ESG Ratings and the French Duty of Vigilance Law

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Abstract

The 2017 French Duty of Vigilance Law represented Europe's first comprehensive legislative measure imposing wide-ranging obligations on corporations to identify and mitigate human rights, health and safety, and environmental risks arising from their own activities, those of their subsidiaries, and firms in their global supply chain. These vigilance duties are supported by a robust enforcement mechanism that grants anyone who has suffered harm as a result of a company's failure to comply with the law standing to bring a civil liability action against the company. This article analyzes the effects of the introduction of the Vigilance Law on the environmental and social behavior and financial performance of listed French corporations, using granular ESG scores from two major ratings providers to capture changes in corporate ESG performance. We find a statistically significant, negative association between the Vigilance Law and several social and environmental scores, particularly in areas where the Vigilance Law led to a tangible increase in liability exposure. We interpret this as reflecting either improved information quality, resulting from the production of more robust and meaningful ESG disclosures, or a reform-driven shift away from tailoring corporate ESG policies and disclosures to rating methodologies, and towards minimizing legal exposure.

Keywords: ESG; corporate sustainability due diligence; vigilance duties

JEL Classifications: G3, K2

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1 Introduction

In 2017, France enacted the Duty of Vigilance Law, which imposes extensive due diligence requirements on large French corporations and corporate groups. The law requires these firms to draw up "vigilance plans" to identify, prevent, and mitigate risks related to human rights violations, environmental damage, and health and safety across their (global) operations and supply chains. These obligations are supported by a robust enforcement mechanism that grants anyone who has suffered harm because of a company's failure to comply with the law standing to bring a civil liability action against the company.

This legislative initiative is reflective of a broader regulatory trend, with similar initiatives emerging across Europe, such as Germany's Supply Chain Due Diligence Act and the recent adoption of the EU Corporate Sustainability Due Diligence Directive (CSDDD). These regulatory interventions are aimed at increasing corporate accountability and make firms more responsive to risks of negative externalities resulting from their operations. As such, it is important to understand whether firms respond to the potential legal risks introduced by such laws by reducing activities that may harm some stakeholders but did not traditionally create significant liability risks for corporate groups.

The Duty of Vigilance Law directly aligns with key areas that ESG ratings aim to measure. ESG ratings quantify corporate performance across environmental, social, and governance dimensions. They can therefore be a potential indicator of whether legislative efforts like the Vigilance Law achieve their intended outcomes. If ESG scores are a meaningful (even if noisy) proxy for corporate ESG performance and the Vigilance Law effectively promotes changes in corporate behavior, the introduction of the Vigilance Law may result in improved ESG scores among companies subject to the law's provisions, compared to those outside its scope.

There is a further reason why ESG scores may be expected to respond to the Vigilance Law. ESG ratings are part of the incentive environment in which firms operate, and *perceived* ESG performance is relevant to the investment decisions of at least some investors, either because investors value sustainability for non-pecuniary reasons, because they expect ESG performance to correlate with financial performance, or because they use ESG information in stewardship and engagement decisions (Hartzmark and Sussman 2019; Krueger, Sautner, and Starks 2020). ESG considerations may also affect executive remuneration arrangements (Dell'Erba and Ferrarini 2024), which is encouraged by EU law requiring remuneration policies to contribute to a company's long-term interests and sustainability, and mandating disclosure of whether and how sustainability-related performance is integrated into incentive schemes. For these purposes, investors and boards, including remuneration committees, often rely on external ESG scores, whether directly or indirectly through the influence of widely used ESG metrics and ratings methodologies, or on internally selected ESG KPIs.

This use of ESG scores creates a familiar measurement problem. External ESG ratings are designed to serve as proxies for, or at least to be correlated with, ESG-relevant outcomes. They are, however, necessarily imperfect proxies. Different providers measure different dimensions of ESG performance, assign different weights to those dimensions, and may therefore reach materially different assessments of the same firm (Berg, Kölbel, and Rigobon 2022; Chatterji et al. 2016). To the extent that ESG *scores*, rather than the underlying ESG-relevant *outcomes*, affect the interests of the firm and its managers, firms have incentives to focus on improving the scores (if doing so does not generate offsetting costs such as reduced profitability). This is simply an application of Goodhart's law: once a measure becomes a target, its informational content may deteriorate because agents optimize against the measure itself rather than the underlying objective it was intended to capture (Goodhart 1975; Strathern 1997). In the ESG context, this suggests that firms' policies and disclosures may become overfitted to the methodologies used by the principal ESG ratings providers.

The Vigilance Law changes this incentive structure by imposing potential legal costs tied to ESG-aligned outcomes: adverse effects on human rights and fundamental freedoms, health and safety, and the environment arising from the activities of the corporation and its value chain. As liability exposure under the Vigilance Law is independent of external ESG rating scores and methodologies, the law can be understood as diluting, for in-scope firms, incentives to optimize ESG policies by reference to prevailing scoring methodologies.

From this perspective, legislative interventions of the Vigilance Law's type may reduce incentives for one form of ESG "gaming" or greenwashing, namely the overfitting of ESG policies and disclosures to rating methodologies. On this view, the effect of a legislative intervention such as the Vigilance Law may provide an – admittedly crude – indication of the quality and reliability of ESG scores, provided of course that liability under the legal regime is more closely aligned with the underlying ESG policy goals than the metrics used by rating providers.

These considerations motivate our empirical approach. We test the association between the Vigilance Law and a range of ESG scores covering different dimensions of corporate ESG performance from two major rating providers, LSEG and S&P Global. We make use of the fact that the Vigilance Law applies to some, but not all, French listed corporations, and use a difference-in-differences design to estimate the effect of the law's introduction. We also draw on the clearly defined scope of the vigilance duties. The law explicitly concerns risks to "human rights and fundamental freedoms, the health and safety of individuals, as well as the environment".[1] It does not cover the governance dimension of ESG and changes the liability exposure of corporations in relation to environmental harm only under particular circumstances, as discussed in more detail below. If it is correct that the Vigilance Law alters corporate incentives, and those effects are captured by ESG ratings, we would therefore expect to observe changes in some ESG metrics, but not others.

Our results show, perhaps counterintuitively, no significant improvement in ESG ratings for companies affected by the Vigilance Law relative to firms exempt from it (due to employee counts below the relevant cut-offs), but rather a statistically significant negative association between the law and several social and environmental ESG scores related to areas where the Vigilance Law has led to a tangible increase in liability exposure.

This outcome may have several interpretations. One possibility is that the law has not substantively altered corporate behavior but has focused attention on deficiencies in corporate ESG performance and disclosures, for example through litigation challenging vigilance plans or claiming compensation for environmental damage or human rights violations. Alternatively, companies may have responded to the Vigilance Law by adopting compliance-focused strategies aimed primarily at reducing legal exposure without producing substantial reductions in societal harm and, in doing so, devoted fewer resources to (over-)fitting policies to the rating methodologies of the providers of ESG scores.

The findings presented here are subject to certain limitations. Data availability and coverage pose notable challenges, as comprehensive ESG ratings are not uniformly available for many listed French firms during the period surrounding the introduction of the Vigilance Law, thus limiting our sample size. Additionally, the thresholds set by the Vigilance Law—5,000 employees within France or 10,000 globally—are challenging to verify, as geographic employee distribution data is inconsistently reported across firms. To address this, we hand-code firms with employee counts between these thresholds based on their annual reports. Our analysis relies on a subset of French firms with data available in the LSEG and S&P Global ESG databases.

We proceed as follows. Section 2 gives an overview of the related literature. Section 3 discusses the background to, and operation of, the French Vigilance Law. It examines recent

[1] French Code de commerce, Art. L225-102-4, para. I.

case law that has interpreted the Vigilance Law and exposed deficiencies in the corporate ESG policies and vigilance plans of some French companies falling within the scope of the law. This discussion motivates three empirical hypotheses concerning the effects of the Vigilance Law, which we also formulate in Section 3. Section 4 presents our data and empirical approach. In section 5, we report our regression results and discuss implications for our three hypotheses. Section 6 concludes.

2 Related literature

Our study is related to several strands of the literature. It builds most directly on research that explores the impact of legal institutions on corporate environmental and social performance. Building on La Porta, Lopez-de-Silanes, and Shleifer (2008), recent research presents evidence suggesting a link between the legal origin of a country and corporate CSR ratings. For example, Liang and Renneboog (2017) argue that CSR "should be fundamentally related to not only a firm's own choice but also regulations, institutional arrangements, and societal preferences" since it spans multiple dimensions of firm behavior and addresses various externalities. The authors find that legal origin is the strongest predictor of CSR adoption, stronger than political institutions, the regulatory environment, social preferences, or financial performance, and that firms from common law jurisdictions score significantly lower on CSR ratings than firms from civil law jurisdictions.

Early regulatory strategies for encouraging responsible corporate behavior towards human rights and the environment relied heavily on disclosure and transparency requirements. Not surprisingly, most of the literature studying the link between regulation and corporate environmental and social performance accordingly explores the potential impact of disclosure-based reforms on corporate behaviour. For example, Fiechter, Hitz, and Lehmann (2022) analyse the effects of the EU's Non-Financial Reporting Directive (NFRD)[2] and find that EU firms began to respond to the CSR disclosure mandate before its formal entry into force. Christensen, Hail, and Leuz (2021) review the literature on the effects of non-financial disclosure reforms on capital markets, stakeholders, and corporate behaviour and caution against adopting broad disclosure mandates without a careful examination of potential unintended consequences. A growing literature questions the reliance of regulators on

[2] Directive 2014/95/EU on the disclosure of non-financial and diversity information, also known as the EU Non-Financial Reporting Directive (NFRD), has been replaced by the more comprehensive Corporate Sustainability Reporting Directive (CSRD), Directive (EU) 2022/2464.

disclosure-based strategies as a substitute for meaningful corporate sustainability reform (e.g., Bruner 2022).

More recently, several jurisdictions have moved beyond non-financial disclosure rules and introduced substantive corporate law requirements relating to human rights and/or the environment. Several recent studies explore the impact of legal reforms that aim to influence corporate CSR behavior more directly. Dharmapala and Khanna (2018) and Rajgopal and Tantri (2023) study changes in the Indian Companies Act requiring companies, on a comply-or-explain basis, to spend a minimum of 2% of their average net pre-tax domestic profits over the last three years on CSR. A common thread in these studies is that legal reforms, effective though they may be in improving certain forms of environmental and social performance, can also have a crowding-out effect by clustering firm ESG performance around the minimum threshold mandated by the law. A legally mandated minimum risks becoming a performance ceiling: firms may have little incentive to exceed it, even where they could do so or would have done so absent the legal requirement. In particular, while Dharmapala and Khanna (2018) find significant increases in reported CSR spending and activity among firms initially spending below the statutory minimum, the impact varies across firms: firms that were already exceeding the minimum threshold reduced their CSR expenditures towards the threshold introduced by the reform. Along the same lines, Rajgopal and Tantri (2023) find that India's mandatory CSR spending requirement has done more harm than good by reducing the total amount of funds spent on CSR, as firms spending above the minimum reacted by reducing their contributions to the legally required level. The reform also weakened CSR spending as a signaling mechanism that previously allowed companies to differentiate their businesses and products.
The French Law on the Corporate Duty of Vigilance is "the best known and most far reaching" mandatory human rights and environmental due diligence regime incorporated into domestic law (Savourey and Brabant 2021). Most studies of the law to date have focused primarily on its design, the challenges of its implementation, and potential improvements (e.g., Cossart and Silvestre 2021; Savourey and Brabant 2021; Friedlich 2024). The law's abstract standard of reasonable vigilance measures, adequate to identify risks and prevent serious harms to human rights and the environment, and the uncertainty surrounding how courts will interpret it, together mitigate potential crowding-out concerns identified in the literature with respect to legally binding CSR rules.

Because the Vigilance Law does not prescribe a specific minimum performance threshold, in-scope companies cannot simply anchor their behavior to a legally mandated performance floor. Yet the question that remains unanswered is whether mandatory human rights and environmental due diligence obligations change corporate behavior or merely generate compliance-driven disclosure. Lafarre and Rombouts (2022) and Lafarre and Rombouts (2026), which are closest to our paper, use the French Vigilance Law to study the effect of mandatory human rights due diligence duties on employee rights. They find statistically significant improvements in human rights scores following the introduction of the law. However, Lafarre and Rombouts (2026) suggest that these improvements most likely reflect enhanced procedural compliance, disclosure, and internal risk governance rather than substantive improvements in underlying corporate human rights performance.

Finally, this study is related to scholarship examining the association between socially responsible business operations, or an inclusive corporate purpose, and financial performance. Several studies establish a link between various aspects of sustainable business practices and positive firm financial performance. In particular, Edmans (2011) studies the relationship between employee satisfaction and long-run stock returns using a US sample of firms and finds a positive correlation between employee satisfaction and shareholder returns. Importantly, he also finds that the stock market does not fully value intangibles like human capital by failing to fully incorporate new information on intangibles into share prices. Edmans et al (2024) extend these findings to more countries but also show that the value of employee satisfaction depends on the institutional context. They find that employee satisfaction contributes more to value creation in countries with flexible labor markets than in countries with stronger employee protection. Measuring the link between corporate purpose and firm financial performance is harder. Notwithstanding the importance and pervasiveness of the topic, there are few attempts to empirically measure the association between the two variables. Gartenberg et al (2019) study how employee perceptions of a sense of purpose in their work is linked with firm performance and find that a clearly articulated purpose by a management team is positively associated with returns on assets. However, no study has conclusively established a causal link between corporate purpose and firm financial performance. Spamann and Fisher (2022) discuss the challenges that such studies face.

3 The ESG movement and the French Duty of Vigilance Law

While laws prohibiting specific types of harmful corporate behavior, for example anti-bribery laws, have been in force in many countries for several years, legislative initiatives that seek to hold corporations responsible for environmentally or socially harmful activities more generally are a recent phenomenon. At the European level, movement towards the development of harmonized rules began towards the end of the last decade (Smit et al. 2020) and focused on the formulation of diligence duties that applied through the supply chain. These discussions ultimately resulted in the adoption of the Corporate Sustainability Due Diligence Directive (CSDDD)[3] in 2024, which requires companies to conduct human rights and environmental due diligence within their operations and supply chains by identifying and preventing or mitigating potential adverse environmental and human rights impacts. The CSDDD was preceded and influenced by several national initiatives, most importantly the French Duty of Vigilance Law, which was adopted by the National Assembly in February 2017.[4] Table 1 provides a chronological overview of the genesis of the Vigilance Law, as well as the CSDDD and other European national initiatives.

<Table 1 about here>

The French Vigilance Law can be regarded as a clear break with both the French and European approach to regulating ESG. It is the first legislative attempt in this field that moves beyond disclosure requirements and imposes legally enforceable duties on companies that are applicable across sectors and risk categories and potentially affect the way companies operate (Bruner 2022). As shown in Table 1, regulatory initiatives that preceded the Vigilance Law either focused on disclosure (for example, the EU's Non-Financial Reporting Directive of 2014) or were narrow in scope (e.g., the UK Modern Slavery Act of 2015, which requires companies to mitigate the risk of modern slavery in their supply chains). A report by Caillet et al. (2016) lists relevant French laws and regulations predating the Vigilance Law, noting that prior to 2017, businesses had no broad obligation to prevent social and environmental risks.

The Vigilance Law applies to all French stock corporations (*sociétés anonymes*) with either at least 5,000 employees within the company or its subsidiaries having their registered seat in France, or 10,000 employees within the company or its subsidiaries with their registered seat in France or abroad. In-scope corporations are required to draw up a vigilance plan setting out measures to identify and mitigate risks to human rights and fundamental freedoms, the health and safety of individuals, and the environment. The law covers risks resulting from the

[3] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence, OJ L2024/1760.

[4] Loi n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre, published in JORF [Official Journal] n° 0074, 28 March 2017. The law added two provisions to the Code de commerce, Arts. L.225-102-4 and L.225-102-5.

activities of the corporation and its subsidiaries, as well as regular subcontractors and suppliers, including those belonging to the international supply chain. The precise wording of these duties, which is important for the formulation of our hypotheses below, is reproduced in the Appendix, Table A1.

The substantive vigilance duties are underpinned by a robust two-pronged enforcement mechanism. First, the competent court may issue an injunction ordering a company to comply with the obligations of the Vigilance Law, such as preparing an adequate vigilance plan, potentially under threat of penalty. Litigation can be brought by anyone with a justified interest in acting, for example, labor unions, non-governmental organizations, or individuals affected by a corporation's activities.[5] Second, the author of an action or omission constituting a failure to comply with the vigilance duties is liable for the harm caused by the corporation's non-compliance.[6] Who is an "author" of an action violating the Vigilance Law is not defined in the act, but commentators agree that both the corporation and its directors or managers may face liability.[7] The liability consequences are potentially far-reaching, as every injured person has standing to bring a lawsuit claiming damages (Cossart et al. 2017).

These high-level observations about the Vigilance Law lend themselves to two hypotheses, both based on the assumption that the law increases the liability exposure of corporations falling within its scope of application and that corporations, accordingly, will take measures (which will not be cost-neutral) to comply with the law.

Hypothesis 1: The introduction of the Vigilance Law is positively associated with top-level ESG ratings capturing the compliance of corporations with environmental, social, and governance standards in companies subject to the law, relative to companies that fall outside its scope of application.

Hypothesis 2: The introduction of the Vigilance Law is negatively associated with firm financial performance or returns, either because corporations implement

[5] French Code de commerce, Art. L225-102-4, para. II.

[6] Code de commerce, Art. L.225-102-5.

[7] The reference in Art. L.225-102-5 of the Commercial Code to Articles 1240 and 1241 of the French Civil Code, which lay down general civil liability for tortious acts, implies that anyone who bears responsibility for a harmful act in violation of the Vigilance Law may in principle be sued under Art. L.225-102-5 of the Commercial Code. However, pursuant to principles on directors' duties and liability established by the French courts, directors and managers are generally only liable in relation to the corporation and not to third parties, unless the harmful act was "separable" from their functions ("faute séparable des fonctions", see Gerner-Beuerle and Anderson Schillig 2019, pp. 526-528). In any event, the Vigilance Law exposes directors and managers to personal liability, and it is thus reasonable to expect that the adoption of the law modifies their behavior.

vigilance measures that are not cost-neutral, or the increased liability exposure is incorporated into market prices.

Going beyond these high-level hypotheses, we are interested in understanding whether the Vigilance Law changes firm environmental and social performance on a more granular level. It is evident from the summary of the vigilance duties above that the law is only relevant to the first two categories of ESG ratings, environment and social metrics, but not to the governance category. In a first step, it is therefore useful to disaggregate the three ESG pillars and test separately how the Vigilance Law is associated with the first two pillars. However, we can be more specific, noting that providers of ESG ratings measure ESG performance often with the help of hundreds of variables, which are grouped according to categories and sub-categories. If the Vigilance Law increases liability exposure for specific types of risk to the environment or society, we may expect ESG measures of these specific risks to change in response to the introduction of the law. Relatedly, mapping liability exposure under the Vigilance Law onto granular ESG metrics may allow us to contribute to the debate on whether ESG metrics are meaningful or rather susceptible to "gaming" for purposes of greenwashing. If we were to find an association between the Vigilance Law and ESG metrics that reflected the type of liability risk increased by the adoption of the law, but no association between the law and other ESG metrics, this would suggest that the metrics play a meaningful role (although it would of course not be conclusive evidence against greenwashing). Accordingly, in the next paragraphs, we analyze the legal actions that have been brought under the Vigilance Law to date to develop a clearer picture of the liability exposure that companies face within the remit of the law.

The first ruling that deals with substantive questions regarding the content of the law and what constitutes a breach of the vigilance duties is a decision by the Judicial Court of Paris (*Tribunal judiciaire de Paris*) from December 2023, *La Poste*, confirmed by the Court of Appeal in June 2025.[8] In this case, a labor union challenged the vigilance plan of the French parent of a large financial institution for not identifying risks to the firm's workforce in sufficient detail and not establishing effective mechanisms to combat harassment, undeclared work, and illegal subcontracting. The Judicial Court agreed, declaring that La Poste's vigilance plan violated the law because of a deficient mapping of risks, particularly to human rights and health and safety of the company's workers.

[8] TJ Paris, 5 déc. 2023, n° 21/15827, Sud PPT c/ SA La Poste; CA Paris (Pôle 5, ch. 12 – Chambre de la régulation sociale, économique et environnementale), 17 juin 2025, n° 24/05193.

Three further decisions concerning preliminary questions of the admissibility of lawsuits under the Vigilance Law were handed down by the Paris Court of Appeal in June 2024.[9] Like *La Poste*, these cases did not seek to establish the civil liability of the company or directors but challenged the vigilance plans of the defendant corporations. Nevertheless, the decisions give guidance on important questions of who has standing to bring a lawsuit and what types of risk or harm are likely to trigger enforcement action, and they might be followed by civil liability lawsuits if the vigilance plans are found to be defective. In the first case, *EDF*, members of an indigenous community in Mexico and two human rights organizations sought to hold EDF responsible for human rights violations in connection with a wind farm project carried out by one of EDF's subsidiaries on the lands of the indigenous community. In the second case, *TotalEnergies*, six associations and 16 local authorities argued that TotalEnergies had not adopted sufficient measures to reduce its greenhouse gas emissions in line with the goals of the Paris Agreement. The third case, *Suez*, arose after "operational incidents" at one of Suez' subsidiaries resulted in the contamination of the drinking water of a local community in Chile.

In these three decisions, the Paris Court of Appeal clarified, among other issues, the conditions under which plaintiffs had "a justified interest in acting" and thus standing to enforce the obligation to produce a vigilance plan and bring a liability action.[10] This was, firstly, the case where individuals were affected by human rights violations or environmental damage resulting from the activities of the defendant corporate group or firms in its supply chain, for example the members of the indigenous community in *EDF*. Similarly, NGOs and human rights or environmental associations had standing to bring a lawsuit, provided their mission was directly and explicitly relevant to the activities challenged by the lawsuit. The rulings of the Paris Court of Appeal suggest that it is not difficult to establish the necessary connection where a human rights association alleges human rights violations (*EDF* and *Suez*[11]). Showing a "justified interest in acting" is more problematic if a lawsuit is based on the claim that corporate behavior is not sufficiently sustainable, or corporations failed to take steps to mitigate the impact of their operations on the environment, global warming, or similar general references to environmental impacts. This was evident in the *TotalEnergies* case, where the

[9] CA Paris, 5-12, 18 juin 2024, n° 21/22319, *EDF*; CA Paris, 5-12, 18 juin 2024, n° 23/14348, *TotalEnergies*; CA Paris, 5-12, 18 juin 2024, n° 23/10583, *Suez*.

[10] Arts. L.225-102-4, II and L.225-102-5 French Commercial Code.

[11] The appeal in *Suez* was rejected for different reasons.

plaintiffs criticized Total's greenhouse gas reduction goals as insufficiently ambitious and highlighted the company's role in contributing to global warming and climate change. The court rejected the standing of one of the plaintiff NGOs, because the statutory purpose of this NGO was only indirectly concerned with environmental matters.[12] It also held that local authorities did not have standing to bring litigation with the aim of compelling corporations to mitigate risks that occurred on a global scale, such as global warming, unless they could demonstrate "a specific harm or impact from global warming on the territory of the concerned municipality".[13] In *TotalEnergies*, none of the local authorities except one—the City of Paris—were able to meet this threshold.

Several further lawsuits are pending before, or have been decided by, French courts. Some of these are for injunctive relief, like the decisions above, and in some the plaintiffs aim to obtain compensation from the defendant corporations.[14] In total, 13 lawsuits have been brought (including the four cases discussed above, which are either under appeal or will proceed to the merits stage before the Judicial Court of Paris) and 10 further formal notices have been submitted to French corporations, which is a precondition under the Vigilance Law to filing a lawsuit.[15] Of the 13 lawsuits, four involve compensation claims brought against French parent corporations for harmful activities originating in their supply chain or in subsidiaries located abroad. The first, against Yves Rocher, concerned working conditions in a factory in Türkiye, where employees were exposed to harmful products without suitable equipment, forced to work overtime, and pressured not to unionize. This lawsuit resulted in the first damages award made under the Vigilance Law. The court found a causal link between deficiencies in the vigilance plan produced by Yves Rocher and the harm suffered by employees in one of the parent company's subsidiaries, and awarded compensation to several

[12] The court explained that the purpose of the association in question, Les Eco-Maires (the National Association of Mayors and Local Elected Officials for the Environment and Sustainable Development) was the coordination and training of local communities and elected officials on environmental matters. The association supported the environmental policies of communities, for example by organizing conferences and training sessions, but was not directly engaged in policy making itself and therefore had no legitimate interest in participating in an action against Total. See CA Paris, 5-12, 18 juin 2024, n° 23/14348, p. 25.

[13] Ibid. p. 27.

[14] The "Duty of Vigilance Radar", a joint initiative of Sherpa and other NGOs monitoring the implementation of the Vigilance Law, lists both formal notices filed with corporations and lawsuits, see https://vigilance-plan.org/court-cases-under-the-duty-of-vigilance-law/ (last accessed 13 June 2026).

[15] Some of the formal notices have been submitted to more than one corporation, so that a larger number of French companies are currently subject to enforcement measures.

employees and a trade union.[16] The second lawsuit was brought by representatives of indigenous peoples from the Brazilian and Colombian Amazon as well as several French and American NGOs against the French supermarket chain Casino Group. The plaintiffs alleged that meat producers that were part of the supply chain of the Casino Group were involved in illegal deforestation and expropriation of indigenous lands and sought compensation for damage to the lands and the impact on the livelihoods of the indigenous peoples. In the third case, two individuals who had been detained and tortured by military forces on a gas liquefaction plant in Yemen, together with a human rights organization, claimed compensation from TotalEnergies, which held a minority stake in a Yemeni company that had operated the plant before it was taken over by the military. The fourth case, again involving TotalEnergies, was brought by several French and Ugandan associations and members of communities in Uganda affected by two oil projects that, they argued, had resulted in severe human rights violations and environmental damage.

The enforcement actions summarized in the previous paragraphs allow us to draw a differentiated picture of the liability exposure created by the Vigilance Law. The law requires corporations to implement vigilance measures with respect to three categories of protected interests: human rights and fundamental freedoms, the health and safety of individuals, and the environment. Most litigation concerns the first two categories, human rights violations and corporate activity that poses a danger to the health and safety of individuals. Standing is more difficult to establish where risks are of a general nature and impact communities or individuals across regions, like the effects of climate change. Challenging a vigilance plan based on the first pillar of ESG—the environment—is possible, but courts have developed a form of "direct concern" test that makes it difficult to "justify an interest in taking action" unless a "specific harm" can be shown, for example environmental damage on a clearly defined territory. The civil liability actions that have been brought so far reinforce this point. They all involve the rights of individuals and can predominantly be associated with the second pillar of ESG. These considerations motivate our third hypothesis, which we formulate as follows.

> *Hypothesis 3: The introduction of the Vigilance Law is positively associated with ESG metrics that capture the protection of human rights or the environment, but the latter only where environmental damage affects individuals or a clearly*

[16] TJ Paris, 34e ch civ, 12 mars 2026, RG n° 22/04017, *Association Sherpa et autres c SA Laboratoires de Biologie Végétale Yves Rocher*.

defined community. Conversely, the introduction of the Vigilance Law is not associated, or is less strongly positively associated, with ESG metrics that reflect general environmental risks, for example scores that capture greenhouse gas emissions. Lastly, the introduction of the Vigilance Law is not associated with ESG metrics related to the third pillar of ESG, governance, which is not covered at all by the Vigilance Law.

4 Data and empirical strategy

We compile data on financial performance indicators, ESG scores, and the number of employees of 141 French stock exchange listed corporations, representing all listed companies incorporated in France for which ESG scores and data on employee numbers for 2017 are available on LSEG (formerly Refinitiv). Financial data are from LSEG, and ESG scores are from LSEG and S&P Global, covering the period 2010-2023. There is no publicly available official list of companies that fall within the scope of the Vigilance Law (Cossart and Silvestre 2021; Savourey and Brabant 2021). We manually cross-check workforce data with corporate disclosures to identify the French corporations with a workforce of at least 5,000 but less than 10,000 employees, i.e., between the two thresholds of the Vigilance Law, that fall within the scope of the law.

The most granular ESG data we obtain is from LSEG, which offers more than 630 metrics to measure a company's ESG performance. We use the overall ESG score provided by LSEG as a top-level indicator of corporate ESG performance. This score is based on publicly reported information and composed of three pillar scores capturing the environmental, social and governance performance of corporations.[17] The three pillar scores, in turn, are sums of ten category scores that aggregate information from more than 180 ESG metrics and are weighted according to their importance for different industries.[18] The environmental pillar score is based on three category scores (resource use, emissions, and innovation), the social pillar score on four category scores (workforce, human rights, community, and product responsibility), and the governance pillar on three category scores (management, shareholders, and CSR strategy).

[17] The ESG scoring methodology is summarized in LSEG, Environmental, social and governance scores, December 2023. This is the most recent ratings methodology made available by LSEG. LSEG confirmed that their methodology was revised two times during the sample period, in 2017 and 2020, and that all scores are recalculated to reflect the newest methodology when a change is implemented.

[18] For details and examples, see LSEG, Environmental, social and governance scores, December 2023, Appendices D and E.

In addition to the top-level ESG scores and the three pillar scores, we make use of several category scores that we deem potentially relevant to our hypotheses. The scores we use are defined in Table 2.

<Table 2 about here>

LSEG also collects information on ESG controversies, which capture news coverage of a corporation concerning ESG topics that reflects materially and negatively on the corporation. This information is used to construct both count variables recording the number of controversies affecting a corporation in a given year, distinguishing between 23 controversy topics, and variables aggregating controversies concerning certain categories into scores, for example, environmental, working condition, or diversity and opportunity controversies, as well as an overarching ESG controversies score that combines controversy data across all three ESG pillars. LSEG reports these variables independently and additionally incorporates controversies into a top-level combined ESG score (ESGC score), which is the mean of the ESG score and the ESG controversies score.

The category and controversy scores are calculated as percentile ranks. A company's rank is equal to the ratio of the number of companies with a worse score plus the number of companies with the same score (scaled by a factor of 0.5) to the number of all companies with a score, benchmarked against the global industry group or (for the governance categories) corporations incorporated in the same country. The scores are therefore relatively unaffected by outliers. For all ESG variables, a higher value indicates better performance, and a score of 100 in a controversy category indicates that the company faced no controversies in the relevant financial year. Summary statistics are reported in Table 3.

<Table 3 about here>

Our second dataset with ESG scores is from S&P Global. The S&P Global ESG Score is a relative score that benchmarks a company's performance in managing ESG risks, opportunities, and impacts against its peers within the same industry classification. S&P Global measures the ESG performance of around 13,000 companies globally. Most of the information used to score covered companies is publicly available. However, unlike LSEG/Refinitiv ESG scores, S&P Global also distributes questionnaires to collect non-publicly available information. According to S&P Global, companies representing roughly 50% of global market capitalization actively participate in the assessment by providing additional ESG data through these questionnaires. Non-participating companies are assessed solely based on publicly available information. From 2023 onwards, a modelling approach has been integrated into the S&P Global ESG Score to address gaps in public disclosure, such that missing answers – excluding questions on reporting and disclosure – are modelled rather than assigned a score of zero. This modelled scoring has been applied retrospectively to the historical score set, and we use the modeled scores in our regressions.[19]

S&P Global's ESG Scores are measured on a scale of 0 to 100, where 100 represents the maximum score. Points are awarded at the question level (on average 120 questions per company). These question-level scores aggregate upwards to criteria-level scores, reflecting the most material ESG themes for a given industry, with up to 30 criteria per company. The criteria-level scores are further combined to form standalone E, S and G dimension scores, which in turn aggregate into a single headline ESG Score for each company. Each criterion and each of the three dimensions carries a weight in the combined score reflecting its relative importance across the 62 industries covered. To illustrate, the dimension weights for banks are as follows: Governance and Economic (51%), Environmental (16%), and Social (33%). By contrast, the environmental dimension dominates for water utilities (47%), and the social dimension dominates in the health care (43%), professional services (46%), and media (48%) sectors.

We have matched French companies covered by S&P Global with companies in our treated and control group samples. S&P Global ESG Scores are available for 120 French companies in our sample; we exclude the remaining 21 companies for which LSEG/Refinitiv ESG scores are available but S&P Global ESG Scores are not available. Table 4 provides a brief description of the dimension- and criteria-level scores comprising the S&P Global ESG ratings according to the 2026 edition of the S&P Global ESG Scores methodology.

<Table 4 about here>

We find that the ESG scores from the two samples are positively and relatively strongly correlated, with the exception of the governance pillar (Figure 1). However, coverage of the S&P Global scores is less comprehensive than the LSEG scores. Data for our sample of firms

[19] We have also performed robustness checks with the S&P Global raw scores – here not reported – that did not materially change the results reported below.

is only available from 2013, and the sample is considerably smaller than the LSEG sample, comprising approximately 50 companies until 2016, the year before the Vigilance Law was adopted. For this reason, we rely on the LSEG dataset more widely and treat regressions with the S&P Global scores as a robustness check.

<Figure 1 about here>

We investigate the impact of the adoption of the French Duty of Vigilance Law using a differences-in-differences model of the following form:

$$y_{it} = \alpha + \beta_1 Vigilance\ Law_i + \beta_2 Post_t + \beta_3 (Vigilance\ Law_i \times Post_t) + \beta_4 X_{it},$$

where $Vigilance\ Law_i$ is an indicator variable taking the value 1 for companies falling within the scope of the Vigilance Law (as discussed in section 3 above), $Post_t$ is 1 for years after adoption of the Vigilance Law, X_{it} is a vector of company- and time-varying covariates, which we include in some model specifications, and the coefficient on the interaction term $Vigilance\ Law_i \times Post_t$ is the differences-in-differences estimator.

One challenge in distinguishing between the pre- and post-treatment periods is that the genesis of the Vigilance Law was a drawn-out process. Initial discussions about holding large corporations accountable for activities that harmed individuals or the environment began in 2012. First legislative proposals were introduced in the National Assembly in November 2013[20] and a further proposal in February 2014.[21] A fourth proposal of February 2015[22] was taken forward by the legislature, but the National Assembly and Senate struggled to agree on a common position. A compromise was only reached after some of the obligations in the draft bill were watered down, which led to the adoption of the final version of the bill in February 2017. In March 2017, the French Constitutional Court declared part of the act unconstitutional, with the remaining provisions coming into effect shortly thereafter. In-scope companies have been required to publish annual vigilance plans that are in conformity with the law since 2018.

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[20] Propositions de Loi nos 1519 et 1524 du 6 novembre 2013 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre.

[21] Proposition de Loi n° 1777 du 11 février 2014 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre.

[22] Proposition de Loi n° 2578 du 11 février 2015 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre.

Due to the uncertainty surrounding the legislative process and the final obligations corporations would need to comply with, the most likely point in time when businesses could be expected to have started responding to the law was after its final adoption in March 2017. To investigate the development of ESG corporate performance over time and the potential impact of the drawn-out legislative process in more detail, we regress the two top-level ESG scores provided by LSEG—the overall ESG score and the ESG combined score—on year-treatment interactions for the full period of our sample 2010-2023, with corporations that fall within the scope of the Vigilance Law as treated group. Figure 2 plots the development of mean ESG scores for the treated and control groups and figure 3 the coefficients on the interaction terms and 95% as well as 99% confidence intervals for each year, with the first year of the sample, 2010, as the baseline. The full regression results are reported in the appendix, Table A2.

<Figures 2 and 3 about here>

The coefficient plots suggest that the introduction of the Vigilance Law had a negative effect on the ESG scores analyzed here (the effect on further ESG metrics is explored in section 5). There is no bright-line division between the pre- and post-treatment periods—perhaps unsurprising considering the lengthy legislative process—but outside of the years during which the Vigilance Law was debated (2014-2018), we can observe first the absence of any effect and then since 2018 a consistently negative and highly significant association between the introduction of the law and the ESG metrics (at a significance level of 99%). As implied by figure 2, the parallel trends assumption does not hold, and we control for differential trends for the treated and control groups in all regressions that follow.

5 Results and Discussion

Tables 5 and 7 report our baseline regression results, using the LSEG and S&P Global samples, respectively. Discussing our LSEG findings first, in models (1)-(6) of table 5, we use the two top-level ESG metrics, ESG score and ESG combined score, as dependent variables (the latter including LSEG's controversy data), and in models (7) and (8), two proxies for corporate financial performance, Tobin's Q and return on assets. The main findings are that the ESG metrics are statistically significantly associated with our differences-in-differences estimator, the interaction of Within-scope Vigilance Law and the post treatment period (post 2017), but we do not find any evidence of a statistically significant association between the two proxies for corporate financial performance and the Vigilance Law. Using different combinations of fixed effects or differently specified clustered standard errors does not change these results (here not reported).

Contrary to hypothesis 1, we find a consistently negative and economically significant association, suggesting that the introduction of the Vigilance Law correlates with lower ESG scores. The top-level ESG score is on average between 12-16 percent lower for corporations that fall within the scope of the Vigilance Law. The ESG combined score is on a different scale, from 1-11, which translates into a comparable decrease in ESG performance for corporations governed by the Vigilance Law. This is surprising, and ostensibly in conflict with the goal of the Vigilance Law, which was adopted to set incentives to improve corporate ESG performance.

<Table 5 about here>

To investigate the association between ESG metrics and the Vigilance Law further, we next break the top-level ESG score down into its constituent components. As explained in section 4, the overall ESG score is composed of three pillar scores (environmental, social, and governance) and ten category scores. Table 6 reports results where we regress the three pillar scores and three of the ten category scores (human rights, emissions, and workforce), as well as an individual datapoint that feeds into the emissions score, CO2 emissions, measured in tonnes, on the differences-in-differences estimator and a full slate of controls. We also include a model that examines the association with LSEG's controversies score, which translates the controversies to which a firm was exposed in the global media across the three ESG pillars into a percentile score (model 8).

The selection of the three category scores and the CO2 emissions data point is informed by hypothesis 3. To recall, we hypothesized that the introduction of the Vigilance Law is positively associated with metrics that capture ESG concerns covered by the Vigilance Law, namely issues related to the first and second pillar of ESG, but not issues related to the third pillar, governance. We hypothesized further that we could expect a positive association with metrics where the Vigilance Law creates or increases liability exposure for French parent corporations. Reviewing existing litigation brought under the law, we argued that liability exposure was particularly linked to human rights violations and environmental damage that affected individuals or communities, for example illegal deforestation or contamination of drinking water, but less so to environmental risks that materialized on a global scale. It is also worth noting that most litigation concerns incidents that occurred abroad. Here the increase in liability exposure brought about by the Vigilance Law is particularly manifest, since it is notoriously difficult to claim compensation from a parent corporation for damage caused by a subsidiary or a company belonging to the parent's supply chain abroad.

We select human rights policy as the category-level ESG metric that captures the concerns raised by the Vigilance case law most closely, and the workforce and emissions scores as two categories that should intuitively be less relevant when viewed through the lens of Vigilance Law liability exposure. The workforce score relates to working conditions of a corporation's (or corporate group's) own workforce. Under labor law, workers already have remedies when a corporation does not comply with legal requirements, for example health and safety standards, or discriminates against workers. The Vigilance Law should therefore not alter existing legal exposure fundamentally. The emissions score "measures a company's commitment and effectiveness towards reducing environmental emissions in its production and operational processes"[23] and is thus primarily concerned with general environmental risks, rather than instances of localized environmental damage as in most of the Vigilance Law litigation.[24] Finally, we include the CO2 emissions data point to provide an additional proxy for general, as opposed to localized, environmental risks.

Building on hypothesis 3, we conjecture that the social pillar and human rights scores should be associated with the Vigilance Law, while the emissions and workforce scores as well as CO2 emissions should not be associated with the law. The environmental pillar score is more ambivalent, because it combines indicators of general environmental risk (emissions reduction, total energy use, renewable energy use, etc.) and indicators that may translate into localized environmental damage (environmental supply chain monitoring and management, amount of hazardous waste produced, etc.).

Our findings are closely aligned with these conjectures. The introduction of the Vigilance Law is statistically significantly associated with the social and environmental pillar scores, but not with the governance pillar score, which falls entirely outside the material scope of the Vigilance Law. We also find a negative association between the Vigilance Law and the

[23] Definition by LSEG.

[24] LSEG provides datapoints that reflect more localized environmental damage, for example a "deforestation controversies" variable, but controversies are too few to allow for a meaningful analysis. The same data limitations exist for some variables that could be used as additional proxies for liability-exposure-relevant ESG issues, for example child labor or forced labor controversies.

two ESG categories human rights policy and workforce, which are most directly related to changes in liability exposure created by the Vigilance Law. The association with a firm's human rights policy is statistically significant under most model specifications with a full set of controls (see also table 9, equation 12, below). In contrast, we find no statistically significant association with the two emissions metrics as proxies for general, not localized, environmental risk, where it is less clear that the Vigilance Law has meaningfully altered liability exposure. These findings are principally in line with Lafarre and Rombouts (2022, 2026). However, like before, the direction of the association is strongly negative, while we hypothesized (and Lafarre and Rombouts 2022, 2026 find) a positive association.

<Table 6 about here>

To test whether our findings are simply an artefact of the ratings methodology used by LSEG, we re-run the regressions from tables 5 and 6 with S&P Global ESG scores as dependent variables. The equivalent of the two top-level measures for ESG performance, LSEG's ESG score and its ESG combined score, is S&P's Global ESG score (model 1 in table 7). The three LSEG pillar scores for E, S, and G are denoted as "dimensions" by S&P and can be found in models 2-4 in table 7. Equations 5-7 in table 7 use more granular ESG "criteria" (referred to as "categories" in LSEG's nomenclature) as dependent variables to test the association of specific ESG risks with the Vigilance Law, similar to models 4-7 in table 6. Exact equivalents are not always easy to find because of different definitions and methodologies used by LSEG and S&P Global. Specifically, to measure general as opposed to localized environmental risks, we include a variable that captures the environmental footprint of companies ("operational eco-efficiency") and a variable that assesses the quality of companies' reporting on environmental indicators ("environmental reporting"). Operational eco-efficiency includes but goes beyond the emissions score and CO2 emissions criteria we used in the LSEG regressions. The measure incorporates a range of environmental indicators quantifying the consumption of natural resources and production of waste by a company.[25] Environmental reporting does not assess a company's environmental impact based on quantitative indicators but rather measures how comprehensive and robust the reporting on such indicators is.[26]

[25] For a detailed definition, see S&P Global, CSA Companion 2021, pp. 84-96.

[26] S&P Global, CSA Companion 2021, pp. 78-80.

Our findings are broadly in line with the LSEG regressions. The Vigilance Law is statistically significant and negatively correlated with the top-level ESG and social dimension scores, while we find no statistically significant association with the governance and environmental dimensions and the operational eco-efficiency score. This provides further support for our conjecture that the effects of the Vigilance Law are mediated by companies' exposure to liability for localized harms, and the effects depend on existing legal exposure being altered by the law.

The statistically significant association we now find between the Vigilance Law and environmental reporting (model 6) may at first sight appear inconsistent with our earlier findings. However, as explained, the variable is not directly comparable to LSEG's indicators of general environmental risk that we used in models 5 and 6 of table 6. It measures the coverage of a company's reporting on quantitative environmental indicators and any external assurance they receive on their reporting rather than the environmental impact itself. It is conceivable that, following the adoption of the Vigilance Law, companies became more explicit about the limited coverage of the environmental indicators they provided in public reporting to ensure that the risk mapping required by the law was accurate. This would then translate into lower scores for environmental reporting.

<Table 7 about here>

A further interpretation follows from the incentive mechanism outlined above. The adoption of the Vigilance Law can be understood as a shock to the objective function governing in-scope firms' ESG policies. Prior to the introduction of the Vigilance Law, firms had incentives to improve ESG outcomes to the extent required by existing legal duties, investor demand, reputational concerns, and managerial compensation arrangements. Where those channels operated through external ESG ratings, or through internal ESG KPIs influenced by the categories and methodologies used by ESG data providers, firms had incentives to tailor their policies and disclosures to the scoring methodologies of the principal ratings providers. For treated firms, the Vigilance Law introduced an additional element: the increase of liability exposure for adverse effects on human rights, health and safety, and the environment arising within the corporate group or its supply chain. In effect, the Vigilance Law may have diluted firms' incentives to engage in score-maximizing practices and overfitting, redirecting effort towards mitigating the risks the law renders legally salient. Consequently, the treated firms' relative ESG scores could decline even where their underlying ESG conduct did not deteriorate.

On this view, the negative association we observe would reflect a reduction in overfitting to, or gaming of, ESG scoring methodologies by affected firms, rather than underperformance in pursuing ESG goals.

This interpretation depends on the assumption that the liability rules of the Vigilance Law are more closely aligned with ESG policy aims than the ESG metrics used by the main data providers. We regard this as plausible for at least certain aspects of ESG ratings, especially human rights, health and safety, and localized environmental harm. The interpretation is also consistent with the fact that the negative association is concentrated in the areas where the Vigilance Law plausibly changes liability exposure, in particular the social pillar, and is absent for metrics that fall outside, or only weakly within, the law's liability logic, such as governance and general emissions measures.

If the "de-gaming" explanation plays a role in the relative decrease of ESG scores among treated firms, we would expect the negative association to be stronger for firms whose pre-treatment incentives to manage their scores were greatest, e.g. firms with greater exposure to sustainability-oriented investors or with ESG-linked executive pay. Our data does not, however, allow us to test this.

A related, and not mutually exclusive, possible explanation for the observed negative correlation is that firms governed by the Vigilance Law do not actually adjust their ESG-relevant performance, or adjust their corporate behavior only in a formalistic, compliance-focused manner, while the legal obligations imposed by the Vigilance Law direct attention to the lack of improvement in underlying ESG performance. On this view, the Vigilance Law would primarily perform an information-production function, rather than setting incentives (although more robust information on corporate ESG performance may, of course, in the long run, change corporate behavior). Information is produced in two ways under the Vigilance Law: first, through the requirement to publish a vigilance plan that must follow a specified format and be developed, where appropriate, in collaboration with the company's stakeholders. Second, the vigilance plan can be challenged by interested parties both in and out of court, which may result in a more comprehensive or realistic description of the ESG risks associated with a company's operations and an evaluation of the plan by an independent institution. Relatedly, litigation aimed at obtaining compensation for the harm caused by a company's non-compliance with the Vigilance Law also results in a detailed assessment of the company's ESG performance, which is widely publicized.[27]

Provided the information-production explanation is correct, it is likely that the first method of information generation is more relevant, since litigation has so far been relatively limited (see section 3 above). Litigation risk may encourage corporations to engage more seriously with stakeholders and draft a vigilance plan that minimizes liability exposure by mapping ESG risks thoroughly and with precision. A risk map "aimed at identifying, analyzing, and prioritizing risks" is a key element of a vigilance plan, as required by the Vigilance Law.[28] In the first substantive ruling on vigilance plans, *La Poste*,[29] the defendant corporation's vigilance plan was held not to comply with the law because of deficient risk mapping. Commentators have also highlighted the importance of a robust risk mapping. Schlumberger (2024) called a risk map "the true cornerstone of a proper vigilance plan" and argued that "when such a risk mapping is not presented with sufficient precision, the entire structure of the plan collapses".

The fact that the introduction of the Vigilance Law is not significantly correlated with the ESG controversies score (model (8) in table 6) supports the supposition that litigation, and indeed ESG controversies covered in the media that do not result in litigation, without more, cannot explain the negative association we observe. Using the controversies score or a count of controversies as controls likewise does not affect the significance of the association between the Vigilance Law and the two top-level ESG scores or the social pillar and human rights policy scores (table 8), and affects the magnitude of the coefficients only marginally (compare the results in table 8 with models (3) and (6) in table 5 and models (1) and (4) in table 6). However, it should be noted that the controversy measures are likely not particularly informative. Our sample rarely records more than a dozen controversies per year, and on average only around 8 controversies, with the vast majority of controversies (100 out of 113) concentrated among firms governed by the Vigilance Law.

<Table 8 about here>

[27] See, for example, the duty of vigilance radar, https://vigilance-plan.org/, which collates information on all enforcement activities under the Vigilance Law.

[28] Code de commerce, Art. L.225-102-4, I.

[29] See n 8 above.

One challenge with the data is that the coverage of ESG data is uneven across the sample. Only 59 firms have ESG data over the whole period, 2010-2023. Figure 4A maps ESG data by number of firms covered each year of the sample period. We observe that firms typically begin with relatively low ESG scores when they are initially included in a rating, irrespective of when they are included, and gradually improve over time. It is thus conceivable that late additions bias average scores downwards. Figure 4B illustrates this phenomenon by mapping mean ESG scores for the full sample (LSEG dataset) as well as sub-samples of treated and untreated firms based on relative years of coverage.

<Figure 4 about here>

We try to control for this phenomenon by including a slate of fixed effects in all regressions, and we additionally account for firm size, based on total assets and number of employees, since late entrants with less coverage are more likely to be smaller firms. As shown in table 5, adding log of total assets and number of employees results in more precise estimates and larger coefficients. As an additional robustness check, we rerun the main regressions from tables 5 and 6 with only the 59 firms for which we have ESG data over the full sample period. Results are reported in table 9. Since data on some of our controls, especially employee numbers, are incomplete, we include two sets of regressions, one with all controls and one with some controls omitted so that the size of the subsample is preserved. All results are consistent with our regressions in tables 5 and 6.

<Table 9 about here>

6 Conclusion

We explore whether the adoption of the French Duty of Vigilance Law in 2017 has led to greater responsiveness of French firms to risks of negative externalities resulting from their operations or from firms in their global supply chain. Using ESG ratings as a proxy for corporate ESG performance, we find a statistically significant, but *negative* association between the adoption of the Vigilance Law and ESG scores that capture corporate behavior associated with increased liability risk under the Vigilance Law. Conversely, we find no statistically significant association between the adoption of the Vigilance Law and ESG scores that capture corporate behavior unlikely to lead to litigation under the Vigilance Law

We propose two explanations for these findings that are not mutually exclusive. First, the Vigilance Law may affect in-scope companies by altering their incentives regarding how they calibrate their ESG policies. Previously, these companies had reason to optimise their ESG disclosures and practices to the scoring methodologies of principal ratings providers. The law introduced a competing incentive – reducing legal liability for human rights, environmental, and health and safety harms – that redirected efforts away from score-maximising behaviour towards minimizing legal exposure. The relative ESG scores of treated companies may therefore have declined not because their underlying conduct deteriorated, but because they engaged less in tailoring practices to ratings methodologies. The negative association we observe may thus reflect reduced overfitting rather than poorer ESG performance.

Second, it may be possible to link the negative association between the Vigilance Law and certain proxies for measuring ESG performance to an information-production function of the law. While the Vigilance Law may not improve the responsiveness of firm behavior to environmental or social concerns, it standardizes reporting obligations for in-scope corporations and may have prompted the production of more robust and meaningful information on corporate ESG performance. Although this was not the law's primary legislative goal, improved accuracy of ESG information is in the public interest. Additionally, it is plausible that more robust ESG reporting will change corporate behavior in the long run, and we may currently be at a mid-point in a multi-stage process where corporations first adjust their reporting practices in response to the Vigilance Law to reduce legal exposure and subsequently their behavior to mitigate societal harm (or improve public perception of their ESG performance). It is for future research to investigate this possibility.

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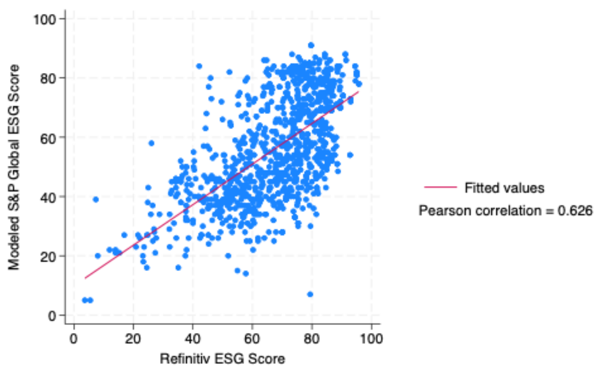
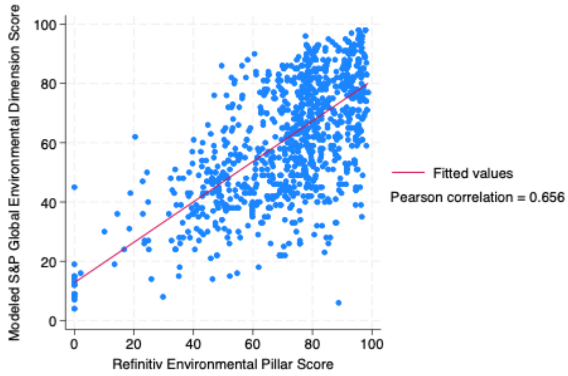
Figure 1. Correlation LSEG/Refinitiv – S&P scores

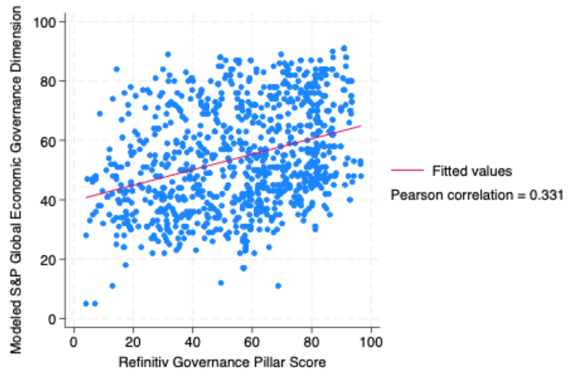
2A. Refinitiv ESG Score – Modeled S&P Global ESG Score



2B. Refinitiv Environmental Pillar– Modeled S&P Global Environmental Dimension



2C. Refinitiv Governance Pillar– Modeled S&P Global Economic Governance



2D. Refinitiv Social Pillar– Modeled S&P Global Social Dimension

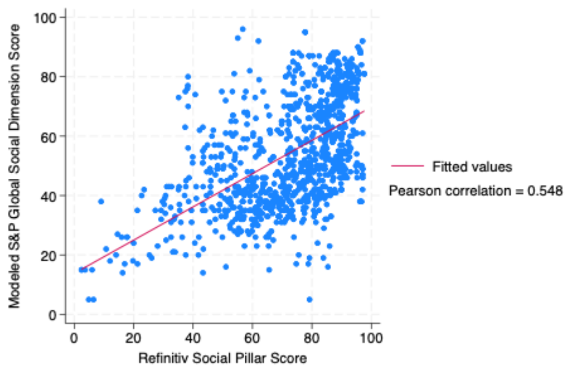
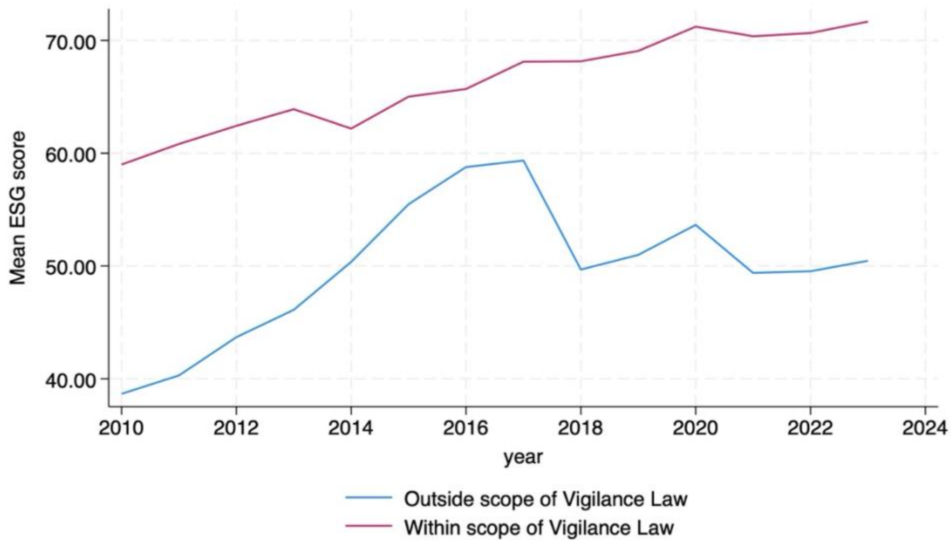


Figure 2. Mean ESG scores in France

2A. Refinitiv sample



2B. S&P Global sample

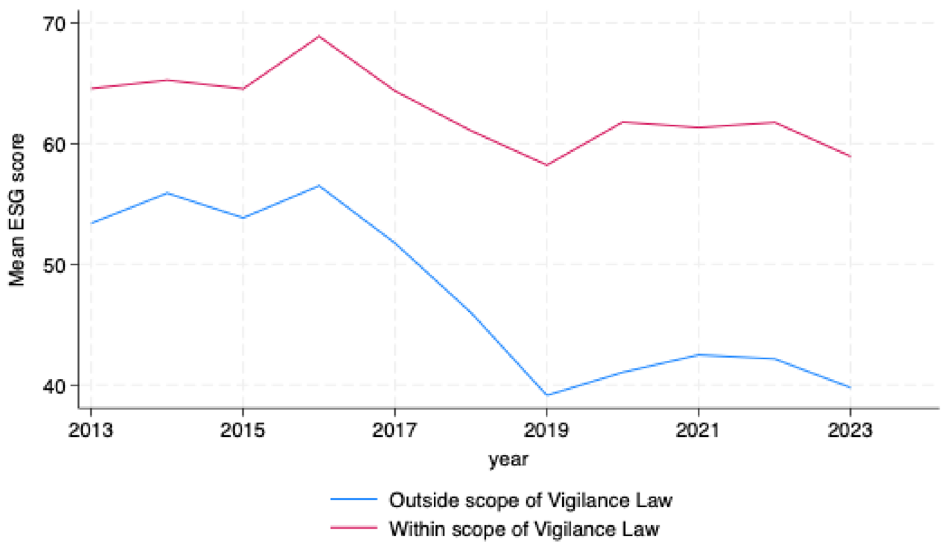
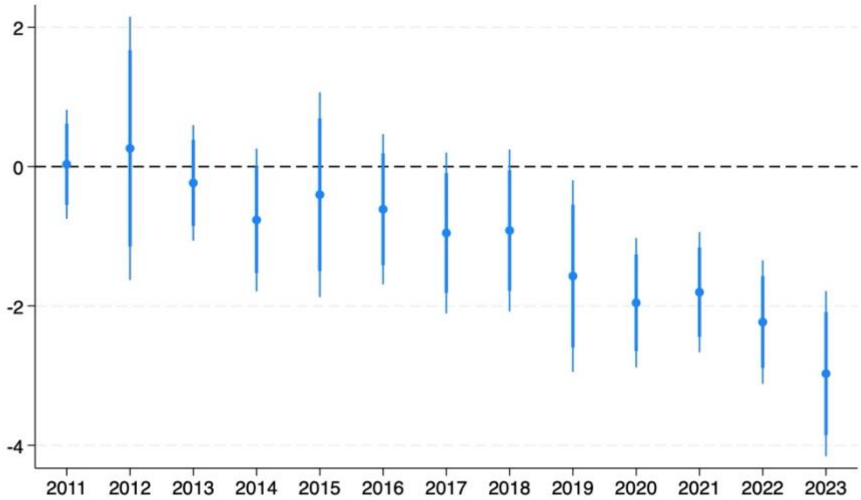
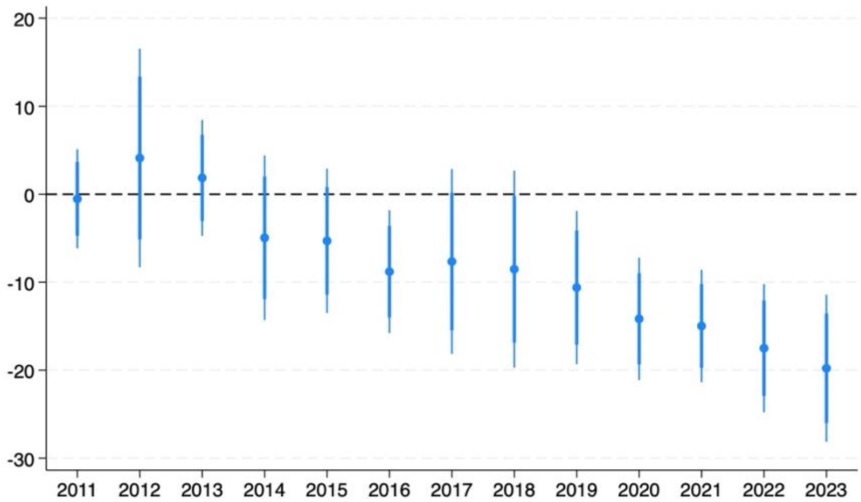


Figure 3. Coefficient plots

3A. Dependent variable: LSEG/Refinitiv ESGC score



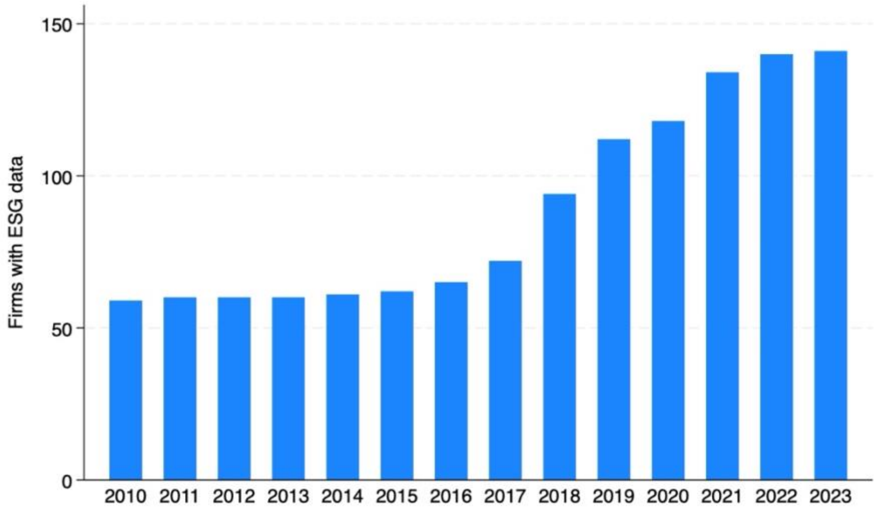
3B. Dependent variable: LSEG/Refinitiv ESG score



The figures depict coefficients on Vigilance Law (as treatment) × year relative to Vigilance Law × 2010 (the first year in the sample) with 95% (thick line) and 99% (thin line) confidence intervals. All regressions include firm, industry (by GICS industry names), year, and industry × year FE, log of total assets, and log of total number of employees (full time or full time equivalent) as controls. Standard errors are clustered at firm and industry level.

Figure 4. ESG data coverage

4A. Firms covered each year (LSEG/Refinitiv sample)



4B. Mean ESG scores by year of coverage (LSEG/Refinitiv sample)

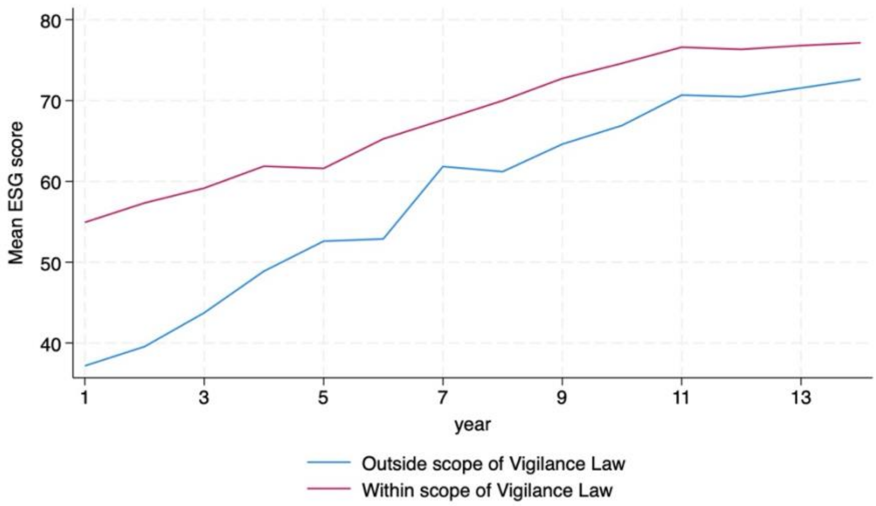


Table 1. ESG-related legislative interventions in Europe

Year	Legal initiative	Country
2013-14	First proposals for a French Duty of Vigilance Law introduced in the National Assembly	FR
2014	Adoption of the Non-Financial Reporting Directive	EU
2015	Fourth proposal for a French Duty of Vigilance Law introduced in the National Assembly	FR
2015	UK Modern Slavery Act 2015	UK
2015	Publication of the Swiss Responsible Business Initiative proposing a constitutional amendment to hold Swiss-based companies liable for human rights abuses committed abroad	CH
2017	Adoption of French Duty of Vigilance Law	FR
2019	Adoption of French Loi Pacte	FR
2019	Adoption of the Netherlands Child Labour Due Diligence Act	NL
2019	Publication of a Proposal for a German Supply Chain Due Diligence Act	DE
2020	Switzerland’s Responsible Business Initiative rejected in public referendum	CH
2021	Adoption of German Supply Chain Due Diligence Act	DE
2022	Publication of European Commission Proposal for a Corporate Sustainability Due Diligence Directive (CSDDD)	EU
2024	Adoption of the CSDDD	EU

Table 2. Selected LSEG/Refinitiv ESG Variable Definitions

Variable	Definition
ESG Score	ESG Score is an overall company score based on the self-reported information in the environmental, social and corporate governance pillars.
ESG Combined Score	ESG Combined Score is the mean of the ESG score and the ESG controversies score. This score is reported as letter grades.
Environmental pillar score	The environmental pillar measures a company’s impact on living and non-living natural systems, including the air, land and water, as well as complete ecosystems. It reflects how well a company uses best management practices to avoid environmental risks and capitalize on environmental opportunities to generate long term shareholder value.
Social pillar score	The social pillar measures a company’s capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices. It is a reflection of the company’s reputation and the health of its license to operate, which are key factors in determining its ability to generate long term shareholder value.
Governance pillar score	The governance pillar measures a company's systems and processes, which ensure that its board members and executives act in the best interests of its long-term shareholders. It reflects a company’s capacity, through its use of best management practices, to direct and control its rights and responsibilities through the creation of incentives, as well as checks and balances to generate long term shareholder value.
Human rights policy	The human rights policy score measures whether a company has an effective policy for the exclusion of child, forced or compulsory labour, and to guarantee the freedom of association universally applied independent of local laws.
Emissions reduction score	The emission reduction score measures a company’s commitment and effectiveness towards reducing environmental emissions in its production and operational processes.
CO2 emissions	Total CO2 and CO2 Scope Three equivalent emissions in tonnes. Scope Three includes emissions from contractor-owned vehicles, employee business travel, waste disposal, outsourced activities, emissions from product use by customers, emissions from the production of purchased materials, emissions from electricity purchased for resale, etc.
Workforce score	The workforce score measures a company’s effectiveness in terms of providing job satisfaction, a healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce.
ESG controversies score	The controversies score measures a company’s exposure to environmental, social and governance controversies and negative events reflected in global media.
Controversies count	Sum of controversies published in the media or lawsuits in the financial year linked to the following issues (aggregating separate controversy counts provided by LSEG): Diversity and inclusion, employee health and safety, human rights, child labor, public health, business ethics, operations in critical countries, deforestation, environment, wages and working conditions.

Source: LSEG, Environmental, social and governance scores, December 2023.

Table 3. Summary statistics

Financial variables	N	Mean	Standard Deviation	Min	Max
Within scope of Vigilance Law (indicator variable)	3780	0.26	-	0	1
Tobin's Q	3552	0.89	1.14	0.007	7.06
Return on assets	3673	-0.007	0.15	-0.737	0.217
LSEG/Refinitiv ESG variables					
ESG score	1238	60.51	19.2	2.41	95.73
ESG combined score	1238	7.39	2.16	1	11
Environmental pillar score	1238	65.28	23.78	0	98.75
Social pillar score	1238	65.07	21.77	2.42	97.65
Governance pillar score	1238	50.37	23.78	2.35	96.6
Human rights policy	1238	72.93	22.85	4.46	93.79
Emissions reduction score	1238	73.92	24.9	0	99.85
CO2 emissions	746	762.93	3021.23	0	40182.47
Workforce score	1238	82.92	18.02	1.01	99.82
ESG controversies score	1238	88.43	24.18	1.52	100
Controversies count	3780	0.03	0.24	0	5
S&P ESG variables					
ESG score	1316	51.58	19.52	5	91
Social dimension	1316	49.08	19.99	0	96
Environmental dimension	1316	55.83	23.2	4	98
Economic governance dimension	1316	50.99	19.14	5	92
Human rights	1018	33.13	25.42	0	100
Environmental reporting	1161	75.08	31.69	0	100
Operational eco-efficiency	1160	52.5	26.89	0	100
Workforce	1277	44.96	21.21	0	100

Table 4. Selected S&P Global ESG Score Dimensions and Criteria

S&P Global ESG Score		
Dimensions		
Environmental	Social	Governance & Economic
Criteria		
Biodiversity	Community Relations	Business Ethics
Climate Strategy	Contribution to Societal Healthcare	Corporate Governance
Decarbonization Strategy	Customer Relations	Information Security / Cybersecurity & System Availability
Energy	Financial Inclusion	Innovation Management
Environmental Policy & Management	Health & Nutrition	Market Opportunities
Packaging	Human Capital Management	Materiality
Product Stewardship	Human Rights	Policy Influence
Sustainable Forestry Practices	Labor Practices	Product Quality & Recall Management
Waste & Pollutants	Occupational Health & Safety	Risk & Crisis Management
Water	Privacy Protection	Supply Chain Management
	Transportation Policy	Sustainable Finance
		Tax Strategy
		Transparency & Reporting

Source: S&P Global, https://www.spglobal.com/sustainable1/en/solutions/esg-scores-data.

Table 5. Baseline regressions (LSEG/Refinitiv sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	ESG score	ESG score	ESG score	ESG combined score	ESG combined score	ESG combined score	Tobin's Q	Return on assets
Vigilance Law × Post 2017	-13.81 (2.71)*** [3.343]***	-16.35 (2.879)*** [3.37]***	-13.76 (3.47)*** [3.035]***	-2.064 (0.348)*** [0.42]***	-2.163 (0.356)*** [0.394]***	-1.790 (0.428)*** [0.308]***	-0.025 (0.08) [0.091]	-0.014 (0.025) [0.017]
Time trends 2011-2017	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log assets, log employees	No	Yes	Yes	No	Yes	Yes	Yes	Yes
Industry × year FE	No	No	Yes	No	No	Yes	Yes	Yes
N	1190	1100	826	1190	1100	826	2947	2983

The table reports results of differences-in-differences regressions with the post-treatment period defined as starting one year after the adoption of the French Duty of Vigilance Law (2018). All regressions include the treatment indicator ("Within scope of Vigilance Law"), with the results here being omitted. Robust standard errors are in parentheses and clustered standard errors by firm and industry, based on GICS industry definitions, are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Table 6. ESG pillar and category regressions (LSEG/Refinitiv sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	Social pillar score	Environmental pillar score	Governance pillar score	Human rights policy	Emissions score	CO2 emissions	Workforce score	ESG controversies score
Vigilance Law × Post 2017	-23.67 (6.043)*** [4.222]***	-16.77 (6.588)** [2.127]***	2.231 (7.536) [6.024]	-37.76 (19.25)* [16.10]**	-9.622 (10.70) [10.64]	-444.0 (276.3) [335.3]	-11.77 (7.340) [6.240]*	-9.429 (8.829) [3.867]**
Full set of controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	826	826	826	826	826	425	826	826

All regressions include the treatment indicator ("Within scope of Vigilance Law"), with the results here being omitted, and a full set of controls (time trends, firm, year, and industry × year FE, log assets, and log employees). Robust standard errors are in parentheses and clustered standard errors by firm and industry, based on GICS industry definitions, are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Table 7. S&P sample

Dependent variable	(1) ESG score	(2) Social Dimension	(3) Environmental Dimension	(4) Economic Governance Dimension	(5) Human rights	(6) Environmental reporting	(7) Operational eco-efficiency	(8) Workforce score
Vigilance Law × Post 2017	-3.545 (1.966)* [1.248]***	-4.55 (2.276)** [1.158]***	-3.515 (3.052) [2.871]	-3.03 (2.291) [2.162]	5.134 (3.24) [1.089]***	-14.01 (5.107)*** [2.982]***	-3.312 (6.832) [6.085]	2.23 (4.405) [4.457]
Full set of controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	572	572	572	572	453	515	514	569

The table reports results of differences-in-differences regressions similar to Tables 5 and 6. We have selected S&P Global ESG scores as dependent variables that are close equivalents to the LSEG/Refinitiv ESG variables used in the tables above. An exact equivalent to LSEG/Refinitiv's Workforce score does not exist, and we calculate this as the mean of three S&P ESG variables from the Social Dimension: Occupational Health & Safety, Talent Attraction & Retention, and Living Wage.

As before, the post-treatment period is defined as starting one year after the adoption of the French Duty of Vigilance Law (2018). All regressions include the treatment indicator ("Within scope of Vigilance Law"), with the results here being omitted. A full set of controls means that the regressions use time trends, firm, year, and industry × year FE, log assets, and log employees as controls. Robust standard errors are in parentheses and clustered standard errors by firm and industry, based on GICS industry definitions, are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Table 8. Controversies (LSEG/Refinitiv sample)

	(1)	(2)	(3)	(4)
Dependent variable	ESG score	ESG combined score	Social pillar score	Human rights policy
Vigilance Law × Post 2017	-13.34 (3.299)*** [3.133]***	-1.414 (0.344)*** [0.381]***	-23.27 (6.007)*** [4.251]***	-37.77 (19.331)* [16.077]**
Controversies count	1.138 (1.253) [1.610]	0.152 (0.134) [0.139]	1.624 (2.280) [2.845]	0.248 (2.573) [1.97]
ESG controversies score	0.0433 (0.016)*** [0.0162]**	0.0399 (0.0021)*** [0.0026]***	0.0422 (0.0225)* [0.0177]**	-0.0006 (0.0326) [0.027]
Full set of controls	Yes	Yes	Yes	Yes
N	826	826	826	826

All regressions include the treatment indicator (“Within scope of Vigilance Law”), with the results here being omitted, and a full set of controls (time trends, firm, year, and industry × year FE, log assets, and log employees). Robust standard errors are in parentheses and clustered standard errors by firm and industry, based on GICS industry definitions, are in brackets. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Table 9. Robustness: Reduced sample (LSEG/Refinitiv)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable	ESG score	ESG score	ESG combined score	ESG combined score	Social pillar score	Social pillar score	Environmental pillar score	Environmental pillar score
Vigilance Law × Post 2017	-13.69 (2.665)*** [3.453]***	-14.04 (3.514)*** [3.064]***	-2.064 (0.343)*** [0.433]***	-1.829 (0.443)*** [0.318]***	-16.88 (3.246)*** [4.165]***	-24.03 (6.261)*** [3.797]***	-23.35 (4.354)*** [5.163]***	-17.82 (6.806)*** [2.201]***
Full set of controls	No	Yes	No	Yes	No	Yes	No	Yes
N	826	492	826	492	826	492	826	492

	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Dependent variable	Governance pillar score	Governance pillar score	Human rights policy	Human rights policy	Emissions score	Emissions score	Workforce score	Workforce score
Vigilance Law × Post 2017	-1.919 (5.494) [5.816]	2.597 (8.593) [7.290]	-31.19 (7.654)*** [9.055]***	-40.56 (20.09)** [15.67]**	-18.91 (6.497)*** [8.077]**	-10.24 (11.29) [10.80]	-4.704 (5.247) [6.125]	-11.81 (7.506) [7.220]
Full set of controls	No	Yes	No	Yes	No	Yes	No	Yes
N	812	492	812	492	812	492	812	492

The table reports results of differences-in-differences regressions for a sub-sample of firms with full ESG data over the whole sample period, 2010-2023. All regressions include the treatment indicator ("Within scope of Vigilance Law"), with the results here being omitted. Regressions with a full set of controls include time trends, firm, year, and industry × year FE, log assets, and log employees. Regressions without a full set of controls include time trends, firm, and year FE, but not industry × year FE, log assets, and log employees, for which we do not have data for all firms. Robust standard errors are in parentheses and clustered standard errors are in brackets. The latter are clustered by firm in uneven regressions and by firm and industry, based on GICS industry definitions, in even regressions. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

Appendix

Table A1. French Duty of Vigilance Law

Code de Commerce, Art. L.225-102-4

I. Any company that, at the close of two consecutive financial years, employs at least five thousand employees within itself and its direct or indirect subsidiaries, whose registered office is located in French territory, or at least ten thousand employees within itself and its direct or indirect subsidiaries, whose registered office is located in France or abroad, must establish and effectively implement a vigilance plan.

Subsidiaries or controlled companies that exceed the thresholds mentioned in the first paragraph are deemed to fulfill the obligations set out in this article, as long as the company that controls them … establishes and implements a vigilance plan related to the activities of the company and all the subsidiaries or companies it controls.

The plan includes reasonable vigilance measures aimed at identifying risks and preventing serious harm to human rights and fundamental freedoms, the health and safety of individuals, as well as the environment, resulting from the activities of the company and those of the companies it controls, … directly or indirectly, as well as from the activities of subcontractors or suppliers with whom an established business relationship is maintained, when these activities are connected to that relationship.

…

The plan is intended to be developed in collaboration with the company's stakeholders, where appropriate, as part of multi-stakeholder initiatives within sectors or on a territorial scale. It includes the following measures:

1. A risk map aimed at identifying, analyzing, and prioritizing risks;
2. Regular evaluation procedures regarding the situation of subsidiaries, subcontractors, or suppliers with whom an established business relationship is maintained, in light of the risk map;
3. Appropriate actions to mitigate risks or prevent serious harm;
4. A mechanism for alerting and collecting reports concerning the existence or occurrence of risks, established in consultation with the company's representative trade union organizations;
5. A system for monitoring the implementation of the measures and evaluating their effectiveness.

The vigilance plan and the report on its effective implementation are made public and included in the management report mentioned in the second paragraph of Article L.225-100.

…

II. If a company, after being formally notified to comply with the obligations set out in Section I, fails to do so within three months of the notification, the competent court may, at the request of any person with a justified interest in acting, order the company to comply, possibly under penalty. …

Code de Commerce, Art. L.225-102-5

In accordance with the conditions set out in Articles 1240 and 1241 of the Civil Code, failure to comply with the obligations defined in Article L.225-102-4 of this Code engages the liability of its author and obliges them to compensate for the harm that compliance with these obligations would have prevented.

The liability action is brought before the competent court by any person justifying an interest in taking action for this purpose.

The court may order the publication, dissemination, or posting of its decision or an excerpt thereof, under the terms it specifies. The costs are borne by the convicted party.

The court may order the enforcement of its decision under penalty.

Table A2. Stacked diff-in-diff regressions (LSEG/Refinitiv sample)

	(1)	(2)
Dependent variable	ESGC score	ESG score
Vigilance Law × 2011	0.0326 (0.287)	-0.520 (2.067)
Vigilance Law × 2012	0.261 (0.694)	4.116 (4.560)
Vigilance Law × 2013	-0.235 (0.304)	1.858 (2.420)
Vigilance Law × 2014	-0.766** (0.376)	-4.951 (3.434)
Vigilance Law × 2015	-0.403 (0.539)	-5.302* (3.012)
Vigilance Law × 2016	-0.613 (0.396)	-8.803*** (2.563)
Vigilance Law × 2017	-0.953** (0.424)	-7.643* (3.857)
Vigilance Law × 2018	-0.918** (0.427)	-8.517** (4.112)
Vigilance Law × 2019	-1.571*** (0.505)	-10.61*** (3.200)
Vigilance Law × 2020	-1.955*** (0.341)	-14.16*** (2.555)
Vigilance Law × 2021	-1.802*** (0.316)	-14.97*** (2.345)
Vigilance Law × 2022	-2.231*** (0.325)	-17.50*** (2.674)
Vigilance Law × 2023	-2.971*** (0.435)	-19.78*** (3.067)
Size controls (log assets, log employees)	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Industry × year FE	Yes	Yes
N	869	869

The table reports estimates of coefficients on the interaction between treated firms (those falling within the scope of the Vigilance Law) and sample period years, relative to Vigilance Law × 2010, the first year in the sample. Clustered standard errors by firm and industry × year are in parentheses. Asterisks indicate significance at 0.01 (***), 0.05 (**), and 0.10 (*) levels.

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