

Some Reflections on How to Achieve Sustainability

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Concerns about the EY Study

- I share similar concerns about the EY study as those voiced by other members of the ECGI
 - While the definition of short-termism is not clear, it is also conflated with sustainability
 - The report is light on academic evidence
 - It also ignores the latest such evidence
 - The conclusion about increasing short-termism in the EU is flawed
 - ...

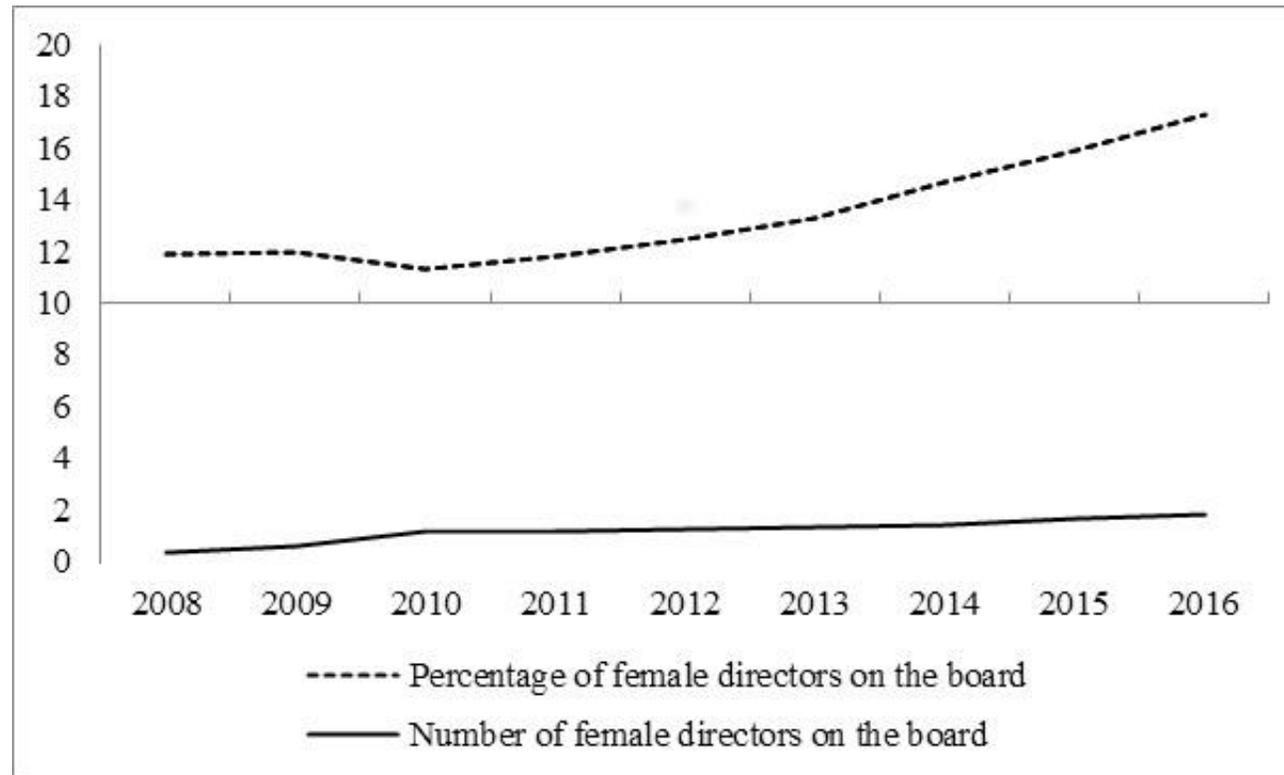
Concerns about the EY Study

- The EY report mentions lack of board gender balance as a driver of short-termism (“Driver 5”) but then seems to omit this in its proposed policy options (A, B and C)
 - Option A: “promote the consideration of sustainability-related expertise in the board nomination process” (incl. creation of a *Chief Value Officer*)
 - Option B: “ensure that sustainability-related expertise is systematically considered in the board nomination process”
 - Option C: “new EU directive laying down rules on board composition ... to consider sustainability criteria in the board nomination process”

Why Is Board Gender Diversity Important?

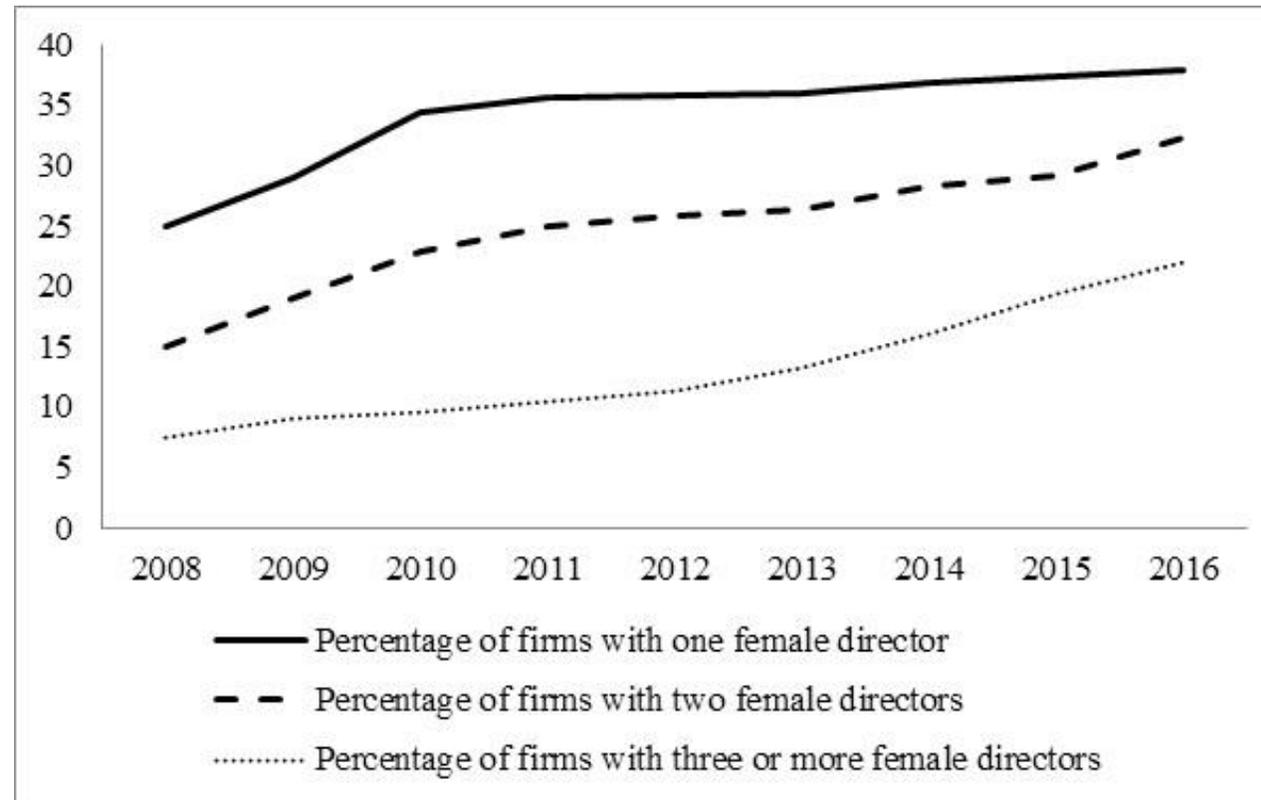
- A recent study I published suggests that board gender balance fosters sustainability (Atif *et al.* 2020)
- I believe that pursuing an existing target is quicker than changing board duties, etc.
- Although this is a study on the USA (S&P 1500 firms), there are parallels with the EU

Percentage of Females on the Board



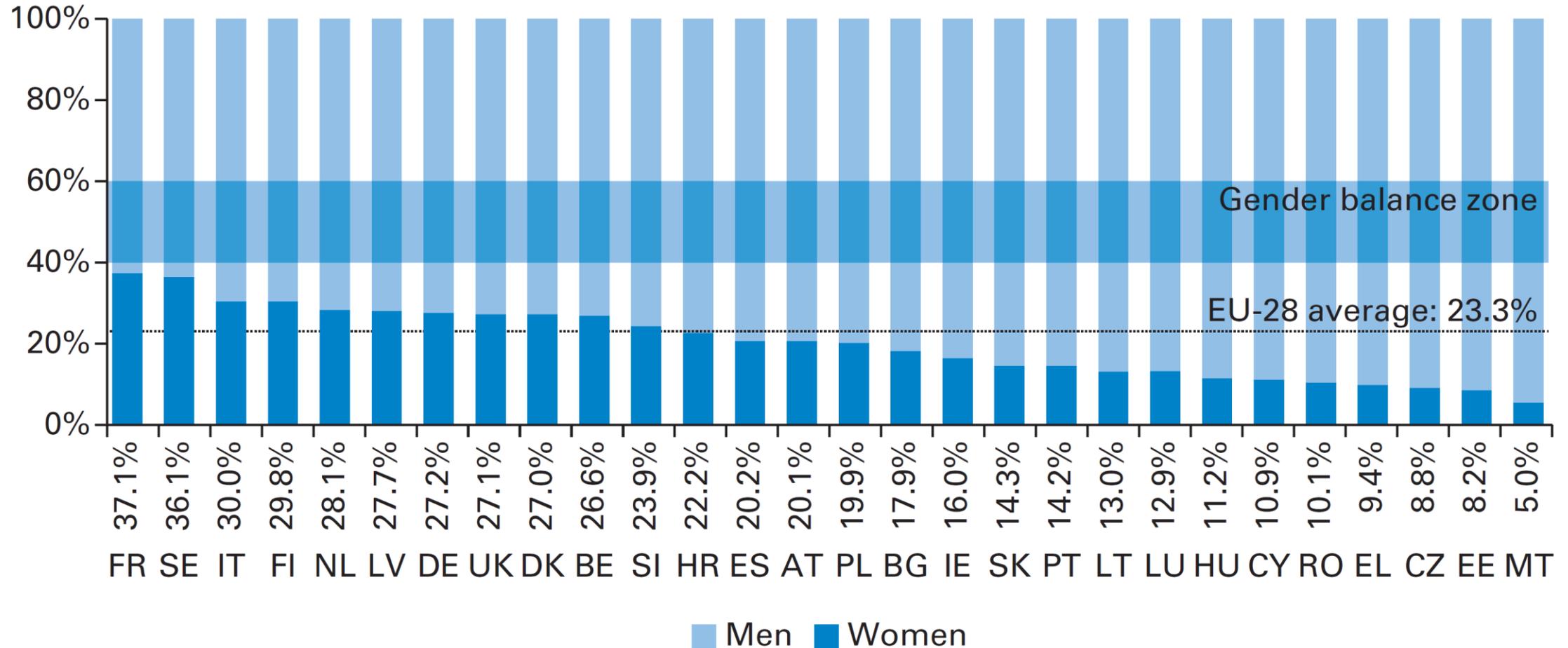
Source: Atif *et al.* (2020)

Percentage of Firms with Critical Mass of Female Directors



Source: Atif *et al.* (2020)

Board Gender Diversity in the EU

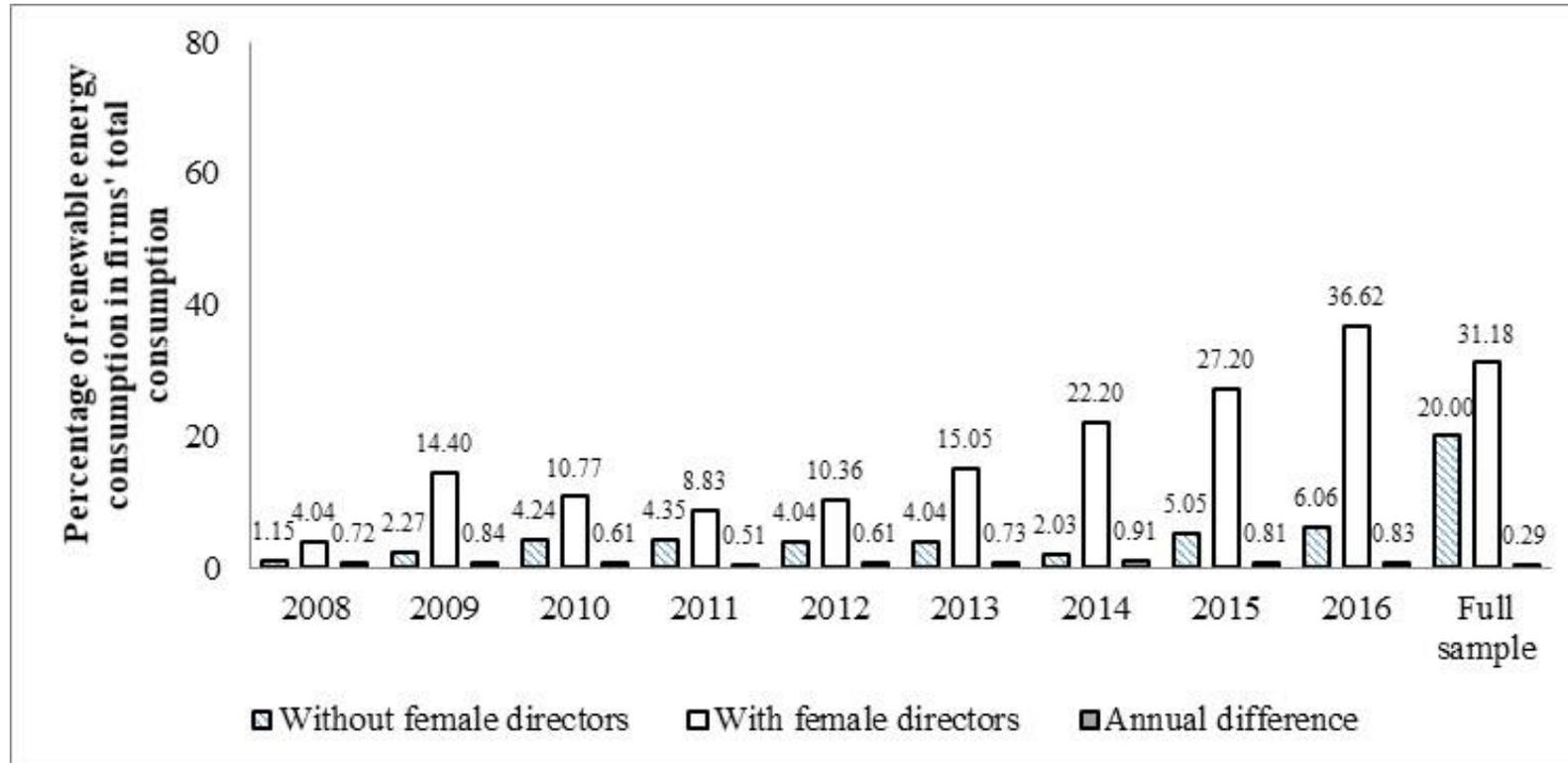


Source: European Commission (2016), Goergen (2018)

Renewable Energy Consumption

- Renewable energy
 - United Nations (UN) definition
 - Annual aggregated energy from
 - Wind
 - Solar
 - Biomass
 - Small-scale hydro
 - Waste sources
- Total energy consumption
 - All sources of energy including fossil fuel energy

Renewable Energy Consumption



Source: Atif *et al.* (2020)

Why Would Women Be More Inclined to Use Renewable Energy?

- Gender socialization and ethicality theories suggest two reasons
 1. Women define morality and ethics in terms of responsibilities whereas for men they are about rights
 - For women such responsibilities include a duty to alleviate the “‘real and recognizable trouble’ of this world” (Gilligan 1977, p.511)
 2. The helping behaviour of women differs from that of men
 - Men’s helping behaviour tends to focus on heroic and more short-term actions
 - Women’s helping behaviour is typically of a caring and nurturing nature and for the long term (Eagly & Crowley 1986)

Board Gender Diversity and CSR

- Female directors are more concerned about ethical practices and socially responsible behaviour (e.g., Johnson & Greening 1999)
- They tend to reduce negative business practices, i.e. business practices that the CSR rating agency KLD considers to be areas of concern (Boulouta 2013)
- They are also more inclined to take actions to reduce perceived risks (Schubert *et al.* 1999; Carter *et al.* 2003; Adams & Ferreira 2009)
- They increase CSR ratings, thereby improving the firm's reputation (Bear *et al.* 2010; McGuinness *et al.* 2017)
- Firms with female directors are also more likely to make voluntary disclosures about CSR, which in turn are more valued by the market than voluntary disclosures by firms without female directors (Nekhili *et al.* 2017)

Do Female Directors Care More About Environmental Impact?

- A highly relevant question
 - Pearl-Martinez and Stephens (2016) argue that increased gender diversity in the workforce is a necessary condition for transition towards a more sustainable society
- Evidence suggests the answer to this question is affirmative
 - Firms with female directors have better environmental CSR ratings (Post *et al.* 2011; Hafsi & Turgut 2013; Larrieta-Rubín de Celis *et al.* 2015; Al-Shaer & Zaman 2016)
- Firms with female directors are less likely to be subject to environmental lawsuits (Liu 2018)

What Do We Find?

- The percentage of female directors increases renewable energy consumption
- There need to be at least two female directors for this effect to be observed
- The interaction of board gender diversity and renewable energy consumption increases firm value

Causality or Correlation?

- Instrumental variable (IV) approach to extract the exogenous component from board gender diversity
 - Female-to-male workforce participation ratio
- Propensity score matching
 - Matching firms with a critical mass of female directors with those without
- Difference-in-differences (DID) analysis
 - Firms appointing a female director to replace male director of 60 years or more

Conclusion

- Why look for new solutions to old problems, if the old solutions work?
 - The important take-away is the need for a critical mass of female directors
 - There is more to be done in some EU member states than others
- Changing directors' duties will take time

References

- Atif, M., Hossain. M., Alam, M.S. and M. Goergen, ‘Does Gender Diversity Affect Renewable Energy Consumption?’, forthcoming in *Journal of Corporate Finance*, 25th anniversary special issue, <https://doi.org/10.1016/j.jcorpfin.2020.101665>
- European Commission (2016), *Gender Balance on Corporate Boards. Europe is Cracking the Glass Ceiling*, European Commission, Directorate-General for Justice and Consumers, https://ec.europa.eu/newsroom/document.cfm?doc_id=46280
- Goergen, M. (2018), *Corporate Governance. A Global Perspective*, Andover: Cengage Learning EMEA, <https://www.cengage.co.uk/books/9781473759176/>