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Corporate Social Responsibility due diligence among European companies: The results of an interventionist research project with accountability and political implications

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Abstract

For decades, companies found in international protocols and standards an alternative source of normative guidance to operatively implement sustainability policies at an organisational level. The ever-increasing adoption of these multi-faceted policies and guidelines co-occurs with a more proactive and voluntaristic attitude towards CSR implementation by companies. Born as a kind of soft corporate law to reinforce a regulatory answer to sustainability issues, today, CSR due diligence is becoming a central pillar of the transition of the economic system towards a great level of sustainable development. The paper presents the results of an interventionist research carried out by researchers in collaboration with the European Parliament, aimed at developing a normative resolution on the prominent role of CSR due diligence and its accountability. Through the exploration of the different state-of-the-art of European companies on CSR due diligence, findings suggest that there is considerable room for improvement in CSR due diligence that can be reached through a normative intervention. In addition, the paper contributes to the development of the literature on interventionist research carried out by business scholars, focusing on academia-industry-institutions relations.

KEYWORDS
accountability, Corporate Social Responsibility, due diligence, European Commission, interventionist research

1 | INTRODUCTION

The market of environmental, social and governance (ESG) investments is steadily growing worldwide. According to Reuters' latest statistics, in 2021, financial analysts are witnessing a rush of global investors over buying sustainable financial products, with an impressive amount of 6.1 trillion dollars whose 59% is held in Europe, Middle East and Africa (Kerber & Jessop, 2021; Wilkes, 2021). Despite the fact that Europe is enforcing its strict regulations towards sustainable finance disclosure (European Parliament, 2019), the financial products, based on data disclosed by companies, still report topics on environmental and social concerns that are loosely addressed. According to MSCI, for instance, topics such as biodiversity, deforestation, human rights and water consumption are still not widely reported by companies. Consequently, ESG funds do not truly reflect the performance of the company's assets on that sustainability performance. Specifically, social scientists stress the rapidity through which climate change is happening and the relatively slowness adopted by governments and companies in addressing environmental issues and societal damages (Intergovernmental Panel on Climate Change, 2021). Questioning the effective use and implementation of CSR due diligence by companies could be helpful in understanding which area of sustainability remains neglected or totally ignored.

Although due diligence is typically used for the purpose of gathering and analysing as much information as possible about a target company from a buyer perspective (Bing, 1996; Harvey & Lusch, 1995; Howson, 2003), nowadays the term has gradually evolved. *CSR due diligence* can be identified as the process a company undergoes when it operationalises a rigorous, paralegal control of its adherence to a standard/framework/guidelines regarding Corporate Social Responsibility (CSR) issues (Sjåfjell et al., 2019). The due diligence process applied to sustainability issues extends in two parallel directions. The first one conceives due diligence as a tool for forecasting social, environmental, and ethical risks that could impact the company in the future. For instance, Vastola and Russo (2021) analysed due diligence as an essential part of merger and acquisition screening processes to check the sustainability orientation of such targeted companies. The second one, on the other hand, conceives due diligence as an endowment of tools to manage and mitigate sustainability risks (Boiral et al., 2020) through both operational and technical ethical codes charts and principles (Orzes et al., 2018). In this sense, CSR due diligence is considered as a sort of post-political form of regulation and governance (Garsten & Jacobsson, 2011), rooted in the voluntaristic role of companies to embed institutional guidelines and frameworks, with political goals (Scherer & Palazzo, 2011).

Several global, national, and self-determined corporate initiatives have been developed during the last decades to compensate the lack of transnational and international normative gaps in terms of sustainable development. Most of these tools have been implemented following corporations' needs to manage sustainability risks, leading corporations to play a political and interventionist role in specific countries and on crucial topics (Scherer et al., 2013).

Leading the transition of the European economic system towards sustainability, the European Commission in the last years has promulgated several resolutions, decrees, and norms, offering a legal background to bind companies in entering a sustainable path. From the European Green Deal (Commission, 2019a), to the so-called, Non-Financial Disclosure Directive (NFRD) or the most recent Corporate Social Responsibility Directive (CSRD), the European Commission is strongly articulating and regulating accountability and corporate disclosure on sustainability. In this specific case, the European Commission's purpose is to fully-cover the wide spectrum of CSR regulation normatively, and to understand and map the pervasiveness of soft law measures, such as CSR due diligence practices adopted by European companies. That said, although the adoption of regulatory instruments has always been seen as an initial step towards the acquisition of proactive social responsibilities, there is now a need to orient the European economic system towards greater consistency, including the regulatory one (Van Kalmthout et al., 2021).

In this study, we present the results deriving from an interventionist research project, where researchers were involved in the elaboration of scenarios regarding the state-of-the-art and potential levels of CSR due diligence achieved and achievable by European companies. According to Bracci (2017), researchers could estimate opportunities introduced by a normative change, observing and anticipating the shifts in the corporate behaviour, and offering the results as a base for policymakers to plan the legislative intervention. This study introduces the intervention made by researchers working closely with the Directorate-General for Parliamentary Research Services, that was aimed at forecasting the potential benefit due to the introduction of a normative change on CSR due diligence. The results of the intervention have been considered by the European Parliament in the elaboration of the resolution adopted on March 10, 2021, containing the *Recommendations to the Commission on due diligence and corporate accountability (2020/2129)*.[1] The interventionist research method allows to recount and explain the causal links addressed during the execution of the research, which takes place in close contact with those commissioning the study. This is quite distinct from a consultancy activity (Baard & Dumay, 2020b), and the paper reflects the reasoning and logic adopted by the researchers involved, aimed at unearthing possible problems and proposing solutions. This paper is characterised by insightful practical implications resulting from the drafting process of the resolution.

The paper is structured as follows: Section 2 presents a literature review on the evolution of the importance of the due diligence process in sustainability and how this has influenced the adoption of recent European policy changes. The methodology adopted in this study, the interventionist approach, is presented and discussed in Section 3. Subsequently, the results arising from the definition of impact scenarios deriving from the adoption of the resolution are presented. We will conclude by commenting on the results reached, considering some limitations (Section 4). The Conclusions (Section 5) and the political implications (Section 6) end the study.

2 | RESEARCH BACKGROUND

2.1 | A brief review on the importance of the due diligence as a CSR practice

The United Nations 2030 Agenda has pushed companies in increasing their awareness on the negative externalities they cause and that, in turn, are inducing to the unsustainable development for nature, people and societies (O'Dwyer & Unerman, 2020; World Economic Forum, 2021). In this sense, many organisations have rethought their business models to actively contribute to the ecological transition of the Planet (Bebbington & Unerman, 2020; Sachs et al., 2019). This increasing awareness has been translated in the progressive adoption of risk mitigation strategies and adaptation plan to tackle climate change, but also human rights concerns, bribery, corruption, safety in the working environment, both at a company level and along the

[1]European Parliament resolution of 10 March 2021 with recommendations to the Commission on corporate due diligence and corporate accountability is available at the link: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN.html.

supply chain. Consequently, a way to embed sustainability into an operational framework is through the adoption of soft corporate law, such as corporate due diligence.

The term "due diligence", historically originated in the legal field, identifies the process of reduction of commercial and financial risks. This process takes place through an in-depth investigation, usually conducted by a company on another one, to explore any potential misbehaviour or a non-conformity area that is not compliant with the expectation in terms of standard of conduct. Even the legal foundations can be traced back to Roman law, today, due diligence literature has expanded widely to the environmental and social risks field. Conflict minerals (Hofmann et al., 2018), conflict-free metals (Martin-Ortega et al., 2015; Young, 2018), human rights (Bonnitcha & McCorquodale, 2017; Buhmann, 2018; Martin-Ortega, 2014, 2018), modern slavery (Antonini et al., 2020; Ford & Nolan, 2020; Van Buren III et al., 2021), children rights (UNICEF, 2012) are factual examples of the paramount importance of due diligence processes implemented by companies to prevent and mitigate the risk of corporate misbehaviour. A wide range of internationally recognised principles and guidelines could be labelled as useful tools for CSR due diligence. This is the case, not limited to, of the OECD Guidelines for Multinational Enterprises, the 10 principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the United Nations Guiding Principles on Business and Human Rights Respect, or Taskforce on Climate Related Financial Disclosure.

For instance, with the concept of Responsible Business Conduct (RBC), the OECD "means above all complying with laws, such as those on respecting human rights, environmental protection, labour relations and financial accountability, […]. It also involves responding to societal expectations communicated by channels other than the law […]" (OECD, 2011, p. 2). Furthermore, a very important contribution in this regard has been made by the OECD Guidelines for Multinational Enterprises (2011) which pioneered CSR due diligence providing a definition linked to the ESG dimensions and human rights prescriptions, thus shifting the focus from corporate-centric risk to supply chain risks and risks for all the stakeholders affected by the whole activities and practices of the company (Martin-Ortega, 2018). According to these guidelines, due diligence can be described as the process companies should carry out "to identify, prevent, mitigate and account for how they address their actual and potential adverse impacts as an integral part of business decision-making and risk management systems" (OECD, 2011, p. 23). Among the most important CSR due diligence tool, the 31 UN Guiding Principles (United Nations, 2011) highlight the importance for businesses, while complying with laws and human rights, to also adopt policies and regulations and effective remedies to concretely manage any possible breach.[2]

However, in the past, companies used to adopt corporate soft law about socially responsible behaviours as an instrument to increase their reputation rather than as an effective tool for transparency (Bebbington et al., 2012; Garcia-Torea et al., 2019). In fact, prior studies highlighted that the adoption of social responsible practices by organisations could be negatively influenced by unethical mechanisms such as blue washing, greenwashing or impression management (Berliner & Prakash, 2015; Di Tullio et al., 2019; O'Dochartaigh, 2019; Pizzi et al., 2020). Furthermore, other studies have demonstrated that companies recurs to a tick-box approach when it comes to implement CSR due diligence (Abdo et al., 2018; Ackers & Eccles, 2015). Thus, there is the need to investigate the effectiveness of such CSR due diligence mechanisms, especially considering the presence of multiple standards (La Torre et al., 2020). Despite this rich set of standards could represent a valuable opportunity available for companies that want to manage social and environmental risks, most of these initiatives are considered as voluntaristic and para-legal operational frameworks.

According to Garsten and Jacobsson (2011), the adoption of CSR due diligence strategies through international guidelines and tools is the result of the corporates' needs of implementing technocratic solutions and roadmaps to cover gaps in international law on sustainability issues. Specifically, the substitution of law, with corporate soft law, is intended as a way to create a sort of post-political consensus on global ethics, as most of the large multinational companies that adopt standards are also involved in the process of creation of the same standards (Garsten & Jacobsson, 2011). Consequently, an impetus in increasing corporates' accountability and reporting on CSR due diligence and standards implementation has been considered by policy makers as a valuable solution to gather pieces of evidence on companies' behaviour for sustainable development (Jackson et al., 2020; Krasodomska et al., 2020; Sachs, 2012; Scheyvens et al., 2016).

2.2 | The politics of CSR due diligence and accountability in Europe

There is a global consensus between the 2015 Paris Agreement on Climate Change, the European Green Deal (European Commission, 2019) and the Special Report of the Intergovernmental Panel on Climate Change (Intergovernmental Panel on Climate Change, 2021) in invoking the need for a strict control of corporate behaviours on sustainability issues. The use of corporate soft law and international framework to manage CSR due diligence has been always legitimated by the European Commission. In 2001, the European Commission has favourably argued that a due diligence approach towards CSR would have been entirely explained by a proactive behaviour of companies with the intent of "go(ing) beyond common regulatory and conventional requirements" (European Commission, 2001). Ten years later, indeed, the European Commission admitted that "public authorities should play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation" (European Commission, 2011, p. 7). Despite being legitimate, the wide

[2]The "Protect, Respect and Remedy" Framework developed by the SRSG on Human Rights and Business was endorsed by UN member states in the UN Human Rights Council Resolution on the Mandate of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises (Human Rights Council, 2008).

range of international guidelines, frameworks and standards have not been always effective with a pure voluntaristic approach in managing sustainability risks. With the European Green Deal (European Commission,), the European Commission has started revising the entire legal framework supporting the control of corporates' behaviour on sustainability issues. With the Directive 2014/95/EU on the disclosure of non-financial and diversity information by certain large firms and groups onwards (the so-called NFRD), "companies [have to] disclose high-quality, relevant, useful, consistent and more comparable non-financial (environmental, social and governance-related) information in a way that fosters resilient and sustainable growth and employment, and provides transparency to stakeholders" (EU, 2017, p. 4). The NFRD requires companies to report on the double materiality, namely both on how sustainability issues affect their performance (the outside-in perspective), and on their impact on people and the environment (the inside-out perspective) (European Commission, 2021a). Companies within the scope of the NFRD had to provide a report for the first time in 2018, in which they disclose their risk management policies and actions towards sustainability risks. This sparked the interest of academics and practitioners alike, dealing with the phenomenon by unearthing the interlinkages between corporate communication and business strategy especially in terms of concrete changes on due diligence and risk management processes (Caputo et al., 2021; Leopizzi et al., 2020; Pizzi et al., 2020; Veltri et al., 2020). For instance, Dyllick and Muff (2015) have empirically demonstrated the existence of different degrees of effectiveness related to the way through which corporations intend to work for sustainability.

In 2018 the European Commission brought due diligence also into the European financial policy framework, within the Action Plan on Financing Sustainable Growth. Since then, several legislative proposals have been put forth which have been further specified in the Technical Expert Group on Sustainable Finance (TEG) Reports published in 2019 (European Commission, 2019b; Scholz et al., 2015). One of the novelties on this plan is the creation of a unified classification system (namely, the Taxonomy that was published in 2021) in which every business sector is screened according to the specific contribution of each economic activity towards the European environmental strategy. Companies are called to use due diligence to map and to contrast irreversible impacts, especially in terms of climate change. The Action Plan directly refers to the need of promoting transparency in financial and non-financial economic activity and the disclosure of risk management policies and framework is part of the discourse (European Parliament, 2019). A company adopting the Taxonomy must describe in its sustainability report how its business activities contribute to the achievement of the European environmental objectives[3] detailing the typology of risk management strategies and policies adopted, as well as the due diligence processes implemented.

[3]The Environmental objectives included in the Taxonomy are Climate change mitigation, Climate change adaptation, The sustainable use and protection of water and marine resources, The transition to a circular economy, Pollution prevention and control, The protection and restoration of biodiversity and ecosystems.

Despite the NFRD Directive has been pivotal, in 2021, the European Commission has promoted a revision and it has started the consultations of the stakeholders on the new CSR directive (European Commission, 2021a). The main novelties of this proposal lie on the need to extend the scope of the reporting requirements to additional companies, not only to the public interest entities (PIEs), but also to medium-sized and large companies. The need for this revision is also explained by the urgency to implement a complete transition and to give companies a nudge in considering the adoption of risk management policies and strategies as a serious issue. Concluding, this paper is in line with the purpose of deepening the knowledge on how companies effectively implement operational frameworks such as CSR due diligence tools and mechanisms to explore if there are environmental and social issue particularly neglected or not seriously addressed through and by European companies. In this vein, the study here presented reports the collaboration between academia and the European Parliament to shed light on the actual scenario of companies on CSR due diligence and corporate accountability, with the purpose of creating a new legislative tool.

3 | METHODOLOGY

3.1 | Research design

Academics' involvement in policy making and standard setting represents a critical issue in accounting and management studies (Bebbington, 2013; Garcia-Torea et al., 2019). The collaboration with companies and institutions represents a fruitful research field and provides researchers with a privileged access to data to be exploited, not only for scientific purposes, but also for social outreach (Baard & Dumay, 2020a; Dumay & Baard, 2017). The involvement of scholars in research with a pragmatic intent is welcomed and requested by sustainability accounting scholars (Jönsson, 2010). There is indeed a call for creating new opportunities via a closer engagement with the field, learning both from case studies and by co-creating solutions with practitioners (Alawattage et al., 2021). An explanatory design for pragmatic and concrete research design is represented by interventionist research (Bracci, 2017). While in the field of sustainability accounting is still rare (Jönsson & Lukka, 2006; Labro & Tuomela, 2003; Westin & Roberts, 2010), interventionist research is a legitimate methodology, useful to analyse unique contexts (Jönsson, 2010), and develop theoretical contributions by reverse engineering the process aimed at reaching the solution and the solution itself.

3.2 | The description of the intervention

Through this active methodology of engaged scholarship (Lukka & Suomala, 2014; Suomala et al., 2014), researchers concretely exercise their activity of analysis by being in close contact with the institution that needs a solution for a specific problem. After identifying the context and the problem, researchers are called to engage in a continuous dialogue with the project partner (Lukka & Suomala, 2014), acting as insiders, in terms of reporting data to the European Parliament, and as outsiders, as they are still separated from the object observed (Lukka & Vinnari, 2017). In this research, the Directorate-General for Parliamentary Research Services has represented the privileged interlocutor; researchers interacted with representatives of the European Parliament, interested in supporting empirically the promulgation of a new European legal resolution for encouraging CSR due diligence, in line with current accountability requirements for European companies.

The main goal of the collaboration was to identify windows of opportunities to get higher levels of CSR due diligence among European companies, through a new legal resolution consistent with the existing normative framework. As usual, a company that adopts soft law measures, implements an operative framework, which is made by a process of continuous compliance, followed by controls, periodic checks and audits. The introduction of a new public policy incentivising companies in enhancing their disclosure on CSR due diligence would allow an increased level of transparency in the market, and along the supply chain, involving also medium and small companies. The intervention based on two steps. In the first one, researchers had to explore the state-of-the-art of European companies in terms of CSR due diligence; in the second one, they had to investigate and describe different levels and dimensions of CSR due diligence as implemented by EU companies. As affirmed by MSCI (2020), the level of due diligence on specific topics, such as gender pay gap, biodiversity and ecosystem protection practices, the emissions in water or the treatment of hazardous waste, are among the most underreported issues by companies (not only in Europe). Nowadays investors are only forecasting with proxies the real number of companies that are dealing with such issues.

In this sense, the interventionist approach used by researchers to depict the state-of-the-art of CSR due diligence by European companies, and subsequently evaluating an impact due to the introduction of a new legal resolution incentivising it, has been to design and test a multidimensional score. The score was based on different items and sub-items among the different types of CSR due diligence that exist. As a matter of fact, the choice to develop the analysis using multidimensional indicators was driven by the need to avoid the risks related to the lack of informativeness caused by the use of dichotomic indexes (Unerman, 2000). The methodological approach favoured also the identification of sets of scores useful to develop comparison between and within companies (Helfaya & Whittington, 2019). Thus, the evidence-based approach used in the analysis aimed at providing European policy makers with critical insights, useful to identify constraints and opportunities about the implementation of new legal resolutions (Fülbier et al., 2009). Researchers shared their findings with European Parliament members, using reports and statistics. The research project was carried out between October 2019 and October 2020 when the official work was released in the European Parliament database. The analysis elaborated in collaboration with the EU Parliament has been then used by a pool of European Parliament members at first to propose, and then to get approved, the resolution titled *Recommendations to the Commission on due diligence and corporate accountability* (2020/2129 officially approved in March 2021).

4 | RESULTS AND DISCUSSION

4.1 | Results

To build the multidimensional score to run the analysis on the level of CSR due diligence of European companies, researchers used data gathered on the Asset4-Thomson Reuters database, which provides ESG information deriving from different sources such as firms' annual reports, CSR reports, NGO website, among others. The analysis focused on a dataset of 511 listed companies operating in Europe during the period 2018–2019. Among the listed companies, multinationals with a relevant branch listed on European markets have also been included. As in 2020 Asset4-Thomson Reuters changed some methodologies to calculate the score attributed to companies, researchers have repeated the study in 2021 in order to allow replicability and verify the coherence of the data previously used. The researchers obtained data from 517 listed companies for the last reporting year (FY0 = 2020). It can be then affirmed that the two datasets, the one used for the interventionist research and the one used to replicate the analysis, are coherent and homogeneous.

The process leading to the final analysis exploits a firm-level dataset, which describes if a company declares to adopt specific environmental and/or social policies as a form of CSR due diligence. As a company may have multiple policies related to different CSR issues, researchers have operationalised the dummy variables for each policy, through the implementation of different indexes taking into account the variety of CSR policies. Researchers have indeed developed the indexes in close collaboration with the European Parliament, in order to create group of policies that could help the researcher to understand the state-of-the-art of European companies on CSR due diligence. The first index (i.e., Core1) was based on the policies that are explicitly nominated by the European Commission in previous norms and regulations. Core 1 is composed by Env1 and Soc1 as both group policies relate to environment (Env1) and social concerns (Soc1). Core1 covers 10 different typologies of corporate policies (Table 1). Specifically, Env1 includes processes and policies for: emission reduction, fossil fuel divestment and resource efficiency specifically concerning water. Soc1 includes seven items, among which there are: community reputation expressed as bribery and corruption; freedom of association, child labour, forced labour, human rights;, employee health and safety of the company and along the supply chain.

The second one (i.e., Core2) upgrades Core1 with further policies both on environmental (Env2) and social aspects (Soc2). Specifically, Env2 is based on Env1, and it includes policies on energy efficiency, sustainable packaging, and environmental supply chain. Soc2 upgrades Soc1 adding categories such as: fair competition; business ethics; community involvement; diversity and opportunity; customer health and safety; fair trade; and employee skills training (Table 2).

TABLE 1 Composition of the policies considered in the index Core 1

Dimension	Policies description
Environmental (Env1)	Emission Reduction Processes/Policy Emissions Reduction
	Fossil Fuel Divestment Policy
	Resource Efficiency Processes/Policy Water Efficiency
Social (Soc1)	Community Reputation Code of Conduct/Policy Bribery and Corruption
	Human Rights Processes/Policy Freedom of Association
	Human Rights Processes/Policy Child Labour
	Human Rights Processes/Policy Forced Labour
	Human Rights Processes/Policy Human Rights
	Employee Health & Safety Processes/Policy Employee Health & Safety
	Employee Health & Safety Processes/Policy Supply Chain Health & Safety

Source: authors' elaboration on Asset4 data.

The researchers embarked on the scenario construction in order to forecast the possible behaviour of European companies subjected to an increase in CSR due diligence. The scenario construction relied on the identification of four clusters of firms described by different degrees of CSR due diligence (i.e., the quartiles in what follows): the low performers (1st quartile), medium-low performers (2nd quartile), medium-high performers (3rd quartile), and high performers (4th quartile). The main independent variables at the core of the identification of the four clusters are represented by Core1, Core2, Env1, Env2, Soc1 and Soc2.

To allow the replicability of the study, the analysis performed in 2020, based on 2018 data, has been enriched by new data collected in 2021 (on data reported for FY 2020). This step has been done to test the validity of the quartile distribution and to assess and comment on the presence of improvements between the two observed periods, especially considering the introduction of the NFRD at European level. According to Jönsson (2010), interventionist researchers are rooted in the need to find appropriate methods for observing a phenomenon, describing it and generating knowledge through narration. In this study, the need of effective methods able to map the evolution of the heterogeneity of CRS due diligence practices is revealed by the creation of two composite indexes Core1 and Core2, and by testing the replicability of the study on new data, as the ones of 2020.

4.2 | Discussion

4.2.1 | Core 1

As shown in Table 3, the analysis of Core1 reveals an overall increase equal to 22.02 from FY-2 (i.e., 2018) and FY0 (i.e., 2020). In particular, the increase was driven by the simultaneous growth both Env1 (16.35) and Soc1 (17.31). Thus, the analysis highlighted the positive impacts following the introduction of the NFRD in Europe that, as clarified above, has pushed European companies to disclose more information on risk management strategies, among which there might be an increase upon the disclosure of corporate policies. Furthermore, the data related to maximum values corroborate the fact that following the introduction of the NFRD also maximum values have increased. The analysis highlights an overall increase of maximum value of Core1 equal to 12.34, which represents a considerable variation driven by environmental policies' effects. In fact, in FY0 (2020) the maximum value of Env1 turned to be equal to 100, while in FY-2 was 94.99. The maximum value of Soc1 is equal to 87.90 in FY0, while it was 86.67 in FY-2.

TABLE 2 Composition of the policies considered in the index Core 2

Dimension	Policies description
Environmental (Env2)	Emission Reduction Processes/Policy Emissions Reduction
	Fossil Fuel Divestment Policy
	Resource Efficiency Processes/Policy Water Efficiency
	Resource Efficiency Processes/Policy Energy Efficiency
	Resource Efficiency Processes/Policy Sustainable Packaging
	Resource Efficiency Processes/Policy Environmental Supply Chain
Social (Soc2)	Community Reputation Code of Conduct/Policy Fair Competition
	Community Reputation Code of Conduct/Policy Bribery and Corruption
	Community Reputation Code of Conduct/Policy Business Ethics
	Community Reputation Processes/Policy Community Involvement
	Diversity and Opportunity Processes/Policy Diversity and Opportunity
	Human Rights Processes/Policy Freedom of Association
	Human Rights Processes/Policy Child Labour
	Human Rights Processes/Policy Forced Labour
	Human Rights Processes/Policy Human Rights
	Employee Health & Safety Processes/Policy Employee Health & Safety
	Employee Health & Safety Processes/Policy Supply Chain Health & Safety
	Product Responsibility Processes/Policy Customer Health & Safety
	Product Responsibility Processes/Policy Fair Trade
	Training and Career Development Processes/Policy Skills Training

Source: Authors' elaboration on Asset4 data.

TABLE 3 Statistical results for Core 1

Core 1									
	FY-2			FY0			Δ		
	Env 1	Soc 1	Core 1	Env 1	Soc 1	Core 1	Env 1	Soc 1	Core 1
Mean	54.66	53.40	48.21	71.02	70.71	70.23	16.35	17.31	22.02
Median	62.46	61.13	53.35	75.63	76.46	74.88	13.17	15.32	21.53
Mode	0.00	0.00	0.00	33.33	78.36	78.75	33.33	78.36	78.75
Max	94.99	86.67	76.78	100.00	87.90	89.12	5.01	1.23	12.34
Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1st Quartile	31.95	34.75	33.10	57.99	66.42	65.31	26.04	31.67	32.21
2nd Quartile	62.46	61.13	53.35	75.63	76.46	74.88	13.17	15.32	21.53
3rd Quartile	80.02	74.40	65.14	80.28	80.83	78.75	0.26	6.43	13.61
4th Quartile	94.99	86.67	76.78	100.00	87.90	89.12	5.01	1.23	12.34

According to the quartile analysis, it reveals interesting insights about the statistical variability of the sample. Quartiles' analysis shows that the increase of Core1 was driven by an overall increase of the entire sample, as all quartiles have increased their score of Core1 between FY-2 and FY0. However, it can be noted that, during the analysed year, the introduction of the NFRD has brought more benefit for the first two quartiles, low performers and medium-low performers than those of 3rd and 4th quartiles. For instance, while the low performers score of Core1 increased by 32.21, medium-low performers increased by 21.53, the medium-high performers got only 13.61 and high performers had an increase of 12.34. Thus, it can be said that the increase of Core 1 was not driven by the results achieved by a limited group of companies, but it was registered among all the quartiles, although more marked on the lower quartiles. This evidence is relevant for European policymakers due to the existence of an intense debate about the limited effects caused by the recent CSR regulations in Europe. In this vein, the data confirm, as evidenced in prior studies, that during the last years that there has been an increase in CSR due diligence brought by the introduction of NFRD, but this is more evident in lower and mid lower performers.

Regarding the distribution of the increase between Env1 and Soc1, it can be affirmed that the increase of Soc1 has been generically higher than those of Env1 among all quartiles, except for the 4th quartiles, where Env1 increases more than Soc1.

4.2.2 | Core 2

The second part of the analysis regards Core2 (see Table 4). This index represents a multidimensional indicator moving from Core1 and taking into consideration more dimensions of CSR due diligence. The analysis of Core2 confirms the empirical evidence collected for Core1. Although the quantitative differences in the increase between FY-2 and FY0 are lower than the insights collected about Core1, the effects caused by regulations have been relevant also in this case. In fact, all the dimensions observed within the study were characterised by a positive increase. The mean increase observed for Core2 between FY-2 and FY0 is equal to 8.58, mainly driven by an increase of Soc2 than Env2. The increase of Core2 between the quartiles follows the same trend of Core1, showing a significantly high increase for the first quartile (the low performers increased Core 2 of 14.25), while the top-performer increased only of 1.63.

The trend related to Env2 and Soc2 reveals a non-linear behaviour. Env2 presents a flat increase among all the quartiles of about 2 points, except the third quartile showing a decrease of −4.30. Nevertheless, these negative effects could be related to the peculiarities of the indicators used to evaluate Env2. In fact, usually, environmental policies are linked to the adoption of environmental certified management systems (like ISO 14000 family of standards), and it can be plausible that mid and top performers used to adopt an integrated management systems that usually combines different environmental policies, such as energy efficiency, water stewardship, emission reduction. As Core2 embeds the highest diversification of CSR due diligence policies requested by companies, it is plausible that a score increase in the highest quartiles of Core2 is less evident because the level of policies adopted by these companies at the outset is very high. Therefore, in order to improve the CSR due diligence performance of companies belonging to the two highest quartiles, it is important to identify very specific topics that are not included in their current policies. For instance, due diligence on fossil fuel reduction is not directly included in integrated environmental management systems, and as such, it is likely that companies that are adopting these policies are less than the ones adopting an environmental management system certification (Capece et al., 2017).

Considering that Core2 shows a very high level of required CSR due diligence, it is interesting to note that Env2's improvement has a constant increase along all quartiles except the third one, while Soc2 introduces a remarkable improvement also in the quartile of top performers, who reach the result of 100 in FY0. It can be also affirmed that Env2 is influenced by sectorial and cultural effects. In fact, despite the attempt to harmonise corporate conducts through the provision of mandatory or quasi-mandatory policies, companies can

TABLE 4 Statistical results for Core 2

Core 2	FY-2			FY0			Δ		
	Env 2	Soc 2	Core 2	Env 2	Soc 2	Core 2	Env 2	Soc 2	Core 2
Mean	54.30	55.44	48.49	54.82	66.62	57.07	0.52	11.18	8.58
Median	57.17	59.33	51.62	59.20	70.00	59.92	2.03	10.68	8.30
Mode	0.00	0.00	0.00	0.00	71.99	61.59	0.00	71.99	61.59
Max	90.53	80.38	73.11	93.12	100.00	74.74	2.60	19.62	1.63
Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1st Quartile	42.70	45.71	40.20	45.01	63.77	54.45	2.31	18.06	14.25
2nd Quartile	57.17	59.33	51.62	59.20	70.00	59.92	2.03	10.68	8.30
3rd Quartile	72.54	68.70	59.60	68.23	73.41	63.41	−4.30	4.71	3.80
4th Quartile	90.53	80.38	73.11	93.12	100.00	74.74	2.60	19.62	1.63

still prioritise their initiatives according to their own attitudes and beliefs (Dumay et al., 2015). In this sense, as evidenced by the recent actions carried out by the European Commission, the next years will be characterised by further initiatives that should encourage companies to enhance their environmental footprint through the implementation of new strategies, in accordance with the European regulation (European Commission,). Despite scholars criticise the real effectiveness of European regulations to be strong enough to change corporates' behaviour towards CSR, the data here presented confirm that the NFRD has had an impact in increasing the general level of CSR due diligence (Bebbington et al., 2012; Jackson et al., 2020; La Torre et al., 2020).

It is clear from the quartile's distribution that, after the introduction of recent European regulations such as the NFRD, there has been a dramatic improvement among the lower quartiles of Core1. The magnitude of the improvement decreased as the quartiles increased. This might relate to the fact that in the last quartile the scores had already a very high value. For example, 2 years after the introduction of the NFRD, the companies that belong to the highest quartile (the fourth) have reached a value of 100 in Core1, which means that all the companies of the quartile fulfilled a due diligence within Core1 group of policies.

This evidence is consistent with the literature underlining the limits of the NFRD in supporting all companies to reach the highest level of CSR due diligence. In the case of Core1, the highest level is defined by 100 in all quartiles. In fact, despite the European context has been characterised by the absence of specific rules about non-financial reporting (La Torre et al., 2018), after the introduction of the NFRD many European companies, to be compliant (with the NFRD), have started publishing their non-financial reports. Thus, NFRD strongly impacts on companies without any previous experience in non-financial reporting (Caputo et al., 2019).

As far as Core2 is concerned, it is not surprising that the improvement of the score occurs in a less pronounced way, since Core2 refers to an improvement of global policies that must therefore include a greater number of CSR issues. What is surprising is that the general level of Core2 score, reached in FY0 by European companies shows a score below 60 out of 100 in the third quartile. Only companies in the fourth quartile are in line with a high level. With this study, it has been therefore possible to analyse the degree of CSR due diligence of European companies through two large, incremental policy groups, namely Core1 and Core2. In addition, it was possible to see which quartiles show the most noticeable improvement, and also whether it was on environmental or on social due diligence issues.

5 | CONCLUSIONS

Building a more sustainable future represents one of the main challenges for many policy makers around the world. As evidenced by the political debate about the introduction of the European Green Deal, the next years will be characterised by a specific attention on sustainable development (European Commission,). However, as suggested by the intervention, the achievement of the ambitious goals will require the call-in action of the private sector as well. In this sense, many policies will be addressed to encourage the adoption of environmental and socially responsible behaviours on mandatory or voluntary basis.

Although the first attempts to introduce CSR regulations represented a strategic driver for the development of more sustainable practices by European firms (The Alliance for Corporate Transparency, 2020), academics and practitioners agreed about the need to revise the traditional paradigms used by European Commission to foster companies' engagement in CSR activities. In fact, despite many indicators used to assess the contribution provided by private sector to the sustainable development underlined the existence of positive trends (Sustainable Development Solutions Network, 2020), prior studies also highlighted cultural barriers that have negatively affected CSR policies' effectiveness (Caputo et al., 2021; Korca et al., 2021; La Torre et al., 2020; Zarzycka & Krasodomska, 2021). Furthermore, the comments collected by the European Commission during the latest public consultation about the revision of the Directive 2014/95/EU confirm this evidence

(European Commission, 2021b). In this sense, the proposal for a Corporate Sustainability Reporting Directive (CSRD) considered the critical issues highlighted by stakeholders (European Commission, 2021a).

The data regarding the CSR due diligence and accountability included in this paper highlighted the existence of many spaces to enhance CSR regulation in Europe. In fact, the critical analysis of the data collected suggests the existence of at least two different perspectives. Specifically, the implemented analysis has suggested that the last years have witnessed an increase of the policies developed by private organisations to contribute to the society's betterment. In this sense, policy makers have achieved part of their goals. On the other hand, the data reveal the existence of limitations that have negatively affected the introduction of new CSR policies. In fact, although the quantitative increase has interested both scores, many organisations shown values lower than the 60%, meaning that the quality of the adoption of such CSR due diligence is not extremely high.

The need to introduce a policy apt to regulate CSR due diligence was the focus of the research problem, and the subject of the researchers' intervention. The understanding of the problem and the identification of the framework has been done by referring to the literature review in terms of changes of European policies. In this paper, we presented the results of the interventionist research carried out in collaboration with the European Parliament. The intervention of the researchers has been focussed on defining scenarios mirroring the hypothetic changes in CSR due diligence European regulation and assessing margins for improvement within each group (quartiles).

Although this study has an intrinsic uniqueness, as required by the principles of interventionist research (Lukka & Suomala, 2014), it is intended to bear witness to a concrete example of the role of researchers in the development of public policies, in this case European policy. Future developments of this study could also extend to the analysis of the financial performance, to grasp the effects of an improvement in due diligence. The influence of CSR due diligence in altering the relationships between Corporate Financial Performance and Corporate Social Performance in European listed companies is an interesting topic to be exploited. This future research path strongly relates with literatures dealing with the European Green Deal and the circular economy transition.

6 | THEORETICAL IMPLICATIONS AND POLITICAL IMPLICATIONS

Although the study provided the basis for the introduction of a European recommendation in terms of CSR due diligence, the results lead to some theoretical implications. Firstly, the legislative intervention to introduce a disclosure requirement on CSR due diligence implies that the due diligence processes adopted so far by companies have not been sufficient, both in terms of the extent and type of issues addressed. In particular, it is interesting to note that CSR due diligence practices refer to the adoption of voluntary policies by companies and therefore continue to represent a post-political form of CSR governance (Garsten & Jacobsson, 2011). In fact, in this study we see a further change, that is, a political intervention (introduction of a legal resolution) on a post-political issue (CSR policies adopted by companies on a voluntary basis). This legislative intervention, which aims to increase the number of companies undertaking CSR due diligence, should also take into account that specific industrial sectors will have specific CSR issues to tackle. Therefore, the selection of the CSR due diligence tools to adopt will happen following the principles of materiality (Fasan & Mio, 2017). In this regards, the regulatory response of the European Parliament is aligned with the need to rethink the principle of materiality in light of stakeholders' view, more than in the view of investors, which represents one of the key issue for an effective sustainable transition (Abhayawansa & Adams, 2021).

Secondly, an increase in CSR due diligence by European companies will impact global supply chains, as more checks and audits will be required following the introduction of new company policies. In fact, although the intervention will entail a limited number of companies, it might generate positive externalities, caused by the opportunity to enhance their sustainable performance, by including more ethical and sustainable partners in their value chain (Sachs et al., 2019). Thus, non-European operators interested in collaborating with European companies will need to revise the sustainability levels of their operations to be selected as commercial partners, or they will be called in providing access to more detailed information or to be subjected to different audit on sustainability topics. However, a regulatory intervention requiring CSR due diligence, if not followed by a sanctioning aspect, may not be very effective and may incentivise companies to adopt pure compliance behaviours (Casonato et al., 2019; Farneti et al., 2018).

In the future, the main challenge will be represented by the identification of practices and policies useful to encourage companies to move from a business-as-usual approach, towards a more innovative one inspired by ethical and sustainable purposes. For instance, to date, not all ESG investment funds carry out in-depth screening of the type and diversity of CSR due diligence processes implemented by a company (MSCI ESG Research LLC, 2020). Often, these screenings require the company to declare that it adopts a corporate environmental or social policy, but do not go into detail on the specific policy topic. With this research, we show instead the absolute centrality of determining not only the presence of a CSR due diligence tool, but also the specific topics of application. The policy implications of this study are also important for all non-European countries, as the transition to mandatory disclosure of non-financial information is a global phenomenon. Therefore, as the MSCI data show, the risk that ESG finance is including companies within its baskets that do not adopt any kind of policy to manage specific sustainability issues is very evident (MSCI ESG Research LLC, 2020). Concluding, this study demonstrates that companies need to increase the level of CSR due diligence on well-identified and specific sustainability issues. This is a crucial point for addressing environmental and social issues in a more genuine and effective way.

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