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The Stakeholder Engagement in the European banks: regulation versus governance.

What changes after the NF Directive?

Abstract

Previous studies show regulation and corporate governance play an important role in affecting CSR processes and outcomes. The stakeholder engagement (SE) process represents a good practice of Corporate Social Responsibility (CSR) and, at the same time, an aspect of substance over form, within the CSR policies. In spite of its relevance, SE represents a little explored field of research. The purpose of this paper is to investigate if the improvements in SE processes are actually driven by regulation rather than by some elements of corporate governance. The study examines the effect of the regulation and some board's characteristics on SE. Specifically, in 2017 the introduction of EU non-financial information Directive (Directive 2014/95/EU) shifts the disclosure of non-financial information from the voluntary to the mandatory realm: in this mandatory context, the quality of the SE process that is indirectly disclosed in non financial information, could improve. By using a content and statistical analysis, through performing 4 two-way ANOVA, the study reveals that the effects of the introduction of the Directive 2014/95/EU on the stakeholder engagement process have been limited and the improvements in SE before and after the introduction of the Directive link to the Board of Directors characteristics. These findings are interesting for academics, by enriching the academic debate on mandatory vs voluntary disclosure and the relationship between board attributes and sustainability, for policy makers, by providing suggestions to favour organizational change of the firms, and for managers, by identifying the desirable characteristics of the Board of Directors.

Keywords: stakeholder engagement, NF Directive, mandatory/voluntary information, board structure.

1. Introduction

Stakeholder engagement (SE), as defined in the Standard AA1000, is the process to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and answer to stakeholders for decisions, actions and performance (AccountAbility 1000). This process entails strategic management of relationships with direct stakeholders through their participation in decision making and company governance (Hinna, 2002; Hinna and Monteduro 2006; Greenwood, 2007).

The stakeholder engagement (SE) process represents a good practice of Corporate Social Responsibility (CSR) and, at the same time, an aspect of substance over form, within the CSR policies. Despite the importance of this process is consolidated in literature, previous studies have shown a low level of quality of the SE among companies, in particular in European banking industry (Venturelli et al., 2018), in contradiction with the growing attention paid by the same industry on CSR according to empirical results (Raut et al., 2017; KPMG, 2017). It is not yet clear which are the most effective actions to stimulate progress in this direction. Among the factors affecting CSR processes and outcomes, the literature identifies external and internal factors and, among these ones, respectively regulation and governance (Mazutis and Zintel, 2015). However, among the CSR processes and outcomes investigated, the SE represents a very little explored research field and the banking industry appears to have been generally excluded from studies focusing on sustainable reporting and CSR (Kiliç, Kuzey, & Uyar, 2015).

Our study aims to fill these gap by: first, investigating the impact of the regulation on the SE process and second, exploring the effect of some board's attributes on SE in banking industry, in order to understand those actions which could favour improvements in the SE. We focus the European banks because Europe (European Commission, 2018) has attributed financial sector with leadership in promoting sustainable development and European banks are indeed concerned on certain environmental, social, and governance aspects of disclosure and performance. These reasons make SE a relevant topic to be improved.

Specifically, we investigate the effect Directive 2014/95/EU on SE. Directive 2014/95/EU (NF Directive) on the disclosure of non-financial information was introduced in 2017. Large companies (exceeding 500 employees) headquartered in Member States have been required by Directive to provide a series of social, environmental, and governance information. This regulation shifts the disclosure of non-financial information from the voluntary to the mandatory realm.

According to NF Directive, the information to be included is essentially “*information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters*”.

The Directive does not specify the way to report and disclose non financial information, but it refers to international guidelines/framework for sustainability/integrated report (GRI, IIRC). Thus, even if the NF Directive does not have explicit references for the stakeholder engagement information, the choice to adopt a guideline as well as a framework implicates the adoption of a stakeholder engagement process according to the principle of materiality, which refers to the relevance of a topic for the company and for stakeholders.

For the reasons above, even in absence of specific information required by the NFI about the SE, we expect information about this process should have improved, after the introduction of the directive. To this aim, this work evaluates the quality of SE process before and after the directive. To do it, starting from the consideration that the disclosure is a good proxy for the action, as confirmed by previous literature (Vitolla et al., 2019; Venturelli et al., 2018; Moratis and Brandt, 2017), in this paper the analysis of SE disclosure has been carried out.

Generally, companies' behavior is assumed to have changed to be compliant with the new regulation (La Torre et al., 2018); however the change is sometimes limited to the symbolic

adoption of new sustainability actions (Cho, Laine, Roberts, & Rodrigue, 2015; Maglio, Rey, Agliata, & Lombardi, 2020; Michelon, Pilonato, & Riccieri, 2015) and the fulfillment of the minimum requirements requested by the regulation.

When the imposed rules are not aligned and consistent with decision makers' beliefs, priorities and desired strategies, a gap can be generated between "talking and walking" about CSR. BODs are ultimately responsible for implementing the organizations' strategies, which include developing sustainability strategies and CSR practices (Jizi, 2017). A large strand of literature address the relationship between corporate governance and, specifically, board's characteristics and CSR practices and disclosure. Regarding board composition, the percentage of female, independent, or outside directors and their characteristics can influence and drive CSR performance (Cucari et al., 2018; Frias - Aceituno et al., 2013; Post et al., 2011, Chams and García -Blandón, 2019). In this study, we verify that improvements in SE process are more likely to be driven by elements of corporate governance and not by regulation. In the light of previous considerations, the study investigates the effect of board's composition on changes in SE before and after the directive, in order to discover if SE is affected by corporate governance, regardless the introduction of the directive.

The reminder of the paper is organised as follows. The following section briefly presents the theoretical framework and the consequent research hypotheses. The third section describes the structure of the sample and the methodology used, while the fourth section presents the results and discussion. The conclusions are presented in the last section.

2. Theoretical framework and hypotheses

2.1 The effect of regulation on Stakeholder Engagement

This paper moved from the instrumental theories of CSR (Donaldson and Preston, 1995), according to which the survival of a company is strictly linked to the ability of the same to manage and engage its stakeholders. In this sense, integrating CSR into company governance and management systems becomes crucial to value creation in the long and the medium term (Crane et al, 2014; Porter and Kramer, 2006) and to achieve competitive advantage (Husted and Hallen, 2000). A strategic approach to company management based on relational CSR thus implies and requires not mere involvement of stakeholders to mitigate or manage their expectations but the creation of a network of mutual responsibility (Andriof et al, 2002; Manetti, 2011).

SE has been considered in different ways in literature (Greenwood, 2007): it has been seen as a CSR instrument (Lopatta et al, 2017) and a tool of good governance (Devinney et al, 2013; Fassin and Van Rossem, 2009). SE has also been considered as a powerful tool of dialogue because it facilitates interactive, shared learning processes capable of promoting transformative actions and social change (Bebbington et al, 2007). SE also appears essential to build and maintain a solid reputation in the market (Dal Maso et al, 2017; Jo and Na, 2012; Romenti, 2010). It is also considered to be a key element in the preparation of sustainability reports; indeed, the standard GRI (international reference standards for sustainability reporting) attributes to SE crucial importance in defining the relevant information to be disclosed. In particular, according to the GRI standards, a company must identify its stakeholders and explain how it has responded to their reasonable expectations and interests. In particular, the concept of materiality in sustainability reporting is defined from a broader group of (influential) stakeholders, with which companies engage in a dialogue to identify material issues (Fasan and Mio, 2017). Furthermore, material issues are topics to be included in the report as it reflects the organisation's economic, environmental and social impacts and influences the decisions of stakeholders (Baumuller and Schaffhauser-Linzatti, 2018).

Unfortunately the first version of the EU Directive does not identify the concept of materiality and/or the stakeholder engagement process. Nevertheless, considering that the non financial information to be disclosed must follow the standards and guidelines already existent, companies that choose to adopt the GRI standard, as evidenced mostly in previous studies, disclose also the process of stakeholder engagement, according to the principle of materiality (La Torre et al., 2020).

In this sense, disclosure is a way to respond to stakeholders' instances, expectations and needs. It improves transparency and, consequently, trust and credibility towards the company (Del Maso et al., 2017; Lozano and Husingh, 2011; Manning et al., 2019).

Though the growing importance of the process of stakeholder engagement, the quality level of it is still very low, as confirmed by previous studies, with particular reference in banking sector, (Venturelli et al., 2018). Given that these previous studies have been carried out in a context of voluntary disclosure, in this paper we want to fill this gap, analysing the effect in both context, voluntary and mandatory, before and after the introduction of the Directive.

In such background, the present paper aims to verify if the introduction of the Directive, that, indirectly, through the concept of materiality, introduces mandatory information about the stakeholder engagement process, could have a positive effect on the quality of SE process.

In this sense, this study contributes also to the open debate in literature about the role of regulation in the quality of disclosure (Deegan, 2002; Bebbington et al., 2012).

The part of literature, according to which mandatory reporting is desirable since it could improve the quality and comparability of non-financial reporting, was initially prevalent (Deegan, 2002). In this sense, some authors believed that regulation would be preferable to voluntary disclosure which may be incomplete and lack accuracy, neutrality, objectivity and comparability (Adams, 2004; Beets and Souther, 1999). Following this thoughts, over the years, some European countries (Spain, France, Portugal, Finland, Denmark and Sweden) have introduced mandatory reporting on environmental and social issues. Actually, some cross countries studies have shown that in countries with regulation, such as France, the quality of disclosure is higher if compared to countries where there is no regulation, such as the USA (Crawford and Williams, 2010). Without any doubts, the introduction of regulation has the effect to increase the number of reports containing non-financial information (Husted and Salazar, 2006), providing, also, benchmarking and best practices (Hess, 2007; Hess and Dunfee, 2007). On the other hand, a quantitative increase would not necessarily be associated with a qualitative increase in information. Several studies have shown that regulation does not always improve the quality of non-financial reporting (Bebbington et al., 2012; Chauvey et al. 2015; Locke and Seele, 2016; Delbard, 2008; Costa and Agostini, 2016; Luque-Vilchez and Larrinaga, 2016). Other studies shows contrasting results for China and South Africa (Ioannou and Serafeim, 2014).

Therefore, considering the growing importance of SE and the low level verified in previous studies, the present and open debate in literature about the role of the regulation on the quality of non financial disclosure and also that SE is a process indirectly disclosed in Non financial information, the first hypothesis of the paper has been formulated as follows:

Hypothesis 1. (H1) Stakeholder Engagement (SE) of European banks varies with the introduction of the Directive 95/2014/EU.

2.2 The effect of Corporate governance on Stakeholder Engagement

Many studies have identified a positive relationship between some elements of governance and good CSR practices. The board of directors plays a fundamental role in determining the responsible behaviors of an organization. Accordingly with prior research, board members are those who can integrate sustainability with firm strategy and affect sustainability reporting quality (Michelon & Parbonetti, 2012). The fulfilment of these tasks is affected by the

composition and structure of the board, in terms of size, independence, diversity (Huang et al., 2007; Shahzad et al., 2016), among other characteristics. The inclusion of a growing number women, non executive and independent and younger Directors in the boards contributes to change the way of operating and to give a more explicit recognition to stakeholders. Previous literature about the relationship between board characteristics and stakeholder engagement highlighted how companies with more independent and nonexecutive members are more sensitive and responsive to environmental and social demands by stakeholders (De Villiers et al., 2011; Frias-Aceituno et al., 2013; Hussain et al., 2018). Accordingly, diversity of board may improve the capacity for a company to meet the stakeholders' need and instances. In the same direction, according to previous studies (Pucheta-Martinez and Gallego-Alvarez, 2019; De-Mandojana and Aragon-Correa, 2015) the board of directors can play a relevant role in encouraging CSR actions and CSR reporting, in maintaining good relations with all stakeholders and in satisfying all stakeholders' instances. In general, previous studies about the relationship between board attributes and CSR issues have been carried out in a context of voluntary disclosure. In this paper, we fill this gap, analysing the effect in both context, voluntary and mandatory, before and after the introduction of the Directive.

Thus, in this paper, we examine how board structure, particularly board size, board gender diversity, board independence and board age impact SE in the European banks before and after the introduction of the Directive.

Considering the lack of studies about the direct relationship between Board characteristics and quality of SE and considering that SE is a good CSR practice, as expressed above, the hypotheses have been formulated starting from the literature on the relationship between board characteristics and CSR issues.

Priors studies have not led to common results on the relationship between board size and stakeholder engagement. In fact, on the one hand, some studies found that a greater number of Board Directors implies more experience regarding sustainable strategies. Their broader directive knowledge and training (García-Sánchez et al., 2011; Allegrini and Greco, 2013) and a greater variety of skills and sensitivities (Song and Windram, 2004; Yermack, 1996) which could be translated into a greater consideration of the different concerns and perspectives of the stakeholders (Frias-Aceituno et al., 2013), a better representation of the different stakeholder groups (Kaymak and Bektas, 2017) and, in general, stronger sustainability performance (Chams & García-Blandón, 2019).

On the other hand, previous research did not find any association between the board size and CSR behavior (Walls et al., 2012), and further studies (Guest 2009, Lipton and Lorsch 1992) argued that a large number of Directors involves risks that they take on a plethorical role and slow decision-making processes (Webb, 2004) with worse results in terms of CSR. Lastly, Other authors argued that the limited size of a board leads to more efficient communication and coordination, as well as to higher levels of commitment and responsibility for individual board members (Ahmed et al., 2006).

According to Kiliç et al., (2015), it is reasonable to hypothesize a non-linear relationship between board size and stakeholder engagement quality; furthermore, García-Sánchez et al. (2014) defend the existence of a possible U-shaped relationship on CSR performance. Thus, the following hypothesis is formulated:

Hypothesis 2. (H2) SE of European banks varies with Board size, regardless the Directive

Shilton et al. (1996) argue that limiting the composition of the board to a single gender, or accepting a disproportionate distribution, does not help to correctly represent the external environment within the board itself and to better understand and the needs of a given stakeholder target. In addition, some characteristic traits of women's personality compared to men, such as wisdom and diligence (Huse and Solberg, 2006), low risk aversion, greater transparency, higher concern and attention towards societal and environmental matters

(Boulouta, 2013, Diamantopoulos et al., 2003; Liao et al., 2015; Nadeem et al., 2017) lead to believe that a higher number of women on the board could broaden the bank's attention towards the different categories of stakeholders and improve the quality of the decision-making process (Adams and Ferreira, 2009). Women's greater social awareness enables them to take into account the needs of a wide range of stakeholders (Konrad & Kramer, 2006). Even more, Kassinis et al. (2016) suggest that gender diversity has a direct, measurable effect on CSR practices and it is reflected in the corporate policy orientation. Thus, the following hypothesis is formulated as follows:

Hypothesis 3. (H3) SE of European banks varies with the number of women in the Board, regardless the Directive

Prior studies indicated that inside directors are shareholder focused, while independent non-executive board members are more stakeholder oriented (Ibrahim et al., 2003; Zhang et al., 2013): the independent non-executive directors' interests are closer to those of stakeholders, making them more likely to meet stakeholders' demands (Ibrahim & Angelidis, 1995). Independent non-executive directors not only help to ensure that companies operate in the shareholders' best interests but also assist in resolving conflicts of interest among stakeholders (De Andres & Vallelado, 2008). In general, a greater number of outside directors are associated with stronger sustainability performance (Chams & García-Blandón, 2019, Galbreath, 2016), more effective control of external contingencies (Fernández - Gago et al., 2016), more concern to social demands (Ibrahim & Angelidis, 1995) and to promote socially responsible corporate behaviors (O'Neill, Saunders, & McCarthy, 1989). A remuneration not based on economic objectives makes them more oriented towards long-term objectives, and towards not only financial success but also more sustainable goals (Post et al., 2011). According to legitimacy theory, independent non-executive directors have awareness of companies' improved image when they implement CSR good practices like stakeholder engagement policies (Oliver, 1991). At the other hand, a few authors find a negative relationship between the number of independent directors and the level of CSR (Prado-Lorenzo and García-Sánchez, 2010, García-Sánchez et al., 2011, Frias -Aceituno et al., 2013). Thus, the following hypothesis is formulated as follows:

Hypothesis 4. (H4) SE of European banks varies with the number of independent directors in the Board, regardless the Directive

In literature, a controversial and, at the same time, less investigated relationship is that one between the average age of the Board and sustainability issues. On the one hand, literature highlights that CSR good practices, such as for instance stakeholder engagement, represent new topics on which younger Directors have greater awareness and sensitivity (Diamantopoulos et al., 2003; Klineberg et al., 1998). On the other hand, some scholars identify the greater experience related to social and ethical issues of older Directors as the key to understanding the value of a good stakeholder engagement process. For others, the relationship between the age of directors and sustainability is curvilinear; a higher presence in the board of both younger and senior directors is positively and significantly associated with sustainable performance (Chams & García-Blandón, 2019). Thus, the following hypothesis is formulated:

Hypothesis 5. (H5) SE of European banks varies with the average age in the Board, regardless the Directive

The next section describes the methodology used to test the hypotheses formulated and presents the answer to the research questions. Section 4 presents the results and summarises the findings. Section 5 concludes the paper discussing theoretical and practical implications and contribution of the study.

3. Sampling and methods

In order to test the first Hypothesis, to evaluate the role covered by the Directive 2014/95/EU on stakeholder engagement processes implemented by European banks, we have analysed the non-financial reports published by 45 European Banks during the fiscal years 2016 and 2017. The choice to analyse these two years is related to the introduction of the Directive 95/2014/EU. In this sense, our analysis will provide insights about the differences connected to the passage from a voluntary to a mandatory approach to non-financial reporting.

For our purposes, we have extracted the 186 European banking groups included in Orbis for the fiscal year 2017. A preliminary screening has been conducted in order to exclude from our sample the 75 banks not involved in the Directive 2014/95/EU (Table 1). Furthermore, we have refined our results by eliminating the banks that have not published non-financial reports in 2016. The choice to exclude the firms without any non-financial reports published in 2016 is related to the needs to discuss about the role covered by the Directive 95/2014/EU, and so to compare the level of disclosure before and after the introduction of the directive.

After that, our final sample is represented by 45 banks interested by the Directive 2014/95/EU with prior experience in non-financial reporting on voluntary basis. Our sample size is consistent with prior studies about the quality of the non-financial reports in financial sectors (Avrampou et al., 2019; Kumar et al., 2018; Gomez-Carrasco and Michelon, 2017). Moreover, the 45 banks represented the 40% of the entire observed population. In this sense, the sample size is higher than the typical methodological requirement adopted in business and management studies (Yang et al., 2006).

Please Insert Table 1

The analysis of the non-financial reports prepared in 2016 and 2017 has been performed through a content analysis (Krippendorff, 2018). The content analysis represents one of the main research methods adopted in non-financial reporting studies in order to evaluate the quality of the information provided by the observed firms (Unerman, 2000; Guthrie et al., 2004). However, the content analysis was performed manually, without the use of specific software, because of the need to interpret certain aspects of non-financial information.

Our content analysis's protocol consists in three different phases: a) identification of the units, b) classification of the same ones, c) analysis of the results.

The identification of the units has been performed through the analysis of each banks official website. About the fiscal year 2016, we have analyzed the documents provided by the banks to disclose their non-financial information while for the fiscal year 2017 we have analyzed only the documents provided in according to the national laws that have transposed the Directive 2014/95/EU (CSR Europe and Global Reporting Initiative, 2017).

The classification of the units has been performed through the adoption of the framework proposed by Venturelli et al. (2018) about the evaluation of the stakeholder engagement activities. Specifically, the framework is composed by a set of indicators that describes the stakeholder engagement activities from two different perspectives. The first perspective is represented by the adoption of consolidated framework and standards to engage with stakeholders while the second perspective is represented by the rhetorical strategies adopted by the banks.

$$SE_{SCORE} = SE_{qual} + SE_{quant}$$

The analysis has been performed by one researcher but only after a preliminary discussion between the authors, in order to avoid the risk of intercoder reliability (Michelon et al., 2015).

However, at the end of the analysis the researchers have discussed together about the final coding in order to exclude possible bias.

Finally, the units of analysis have been analysed through the adoption of statistical methods. The first part of the statistical analysis has been carried out through the adoption of a descriptive approach in order to evaluate the differences caused by the passage from a voluntary to a mandatory approach. Moreover, in order to understand the role covered by regulation on SE's narrative we have adopted an empirically approach based on a t-test analysis (Abed et al., 2016).

The second part of our statistical analysis has been performed in order to test the other Hypotheses, such as to evaluate the moderator role covered by the Board of Directors on SE. Specifically, according to prior studies about non-financial reporting (Reimsbach and Hahn, 2015; Chen et al., 2018), we have performed a two-way ANOVA. The two-way ANOVA is an extension of the traditional Analysis of Variance (ANOVA) and it considers one continuous dependent variable and two discrete independent variables (Fujikoshi, 1993). Furthermore, the two-way ANOVA allows researchers to evaluate the interaction effects between the two variables observed. Our dependent variable is represented by the SE (of both years: 2016 and 2017) while our factors of interest (independent variables) are represented by the Directive 2014/95/EU and some Board of Director's characteristics (of both years). We have evaluated the role covered by the Directive 2014/95/EU through a dummy variable equal to 0 for non-financial reports prepared in 2016 and equal to 1 for non-financial reports prepared in 2017. About the role covered by the Board of Directors, we have considered in our analysis the board size, the percentage of independent directors, the percentage of women involved within the board and the average age of the board's members. For each of these variables we have observed the differences between the tertiles that describe the entire.

4. Results and discussion

4.1 SE process before and after Directive

Our results highlight how the overall SE score in 2017 is higher than 2016 (Table 2). Specifically, the average SE score in 2017 has been equal to 45.11 while in 2016 it was equal to 40.63. The increase has been favoured by an increase of the overall SE_Qual. According to the theoretical framework proposed by Venturelli et al. (2018), the SE_Qual is composed by items typically related to the best practices in term of stakeholder engagement such as, the adoption of consolidated standard setters and the presence of the materiality matrix (CSR Europe and Global Reporting Initiative, 2017). In this sense, the mandatory requirement of the Directive 2014/95/EU could have favoured this increase due to the explicit provisions of part of these items. On the other hand, the overall SE_Quant has been characterised by a decrease from 7.49% to 5.80%. The overall SE_Quant decrease confirms, as evidenced in prior studies, the limited effects of the non-financial reporting regulation (Doni et al., 2019; Venturelli et al., 2020). Specifically, these studies have showed how the non-financial reports prepared on mandatory basis are typically characterised by the standardization of the information without an adequate degree of accountability. In this sense, the SE is negatively influenced by the adoption of quantitative indicators due to the difficult to disclose narrative information with the use of standards like the GRI (La Torre et al., 2018).

Please Insert Table 2

The increase of the overall SE_Qual has been favoured by the highest value achieved by 6 of the 7 sub-items identified in the framework (as evidenced in Figure 1). Specifically, the highest increase in absolute term has regarded the definition of the goals. In this sense, in 2017 the

Banks have started to share with their stakeholders their future orientation in terms of non-financial practices. However, the adoption of the AA1000 standards remain low while the score related to the challenges (consistency between the objectives defined and the objectives achieved) have decreased. In this sense, European Banks have started to consider in their communication the non-financial goals despite the absence of consolidated standard setters such as the AA1000 and without any relationship with the results achieved in the previous years.

Please Insert Figure 1

As evidenced before and highlighted in Figure 2, the SE_Quant has been characterised by an overall decrease (Fig 2). The decreases have been favoured by the reduction of the words related to the concept of Materiality, Stakeholder Engagement, Workshop and Network.

Specifically, the reduction of the concept of “Materiality” represents the main driver of the reduction of the SE_Quant. According to prior critical studies about the adoption of synthetic indicators such as the Global Reporting Initiative, the reduction of the narrative could be related to the exigence to represent within one or more indicators of the activity related to the materiality analysis (Dumay and Farneti, 2015). Moreover, the conjoint analysis of the Fig.1 and the Fig. 2 suggests how, although the reduction of the number of concepts related to Materiality, an increasing number of banks have started to introduce in their non-financial declaration the materiality matrix. In this sense, the legal requirement of the Directive 2014/95/EU about the mandatory adoption of consolidated standard setters such as GRI and IIRC has favoured the adoption of accounting methods characterised by a highest degree of accuracy. This is an important result, in contrast with previous literature (La Torre et al., 2018; Doni et al., 2019)

Please Insert Figure 2

The overall increase has been favoured by the central role covered by Eastern Bank. In fact, as evidenced by our results, the passage from a voluntary to a mandatory non-financial reporting activity has been characterised by an increase equal to 28.74. However, this overall increase has been favoured by the lack of non-financial reporting culture in those countries before the introduction of the Directive 2014/95/EU (Dumitru et al., 2017).

Finally, about the Banks’ type, our results show the absence of substantial change in the two periods. However, the results reveal how the highest score in the first year has been achieved by cooperative banks, that, as confirmed by other studies (Venturelli et al., 2018) have greater involvement with their stakeholders, simultaneously customers, shareholders and employees, due to the strictly link with the territory of reference. In the second year, the best Commercial Banks, that are typically the bank’s type with higher size and higher level of investments.

Please Insert Table 3

4.2 Regulation versus governance

In order to evaluate the role covered by the Directive 2014/95/EU on SE, we have performed a t-test on the three SE dimension: SE_Score, SE_Qual and SE_Quant. Our results denote the absence of significative differences caused by the passage from a voluntary to a mandatory non-financial reporting therefore the first hypothesis is not supported by evidence. Indeed, even if the quality of SE increases from 2016 to 2017, this is not due to the introduction of the Directive and the effects related to the introduction of the Directive 2014/95/EU have been limited in Bank’s sector. The t-test analysis confirms how these changes are not statistically related to the introduction of the Directive 95/2014/EU.

Our evidences are in accordance with prior studies about the ineffectiveness of the non-financial reporting regulation (Bebbington, 2013). More recently, Luque-Vilchez and Larrinaga (2016) and Chauvey et al., (2015) argue that mandatory ESG disclosure does not lead to an improvement in information quality. Specifically, the critical analysis performed by Dillard and Vinnari (2019) suggested how firms could provide information in order to be compliant with the legal requirement without an effective organizational change at different levels. In this sense, the results achieved by the Eastern EU's banks could be a signal of this phenomenon due the passage from a weak degree of accountability about SE to a degree of accountability higher than the Western EU's banks. In fact, prior studies shown that European PIEs based on West Europe were just oriented to disclose non-financial information on mandatory basis (Venturelli et al., 2017; Manes Rossi et al., 2017; Doni et al., 2019). Thus, the impacts caused by the transposition of Directive 2014/95/EU have been higher in East Europe than West Europe.

Please Insert Table 4

According to this evidence, the variations within the two periods could be related to the organizational change that have interested the banks. With reference to organizational variables and the literature on the effects of corporate governance on the SE discussed before, we have considered the Board of Directors as proxy of organizational changes in a two-way ANOVA analysis (Appendix 1). The two-way ANOVA analysis reveals how the percentage of independent (F=3.442; p=0.037), the percentage of women (F=5.688; p=0.005), the board size (F=7.287; p= 0.001) and the average age of the Board of Directors (F=2.456; p=0.092) impact on SE while the regulation doesn't provide any impact. In this sense, this further analysis confirms the robustness of the prior evidence about the absence of significative results related to the regulations. Moreover, our evidence highlights how the Board of Directors covered a central role within the SE strategies.

In other words, our findings reveal how even regardless of non-financial reporting regulation the differences between the two periods, i.e. before and after directive, are related to the Board of Directors characteristics.

Specifically, the evidence confirms the hypothesis 2, according to which board size impact on SE of European banks, confirming the part of literature that support the relevance of board size on stakeholder engagement (Gracia-Sanchez et al., 2011; Allegrini and Greco, 2013; Song and Windram, 2004 Yermack, 1996; Kaymak and Bektas, 2017; Chams and Garcia-Blandon, 2019).

The findings have also confirmed the hypothesis 3, such as the importance of the number of women in the Board for the SE. These evidences support the previous studies on the issue, as highlighted in section 2 (Adams and Ferreira, 2009; Konrad and Kramer, 2006; Kassinis et al., 2016).

Our results confirm that SE of European banks varies with the number of independent directors in the Board (Hypothesis 4). This evidence contributes to that strand of literature that considers non executive and independent directors fundamental to pursue stronger sustainability performance (Chams and Garcia-Blandon, 2019; Galbreath, 2016) and more concern to social demands (Ibrahim and Angelidis, 1995) and sustainable goals (Post et al., 2011).

Finally, the hypothesis 5 (SE of the European banks varies with the average age in the Board, regardless Directive) is also confirmed. The latter result contributes to the controversial debate of the effects of the average age of the Board of Directors on SE and support some previous studies (Diamantopoulos et al., 2003; Klineberg et al., 1998) on the benefits of more young Directors.

6. Conclusions

Previous studies show regulation and corporate governance play an important role in affecting CSR processes and outcomes. SE process represents a good practice of Corporate Social Responsibility (CSR) and, at the same time, an aspect of substance over form, within the CSR policies. During the last years, an increasing number of stakeholders have started to consider the role covered by the firms within the society. In this sense, large part of the firms has introduced in their strategy new forms of reporting in order to engage in an effective way with their stakeholders. Furthermore, regulators have supported this process through the introduction of new regulation like the Directive 2014/95/EU in order to foster this cultural change. The process of stakeholder engagement represents an activity characterised by a high degree of complexity due to the heterogeneity of the internal and external actors involved in this activity. In spite of its relevance, SE represents a little explored field of research. This paper aimed to investigate if the improvements in SE processes are actually driven by regulation rather than some elements of corporate governance. As evidenced in prior studies, firms could be compliant with the law through the adoption of narrative strategies inspired by the achievement of the minimum legal requirement (Dillard and Villari, 2019) and the introduction of new form of regulation can to be not followed by an effective cultural change (Bebbington, 2013). In this context, this paper aimed to understand if the regulation affects the Stakeholder engagement process of the European Banks. To do it, a methodology based on a content and on a statistical analysis has been used, through performing four two-way ANOVA.

The study has revealed that the effects of the introduction of the Directive 2014/95/EU have been limited while the differences in Stakeholder Engagement process before and after the introduction of the Directive are related to the Board of Directors characteristics. Larger board size, more women, independent and young Directors in the boards seem to be more effective drivers of improvements in SE process of European banks regardless the introduction of the non financial directive.

These findings are interesting for academic debate on mandatory vs voluntary disclosure, for policy makers, by providing suggestions for regulators to favour organizational change of the firms, and for managers, by identifying the desirable characteristics of the Board of Directors.

Our study contributes to extend the current debate about the ineffectiveness of the Directive 2014/95/EU (La Torre et al., 2019) by showing how the quality of the information provided still remain low despite the physiological increase of the overall number of non-financial reports yearly disclosed by the European Public Interest Entities. Moreover, we contribute to the scientific debate about the opportunity for regulators to involve directly in their discussions academics that operate in business and management field (Bebbington, 2013).

The managerial implications are related to the possibility for the Banks to redesign their Board of Directors by increasing the percentage of women and independent Director. Furthermore, our results suggest how large board and “young” board are typically more able to identify stakeholder engagement strategies characterised by a high degree of effectiveness.

The policy implications are related to the opportunity for regulators to introduce new form of market-based incentives in order to sustain the organizational change of the firms. In fact, despite the introduction of the non-financial reporting directive, the average SE_Score equal to 45.11% highlights how the approach of the European banks is still based on a “tick-box” approach (Ackers and Eccles, 2015). The limitations of our research is represented by the short period of analysis. The future studies could be addressed to fill this gap through time series analysis in order to evaluate the differences over the time. Furthermore, future research could include other sectors, considered by previous literature virtuous in the issue of CSR and SE, in order to make a comparison.

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Table 1 Member States transposition of Directive 2014/95/EU. Source: Our elaboration on CSR Europe and Global Reporting Initiative (2017).

Country	Obs.	%	National law
Bulgaria	1	2.22	Amendment to the Accounting Act 237
Czech Republic	1	2.22	Amending Act No. 563/1991 Coll. On Accounting
Denmark	7	15.56	Act amending the Danish Financial Statements Act L 117
Finland	1	2.22	Amendment 1376/2016 and Amendment 1441/2016 to the Accounting Act
France	4	8.89	Amendments to the Law on Accounting PZE No. 51
Greece	3	6.67	Law 4403/2016
Hungaria	1	2.22	Amendments to Act C of 2000 on Accounting
Ireland	2	4.44	European Union Regulations 2017
Italy	9	20.00	Legislative Decree 30 December 2016, n. 254
Malta	1	2.22	Companies Act and other Laws (Amendment) Act CAP 386
Netherlands	2	4.44	Decree Disclosure of Non-financial Information PbEU, 2014, L330 and Decree Disclosure Diversity Policy PbEU, 2014, L330
Norway	1	2.22	Amendment to the Accounting Act Company Scope
Portugal	1	2.22	Law No. 148/2015
Spain	6	13.33	Anteproyecto de Ley sobreinformación no financiera y diversidad
Sweden	3	6.67	Corporate Reporting on Sustainability and Diversity Policy CU2
United Kingdom	2	4.44	The Companies, Partnerships and Groups (Accounts and Non-financial Reporting) Regulation No. 1245
Total	45		

Table 2 SE_Score. Descriptive analysis.

	Year	N	Mean	St.Dev.	Std. Err.
SE_Qual	2016	45	33.15	23.62	3.52
	2017	45	39.31	25.09	3.74
SE_Quant	2016	45	7.49	9.85	1.47
	2017	45	5.80	10.62	1.58
SE_Score	2016	45	40.64	23.52	3.51
	2017	45	45.11	26.18	3.90

Table 3 SE_Score in European banks. A comparative analysis.

Item	Clusters	2016	2017	$\Delta 2017/2016$
Geographical Area	Eastern EU	19.35	48.09	28.74
	Western EU	42.16	44.90	2.74
Type	Commercial Banks	41.93	47.24	5.31
	Cooperative Banks	42.93	45.66	2.74
	Investment Banks	29.73	29.03	-0.70

Table 4 t-test analysis on SE_Score.

		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
										Lower Upper
SE_Qual	Equal variances assumed	0.066	0.798	-1.20	88	0.234	-6.157	5.136	-16.365	4.050
	Equal variances not assumed			-1.20	88	0.234	-6.157	5.136	-16.365	4.050
SE_Quant	Equal variances assumed	0.452	0.503	0.78	88	0.437	1.687	2.159	-2.603	5.978
	Equal variances not assumed			0.78	88	0.437	1.687	2.159	-2.604	5.978
SE_Score	Equal variances assumed	0.618	0.434	-0.85	88	0.396	-4.470	5.246	-14.895	5.955
	Equal variances not assumed			-0.85	87	0.396	-4.470	5.246	-14.897	5.956

Figure 1 SE_Score analysis. A focus on SE_Qual.

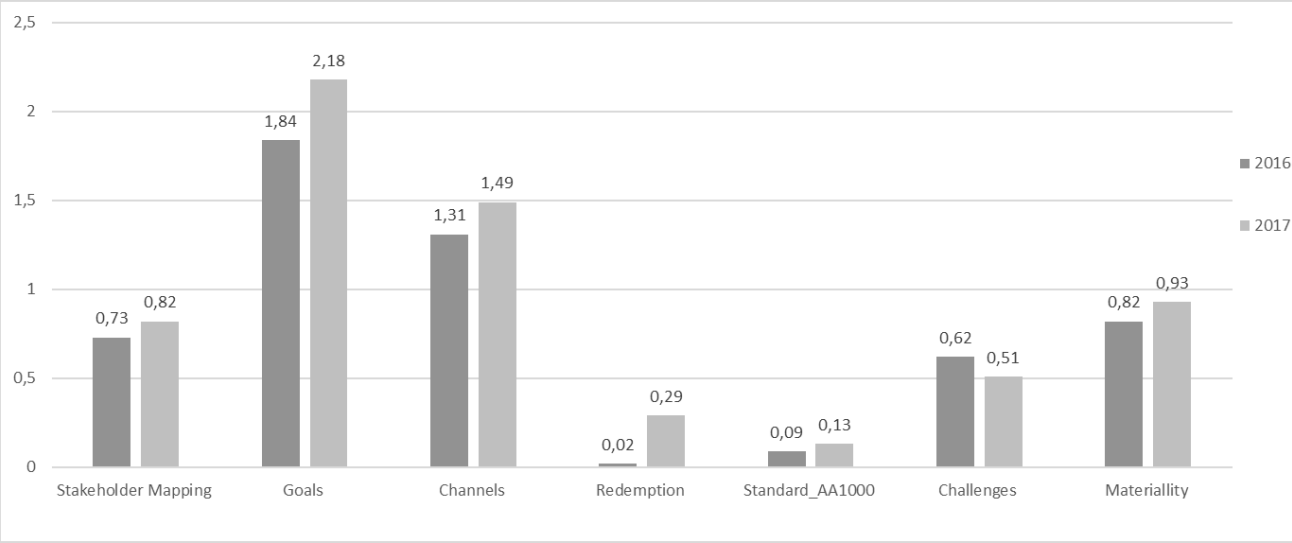


Figure 2 3 SE_Score analysis. A focus on SE_Quant.

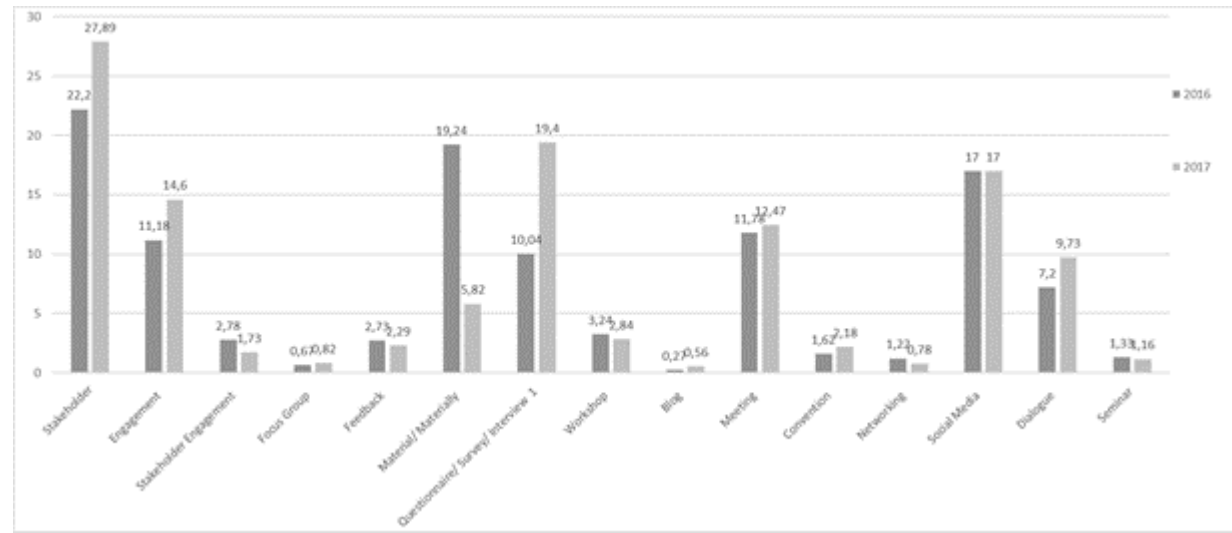


Figure a) Two-way ANOVA on the relationship between SE_Score and Board Size.

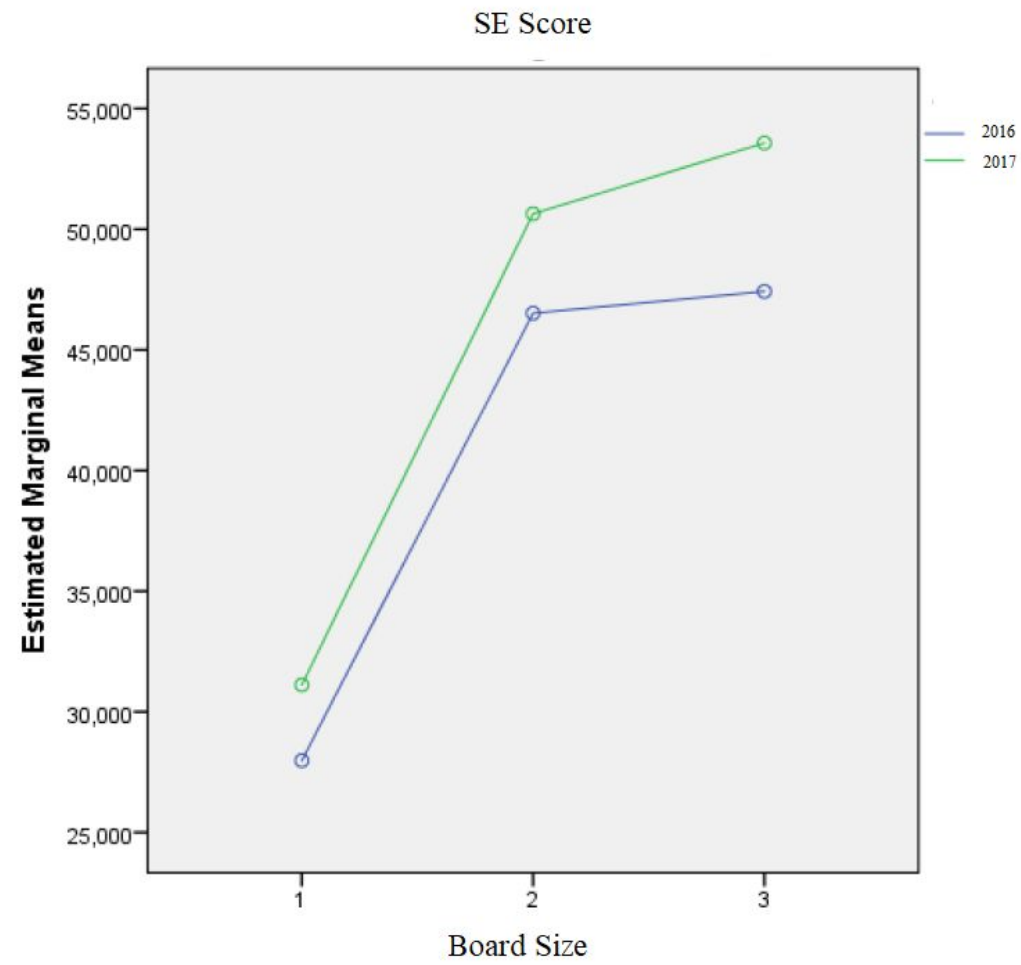


Figure b) Two-way ANOVA on the relationship between SE_Score and Independent Directors

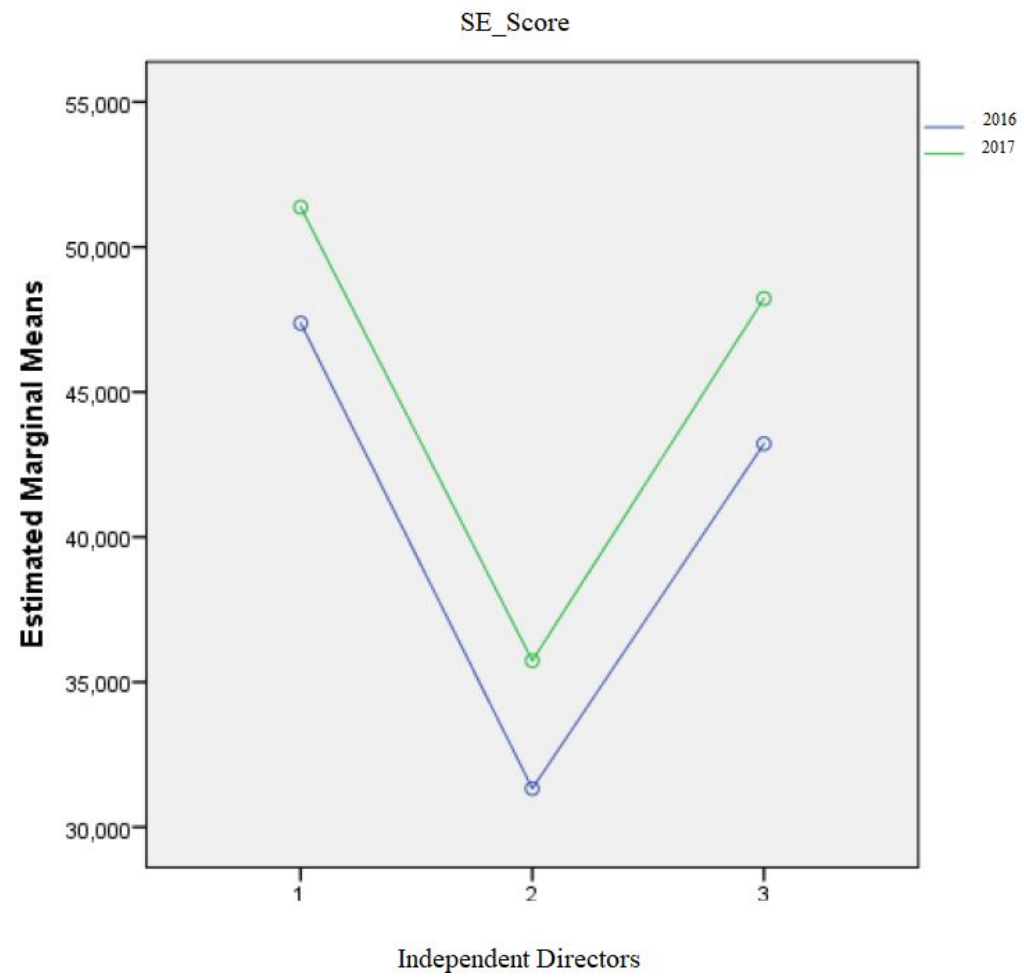


Figure c) Two-way ANOVA on the relationship between SE_Score and Female Directors

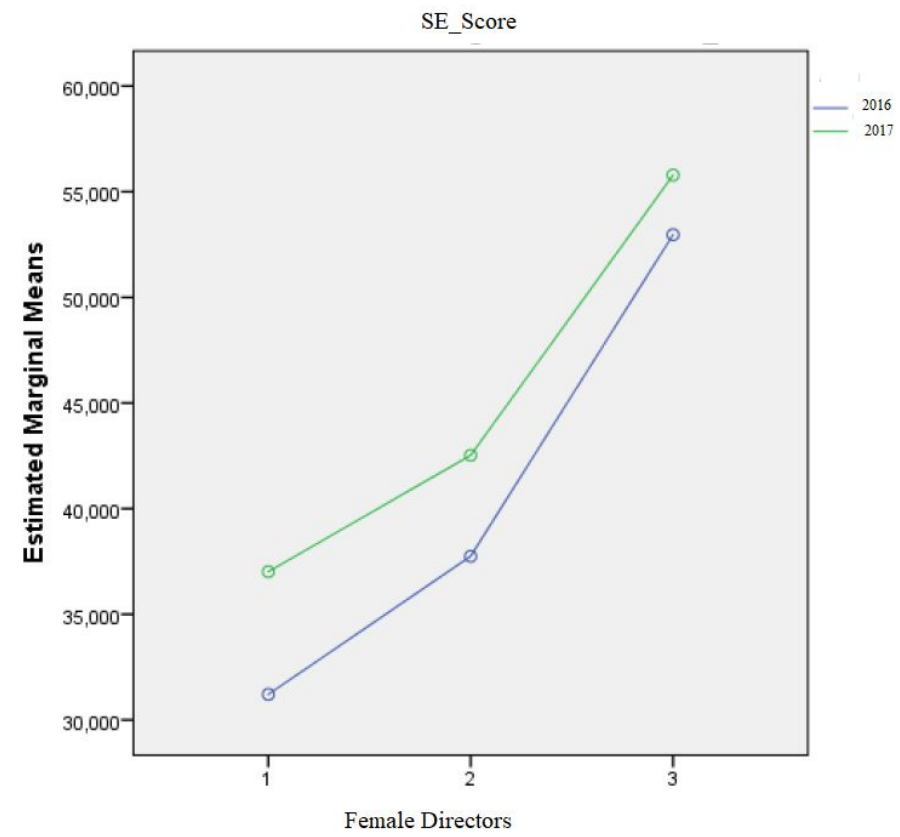
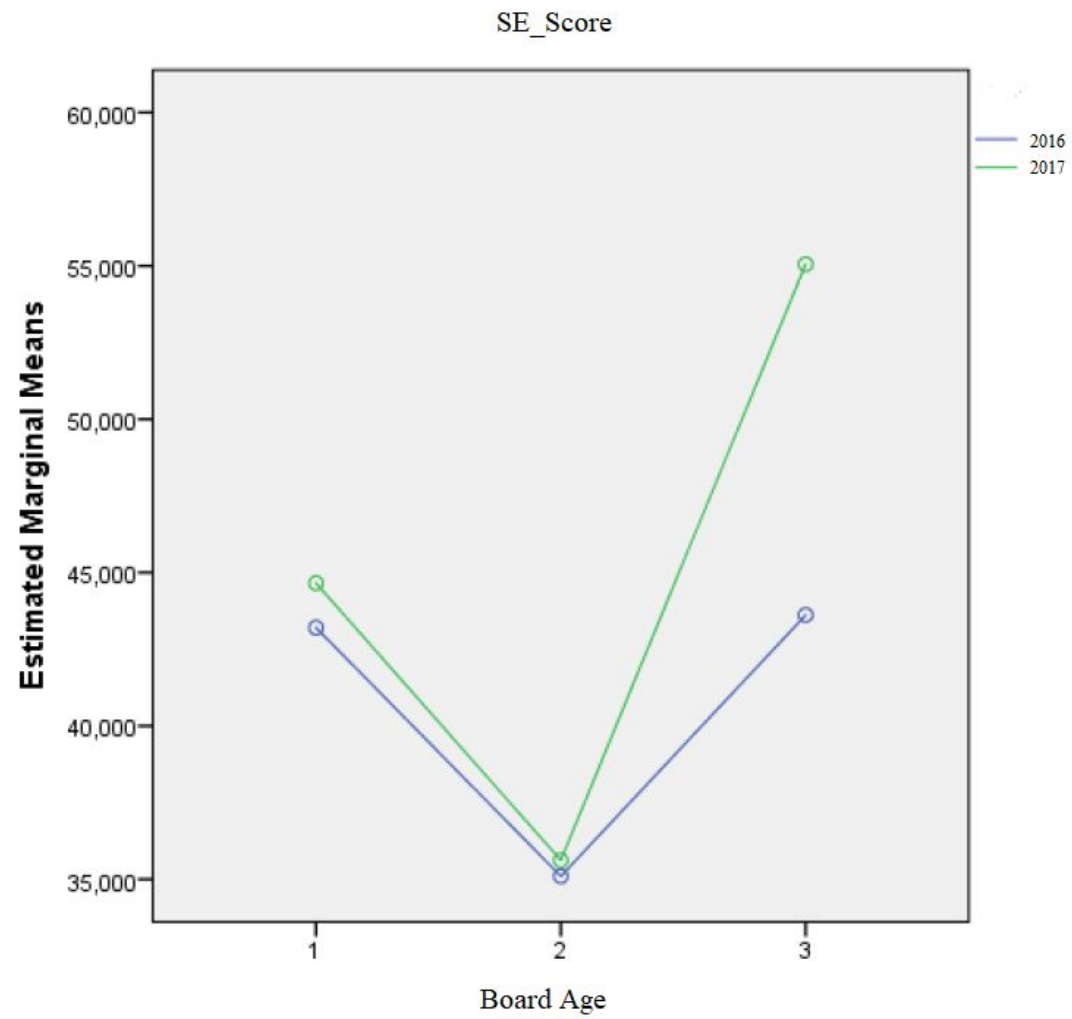


Figure d) Two-way ANOVA on the relationship between SE_Score and Board of Directors' age.



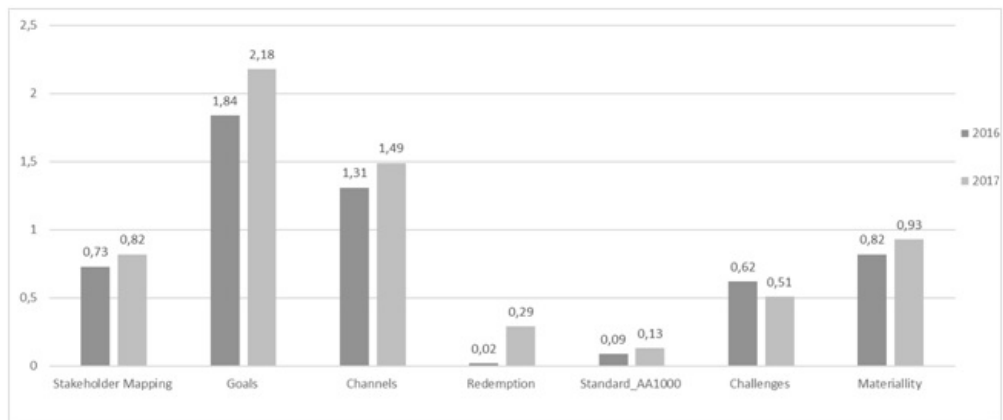


Figure 1

172x149mm (96 x 96 DPI)

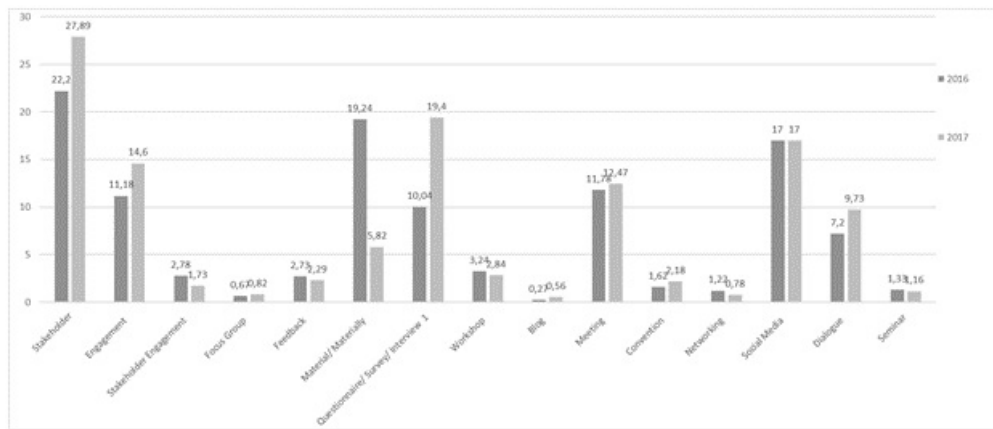


Figure 2

164x149mm (96 x 96 DPI)

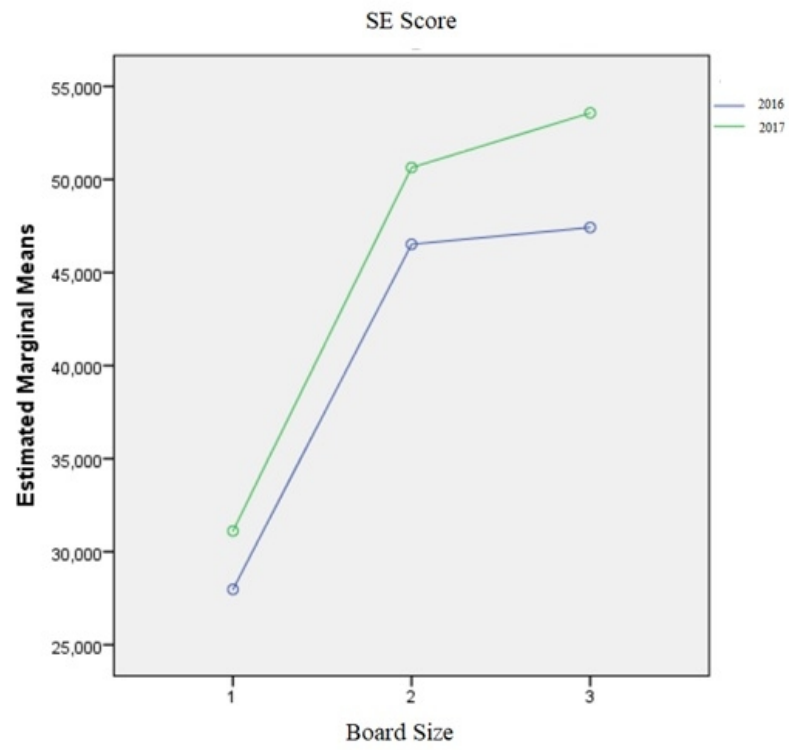


Figure a)

171x149mm (96 x 96 DPI)

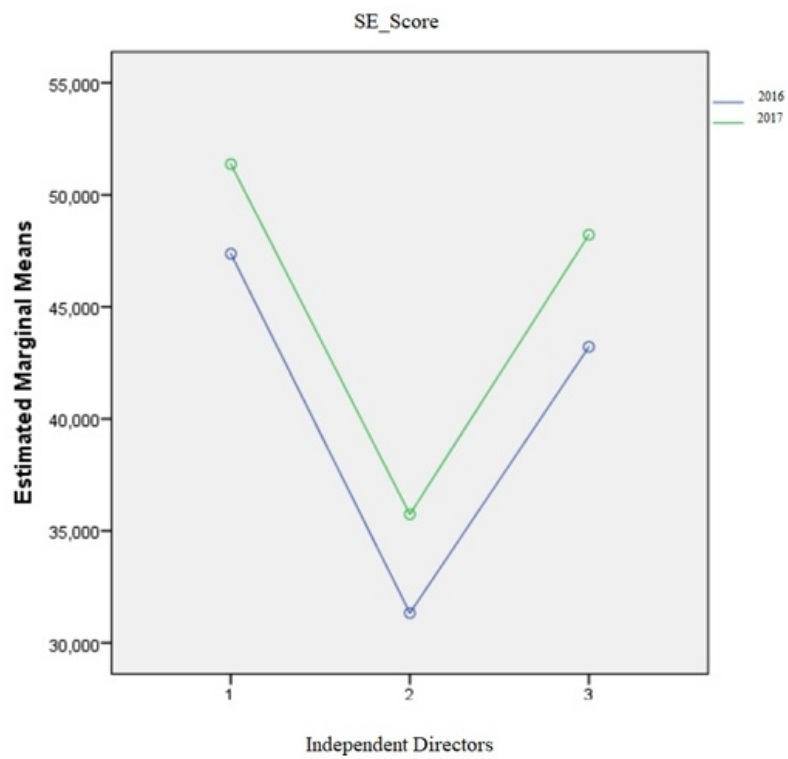


Figure b)

171x149mm (96 x 96 DPI)

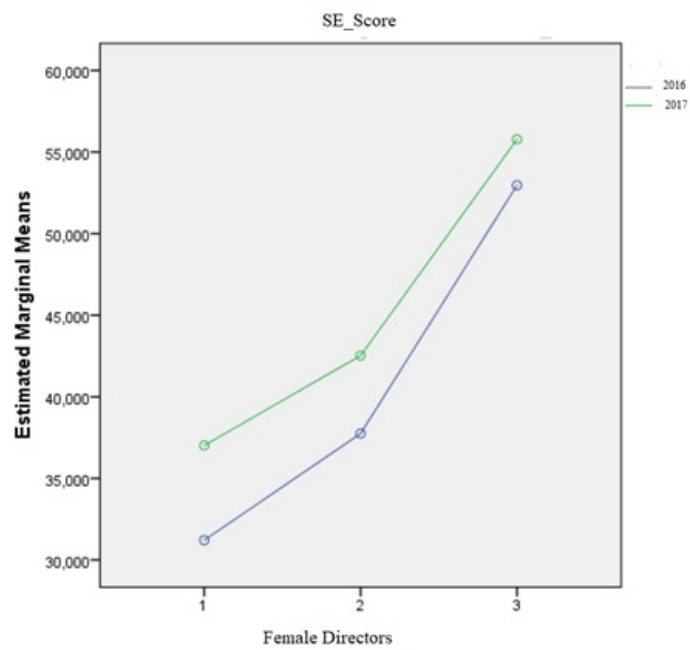


Figure c)

171x149mm (96 x 96 DPI)

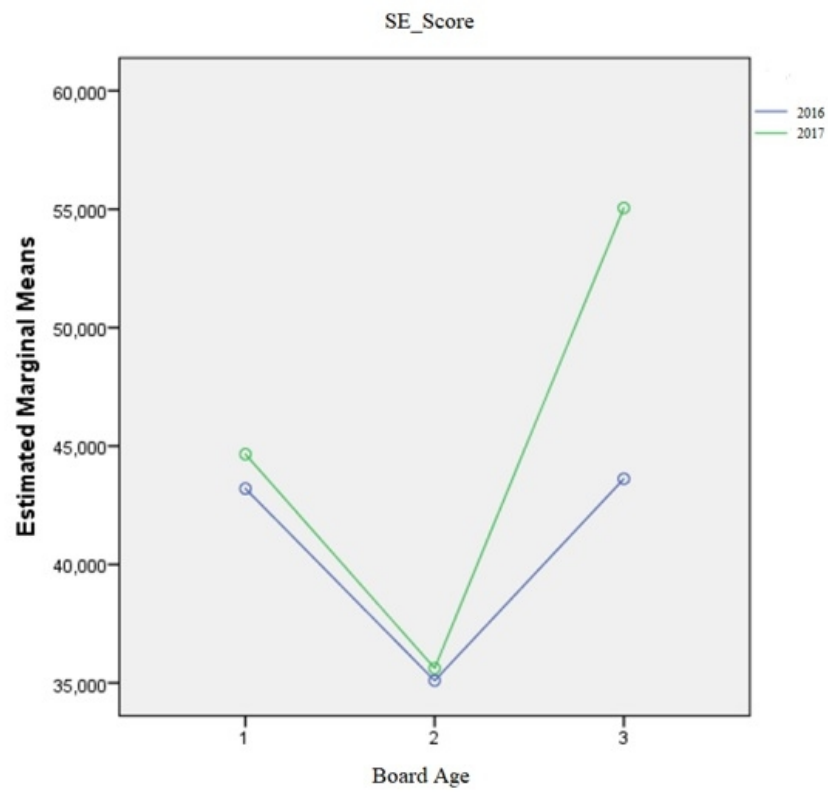


Figure d)

171x149mm (96 x 96 DPI)