

APPENDIX GA36d

LEVEL 7 ASSESSMENT SPECIFICATION

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Research Report as homework for the class:

Research Principles and Philosophy

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Title of the underlying research report:

A Quantitative Analysis of How Corporate Social Responsibility measures and Sustainability Risk Disclosures Influence Performance and Risk Indicators

Introduction

With a long-standing history in academic research, the significant and steep development of Corporate Social Responsibility (CSR) from the 1950 until today has been analysed and assessed by many different high-profile researchers as summarized by Carroll 1999. It shows a change from a limited level of relevance for corporations and their management in the early 1950s to one of the key considerations for management actions especially in recent years. This shift was driven by both an internal reassessment of a company's role in society and an increased level of political regulation enforced externally. Internally, companies began recognizing the importance of their societal and environmental responsibilities. Externally, governments and regulatory bodies heightened their requirements. The most recent significant regulatory change was introduced by the European Union. Effective January 5, 2023, the European Parliament and the European Council implemented Directive (EU) 2022/2464. This directive follows on the Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC, and Directive 2013/34/EU. This new one is better known as the “Corporate Sustainability Reporting Directive” (CSRD). Under this new regulation, European and global enterprises within its scope are mandated to comprehensively disclose sustainability and environmental risks and opportunities. These disclosures must detail not only the potential impacts on their business operations but also on society entirely. This regulatory amendment represents a significant step towards greater transparency and accountability in corporate sustainability practices. CSRD enhances the Corporate Social Responsibility reporting through requiring specific sustainability criteria and standardising the format of disclosure by providing a range of pre-defined reporting standards.

Based on this recent regulatory change, my research project will be conducted to understand the implications and insights from the new European regulation regarding Corporate Social Responsibility (CSR). A detailed assessment of listed European companies will be conducted to evaluate the reported disclosures for sustainability risks within their annual reports. Additionally, I am planning to assess the quality of disclosed information in cases of companies within the same industry. It should be expected that these firms have a similar risk structure, e.g. because they operate in the same sector. This can aid in identifying potential patterns in the global economy and addressing the following questions:

- Are companies within the same sector showing the same or similar sustainable risk profiles?
- And how do these factors interrelate?

The conclusions can be connected to broader questions in the research field, such as those examined by Prior et al. (2008), who investigated whether socially responsible managers behave ethically by analysing the correlation between corporate earnings and Corporate Social Responsibility (CSR). And, Kim, Y. et al. (2014) who assessed the relationship between CSR and the risk of a share price downturn. By building on their performed work and using the approaches and results, my study can be enhanced and refined. Extending these foundational works allows for a deeper understanding of the intricate dynamics between CSR practices, managerial ethics, and financial risk, ultimately enhancing the field's body of knowledge.

This is an ideal time to undertake this research, given that the new European regulation has been in effect for approximately a year. It now mandates that all affected publicly listed companies in the European Union begin publishing their initial statements on corporate sustainability. This development provides a variety of now publicly accessible data and reference information for a deeper analysis.

The main aim of my research is to pinpoint the empirical connection between the new sustainability risk information provided by the new CSR framework and its impact on classical financial criteria such as “(1) corporate governance structures, (2) market performance, (3) profitability, (4) risk management, and (5) financing costs.” (Wohlrab 2024). This analysis will consider not only the classical financial performance indicators (quantitative factors) but also other softer indicators such as the consistency of disclosures within industries and the quality of the disclosures made.

This period marks a crucial juncture for understanding the real implications of CSR regulations as companies adapt to new transparency standards. By focusing on newly available data, we can gain insights into the initial impact of these regulations on corporate behaviour and market dynamics. This research will explore whether companies that adhere more strictly to CSR principles experience different outcomes in terms of governance and financial performance compared to those that may only meet the minimum requirements. Earlier studies by Linck et al. (2007) and Daniel Beneish et al. (2007) undertook corresponding analyses when the Sarbanes-Oxley Act was introduced, necessitating mandatory disclosures about internal controls. Linck et al. (2007) examined corporate governance shifts, such as changes in board size and composition, and found an increase in independent directors following the 2002 implementation of the Act. In contrast, Daniel Beneish et al. (2007) investigated the financial impacts, looking at market capitalization effects due to disclosures of internal control weaknesses under Sections 302 and 404 of SOX. The methodologies, approaches, and findings

from these studies offer valuable insights for my research, as they also explore significant regulatory changes and newly accessible public information.

By building on the methodologies and findings of these previous studies, my research aims to extend our understanding of how regulatory changes influence corporate practices and market outcomes. The integration of large amount of quantitative data will provide a comprehensive view of the impacts of CSR regulation, helping to identify best practices and areas for improvement in corporate sustainability efforts. A crucial step in this research is to critically evaluate the quality of sustainability disclosures. For instance, Drempetic et al. (2020) highlighted that ESG scores for companies are often misinterpreted. Their analysis utilized the ASSET4 database maintained by Thomson Reuters to examine how sustainability is defined and measured within this framework. They concluded that researchers should frequently scrutinize database ratings instead of leaving this responsibility solely to professional practitioners. Moreover, they contended that if an ESG score does not adequately reflect "Corporate Social Profitability" (CSP), as a result relying on these ratings might not direct capital towards the most sustainable corporations. Notably, Garcia et al. (2017) observed that enterprises categorized as sensitive and aware of external factors generally exhibit better ESG performance. These findings could be further investigated and integrated into my research as well.

My proposed methodology involves a quantitative approach with integrated data quality checks, combining an ongoing trend analysis of the data from the relevant listed European companies over time with a standard big data mining exercise. This will help gather their perspectives on the significance of their Corporate Social Responsibility (CSR) framework and their evaluation of sustainability risks affecting both the company and the broader market. Alongside these insights through the trend analysis, I will analyse quantitative factors, such as the companies' financial statements. This analysis will encompass several key elements, including the accounting methodologies used to ensure the comparability of financial figures, the presence and comprehensiveness of a CSR framework, and the quality of sustainability risk disclosures provided by companies. By examining these factors, the analysis aims to establish a clear understanding of how different accounting practices and CSR frameworks impact the reliability and transparency of financial information. This approach aligns with the methodologies employed by Linck et al. (2007) and Beneish et al. (2007), who contextualized their research within classical performance measures such as profitability, share price evolution, risk management practices, and financing costs. Their work demonstrated the importance of integrating traditional financial metrics with broader governance and sustainability factors.

Building on their insights, this analysis will provide a holistic view of how accounting practices and CSR frameworks contribute to the overall quality of financial reporting and corporate sustainability.

Furthermore, Dorstewitz et al. (2022) introduced an interesting application of principal-agent theories, utilizing relevant market models to address CSR challenges faced by organizations. Integrating these various perspectives is especially significant given the current environmental and economic climate. Many European countries are showing signs of economic slowdown or are experiencing technical or full recessions. If there is robust evidence that Corporate Social Responsibility and sustainable practices positively impact companies, this would provide a strong intrinsic incentive for corporations to continue acting sustainably, even in challenging economic conditions. Conversely, if such evidence is lacking, some companies might revert to less sustainable practices in pursuit of short-term performance improvements.

Thus, presenting a compelling case that demonstrates the positive impact of sustainable practices on overall corporate performance is essential. This, in turn, could yield beneficial effects for the entire society. By establishing clear links between sustainability and corporate success, companies may feel more motivated to prioritize sustainability initiatives, ultimately contributing to broader societal goals and improving overall market conditions.

By leveraging both qualitative insights and quantitative analyses, my research aims to provide a comprehensive understanding of the interplay between sustainability disclosures and corporate performance in the context of evolving European regulations.

Literature Review

Background and context

This research extensively explores the intricate connections among corporate governance, the quality of financial report, and overall financial performance. It examines various subtopics, including the pivotal roles of internal auditing, financial report and management behaviour in enhancing company performance and preventing harmful activities which would lead to reputational problem for the enterprises. In 1993, M.C. Jensen laid a foundational framework for contemporary research by analysing the significant challenges faced by internal control structures during the 1990s. His analysis was conducted using on a broad sample of corporations and introduced a crucial distinction between two approaches: the "normative

approach," which emphasizes the effectiveness of control systems, and the "positive approach," which considers various interrelated factors, including regulatory, legal, political influences, and the economic environment within which corporations operate. Jensen's work underscored the necessity of advancing theories through the "positive approach" to uncover the relationships between changes and their associated impacts.

Financial Economics has been recognized for its capacity to define valuation frameworks and contextualize findings, as well as for its deep understanding of uncertainty. This positions the field advantageously to assess historical organizational performance. By the turn of the century, Core et al. (1999) further added to this discourse by illustrating how board composition and ownership structures influence the levels of additional compensation that CEOs can negotiate. Notably, this additional compensation could not be fully explained by traditional financial performance indicators or prevailing economic conditions.

Adding to this, Farber (2005) provided evidence linking the functionality of financial reporting systems with the quality of the corporate governance frameworks. His findings indicated that firms with less external directors and no independent Chairperson of the Board were at a heightened risk of experiencing fraudulent activities. Mendes-Da-Silva later expanded on this in her 2018 publication, revealing a tendency for board members to come from a homogeneous group, often with strong connections among themselves. Furthermore, Farber (2005) established a correlation between the robustness of a company's corporate governance structure and the credibility of its financial reporting. He analysed a sample of companies implicated in financial statement fraud, as identified by the SEC, and noted the changes in corporate governance following the detection of fraud. His analysis revealed that companies involved in fraudulent activities typically had a smaller number of independent board members, less frequent audit committee meetings, and instances where the CEO also served as the Chairman of the Board. Additionally, these companies often had fewer financial experts on their audit committees, which weakens the oversight over financial and regulatory reporting in the financial statements. Another notable observation was that companies facing fraud were more likely to be audited by non-Big Four accounting firms compared to those without fraud issues. Despite this, Farber's study demonstrated that within three years of a fraud occurrence, these corporations developed their corporate governance structures further, aligning more closely with the practices of non-fraudulent firms in the previously mentioned aspects. However, despite these improvements, the research indicated that trust among institutional investors was not reestablished within that three-year period. Nonetheless, there was a positive correlation

between corporate governance enhancements and stock price recovery. In a related vein Bolton and Hand (2002) conducted a literature review on "Statistical Fraud Detection," which highlighted that approximately two decades ago, significant academic effort was dedicated to exploring the use of extensive datasets and statistical methodologies to highlight fraud trends. Coram and Ferguson (2006) showed that companies with established internal audit functions exhibited a increased likelihood of detecting as well as reporting fraud incidents. Their research further indicated that an internal audit function managed in-house proved more effective in this regard than a fully outsourced solution.

Overall, a critical takeaway from decades of research is that increased data availability significantly enhances the understanding of market dynamics. Additionally, the most fruitful periods for investigating these topics often coincide with substantial regulatory changes. As previously mentioned, the theories surrounding these issues have evolved considerably, particularly in the context of increased information accessibility following the enactment of the Sarbanes-Oxley Act (SOX) and its disclosure obligations concerning internal controls, which provided a new perspective on Corporate Governance within the market. Linck et al. (2007) demonstrated that corporate boards began smaller in the 1990s but increased in size and independence following the implementation of the Sarbanes-Oxley Act in 2002. However, this trend could not be uniformly observed across all firms. Companies of smaller size exhibited a more pronounced increase in board independence, while larger firms significantly reduced board size before the new regulation was enacted. Daniel Beneish et al. (2007) also examined the implications of disclosures made under Sections 302 and 404 of the Sarbanes-Oxley Act on corporate market capitalization. Their findings revealed significant negative impacts on market capitalization for unaudited disclosures under Section 302, while disclosures under Section 404 did not yield a comparable effect. Their analysis extended to the cost of capital associated with these disclosures, confirming the observed trends in market value. Specifically, disclosures mandated by Section 302 were found to increase the cost of capital, while no significant impact was observed from Section 404 disclosures. The interesting factor for the new CSRD regulation will be that disclosures also must be audited by the external audit firm as part of the annual report, which adds to the reliability of the disclosure.

Hogan and Wilkins (2008) provided further evidence that firms with internal control deficiencies incurred substantially higher fees for external audit services. The severity of these deficiencies correlated directly with increased fee premiums. Their research indicated a positive relationship between inherent risk and substantial internal control problems, suggesting that

auditors' efforts escalate in high-risk environments to maintain acceptable levels of audit risk, a trend observed both before and after the introduction of the Sarbanes-Oxley Act. Nonetheless, the authors also acknowledged the potential for increased audit fees to arise from traditional financial risk premiums rather than enhanced auditing efforts.

Zhang et al. (2007) explored the interrelations between audit committee quality, auditor independence, and the disclosure of existing internal control weaknesses. Their findings indicated that lower levels of financial expertise within audit committees heightened the probability of internal control weaknesses. Additionally, they identified that changes in external auditors often signalled potential internal control deficiencies within companies. A significant contribution to the discourse on fraud detection emerged from Alam (2009), who investigated bankruptcy prediction models and proposed that these models could also serve in fraud detection. His analysis indicated that incorporating a fraud detection variable into traditional bankruptcy models significantly improved the predictive accuracy of the original models. This specific fraud variable could enhance classical fraud detection methodologies by integrating qualitative factors into the quantitative framework. However, it is essential to keep the implicit factors for the qualitative variable updated to reflect relevant red flags accurately. Conversely, Feng and McVay (2009) discovered that the accuracy of SOX 404 disclosures directly influenced the profits reported by companies. Their findings underscored the monetary implications while also demonstrating that effective internal controls positively impacted internal management reporting and guidance. Law (2011) further explored the factors influencing organizational resilience against fraud, highlighting the importance of an effective internal audit function, managerial role modelling, and ethical behaviour guidance.

Cheng et al. (2013) provided proof supporting their hypothesis that firms with inefficient and dysfunctional internal control systems experienced significantly lower investment efficiency. Their study also demonstrated a link between the quality of financial reporting and investment efficiency, highlighting the importance of the disclosure obligations introduced by the SOX. Carroll and Shabana (2010) advocated for a long-term perspective on Corporate Social Responsibility (CSR), which they referred to as the "broad view," in contrast to the short-term "narrow view." They explained that in the long run this approach is necessary to fully realize the benefits of a strong CSR framework. They identified four key areas of benefit: (1) reducing costs and risks, (2) enhancing legitimacy and reputation, (3) gaining competitive advantage, and (4) creating synergies that result in beneficial situation for all parties through value creation.

Freeman and Hasnaoui (2011) highlighted the inconsistencies in the use of the term Corporate Social Responsibility (CSR), noting that variations exist both internationally and locally within countries. They pointed out that the term can have different interpretations even among stakeholders in the same country, emphasizing the need for a clearer understanding of the concept. In a comprehensive review, Friede et al. (2015) analyzed 60 studies to identify trends in the relationship between Environmental, Social, and Governance (ESG) performance and corporate financial performance (CFP). Their findings presented a positive case for ESG investing, particularly highlighting its potential to outperform traditional investment strategies in specific regions such as North America, emerging markets, and non-equity asset classes. However, the review did not find consistent learning effects across capital markets. A key conclusion from their analysis was that aligning societal objectives with investor goals over the long term could yield significant benefits for investors. Achieving this alignment requires a deeper understanding of the interconnections between various ESG criteria. Latapí Agudelo et al. (2019) further asserted that the importance of corporate social responsibility has radically changed over recent decades, necessitating that management consider a broader array of factors beyond mere profit maximization in their strategic decisions.

Contribution to Existing Literature

My research is poised to make a valuable contribution to this historical context by analysing recent regulatory changes in the European Union. As highlighted in the overview in the previous section, similar regulatory shifts, such as the Sarbanes-Oxley Act in the United States, can significantly enhance the understanding of business environments and the various aspects contributing to a corporation's success or failure. By investigating these dynamics in the context of new regulations, my study aims to uncover critical insights into how corporate governance structures evolve in response to regulatory pressure and how these changes impact the quality of financial and regulatory reporting as well as financial performance. The findings will not only add depth to existing literature but also provide practical implications for policymakers, corporate managers, and stakeholders engaged in governance practices.

In summary, this research seeks to bridge the gap between theoretical frameworks and practical applications in corporate governance and CSR by exploring the nuanced relationships among governance structures, and financial outcomes, the study will contribute significantly to the ongoing discourse in this critical area of ESG and CSR.

Research aims and objectives

Research Aims

1. To assess the correlation of Sustainability Risks and Financial Key Performance Indicators (KPIs)

As demonstrated in the literature review, there is a well-established link of a change in legal and regulatory obligations and the ability to advance research using new data. Effective establishment of new rules through relevant sustainable risk disclosures can be utilized to examine financial profitability, share price performance, operational risk structures, and financing capabilities. The analysis contributes essential insights into the competitiveness of individual businesses and the overall market. Consequently, my goal is to evaluate the effect of rule changes in the European business environment to enhance the understanding of how the growing emphasis on sustainability - within the framework of the Corporate Sustainability Reporting Directive (CSRD), Environmental, Social, and Governance (ESG) criteria, and Corporate Social Responsibility (CSR) initiatives - affects these factors.

The new requirements for sustainability risk disclosure, along with the newly accessible public information, can enhance our understanding of the effects on both individual businesses and the economy at large. This mirrors the impact observed after the Sarbanes-Oxley Act, which improved comprehension of internal control systems and their effects on businesses and the economy due to the availability of new data. Increased public data availability allows for the development of new frameworks and a deeper comprehension of market conditions. Therefore, my research aims to create a model to measure the impact of robust CSR and ESG frameworks on a firm's financial, operational, and risk management performance (Wohlrab 2024).

My research will address several key queries:

- What is the definition of CSR and ESG frameworks as per legislation of the European Union?
- Can a standardization of terminology be observed due to the new sustainability regulation?
- Do the criteria for the ESG scoring of market participants significantly vary and are they consistent within industries and sectors?

- Is it possible to leverage the models developed to analyse the impact after the introduction of the Sarbanes-Oxley Act to analyse the new sustainable risk data available due to the CSRD regulation?
- Do negative mandatory risk disclosures adversely affect a firm's performance or financing costs?

These questions are critical as they address the broader implications of regulatory changes and their effectiveness in promoting sustainability. By examining how CSR and ESG frameworks are defined and standardized within the EU, my research will provide clarity on whether the new regulations have led to a more unified approach. Furthermore, analysing ESG scoring consistency will reveal whether investors and stakeholders receive reliable and comparable data across different financial institutions.

Adapting models from the Sarbanes-Oxley era to the current regulatory environment will be another focus. This adaptation will help determine if previous methodologies can be effectively applied to new sustainability risk information. Finally, assessing the impact of negative mandatory risk disclosures on a firm's performance and financing costs will offer insights into the potential consequences of increased transparency. This comprehensive approach aims to contribute to a better understanding of how regulatory changes in sustainability reporting influence both individual businesses and the broader market, ultimately supporting more informed decision-making and policy development.

2. To assess the relationship between sustainability frameworks (CSR and ESG) and the status quo of the Corporate Governance within the firms

These frameworks can be assessed and compared to ensure they fit well within a solid corporate governance structure. My goal is to investigate the influence of CSR and ESG frameworks on corporate governance by exploring the following questions:

- Does a strong CSR and ESG framework reflect a robust corporate governance system?
- Furthermore, do companies with more extensive and detailed CSR frameworks exhibit stronger corporate governance structures?
- By exploring these elements, I aim to identify whether there is a relationship between the quality of CSR and ESG initiatives and the overall effectiveness of corporate governance within organizations. This analysis will offer insights into the linkage between sustainability efforts and governance quality.

3. To explore the role of improved sustainability frameworks on prevention and detection of fraud

I intend to explore how CSR and ESG frameworks influence corporate culture, particularly in terms of their effectiveness in preventing and detecting fraud. I will investigate whether a company's commitment to sustainability also reflects a commitment to ethical practices and how these elements are interconnected. Specifically, I aim to determine if a robust CSR framework enhances a company's ability to prevent and detect fraud. Additionally, I will examine whether the requirement to include CSR, ESG, or CSRD disclosures in financial reports affects a company's fraud prevention and detection capabilities. By analysing these factors, I seek to understand how sustainability and ethical frameworks can strengthen corporate integrity and reduce fraudulent behaviour.

Research Objectives

1. To gather quantitative data on sustainability risks disclosed by firms in their annual reports.

For the quantitative data collection, I plan to employ structured methodologies to extract and analyse specific sustainability risk indicators from the annual reports of European listed companies. This approach will involve categorizing risks such as environmental, social, and governance (ESG) factors, and quantifying the frequency and extent of their disclosure across different sectors and regions.

2. To analyse the details and accuracy of the sustainability risk disclosures to assess the level of quality of the disclosures.

In assessing the quality of disclosures, qualitative factors will play a crucial role. This involves not only the presence of disclosures but also their clarity, relevance, and adherence to reporting standards such as those outlined by the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD). By analysing a comprehensive sample of financial statements, I aim to identify trends in disclosure practices and areas where improvements may be needed to enhance transparency and accountability.

3. To investigate potential gaps between the written disclosures by cross checking industries and sectors

The potentially lower quality of data following the introduction of new disclosures shortly after the launch of the regulation can be mitigated by monitoring it over an extended time using a

consistency check spanning several years. For instance, initial disclosures can be evaluated against data publications in the following two years to determine if significant changes were needed or if key disclosures were postponed, which should have already been included in the first year. For example, a risk disclosure introduced in the second year of the requirement might have been relevant in the first year because its structural nature and impact on the business. Thus, consistency checks can be used over time. Additionally, consistency checks within sectors and field of operations could be conducted. Companies within the same industry may face similar internal and external risks or have comparable impacts on society based on their supply chains, manufacturing equipment, and distribution channels. For instance, two manufacturing companies producing the same product are likely to have similar environmental risk disclosures due to the nature of their production processes. However, if the corporations publish vastly different risks in their annual reports, it suggests the need to investigate the quality of underlying data before proceeding with further research.

One of the primary challenges of my approach is that it relies on entirely new data in the market, which have not been assessed yet by other researchers. Therefore, a structured approach to data analysis is essential to complete the thesis on time and within the structural framework set by the University of Wales Trinity Saint David for the DBA program. Initially, a few testing approaches (e.g. regression analysis) used in research conducted after implementing the SOX Act in 2002 will be evaluated to determine if they can be the basis for this research as well. Key similarities should be identified, and specific concepts and models should be leveraged after reasonable adaption for the sustainability risk analysis. Particularly, the statistical impact calculation of risks on performance.

Proposed Methods

I propose a quantitative approach for my research. This approach includes both quantitative data mining to comprehensively explore various aspects of the industry and regional specifics and trend analysis to develop a good understanding of company structures and managerial differences regarding accounting matters, corporate governance, ESG (Environmental, Social, and Governance), CRS (Corporate Social Responsibility), and CSRD (Corporate Sustainability Reporting Directive) topics. By employing data analytics on different layers, I aim to provide a holistic understanding that integrates subjective managerial insights with objective financial metrics.

Qualitative Component

The qualitative component will involve conducting interviews to delve into the internal perspectives of management within listed companies. These interviews will focus on identifying key elements of the company structure and capturing specific views on significant accounting issues, corporate governance practices, ESG initiatives, CRS activities, and adherence to CSRD requirements. The interviewees will be professionals with considerable seniority and experience in these areas, ensuring that the insights gathered are both relevant and

Quantitative Component

The quantitative analysis will complement the qualitative insights (specific trends) by integrating them with broader market factors. The following criteria will guide this analysis:

- **Accounting Methodology:** Evaluating whether the company uses a principle- or rule-based approach.
- **Financial Statements:** Determining if the statements are audited or unaudited.
- **ESG and CSR Reporting:** Assessing the presence and quality of voluntary ESG or CSR reports.
- **CSRD Disclosures:** Checking for the inclusion and granularity of mandatory CSRD disclosures.
- **Internal Audit Functions:** Identifying the existence and type (internal, co-sourced, or outsourced) of internal audit functions.
- **Legal Structure:** Understanding the legal setup, such as limited liability or full personal liability of the owner.
- **Listing Status:** Identifying whether the company is listed or unlisted.
- **Corporate Governance Reporting:** Reviewing the presence and detail of corporate governance reports in general and for which period they already exist.
- **Evaluation Criteria:** Analysing the criteria and explanations used to define good corporate governance and CSR.
- **ESG Evaluation:** Examining the ESG evaluation based on the Sustainable Finance Disclosure Regulation (SFDR), which has been longer in place since CSRD.

Data Sources and Analysis

Publicly available financial statements will be the main data source for the quantitative analysis. For European Union-listed companies, the stringent disclosure regulations provide a strong foundation for the study. The focus will be on audited annual reports, with additional

information from market-relevant updates and quarterly unaudited data where available. The new CSRD requirements, which necessitate the disclosure of social and environmental risks and their potential effects, will be especially valuable. These disclosures will be examined alongside traditional financial indicators such as profit and loss, cost of capital, and market capitalization. This methodology is influenced by the approaches of Linck et al. (2007) and Daniel Beneish et al. (2007) in their research on SOX disclosures, with an emphasis on internal control weaknesses.

Pilot Study

To ensure the effectiveness and feasibility of both the trend analysis and quantitative data mining exercise, I will conduct pilot studies.

The quantitative pilot study is designed to evaluate the practicality and effectiveness of extracting relevant information from financial statements. It will involve a sample of five recent annual reports from publicly listed companies, which, under new European regulations, must disclose their sustainability risks and ESG frameworks. Ideally, this information can be drawn with a data mining tool or from a third-party service provider to increase efficiency.

The focus of the pilot study will help on spotting trends and patterns in the risk disclosures and determining if the companies adhere to similar accounting standards. This will help ensure that financial KPIs, such as profit, financing costs, and share price, are comparable. The aim is to assess whether the disclosures are standardized sufficiently to identify the most relevant factors for the main analysis. Drawing from the results of the pilot studies the factors for quantitative analysis will be revised and enhanced for the main study.

Quantitative Analysis

The main quantitative analysis will utilize the refined criteria to conduct a comprehensive analysis of the financial statements. The analysis will focus on:

- Evaluating the impact of accounting methodologies on financial reporting.
- Assessing the quality and completeness of ESG, CSR, and CSRD disclosures.
- Analysing the presence and effectiveness of internal controls and good corporate governance
- Comparing financial performance indicators across companies with different governance structures and sustainability practices.

- Combining quantitative findings from big data sets and trends analysis will offer a comprehensive view of the factors affecting corporate governance and sustainability practices in publicly listed companies.

The main limitations of this approach include:

- **Variability in Disclosure Quality:** The quality of disclosed sustainability risks may vary significantly. Companies with better sustainability practices might disclose more detailed information than those with questionable practices. To mitigate this, I will control for these variables in the quantitative analysis and triangulate findings with trends analysis insights.
- **Lack of Standardized CSR Frameworks:** Different companies may follow different CSR standards, making comparisons challenging. I will focus on identifying common themes and patterns across companies and industries to ensure meaningful comparisons.
- **Fraudulent disclosures:** Companies with very high sustainability risks might have an incentive to conceal their real risks and disclose wrong information.

Conclusion

By employing quantitative approach on different levels, this research aims to provide a comprehensive understanding of the interplay between company structure, management's perspectives, and corporate governance and sustainability practices. The trend analysis component, through in-depth structural and sectoral analysis, will offer detailed insights into managerial views and internal practices, while the global big data view will integrate these insights with broader financial data to identify overall patterns.

The pilot studies will ensure the feasibility and effectiveness of the research method, allowing for refinement and improvement before the main study. Despite potential limitations, careful planning and mitigation strategies will help ensure the reliability and validity of the findings.

This research will contribute to the existing literature on corporate governance and sustainability, providing valuable insights for academics, practitioners, and policymakers. By understanding the factors that influence corporate practices, this study can help drive improvements in governance and sustainability, ultimately benefiting companies, investors, and society.

In general, my research can be categorized in the following way into the Epistemological and Philosophical framework:

Epistemological Framework:

- **Positivism:** Positivist epistemology, which is closely aligned with empiricism, posits that knowledge should be derived from scientific and logical proof. My study adheres to this by systematically analysing the impact of CSR disclosures through established models and statistical methods, aiming to produce objective and generalizable results.

Philosophical Framework:

- **Pragmatism:** Pragmatism is concerned with the practical implications and outcomes of ideas. My research aims to assess the practical impacts of the CSRD on corporate governance, market performance, profitability, risk management, and financing costs. Pragmatism in this context focuses on the usefulness and efficacy of CSR disclosures in achieving sustainable and ethical business practices.
- **Ethics and Normative Theories:** The exploration of the relationship between a company's sustainability behaviour and its ethical conduct engages with normative ethical theories. This includes deontological ethics (duty-based), consequentialism (outcome-based), and virtue ethics (character-based). Your study contributes to understanding how ethical frameworks influence corporate behaviour and decision-making.
- **Critical Theory:** By challenging the current understanding of ESG and CSR metrics and evaluating them critically, my research aligns with critical theory. This approach questions and critiques the status quo, seeking to identify and address power structures and ideological biases within corporate reporting practices.

Expected outcomes and contributions

Research to date has significantly advanced our understanding of the complex interplay between corporate governance structures and traditional financial Key Performance Indicators (KPIs) such as profitability, financing costs, and share prices, as well as their implications for fraud detection within organizations. Despite these advancements, there remains a notable gap in examining the broader landscape, particularly concerning the impact of Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) factors. This gap is largely due to limitations in publicly available information stemming from mandatory disclosures. The introduction of the Corporate Sustainability Reporting Directive (CSRD) by the European Union represents a pivotal opportunity to address these deficiencies. The CSRD mandates that companies disclose detailed information on their sustainability risks, encompassing both their operational impacts and broader societal effects. This directive aims

to enhance transparency and provide a more comprehensive view of how CSR and ESG considerations intersect with corporate governance and financial performance.

The CSRD's introduction parallels the transformative impact of the Sarbanes-Oxley Act (SOX) enacted in the early 2000s, which aimed to enhance corporate governance and financial transparency in response to major corporate scandals like Enron and WorldCom. Similarly, the CSRD seeks to promote transparency and accountability in corporate reporting, particularly concerning sustainability and societal impacts. This regulatory framework is expected to facilitate empirical research into the relationships between CSR, ESG practices, corporate performance metrics, and risk management strategies.

A central hypothesis posits that companies demonstrating higher levels of corporate social responsibility and effectively managing sustainability risks are likely to exhibit stronger financial performance indicators. This includes lower capital costs, improved profitability, and consequently, higher market valuations reflected in share prices. Companies disclosing minimal or insignificant sustainability risks are expected to benefit from reduced financing costs, leading to enhanced profitability and increased market capitalization. Moreover, such firms may experience greater stability in their business operations due to reduced uncertainty and improved resilience against environmental and social risks. Analyzing these interrelationships is crucial for gaining insights into how CSR and ESG frameworks influence corporate behavior and financial outcomes. Companies that prioritize CSR and ESG factors are often perceived as upholding higher ethical standards and possessing a superior moral compass compared to their peers who do not prioritize these factors to the same extent. This ethical advantage not only enhances corporate reputation and stakeholder trust but also strengthens the company's resilience against ethical lapses and fraudulent activities.

Furthermore, heightened market awareness and focus on CSR and ESG factors can contribute to mitigating fraud risks and promoting market stability. Fraudulent activities within corporations not only lead to significant financial losses for shareholders but also undermine trust in the integrity of financial markets and the reliability of external audit processes. A poignant example is the Wirecard scandal in Germany, where the collapse of the company resulted in substantial financial losses for investors, including small shareholders who suffered complete loss of their investments. The audit firm Ernst & Young (EY), responsible for auditing Wirecard's financial statements, faced severe scrutiny and criticism for failing to detect and report the fraudulent activities in a timely manner. The Wirecard scandal underscored the

critical role of effective corporate governance and robust regulatory oversight in maintaining market integrity and investor confidence. Instances of corporate fraud not only tarnish the reputations of involved companies and their executives but also raise broader questions about the effectiveness of regulatory mechanisms and auditing practices. Such high-profile cases highlight the need for continuous improvement in corporate governance frameworks and regulatory enforcement to prevent and detect fraudulent activities effectively.

In the context of CSR and ESG frameworks, companies that integrate these considerations into their business strategies are often better equipped to anticipate and mitigate risks associated with unethical conduct and financial irregularities. By prioritizing transparency and accountability in their operations, these companies can strengthen internal controls and compliance mechanisms, thereby reducing the likelihood of fraudulent behaviors. Moreover, robust CSR and ESG practices contribute to building a corporate culture that values ethical behavior, integrity, and long-term sustainability, which are essential for maintaining stakeholder trust and investor confidence.

Empirical research on the impact of CSR and ESG frameworks on corporate performance has yielded mixed findings, reflecting the diverse nature of industries, regulatory environments, and corporate strategies. While some studies suggest a positive correlation between CSR investments and financial performance metrics such as profitability and shareholder value, others emphasize the potential trade-offs between short-term financial gains and long-term sustainability goals. These complexities underscore the importance of conducting nuanced empirical analyses that account for contextual factors and industry-specific dynamics when assessing the impact of CSR and ESG practices on corporate outcomes.

The implementation of the CSRD represents a significant step toward enhancing transparency and accountability in corporate sustainability reporting across the European Union. By mandating comprehensive disclosures of sustainability risks and impacts, the directive aims to provide investors, stakeholders, and the broader public with access to reliable and comparable information for making informed decisions. This regulatory initiative not only aligns with global trends toward sustainable investing and responsible corporate behavior but also sets a precedent for regulatory frameworks in other jurisdictions seeking to strengthen environmental and social governance standards. Looking ahead, ongoing research and empirical studies will play a crucial role in evaluating the effectiveness of CSR and ESG frameworks in driving sustainable business practices and enhancing corporate performance. By examining the

interplay between governance structures, financial metrics, and ethical considerations, researchers can contribute valuable insights into the factors that influence corporate behavior and market dynamics. Moreover, these insights can inform policymakers, regulators, and industry stakeholders in developing evidence-based policies and practices that promote responsible corporate conduct and mitigate risks associated with fraud and ethical lapses.

In conclusion, the analysis of CSR and ESG frameworks in relation to corporate governance, financial performance metrics, and risk management strategies is instrumental in understanding their broader impact on corporate behavior and market dynamics. The introduction of regulatory frameworks such as the CSRD represents a significant opportunity to advance our understanding of these relationships and promote sustainable business practices. By fostering transparency, accountability, and ethical conduct, CSR and ESG frameworks not only enhance corporate resilience and stakeholder trust but also contribute to building a more resilient and trustworthy financial ecosystem for the benefit of society as a whole.

Research plan of work and timetable

Please refer to the research plan already prepared as homework for the first class of the DBA program in January "Converting Research into Practice" (Wohlrab 2024), which is still valid as of today:

Year One: Course Work, Literature Review and Research Preparations	
Months 1-6	• Course work, including homework. • Start of the literature review. • Explore and review study focus and methods.
Months 7-12	• Course work, including homework. • Develop a preliminary research proposal. • Prepare material needed for fieldwork, including questionnaires and initial contacts. • Conduct a pilot study for a small sample of qualitative and quantitative research. • Finalize the research proposal.
Year Two: Fieldwork and analysis	
Months 13-18	• Conduct a pilot study. • Align all research and statistical methods and tools to be used throughout the study with the thesis supervisor. • Start data collection based on the approved plan. • Continuously refine data collection methods. • Begin preliminary data analysis.
Months 19-24	• Obtain quantitative data sets about listed companies and their corporate governance and CSR frameworks. • Conduct interviews and prepare transcription. • Prepare and analyse results from datasets from financial statements. • Analyse results from financial statement data sets and interviews using agreed statistical framework. • Complete data collection and focus on detailed analysis. • Draft the methodology and initial results sections. • Revisit literature review and analyse the trend provided by the data received
Year Three: Fieldwork and analysis	
Months 25-30	• Microanalysis to expand the research study. • Visualize the research with diagrams. • Finalize data analysis and assessments. • Finalize summary and conclusion. • Calibrate the final title of the thesis. • Write up thesis and manuscript. • Request feedback from supervisors.
Months 31-36	• Finish thesis and manuscript. • Finalize format. • Submit thesis for examination. • Preparation for oral examination • Defend the thesis orally. • Address feedback from examiners

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