained in the annual report of bank $i$ in year $t$) | Banks'annual financial reports |
| $TA_{it}$ | ln | ln(1+(total assets of bank $i$ in year $t$ + total assets of bank $i$ in year $t-1$) / 2) | BankFocus |
| $Equity\_ratio_{it}$ | % | (Equity in year $t$ + equity in year $t-1$)/2 / (total assets in year $t$ + total assets in year $t-1$)/2 $\cdot$ 100 | BankFocus |
| $ROA_{it}$ | % | Profit or loss before tax / (total assets in year $t$ + total assets in year $t-1$)/2 $\cdot$ 100 | BankFocus |
| $Riskiness_{it}$ | % | (Loan loss reserves in year $t$ + loan loss reserves in year $t-1$)/2 / (total assets in year $t$ + total assets in year $t-1$)/2 $\cdot$ 100 | BankFocus |
| $Post\_fusion_{it}$ | 0/1 | Indicator variable = 1 if bank $i$ experienced a merger in year $t$ or any year during our observation period prior to $t$, and 0 otherwise | BankFocus |
| $Population_{mt-1}$ | ln | ln(1+population of municipality $m$ in year $t-1$) | FSO table 12411-01-01-5 |
| $GDP\_capita_{mt-1}$ | ln | ln(1+GDP per capita of municipality $m$ in year $t-1$) | FSO table 82111-01-05-4 |
| $GDP\_growth_{mt-1}$ | % | Year-on-year growth rate in GDP per capita of municipality $m$ in year $t-1 \cdot 100$ | FSO table 82111-01-05-4 |

**Note:** The table lists and defines the variables used in the empirical analysis. The abbreviations SSO and FSP denote State Statistical Offices and Federal Statistical Office, respectively.

**Table A3: Alternative regression design for hypotheses 3 and 4**

| Dependent variable | CSR_fy | CSR_fy |
|---|---|---|
| Election | -0.110 | -0.076 |
| | (0.067) | (0.061) |
| Election×SavingsBank | 0.112 | 0.043 |
| | (0.085) | (0.080) |
| Election×SavingsBank×Challengers | 0.103 | |
| | (0.127) | |
| Challengers | 0.085 | |
| | (0.142) | |
| Election×Challengers | -0.029 | |
| | (0.097) | |
| SavingsBank×Challengers | 0.143 | |
| | (0.232) | |
| Election×SavingsBank×Chair_left | | 0.374*** |
| | | (0.140) |
| Chair_left | | 0.085 |
| | | (0.081) |
| Election×Chair_left | | -0.182* |
| | | (0.110) |
| SavingsBank×Chair_left | | -0.085 |
| | | (0.099) |
| Observations | 2,120 | 2,120 |
| Adjusted R-squared | 0.708 | 0.708 |
| Controls | Yes | Yes |
| State-FE | Yes | Yes |
| Year-FE | Yes | Yes |
| Bank-FE | Yes | Yes |
| Cluster | Bank | Bank |

**Note:** This table shows the results of the main model that includes triple interactions testing for hypotheses 3 and 4. The coefficients of interest are the coefficients on the interactions $Election \times SavingsBank \times Challengers$ and $Election \times SavingsBank \times Chair\_left$. We include the same macroeconomic and bank controls and fixed effects as in Model 1. Variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

**Table A4: Formal test for the parallel trends assumption**

| Dependent variable | CSR_fy |
|---|---|
| $D_{-2}$ | -0.083 |
| | (0.142) |
| $D_{-1}$ | 0.062 |
| | (0.169) |
| $D_0$ | 0.251 |
| | (0.210) |
| $D_1$ | -0.194 |
| | (0.299) |
| $D_2$ | 0.322 |
| | (0.382) |
| $D_3$ | 0.125 |
| | (0.575) |

**Note:** This table shows the results of the fixed effects regression that formally tests the parallel trends assumption underlying our difference-in-differences research design. $D_{it}$ are interaction terms defined as $Year\_to\_election_t \times SavingsBank_i$, where $Year\_to\_election$ is an indicator variable for the three years before and after an election, respectively. To avoid the dummy variable trap, we omit the interaction term for year $t-3$, such that $T-3$ therefore represents the baseline, relative to which the other coefficients should be interpreted. We include the same macroeconomic and bank controls and fixed effects as in Model 1. Variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

## Table A5: Reporting on CSR topics other than social issues

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Dependent variable | **Panel A:** Reporting_employees | | | | | |
| Election | 0.031 | 0.044 | 0.045 | 0.035 | 0.013 | -0.032 |
| | (0.065) | (0.063) | (0.060) | (0.061) | (0.034) | (0.028) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | -0.002 | 0.127 | 0.166 | 0.318 | 0.669 | 0.752 |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| Dependent variable | **Panel B:** Reporting_environment | | | | | |
| Election | -0.042 | -0.087 | -0.035 | -0.121 | -0.005 | -0.079** |
| | (0.094) | (0.091) | (0.081) | (0.089) | (0.049) | (0.036) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | -0.002 | 0.153 | 0.264 | 0.285 | 0.769 | 0.835 |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| Dependent variable | **Panel C:** Reporting_humanrights | | | | | |
| Election | 0.026 | 0.029 | 0.102 | 0.013 | 0.113* | 0.046 |
| | (0.096) | (0.093) | (0.091) | (0.098) | (0.065) | (0.070) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | -0.002 | 0.159 | 0.218 | 0.333 | 0.676 | 0.722 |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| Dependent variable | **Panel D:** Reporting_anticorruption | | | | | |
| Election | -0.104** | -0.125** | -0.050 | -0.118** | -0.046 | -0.056 |
| | (0.052) | (0.053) | (0.050) | (0.058) | (0.035) | (0.035) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | 0.003 | 0.115 | 0.218 | 0.167 | 0.636 | 0.652 |
| Controls | No | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| Dependent variable | **Panel E:** Reporting_strategy | | | | | |
| Election | -0.035 | -0.027 | -0.015 | 0.013 | -0.000 | 0.009 |
| | (0.052) | (0.048) | (0.046) | (0.047) | (0.039) | (0.038) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | -0.002 | 0.143 | 0.180 | 0.424 | 0.662 | 0.748 |
| Controls | No | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |

**Note:** In this table, we show the results for hypothesis 2 on banks' mandatory reporting on the remaining topics, namely employees, environmental, human rights, anti-corruption and bribery issues, and general strategy. The dependent variables are calculated as the log-transformed number of topic-specific words contained in the CSR report. The most stringent model specification in column 6 includes bank and macroeconomic controls (see model 2 for the included control variables), and state, year and bank fixed effects. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

## Table A6: Placebo test for the political influence on banks' CSR activities

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Dependent variable | | | CSR_fy | | | |
| | | | **Panel A:** Hypothesis 1 | | | |
| Election | -0.116** | -0.136** | -0.127** | -0.128** | -0.103** | -0.103** |
| | (0.054) | (0.054) | (0.052) | (0.057) | (0.049) | (0.051) |
| Observations | 716 | 716 | 716 | 716 | 716 | 716 |
| Adjusted R-squared | 0.002 | 0.088 | 0.156 | 0.084 | 0.606 | 0.599 |
| Controls | No | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| | | | **Panel B:** Hypotheses 3 and 4 | | | |
| | | Full sample | Competitors | | Chair_left | |
| | | | > median | ≤ median | = 1 | = 0 |
| Election | | -0.091 | -0.106 | -0.157** | -0.184* | -0.064 |
| | | (0.051) | (0.082) | (0.070) | (0.093) | (0.068) |
| Observations | | 716 | 352 | 357 | 209 | 492 |
| Adjusted R-squared | | 0.599 | 0.572 | 0.624 | 0.533 | 0.605 |
| Controls | | Yes | Yes | Yes | Yes | Yes |
| State-FE | | Yes | Yes | Yes | Yes | Yes |
| Year-FE | | Yes | Yes | Yes | Yes | Yes |
| Bank-FE | | Yes | Yes | Yes | Yes | Yes |

**Note:** This table shows the influence of the electoral cycle on CSR activities of politically independent cooperative banks. Excluding savings banks from the sample serves as a placebo test to our main results. Panel A presents the placebo test results for hypothesis 1, and Panel B presents the results for hypotheses 3 and 4. The most stringent specification in column 6 includes bank and macroeconomic controls, and state, year and bank fixed effects. We include the same macroeconomic and bank controls and fixed effects as in Model 1. Variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

## Table A7: Robustness tests for hypothesis 1

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Dependent variable | | | CSR_fy | | | |
| | | **Panel A:** Association FE (instead of State FE) | | | | |
| Election×SavingsBank | 0.229*** | 0.221*** | 0.192*** | 0.197*** | 0.181*** | 0.158** |
| | (0.074) | (0.072) | (0.071) | (0.072) | (0.063) | (0.063) |
| Observations | 2,120 | 2,120 | 2,120 | 2,120 | 2,120 | 2,120 |
| Adjusted R-squared | 0.050 | 0.133 | 0.211 | 0.133 | 0.705 | 0.708 |
| Controls | No | Yes | Yes | Yes | Yes | Yes |
| Association-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| | | **Panel B:** Only political chairpersons | | | | |
| Election×SavingsBank | 0.226*** | 0.217*** | 0.177** | 0.194*** | 0.177*** | 0.154** |
| | (0.074) | (0.073) | (0.071) | (0.072) | (0.063) | (0.063) |
| Observations | 2,112 | 2,112 | 2,112 | 2,112 | 2,112 | 2,112 |
| Adjusted R-squared | 0.049 | 0.130 | 0.180 | 0.130 | 0.705 | 0.707 |
| Controls | No | Yes | Yes | Yes | Yes | Yes |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | Yes | No | Yes |

**Note:** In this table, we report two modifications to Model 1, which serve as robustness tests for the results in Table A7 (hypothesis 1). The most stringent specification in column 6 includes the full set of control variables and fixed effects of Model 1. In Panel A, we replace state fixed effects with association fixed effects because banks are organized within regional associations rather than state borders. In Panel B, we exclude eight observations where the supervisory board chair is not a member of any political party. Variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

## Table A8: Robustness of findings for hypotheses 3 and 4

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| Dependent variable | CSR_fy | | | | |
| | Full sample | Competitors | | Chair_left | |
| | | > median | ≤ median | = 1 | = 0 |
| | **Panel A:** Association FE (instead of State FE) | | | | |
| Election×SavingsBank | 0.158** | 0.228** | 0.136 | 0.401*** | 0.053 |
| | (0.063) | (0.096) | (0.084) | (0.117) | (0.083) |
| Observations | 2,120 | 1,018 | 1,081 | 628 | 1,448 |
| Adjusted R-squared | 0.708 | 0.702 | 0.736 | 0.692 | 0.709 |
| Controls | Yes | Yes | Yes | Yes | Yes |
| Association-FE | Yes | Yes | Yes | Yes | Yes |
| Year-FE | Yes | Yes | Yes | Yes | Yes |
| Bank-FE | Yes | Yes | Yes | Yes | Yes |
| | **Panel B:** Only political chairpersons | | | | |
| Election×SavingsBank | 0.154** | 0.219** | 0.135 | 0.401*** | 0.048 |
| | (0.063) | (0.096) | (0.085) | (0.118) | (0.083) |
| Observations | 2,112 | 1,010 | 1,081 | 628 | 1,440 |
| Adjusted R-squared | 0.707 | 0.717 | 0.727 | 0.690 | 0.708 |
| Controls | Yes | Yes | Yes | Yes | Yes |
| State-FE | Yes | Yes | Yes | Yes | Yes |
| Year-FE | Yes | Yes | Yes | Yes | Yes |
| Bank-FE | Yes | Yes | Yes | Yes | Yes |

**Note:** In this table, we report two modifications that serve as robustness tests for the results in Table 9 (hypotheses 3 and 4). The most stringent specification in column 6 includes the full set of control variables and fixed effects of Model 1. In Panel A, we replace state fixed effects with association fixed effects because banks are organized within regional associations rather than state borders. In Panel B, we exclude eight observations where the supervisory board chair is not a member of any political party. Variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

**Table A9: Alternative competition measure: Contested**

| | (1) | (2) | (3) |
|---|---|---|---|
| Dependent variable | | CSR_fy | |
| | Full sample | Contested | |
| | | > median | ≤ median |
| Election×SavingsBank | 0.158** | 0.162* | 0.140 |
| | (0.063) | (0.094) | (0.098) |
| Observations | 2,120 | 1,029 | 1,054 |
| Adjusted R-squared | 0.707 | 0.701 | 0.735 |
| Controls | Yes | Yes | Yes |
| State-FE | Yes | Yes | Yes |
| Year-FE | Yes | Yes | Yes |
| Bank-FE | Yes | Yes | Yes |

**Note:** In this table, we use the variable $Contested_{mt}$ instead of $Competitors_{mt}$ to split our sample into highly contested regions and less contested regions. This serves as a robustness test to our results for hypothesis 4 on the role of political contest in politically associated CSR. $Contested_{mt}$ is measured as the ratio of votes received by the first run-up contestant in the primary election and the votes received by the winner. It is calculated as the number of votes that the first run-up contestant received, divided by the number of votes that the winner received. For example, if the winner and first run-up contestant received 48,033 and 14,776 votes, respectively, then $Contested_{mt}$ is calculated as 14,776/48,033 = 0.308. The larger the number, the more contested the election. Column 1 presents the results of the baseline OLS regression (Table 7, column 6) that tests hypothesis 1 on the full sample, including state, year and bank fixed effects. Column 2 (3) presents results for a sub-sample of bank-year observations that operate in regions where the political contest, measured as $Contested_{mt}$, is larger than (smaller than or equal to) the median. All specifications include the full set of control variables and fixed effects of Model 1. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorized at the 1st and 99th percentile. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors are reported in parentheses.

# Figures

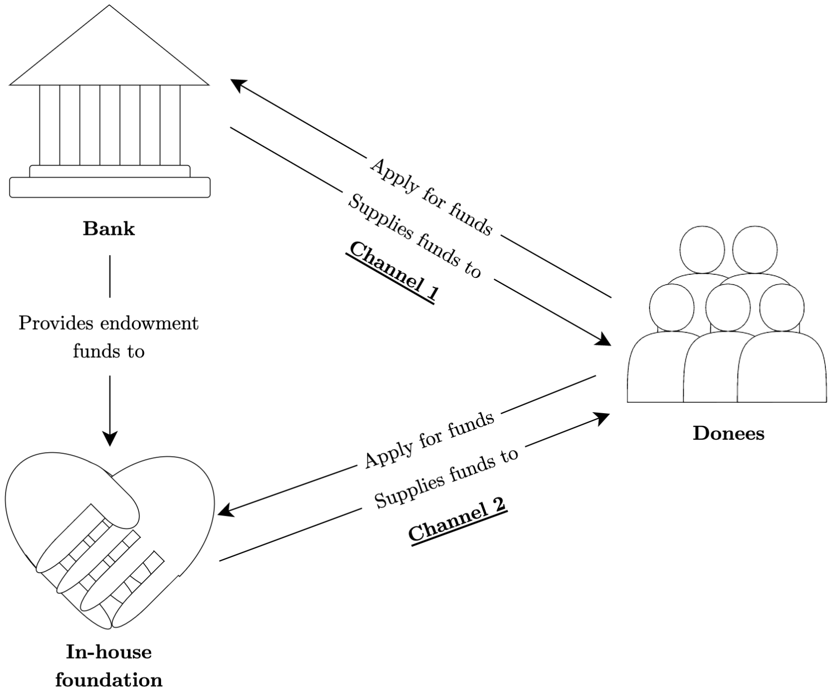


**Figure 1: Banks' charitable activity channels**

**Note:** This figure shows the two channels through which savings banks and cooperative banks engage in charitable activities. Channel 1 comprises direct donations from the bank to the donee. Channel 2 comprises donations through in-house foundations.

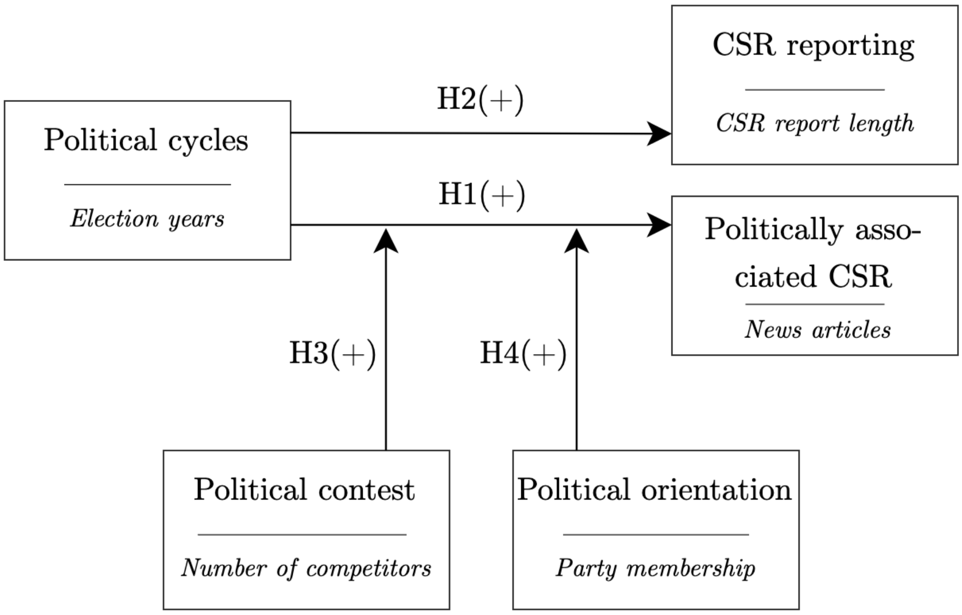


**Figure 2: Summary of the theoretical framework**

**Note:** This figure summarizes the theoretical framework underlying the analysis. It shows the directional relationships between the political cycle and politically-associated CSR, and the two mediating factors political competition and political orientation.

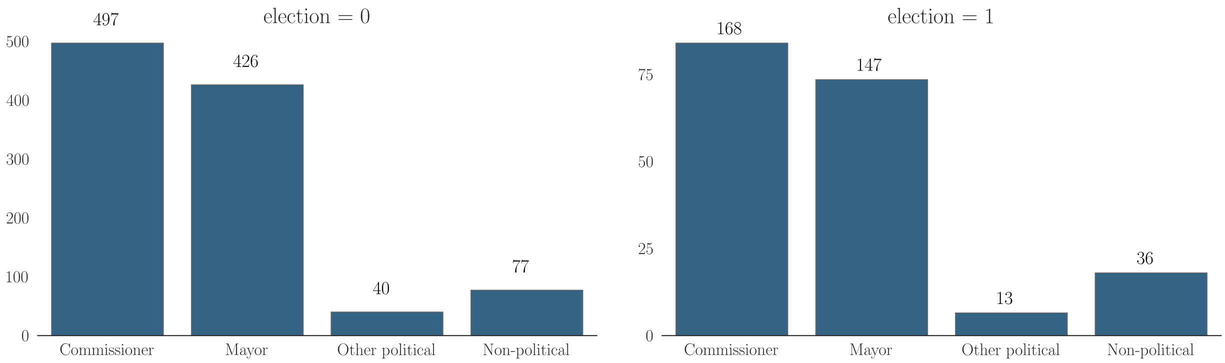


**Figure 3: Occupation of savings banks' chairpersons**

**Note:** This figure shows the occupation of savings banks' chairpersons, split into bank-year observations during election-years (right-hand side) and non-election years (left-hand side). Collectively, the majority of bank-year observations have county commissioners (n=665) and mayors (n=573) as chairpersons, 53 have a chairperson with a different political or administrative occupation and 113 have a chairperson with a non-political occupation. N=1,404.

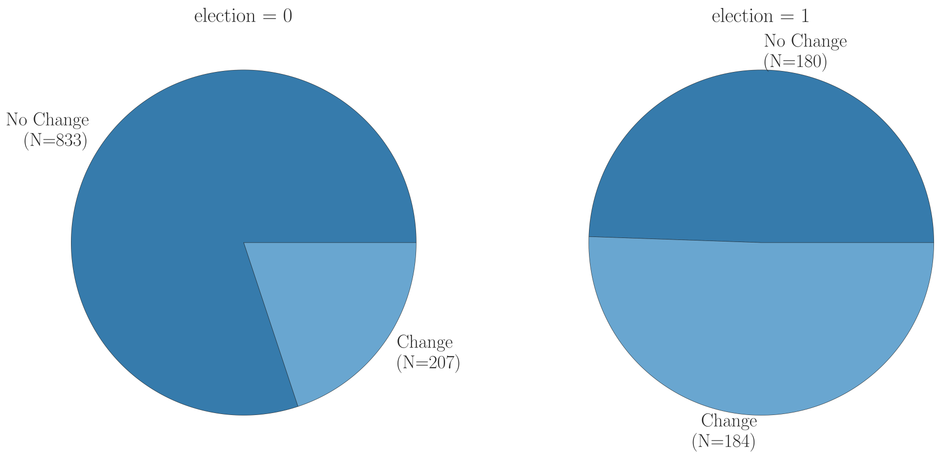


**Figure 4: Intra-year change of chairpersons**

**Note:** This figure shows the number of savings banks that experience a change in chairperson during the fiscal year. Observations with an election are displayed on the right-hand side and observations without an election are displayed on the left-hand side. N=1,404.

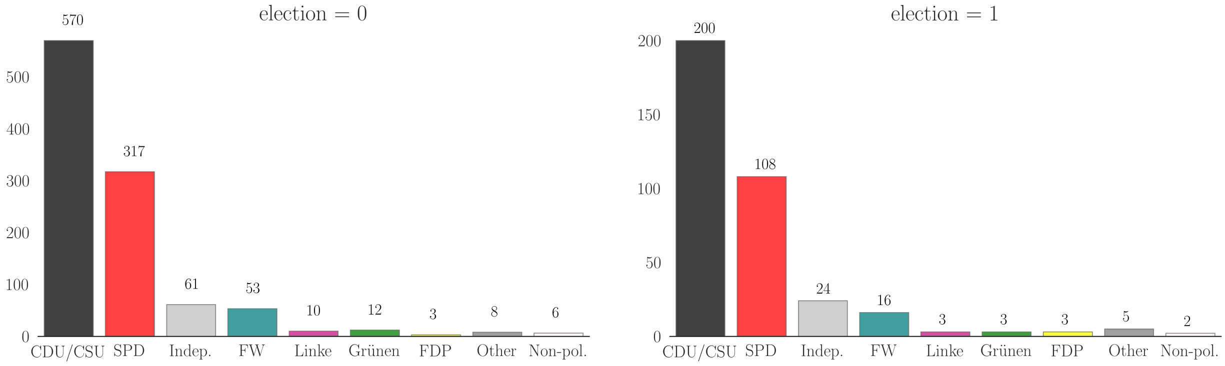


**Figure 5: Party affiliation of savings banks' chairpersons**

**Note:** This figure shows the party affiliation of savings banks' chairpersons, split into election-years (right-hand side) and non-election years (left-hand side). Collectively, the majority of bank-year observations have chairpersons affiliated with the CDU/CSU (black; n=770), the SPD (red; n=425) and Freie Wähler (blue; n=69). 85 observations have a chairperson that is politically active but not associated with any party (i.e., independent; gray), and 8 observations have a chairperson that is not politically active (white). N=1,404.

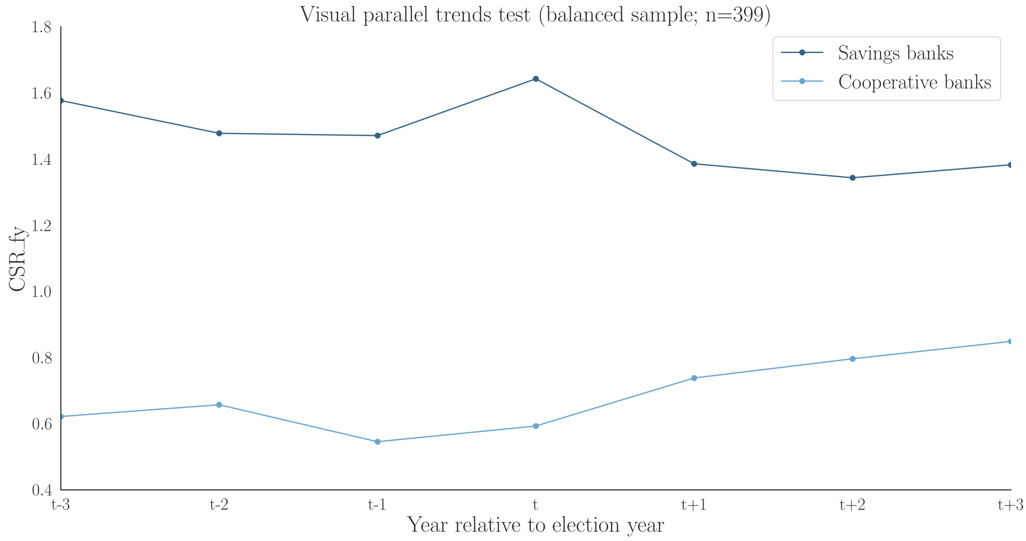


**Figure 6: Visual test of the parallel trends assumption**

**Note:** This figure shows the average level of politically associated CSR for the three years before and after an election, for savings banks (upper plot) and cooperative banks (lower plot) separately. It is based on a balanced sub-sample of 38 savings banks and 19 cooperative banks that experience a municipal election in their operating region during year $t$.

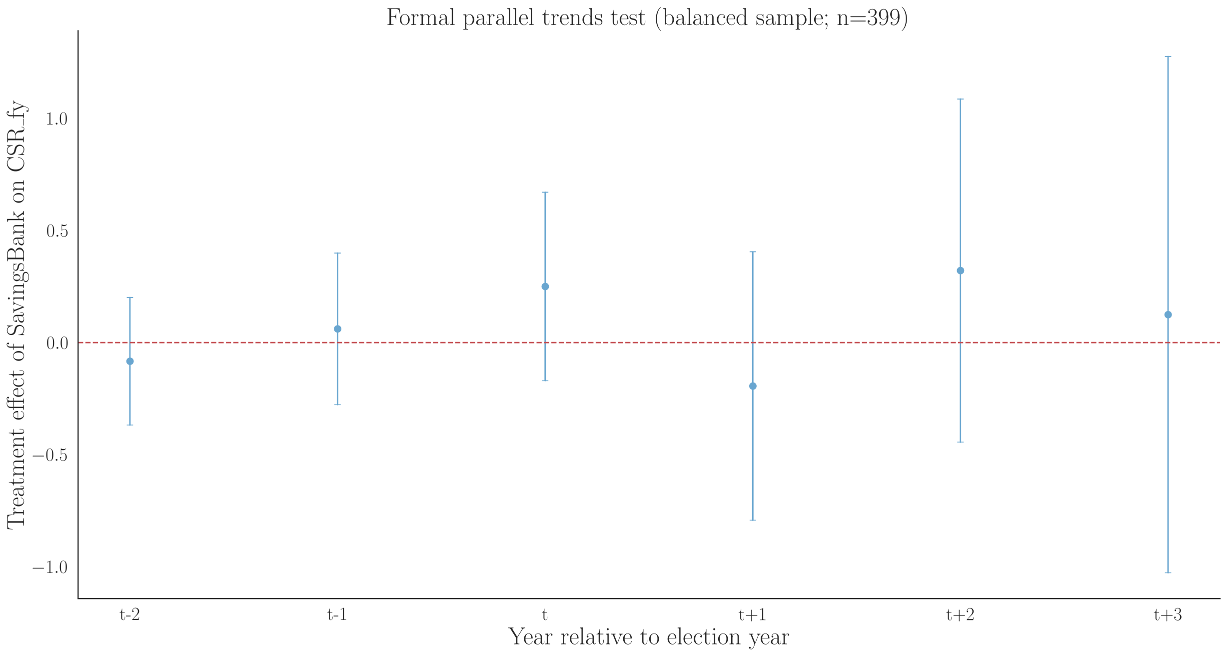


**Figure 7: Formal test of the parallel trends assumption**

**Note:** This figure shows the coefficients obtained from regressing $CSR\_fy_{imts}$ on the interaction term $D_{imts}$. $D_{imts}$ is obtained from interacting indicator variables for the 3 years before and after an election, respectively, with $SavingsBank_i$. Year $t - 3$ is omitted and represents the baseline. Details on the underlying regression model can be found in Section 5.2.

# Tables

**Table 1: Overview over banks' charitable activities**

| | Savings banks | Cooperative banks |
|---|---|---|
| Total donations (EUR 1,000) | 437,890 | 158,000 |
| *In % of total assets* | *0.0184* | *0.0114* |
| *In % of earnings before tax* | *10.42* | *1.55* |
| Thereof through foundations (EUR 1,000) | 74,200 | 12,000 |
| *In % of total donations* | *16.94* | *7.59* |
| Thereof direct (EUR 1,000) | 363,690 | 146,000 |
| *In % of total donations* | *83.06* | *92.41* |
| Number of supported foundations | 769 | 340 |
| Total endowment funds (EUR 1,000) | 2,740,000 | 307,000 |

**Note:** The table presents an overview over the charitable activities of the full saving banks population (left-hand side) and cooperative banks population (right-hand side). For reasons of data availability, savings banks information reports data from year 2020 and cooperative banks information reports data from year 2019. Sources: GSBA (2020), https://www.sparkasse.de/mehr-als-geld/engagement/soziales-engagement/was-macht-uns-anders.html, NAGCB (2019), https://www.vr.de/privatkunden/news/stiftungskapital-von-buergerstiftungen.html.

**Table 2: Sample selection for full sample and reporting sub-sample**

**Panel A:** Selection of the full sample

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Savings banks population | 423 | 417 | 416 | 413 | 403 | 390 | 385 | 379 | 376 | 3,602 |
| *No CSR activity data* | *-21* | *-107* | *-107* | *-105* | *-99* | *-91* | *-87* | *-84* | *-69* | *-770* |
| *No fin./elect. data* | *-343* | *-206* | *-1* | *-1* | *-1* | *-1* | *-1* | *-1* | *-43* | *-598* |
| *No data to backward fill* | *-16* | *-20* | *-39* | *-74* | *-101* | *-106* | *-129* | *-162* | *-157* | *-804* |
| *Only one observation* | *0* | *0* | *-26* | *0* | *0* | *0* | *0* | *0* | *0* | *-26* |
| Savings banks sample | 43 | 84 | 243 | 233 | 202 | 192 | 168 | 132 | 107 | 1,404 |
| Cooperative banks sample | 16 | 62 | 120 | 111 | 101 | 98 | 83 | 68 | 57 | 716 |
| Total | 59 | 146 | 363 | 344 | 303 | 290 | 251 | 200 | 164 | 2,120 |

**Panel B:** Selection of the reporting sub-sample

| | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|
| Full population | 390 | 385 | 379 | 376 | 1,530 |
| *Out of scope of the NFRD* | *-260* | *-256* | *-255* | *-251* | *-1,022* |
| *Not under municipal trusteeship* | *-6* | *-6* | *-6* | *-6* | *-24* |
| *Outside of our main sample* | *-9* | *-6* | *-7* | *-14* | *-36* |
| Total | 115 | 117 | 111 | 105 | 448 |

**Note:** The table shows the sample selection process for the full sample (Panel A) and the sub-sample that only includes bank-year observations with mandatory CSR reports (Panel B). We exclude banks with no newspaper articles in any of the years 2012-2020. We also exclude observations with missing financial and electoral data. Missing data on the macroeconomic control variables is handled by carrying forward the last value. Each savings bank in the full sample is matched to a cooperative bank that operates branches in the same operating region. In case of multiple such cooperative banks, the one that is most similar in terms of total assets is selected.

**Table 3: Summary statistics for municipal elections (primary and run-off)**

| | | Savings banks | | | | | | | | Cooperative banks | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | N | mean | sd | min | p25 | p50 | p75 | max | N | mean | sd | min | p25 | p50 | p75 | max |
| Primary election | Number of eligible voters | 364 | 132,755 | 141,806 | 2,849 | 40,692 | 89,057 | 179,856 | 1,110,571 | 182 | 127,784 | 129,639 | 3,988 | 49,122 | 85,491 | 166,097 | 820,527 |
| | Election participation % | 364 | 48.278 | 11.146 | 20.740 | 40.75 | 48.497 | 56.112 | 74.880 | 182 | 50.137 | 10.846 | 23.922 | 42.644 | 50.183 | 58.047 | 73.821 |
| | Invalid votes % | 364 | 1.600 | 1.229 | 0.208 | 0.903 | 1.378 | 1.908 | 14.822 | 182 | 1.620 | 1.424 | 0.208 | 0.939 | 1.370 | 1.834 | 14.822 |
| | Number of challengers | 364 | 3.505 | 2.318 | 0 | 2 | 3 | 5 | 9 | 182 | 3.566 | 2.328 | 0 | 2 | 3 | 5 | 9 |
| | Winner votes % | 364 | 55.000 | 15.339 | 23.064 | 43.38 | 53.935 | 63.880 | 112.647 | 182 | 54.739 | 15.215 | 23.064 | 43.392 | 53.700 | 63.580 | 96.096 |
| | CDU/CSU winner (0/1) | 364 | 0.530 | 0.500 | 0 | 0 | 1 | 1 | 1 | 182 | 0.560 | 0.498 | 0 | 0 | 1 | 1 | 1 |
| | SPD winner (0/1) | 364 | 0.261 | 0.440 | 0 | 0 | 0 | 1 | 1 | 182 | 0.214 | 0.411 | 0 | 0 | 0 | 0 | 1 |
| | Run-up contestant votes % | 364 | 26.378 | 10.301 | 0 | 21.27 | 26.830 | 33.370 | 48.465 | 182 | 26.509 | 9.917 | 0 | 22.394 | 26.830 | 32.989 | 47.752 |
| | Run-off election (0/1) | 364 | 0.385 | 0.487 | 0 | 0 | 0 | 1 | 1 | 182 | 0.385 | 0.488 | 0 | 0 | 0 | 1 | 1 |
| Run-off election | Number of eligible voters | 140 | 170,153 | 183,239 | 7,815 | 56,791 | 105,292 | 208,705 | 1,109,032 | 70 | 161,525 | 149,173 | 12,615 | 64,761 | 106,956 | 208,589 | 818,731 |
| | Election participation % | 140 | 40.761 | 11.397 | 17.628 | 32.16 | 38.792 | 48.990 | 67.372 | 70 | 41.120 | 11.232 | 22.217 | 32.139 | 38.026 | 49.349 | 65.232 |
| | Invalid votes % | 140 | 1.031 | 0.649 | 0.204 | 0.579 | 0.857 | 1.314 | 4.303 | 70 | 0.917 | 0.546 | 0.204 | 0.559 | 0.758 | 1.044 | 2.762 |
| | Winner votes % | 140 | 58.413 | 7.427 | 34.884 | 52.68 | 57.745 | 62.905 | 81.038 | 70 | 58.625 | 8.304 | 34.884 | 53.459 | 57.926 | 63.319 | 81.038 |
| | CDU/CSU winner (0/1) | 140 | 0.371 | 0.485 | 0 | 0 | 0 | 1 | 1 | 70 | 0.386 | 0.490 | 0 | 0 | 0 | 1 | 1 |
| | SPD winner (0/1) | 140 | 0.350 | 0.479 | 0 | 0 | 0 | 1 | 1 | 70 | 0.314 | 0.468 | 0 | 0 | 0 | 1 | 1 |
| | Run-up contestant votes % | 140 | 40.544 | 7.013 | 18.962 | 35.89 | 41.254 | 46.539 | 49.836 | 70 | 39.761 | 7.454 | 18.962 | 35.820 | 41.057 | 45.897 | 49.804 |

**Note:** The table shows descriptive statistics for the municipal elections during our sample period. The upper part of the table displays primary elections and the bottom part of the table displays run-off elections, for savings banks (left-hand side of the table) and cooperative banks (right-hand side of the table) separately. The data are measured in absolute terms unless otherwise denoted. N=546.

**Table 4: Descriptive statistics for variables used in the analysis**

**Panel A:** Descriptive statistics for the full sample (n=2,120)

| | mean | sd | min | p25 | p50 | p75 | max |
|---|---|---|---|---|---|---|---|
| CSR_fy | 1.105 | 1.069 | 0 | 0 | 0.896 | 1.946 | 3.871 |
| Election | 0.191 | 0.393 | 0 | 0 | 0 | 0 | 1 |
| TA | 14.475 | 0.921 | 12.396 | 13.840 | 14.439 | 15.143 | 16.738 |
| Equity_ratio | 9.097 | 1.913 | 4.799 | 7.849 | 8.933 | 10.136 | 15.387 |
| ROA | 0.430 | 0.174 | 0.082 | 0.312 | 0.407 | 0.518 | 1.010 |
| Riskiness | 0.620 | 0.513 | 0 | 0.233 | 0.529 | 0.874 | 2.618 |
| Post_fusion | 0.041 | 0.198 | 0 | 0 | 0 | 0 | 1 |
| Population | 11.551 | 1.069 | 8.703 | 11.006 | 11.629 | 12.300 | 13.85 |
| GDP_capita | 10.403 | 0.325 | 9.815 | 10.184 | 10.362 | 10.537 | 11.566 |
| GDP_growth | 2.749 | 2.220 | -3.676 | 1.402 | 2.853 | 4.043 | 8.837 |
| Competitors | 0.483 | 0.500 | 0 | 0 | 0 | 1 | 1 |
| Chair_left | 0.309 | 0.462 | 0 | 0 | 0 | 1 | 1 |

**Note:** The table shows descriptive statistics for the variables used in the empirical analysis for the full sample of 2,120 savings and cooperative bank-year observations. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. The dependent variable is the log-transformed number of CSR-related newspaper articles published in the respective fiscal year. Details of variable definitions and relevant subscripts are in Table A2 in the Appendix.

**Table 4 (continued): Descriptive statistics for variables used in the analysis**

**Panel B:** Descriptive statistics for savings banks and cooperative banks separately

| | Savings banks (n=1,404) | | | | | | | Cooperative banks (n=716) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | mean | sd | min | p25 | p50 | p75 | max | mean | sd | min | p25 | p50 | p75 | max | Diff | t-test | $\chi^2$ |
| CSR_fy | 1.275 | 1.114 | 0 | 0 | 1.099 | 2.079 | 3.871 | 0.772 | 0.885 | 0 | 0 | 0.693 | 1.386 | 3.871 | -0.502 | -10.495*** | - |
| Election | 0.179 | 0.384 | 0 | 0 | 0 | 0 | 1 | 0.214 | 0.410 | 0 | 0 | 0 | 0 | 1 | 0.035 | - | 3.589* |
| TA | 14.691 | 0.889 | 12.396 | 14.115 | 14.676 | 15.256 | 16.738 | 14.053 | 0.832 | 12.396 | 13.461 | 14.003 | 14.571 | 16.372 | -0.638 | -15.959*** | - |
| Equity_ratio | 9.307 | 1.959 | 4.799 | 8.035 | 9.107 | 10.391 | 15.387 | 8.684 | 1.748 | 4.799 | 7.504 | 8.584 | 9.657 | 15.387 | -0.622 | -7.168*** | - |
| ROA | 0.392 | 0.152 | 0.082 | 0.294 | 0.376 | 0.475 | 1.010 | 0.505 | 0.189 | 0.082 | 0.367 | 0.490 | 0.615 | 1.010 | 0.113 | 14.808*** | - |
| Riskiness | 0.660 | 0.534 | 0 | 0.268 | 0.554 | 0.927 | 2.618 | 0.543 | 0.462 | 0 | 0.193 | 0.471 | 0.774 | 2.618 | -0.117 | -4.972*** | - |
| Post_fusion | 0.045 | 0.207 | 0 | 0 | 0 | 0 | 1 | 0.034 | 0.180 | 0 | 0 | 0 | 0 | 1 | -0.011 | - | 1.553 |
| Population | 11.563 | 1.064 | 8.703 | 10.983 | 11.640 | 12.311 | 13.849 | 11.526 | 1.079 | 8.703 | 11.073 | 11.626 | 12.276 | 13.849 | -0.037 | -0.748 | - |
| GDP_capita | 10.409 | 0.323 | 9.815 | 10.188 | 10.366 | 10.547 | 11.566 | 10.392 | 0.328 | 9.815 | 10.179 | 10.350 | 10.533 | 11.566 | -0.016 | 1.095 | - |
| GDP_growth | 2.709 | 2.216 | -3.676 | 1.378 | 2.829 | 4.016 | 8.837 | 2.828 | 2.229 | -3.676 | 1.548 | 2.882 | 4.083 | 8.837 | 0.119 | 1.164 | - |
| Competitors | 0.494 | 0.500 | 0 | 0 | 0 | 1 | 1 | 0.476 | 0.500 | 0 | 0 | 0 | 1 | 1 | -0.018 | - | 0.619 |
| Chair_left | 0.312 | 0.463 | 0 | 0 | 0 | 1 | 1 | 0.304 | 0.461 | 0 | 0 | 0 | 1 | 1 | -0.008 | - | 0.124 |

**Note:** The table shows descriptive statistics for the variables used in the empirical analysis, for savings and cooperative banks separately. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. Due to the winsorisation, several variables exhibit identical minimum and maximum values for both banking groups. The right-hand side of the table shows the difference in means between savings banks and cooperative banks, along with the corresponding t-statistic (for continuous variables) and $\chi^2$ (for binary variables) for the null hypothesis that there is no difference between the means. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Details of variable definitions and relevant subscripts are in Table A2 in the Appendix.

**Table 5: Correlation coefficients between variables**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) CSR_fy | 1 | | | | | | | | | | |
| (2) Election | 0.001 | 1 | | | | | | | | | |
| (3) TA | 0.331* | -0.015 | 1 | | | | | | | | |
| (4) Equity_ratio | 0.016 | 0.003 | -0.106* | 1 | | | | | | | |
| (5) ROA | -0.001 | 0.015 | -0.04 | 0.174* | 1 | | | | | | |
| (6) Riskiness | -0.063* | -0.064* | -0.125* | -0.035 | 0.014 | 1 | | | | | |
| (7) Post_fusion | -0.005 | -0.004 | 0.121* | 0.034 | -0.105* | -0.039 | 1 | | | | |
| (8) Population | 0.187* | 0.005 | 0.509* | -0.107* | 0.014 | -0.069* | 0.01 | 1 | | | |
| (9) GDP_capita | 0.042 | -0.034 | 0.314* | 0.087* | -0.006 | -0.135* | 0.089* | 0.105* | 1 | | |
| (10) GDP_growth | -0.012 | 0.002 | -0.072* | 0.019 | -0.007 | -0.041 | -0.025 | -0.004 | -0.081* | 1 | |
| (11) Competitors | 0.049 | -0.042 | 0.305* | -0.061* | 0.042 | -0.120* | 0.067* | 0.286* | 0.315* | -0.021 | 1 |
| (12) Chair_left | -0.022 | -0.001 | 0.185* | -0.044 | -0.03 | 0.016 | -0.005 | 0.242* | 0.071* | -0.015 | 0.170* |

**Note:** The table shows Pearson's correlation coefficients between variables used in the empirical analysis, for the full sample of 2,120 bank-year observations. * indicates significance at the 1% significance level or higher. Details of variable definitions and relevant subscripts are in Table A2 in the Appendix.

**Table 6: Descriptive statistics for the reporting sub-sample (n=448)**

| | mean | sd | min | p25 | p50 | p75 | max |
|---|---|---|---|---|---|---|---|
| Reporting_total | 9.233 | 0.370 | 8.385 | 8.963 | 9.257 | 9.507 | 9.936 |
| Reporting_environment | 7.312 | 0.632 | 5.663 | 6.849 | 7.274 | 7.916 | 8.377 |
| Reporting_social | 6.659 | 0.608 | 4.727 | 6.275 | 6.641 | 7.088 | 7.981 |
| Reporting_employee | 7.511 | 0.450 | 6.011 | 7.217 | 7.562 | 7.840 | 8.474 |
| Reporting_humanrights | 5.985 | 0.676 | 4.143 | 5.568 | 6.148 | 6.450 | 7.353 |
| Reporting_bribery | 6.705 | 0.426 | 5.242 | 6.420 | 6.736 | 7.020 | 7.559 |
| Election | 0.096 | 0.295 | 0 | 0 | 0 | 0 | 1 |
| AR_words | 9.941 | 0.181 | 9.548 | 9.812 | 9.939 | 10.052 | 10.431 |
| TA | 15.496 | 0.487 | 14.708 | 15.143 | 15.380 | 15.799 | 17.089 |
| Equity_ratio | 9.876 | 1.698 | 6.485 | 8.781 | 9.593 | 10.955 | 14.185 |
| ROA | 0.368 | 0.131 | 0.086 | 0.279 | 0.348 | 0.449 | 0.761 |
| Riskiness | 0.532 | 0.310 | 0.068 | 0.329 | 0.509 | 0.656 | 1.957 |
| Post_fusion | 0.078 | 0.269 | 0 | 0 | 0 | 1 | |
| Population | 12.150 | 0.765 | 9.965 | 11.691 | 12.217 | 12.654 | 13.900 |
| GDP_capita | 10.554 | 0.353 | 9.935 | 10.313 | 10.501 | 10.719 | 11.663 |
| GDP_growth | 3.345 | 13.180 | -38.702 | 0.379 | 2.397 | 3.711 | 93.378 |

**Note:** The table shows descriptive statistics for the variables used in the empirical analysis to test hypothesis 2, for the savings banks that publish a mandatory non-financial report in years 2017, 2018, 2019 or 2020. The dependent variables are the log-transformed number of words contained in the CSR report (total and topic-specific). Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. Details of variable definitions and relevant subscripts are in Table A2 in the Appendix.

**Table 7: Politically associated CSR and the electoral cycle**

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Dependent variable | | | CSR_fy | | | |
| Election×SavingsBank | 0.229*** | 0.221*** | 0.182** | 0.197*** | 0.181*** | 0.158** |
| | (0.074) | (0.072) | (0.071) | (0.072) | (0.063) | (0.063) |
| Election | -0.116** | -0.125** | -0.118** | -0.127** | -0.109** | -0.128*** |
| | (0.054) | (0.054) | (0.052) | (0.054) | (0.049) | (0.049) |
| SavingsBank | 0.457*** | 0.290*** | 0.259*** | 0.294*** | | |
| | (0.101) | (0.107) | (0.098) | (0.110) | | |
| TA | | 0.325*** | 0.370*** | 0.330*** | 0.376** | 0.537*** |
| | | (0.066) | (0.065) | (0.066) | (0.151) | (0.180) |
| Equity_ratio | | 0.014 | 0.013 | 0.013 | -0.001 | -0.005 |
| | | (0.024) | (0.024) | (0.027) | (0.032) | (0.039) |
| ROA | | 0.281 | 0.214 | 0.275 | 0.144 | 0.085 |
| | | (0.229) | (0.235) | (0.262) | (0.194) | (0.201) |
| Riskiness | | -0.104 | -0.014 | -0.102 | 0.012 | 0.067 |
| | | (0.069) | (0.065) | (0.077) | (0.053) | (0.059) |
| Post_fusion | | -0.186 | -0.098 | -0.186 | 0.276** | 0.260** |
| | | (0.157) | (0.157) | (0.161) | (0.127) | (0.126) |
| Population | | 0.048 | 0.007 | 0.049 | -0.015 | -0.006 |
| | | (0.038) | (0.043) | (0.038) | (0.047) | (0.048) |
| GDP_capita | | -0.195 | -0.131 | -0.189 | -0.019 | 0.003 |
| | | (0.132) | (0.137) | (0.135) | (0.094) | (0.095) |
| GDP_growth | | 0.002 | 0.000 | 0.003 | -0.001 | 0.000 |
| | | (0.009) | (0.009) | (0.010) | (0.006) | (0.006) |
| Constant | 0.797*** | -2.500* | -3.322** | -2.641* | -4.040* | -6.670** |
| | (0.073) | (1.407) | (1.514) | (1.475) | (2.435) | (2.961) |
| Observations | 2,120 | 2,120 | 2,120 | 2,120 | 2,120 | 2,120 |
| Adjusted R-squared | 0.050 | 0.133 | 0.182 | 0.133 | 0.705 | 0.707 |
| State-FE | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes |
| Cluster | Bank | Bank | Bank | Bank | Bank | Bank |

**Note:** The table presents results of OLS panel regressions that examine the effect of election years on savings banks' politically associated CSR. The dependent variable $CSR\_fy$ measures the newspaper articles covering banks' charitable activities under the mention of local politicians in the respective fiscal year. *Election* is an indicator variable taking on the value of 1 during election years, and 0 otherwise. *SavingsBank* is an indicator variable taking on the value of 1 for savings banks, and 0 otherwise. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. Details of variable definitions and relevant subscripts can be found in the Appendix Table A2. Columns 3-6 add fixed effects, with the most stringent specification including state, year and bank fixed effects. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors (clustered by bank) are reported in parentheses.

**Table 8: Mandatory CSR reporting and the electoral cycle**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dependent variable | Reporting_total | | | | | | Reporting_social | | | | | |
| Election | -0.015 | -0.014 | -0.008 | -0.001 | -0.001 | -0.019 | 0.119 | 0.194** | 0.084 | 0.216** | 0.039 | 0.029 |
| | (0.051) | (0.048) | (0.046) | (0.046) | (0.030) | (0.024) | (0.085) | (0.086) | (0.073) | (0.090) | (0.058) | (0.065) |
| AR_words | | -0.173 | -0.042 | -0.035 | -0.055 | 0.075 | | 0.613** | 0.389 | 0.746*** | -0.165 | -0.054 |
| | | (0.139) | (0.165) | (0.122) | (0.155) | (0.117) | | (0.272) | (0.300) | (0.261) | (0.272) | (0.289) |
| TA | | 0.150** | 0.123 | 0.069 | 2.486*** | -0.131 | | -0.268** | -0.176 | -0.350*** | 1.820* | -1.068 |
| | | (0.071) | (0.075) | (0.061) | (0.692) | (0.202) | | (0.118) | (0.122) | (0.118) | (1.020) | (0.706) |
| Equity_ratio | | -0.004 | -0.008 | -0.016 | 0.058 | -0.030 | | 0.020 | 0.008 | 0.008 | -0.031 | -0.114 |
| | | (0.015) | (0.015) | (0.014) | (0.064) | (0.035) | | (0.025) | (0.025) | (0.026) | (0.099) | (0.076) |
| ROA | | -0.688*** | -0.602*** | -0.081 | -0.498** | -0.016 | | -0.236 | -0.375 | 0.379 | -0.341 | 0.172 |
| | | (0.162) | (0.163) | (0.153) | (0.240) | (0.137) | | (0.322) | (0.295) | (0.330) | (0.410) | (0.295) |
| Riskiness | | -0.132* | -0.148** | -0.035 | -0.527*** | -0.073 | | -0.194 | 0.034 | -0.097 | -0.428 | 0.053 |
| | | (0.071) | (0.074) | (0.076) | (0.186) | (0.119) | | (0.120) | (0.126) | (0.117) | (0.270) | (0.186) |
| Post_fusion | | -0.065 | -0.072 | -0.063 | 0.013 | 0.040 | | -0.306* | -0.241 | -0.303* | 0.192 | 0.224* |
| | | (0.078) | (0.082) | (0.068) | (0.095) | (0.050) | | (0.160) | (0.157) | (0.154) | (0.198) | (0.132) |
| Population | | 0.195*** | 0.095 | 0.185*** | 0.113 | -0.031 | | 0.309** | 0.141 | 0.299** | 0.214 | 0.058 |
| | | (0.072) | (0.074) | (0.067) | (0.088) | (0.066) | | (0.144) | (0.137) | (0.142) | (0.131) | (0.121) |
| GDP_capita | | -0.001 | -0.000 | -0.001 | -0.001 | 0.000 | | 0.001 | 0.002 | 0.001 | -0.000 | 0.001 |
| | | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | | (0.002) | (0.002) | (0.002) | (0.001) | (0.001) |
| GDP_growth | | 0.028 | 0.049 | 0.026 | 0.103** | 0.051 | | 0.143** | 0.193*** | 0.142** | 0.210** | 0.157** |
| | | (0.035) | (0.033) | (0.032) | (0.051) | (0.036) | | (0.057) | (0.056) | (0.056) | (0.089) | (0.076) |
| Constant | 9.234*** | 6.603*** | 6.545*** | 6.448*** | -31.302*** | 10.565*** | 6.647*** | -0.283 | 1.727 | -0.381 | -24.084 | 22.227* |
| | (0.025) | (1.536) | (1.587) | (1.362) | (11.158) | (3.328) | (0.046) | (3.189) | (2.962) | (2.982) | (16.655) | (11.846) |
| Observations | 448 | 448 | 447 | 448 | 446 | 445 | 448 | 448 | 447 | 448 | 446 | 445 |
| Adjusted R-squared | -0.002 | 0.164 | 0.205 | 0.466 | 0.727 | 0.836 | 0.001 | 0.080 | 0.164 | 0.190 | 0.642 | 0.675 |
| State-FE | No | No | Yes | No | No | Yes | No | No | Yes | No | No | Yes |
| Year-FE | No | No | No | Yes | No | Yes | No | No | No | Yes | No | Yes |
| Bank-FE | No | No | No | No | Yes | Yes | No | No | No | No | Yes | Yes |
| Cluster | Bank | Bank | Bank | Bank | Bank | Bank | Bank | Bank | Bank | Bank | Bank | Bank |

**Note:** The table presents results of the OLS panel regressions that examine the effect of election years on the extent of savings banks' mandatory CSR reporting. The dependent variable *Reporting_total* (columns 1-6) is measured as the log-transformed total number of words contained in the CSR report. *Reporting_social* (columns 7-12) is measured as the log-transformed number of words in the CSR report that are related to social matters. *Election* is an indicator variable taking on the value of 1 during election years, and 0 otherwise. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. Details of variable definitions and relevant subscripts can be found in the Appendix Table A2. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors (clustered by bank) are reported in parentheses.

**Table 9: The role of political competition and orientation**

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| Dependent variable | | | CSR_fy | | |
| | Full sample | Competitors | | Chair_left | |
| | | > median | ≤ median | = 1 | = 0 |
| Election×SavingsBank | 0.158** | 0.228** | 0.135 | 0.401*** | 0.053 |
| | (0.063) | (0.096) | (0.085) | (0.118) | (0.083) |
| Election | -0.128*** | -0.149** | -0.110 | -0.255*** | -0.085 |
| | (0.049) | (0.074) | (0.070) | (0.094) | (0.063) |
| TA | 0.537*** | 0.842*** | 0.080 | 1.037*** | 0.402 |
| | (0.180) | (0.254) | (0.220) | (0.335) | (0.250) |
| Equity_ratio | -0.005 | -0.013 | -0.016 | 0.021 | -0.008 |
| | (0.039) | (0.053) | (0.047) | (0.066) | (0.058) |
| ROA | 0.085 | 0.255 | 0.036 | -0.012 | 0.007 |
| | (0.201) | (0.229) | (0.214) | (0.270) | (0.276) |
| Riskiness | 0.067 | 0.083 | 0.038 | -0.118 | 0.139* |
| | (0.059) | (0.083) | (0.079) | (0.089) | (0.076) |
| Post_fusion | 0.260** | 0.166** | 0.476*** | 0.243 | 0.266 |
| | (0.126) | (0.157) | (0.194) | (0.224) | (0.173) |
| Population | -0.006 | 0.036 | -0.038 | -0.090 | -0.049 |
| | (0.048) | (0.075) | (0.056) | (0.106) | (0.065) |
| GDP_capita | 0.003 | 0.082 | -0.126** | -0.197 | 0.083 |
| | (0.095) | (0.131) | (0.117) | (0.182) | (0.196) |
| GDP_growth | 0.000 | 0.003 | 0.004 | 0.000 | 0.001 |
| | (0.006) | (0.010) | (0.008) | (0.013) | (0.008) |
| Constant | -6.670** | -12.628*** | 1.768 | -11.212** | -4.988 |
| | (2.961) | (4.045) | (3.293) | (5.591) | (4.713) |
| Observations | 2,120 | 1,018 | 1,081 | 628 | 1,448 |
| Adjusted R-squared | 0.707 | 0.717 | 0.727 | 0.690 | 0.708 |
| State-FE | Yes | Yes | Yes | Yes | Yes |
| Year-FE | Yes | Yes | Yes | Yes | Yes |
| Bank-FE | Yes | Yes | Yes | Yes | Yes |
| Cluster | Bank | Bank | Bank | Bank | Bank |

**Note:** Column 2 (3) presents results for a sub-sample of bank-year observations that operate in regions where the political competition, *Competitors*, is larger than (smaller than or equal to) the median. Column 4 (5) presents results for a sub-sample of bank-year observations where the respective chairperson is a member (not a member) of a left-wing party. Details of variable definitions and relevant subscripts can be found in the Appendix Table A2. Continuous variables which are not scaled are log-transformed and all continuous variables are winsorised at the 1st and 99th percentile. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively. Standard errors (clustered by bank) are reported in parentheses.

**Table 10: The performance implications of politically associated CSR**

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dependent variable | ROA_m1 | ROA | ROA_p1 | ROA_p2 | ROA_m1 | ROA | ROA_p1 | ROA_p2 | ROA_m1 | ROA | ROA_p1 | ROA_p2 |
| | Full sample | | | | High CSR sample | | | | Low CSR sample | | | |
| Election×SavingsBank | 0.023* | -0.006 | -0.006 | 0.002 | 0.033* | 0.013 | -0.002 | 0.036 | 0.026 | -0.031* | -0.020 | -0.019 |
| | (0.013) | (0.011) | (0.014) | (0.015) | (0.020) | (0.017) | (0.017) | (0.023) | (0.021) | (0.017) | (0.021) | (0.021) |
| Election | -0.013 | 0.011 | -0.004 | 0.003 | -0.025 | 0.001 | 0.002 | -0.012 | -0.013 | 0.014 | 0.000 | 0.011 |
| | (0.012) | (0.009) | (0.012) | (0.012) | (0.018) | (0.015) | (0.015) | (0.017) | (0.019) | (0.013) | (0.018) | (0.018) |
| Riskiness | -0.043*** | -0.010 | 0.018* | 0.027** | -0.032 | -0.000 | 0.006 | 0.016 | -0.052** | -0.030 | 0.027* | 0.041** |
| | (0.015) | (0.011) | (0.010) | (0.010) | (0.020) | (0.014) | (0.015) | (0.015) | (0.024) | (0.019) | (0.016) | (0.016) |
| Post_fusion | -0.022 | -0.044** | 0.001 | 0.025 | -0.033 | -0.069* | -0.028 | 0.020 | 0.008 | -0.005 | 0.018 | 0.035 |
| | (0.023) | (0.022) | (0.019) | (0.018) | (0.037) | (0.036) | (0.034) | (0.027) | (0.027) | (0.021) | (0.025) | (0.028) |
| Population | -0.008 | 0.005 | 0.003 | 0.007 | 0.007 | -0.000 | 0.008 | 0.016 | -0.016* | 0.007 | 0.003 | 0.004 |
| | (0.006) | (0.007) | (0.008) | (0.007) | (0.011) | (0.010) | (0.013) | (0.013) | (0.009) | (0.012) | (0.011) | (0.010) |
| GDP_capita | 0.047*** | 0.010 | -0.000 | 0.001 | 0.032** | -0.009 | -0.000 | -0.003 | 0.060* | 0.028 | -0.007 | 0.014 |
| | (0.016) | (0.019) | (0.014) | (0.013) | (0.014) | (0.015) | (0.014) | (0.018) | (0.032) | (0.030) | (0.034) | (0.026) |
| GDP_growth | -0.000 | 0.000 | 0.003** | -0.000 | 0.000 | -0.001 | 0.003** | -0.000 | -0.001 | 0.001 | 0.002 | -0.002 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.001) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| Constant | 0.072 | 0.274 | 0.369** | 0.294* | 0.037 | 0.525** | 0.310 | 0.238 | 0.042 | 0.079 | 0.436 | 0.194 |
| | (0.195) | (0.221) | (0.183) | (0.170) | (0.238) | (0.231) | (0.254) | (0.291) | (0.373) | (0.351) | (0.361) | (0.290) |
| Observations | 1,736 | 2,120 | 1,950 | 1,738 | 816 | 1,003 | 921 | 808 | 826 | 1,015 | 922 | 827 |
| Adjusted R-squared | 0.676 | 0.679 | 0.666 | 0.679 | 0.684 | 0.701 | 0.682 | 0.664 | 0.651 | 0.670 | 0.652 | 0.683 |
| State-FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year-FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank-FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

**Note:** In this table, we explore the implication of politically associated CSR for banks' financial performance – for the full sample of banks (columns 1-4), a sample comprised of high CSR performers (where $CSR\_fy >$ median, columns 5-8) and a sample comprised of low CSR performers (where $CSR\_fy \leq$ median, columns 9-12). The dependent variables $ROA\_m1$, $ROA$, $ROA\_p1$ and $ROA\_p2$ are calculated as the profit or loss, divided by the average total assets, in year $t-1$, $t$, $t+1$ and $t+2$, respectively. Other variables are defined in the Appendix Table A2. The sample size deviates from the full sample of 2,210 because of the unavailability of relevant data in the respective year. *, ** and *** indicate significance at the 10%, 5%, and 1% significance level, respectively.