AFAANZ 2021-2022 Final Grant Report

(1) Name, Position, Contact Details for each applicant	Principal researcher: Dr Zhongtian Li, Lecturer, zhongtian.li@newcastle.edu.au Other researcher: Dr Jing Jia, Senior Lecturer, jing.jia@utas.edu.au Mentor: Professor Charl De Villiers, charl.devilliers@auckland.ac.nz
(2) Project Title	Mandatory Sustainability Disclosure and Labour Investment Efficiency: International Evidence
(3) Updated Project Summary (500 words) including any variations between the project undertaken and the original application	As far as we could ascertain, there is no variation between the project undertaken and the original application. The purpose of this project is to investigate the impact of mandatory sustainability disclosure on labour investment efficiency, using an international sample. We use the staggered introduction of mandatory sustainability disclosure regulations in different countries as a shock-based research design to better alleviate the endogeneity concerns. Following Atanassov (2013), Balsmeier et al. (2017), Fauver et al. (2017), Bae et al. (2020) and Wang, Yin and Yu (2020), we will use a difference-in-differences regression to attempt to draw a causal inference in this regard. Potential channels (e.g., financial constraint) and conditioning effects (e.g., country characteristics) on the relationship between mandatory sustainability disclosure and labour investment efficiency will be explored. Our testing period will cover 2002-2019, as 2002 is the earliest year when sustainability performance data is available. We will download data used to calculate labour investment efficiency and other financial data from databases (including Worldscope and Asset4). The data about the countries that have carried out mandatory sustainability disclosure will be manually collected from different sources (including academic papers, newspapers, government reports, practitioners' journals, and NGOs' reports) and verified. Our sample will include firms in different countries with no missing data after merging the above databases. The sampling interval will be annual. Labour investment efficiency is measured using the regression model developed by Jung, Lee, and Weber (2014). This project is expected to contribute to the research on sustainability disclosure and labour investment efficiency, facilitating policymakers and other stakeholders in making informed decisions.
(4) Funds Granted	$4,851

(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained	We use $4,812.45 of the funds ($4,851) on research assistance, editing service, and journal submission fees. Detailed expenses are shown below: <u>Expense</u> Research assistant – salaries and on-costs $3896.25 Editing service $376.20 Journal submission fees $540 (USD 400) Total expense $4,812.45 <u>Funding</u> AFAANZ grant $4,851 Total $4,851
(6) Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)	We currently have one working paper out of this project. The abstract of this paper is shown below: This paper examines the impact of mandatory sustainability disclosure on labour investment efficiency. We used the staggered introduction of mandates on sustainability disclosure in different countries as a shock-based research design to better alleviate the endogeneity concerns. We found that mandates on sustainability disclosure positively affect labour investment efficiency. Our paper contributes to the research on sustainability disclosure (especially mandatory sustainability disclosure) and antecedents of labour investment efficiency, facilitating policymakers and other stakeholders in making informed decisions.
(7) Future Intentions for this Project (give full details) **a. Conference submissions** **b. Journal submissions** **c. Grant applications** **d. Projects**	a. We plan to submit this working paper to the 2023 AFAANZ conference. b. We plan to submit this working paper to Journal of Corporate Finance.
(8) Summary of Outcomes and Benefits	We completed data analysis and prepared a preliminary draft. We are now in the process of revising our draft and conducting additional analyses. This AFAANZ grant has been very helpful to us. For example, this grant enables us to gain a deeper understanding of mandates on sustainability disclosure and how the mandates impact labour investment

	efficiency. We would like to appreciate AFAANZ for funding our project. Knowledge generated from our project will have both practical implications and academic contributions. <u>Practical Implications</u> Our study provides three important practical implications. Firstly, we enrich the ongoing policy discussion on mandatory sustainability reporting worldwide by (1) laying a foundation for policy evaluations (minimising an empirical challenge for the research on mandatory sustainability reporting), and (2) providing new evidence on the economic consequences of mandatory sustainability reporting. Secondly, given the importance of labour investment, labour investment efficiency is a crucial consideration for investors in making decisions (Atanassov and Kim, 2009). Our findings help investors to know how mandatory sustainability reporting affects this consideration. As there will be more regulations on sustainability reporting (Haji et al., 2022; Unerman et al., 2018), our study should be of keen interest to investors. Thirdly, our work will be of interest to directors and managers, given that labour investment is essential for firms' success (Jung et al., 2014; Merz and Yashiv, 2007). While the regulations are exogeneous to firms, better identification and understanding of external factors that affect labour investment efficiency helps directors and managers to make informed hiring decisions. <u>Academic Contributions</u> Our study contributes to the literature at least in five ways. Firstly, by minimising the empirical challenge that the literature has inconsistencies regarding countries mandating sustainability reporting, our study lays a foundation for future research. Although some seminal literature reviews, including Christensen et al. (2021), De Villiers et al. (2022), Gulenko (2018), and Haji et al. (2022), also discuss cross-country studies of mandatory sustainability reporting, they do not systematically analyse and correct the inconsistencies. Secondly, our efforts on analysing and correcting the inconsistencies are helpful to other studies using mandatory sustainability reporting for certain reasons. For example, while Christensen et al. (2022) is not interested in mandatory sustainability reporting, they used countries mandating sustainability reporting in a difference-in-differences setting to mitigate endogeneity concerns. Another example is Tsang et al. (2021) . While they focus on executive remunerations and firm innovation, they used countries mandating sustainability reporting as part of further analyses. Thirdly, as far as we could ascertain, we are the first to analyse how mandatory sustainability reporting affects labour investment efficiency. Along with other studies, including Allman and Won (2021), Chen et al. (2018), and Krueger et al. (2021), our study contributes to the literature of how mandatory sustainability reporting induces firms to change their operations and investments. Fourthly, our study enriches the ongoing research on antecedents or determinants of labour investment efficiency (e.g., Chowdhury et al., 2022; Jung et al., 2014; Jung et al., 2019; Khedmati et al., 2020; Le and Tran, 2022; Lee and Mo, 2022). Distinct from prior studies, we are interested in how a characteristic of socio-political environment (i.e., mandatory sustainability reporting) affects labour investment efficiency. Lastly, our work speaks to the research of economic consequences of sustainability (Cao

	and Rees, 2020; Friede et al., 2015 ; Krekel et al., 2019) by demonstrating that mandates on sustainability reporting influence a specific firm outcome (labour investment efficiency).