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FINANCE - ONLINE

**RESEARCH
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EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘THE NON-FINANCIAL SPILLOVERS OF FINANCIAL INFORMATION PROCESSING COSTS: EVIDENCE FROM THE U.S. XBRL MANDATE’

**BY MARCO ERRICO - PHD CANDIDATE AT ESADE BUSINESS SCHOOL &
VISITING PHD SCHOLAR AT CHICAGO BOOTH SCHOOL OF BUSINESS**

(Co-authored with Mohammed Zakriya)



ABSTRACT

By exploiting the eXtensible Business Reporting Language (XBRL) mandate in the U.S. as an exogenous shock to information processing cost, we show its causal effect on environmental, social, and governance (ESG) performance. We document a significant increase in firms' ESG Scores after they are mandated to file their financial statements in XBRL format. Further analyses reveal that the XBRL mandate affected the Governance Score the most, followed by the Social and Environmental scores, respectively, and that the magnitude of its effect wanes over time. Our results are robust to multiple falsification tests and alternative identification strategies. We conjecture that XBRL adoption allows financially opaque firms' investors to allocate more time to understand non-financial ESG information. Upon facing this increased attention, firms' managers respond by improving ESG engagements. Consistent with this view, we find that the XBRL mandate's positive effect on ESG is concentrated in well-monitored, opaque, and high managerial power firms.