Discussion of "Renewable Governance: Good for the Environment? " (by Dyck, Lins, Roth, Towner, and Wagner)

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Summary

- Key question: Does corporate governance ("G") affect environmental performance ("E")?

- Use cross-country data on E and G from ASSET4 database.

- Main specification: $E_{it} = a + b \times G_{it-1} + controls + FE + e_{it}$

Summary

- Main findings:
  - Renewable boards (through majority voting) positively associated with E.
  - Renewable boards (through the appointment of female directors) positively associated with E.
  - Traditional governance (e.g., board independence) positively associated with E.

- Identification:
  - Exploit country-level regulations/shocks that drive firms to 'adopt majority voting' or to 'add a female director.'
  - Staggered DID.
  - Results are robust.

- Results consistent with the idea that higher shareholder power is "good for the environment."

This discussion

- There is a lot to like about this paper:
  - Big picture question
  - Considers several dimensions of governance
  - Well written and thought-provoking

- This discussion:
  - Comment #1: Interpretation – renewable governance
  - Comment #2: Interpretation – traditional governance
  - Comment #3: Empirics
  - Comment #4: Measurement
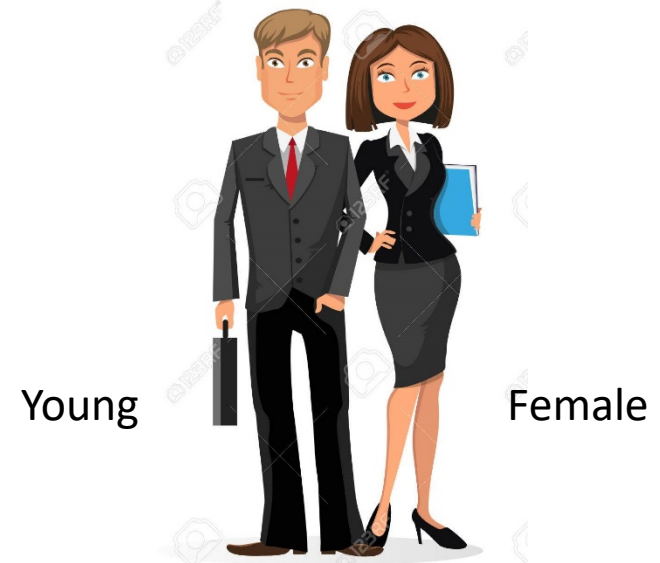
Comment #1: Interpretation – Renewable governance

- Is it "renewable governance" per se or **director characteristics**?

- Alternative interpretation

Comment #1: Interpretation – Renewable governance

Pre-renewal

Post-renewal

Young

Female

Comment #1: Interpretation – Renewable governance

- In the above story, renewable boards **accelerate** the transition towards younger and female directors who are more environmentally-friendly.

- As this transition is complete, renewable boards may no longer matter for E.

- **Suggestion #1**: Add discussion of the distinction between renewable governance per se and director characteristics.

Comment #2: Interpretation – Traditional governance

- Traditional governance:
  - Board Independence
  - Board Size
  - CEO-Chairman Separation
  - Board Structure
  - Audit Committee Independence
  - Stock Classes

- Leaving identification aside, difficult to think about how these dimensions affect environmental performance.

- Authors' narrative is about **short-termism** of managers.

Comment #2: Interpretation – Traditional governance

- Might be more natural to look at short-term vs. long-term (traditional) governance mechanisms.
  - E.g., Flammer and Bansal (2018): long-term executive compensation matters for environmental performance; short-term does not.

- **Suggestion #2**: Might help to take into account the temporal dimension of the various governance mechanisms.

Comment #3: Empirics

- Good news: fundamentals of the paper are good
  - country-level shocks that are plausibly exogenous
  - natural treatment and control groups

- **But…**

- …standard DID tests are missing!
  - Tests for pre-trends?
  - Graphs?
  - Dynamics?
  - Covariate balance?
  - …

- **Suggestion #3**: Run the full battery of DID tests. (Use online appendix if needed.)

Panel B: Quasi-exogenous Shocks to Female Board Representation

	Single Country Experience		Broad Sample Excl. the UK		Broad Sample	
	ASSET4 E z-Scores	Equally-weighted E Scores	ASSET4 E z-Scores	Equally-weighted E Scores	ASSET4 E z-Scores	Equally-weighted E Scores
	(1)	(2)	(5)	(6)	(3)	(4)
Post Female Board Representation × Treated	0.082*	0.049**	0.085*	0.055*	0.080***	0.050**
	(1.89)	(2.32)	(2.27)	(2.09)	(3.77)	(3.21)
Log (Total Assets)	0.011	0.010	0.041	0.022	0.024	0.016
	(0.16)	(0.25)	(0.96)	(0.73)	(0.85)	(0.82)
Cash	-0.078	-0.027	-0.063	-0.006	-0.096**	-0.027
	(-0.69)	(-0.35)	(-1.11)	(-0.14)	(-2.80)	(-0.99)
Tangibility	0.279	0.217	-0.131	-0.017	-0.075	0.016
	(0.74)	(1.14)	(-1.52)	(-0.29)	(-1.11)	(0.37)
Leverage	0.050	-0.044	0.022	-0.016	0.018	-0.035
	(0.27)	(-0.40)	(0.17)	(-0.14)	(0.23)	(-0.51)
Profitability	0.112	0.036	-0.020	-0.015	0.005	-0.006
	(0.55)	(0.32)	(-0.24)	(-0.22)	(0.07)	(-0.11)
Institutional Ownership	0.211	0.106	0.048	0.143***	0.058	0.107***
	(1.13)	(0.78)	(0.31)	(4.10)	(0.56)	(4.31)
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Obs	936	936	1,374	1,374	2,310	2,310
Adjusted R^2	0.879	0.935	0.919	0.952	0.910	0.949
Countries in Sample	UK		Australia, Austria, Germany, Greece, Italy, Malaysia, Portugal, Switzerland		Australia, Austria, Germany, Greece, Italy, Malaysia, Portugal, Switzerland, UK	

Add "Female Board Representation" as standalone

Add "Treated" as standalone

Comment #3: Empirics

- **Suggestion #4**: Add standalone terms for interactions.

Comment #4: Measurement

- Measuring E is difficult. Ratings are gameable.

- Might help to have a "more objective" measures.
  - CO_2 emissions
  - Volume of toxic releases

- **Suggestion #5:**
  - Add robustness for the measurement of E.

Conclusion

- This is a nice paper, well worth reading.