

# Board Gender Diversity, ESG and Corporate Performance

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NOVENA SUTIONO

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JUNE 24, 2020

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# Firms are not just responsible to their shareholders; they have an impact on society too.

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Invest in sustainability in order to reconcile multiple stakeholder interests:

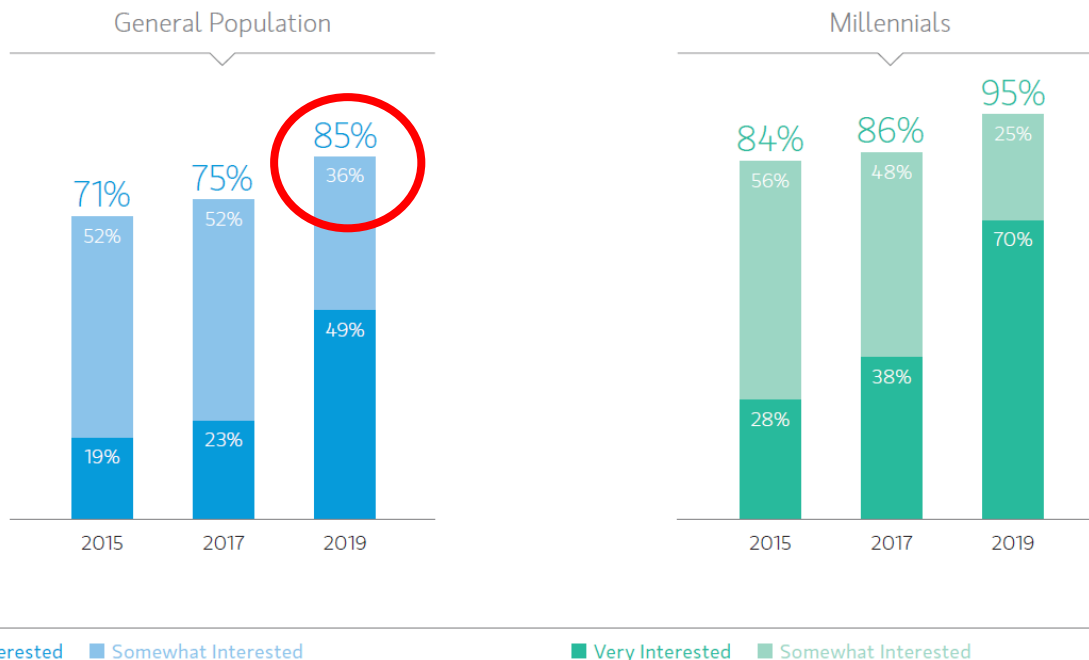
- ❖ Gain competitive advantage through engaging with stakeholders
- ❖ Improve risk management
- ❖ Fosters innovation
- ❖ Gain increasing loyalty from customers
- ❖ Better attract and engage employees

Investors are looking to make a positive impact in the world too through sustainable investing, “the practice of investing in companies or funds that aim to achieve market rate financial returns while pursuing positive social and/or environmental impact” (Morgan Stanley, 2019).

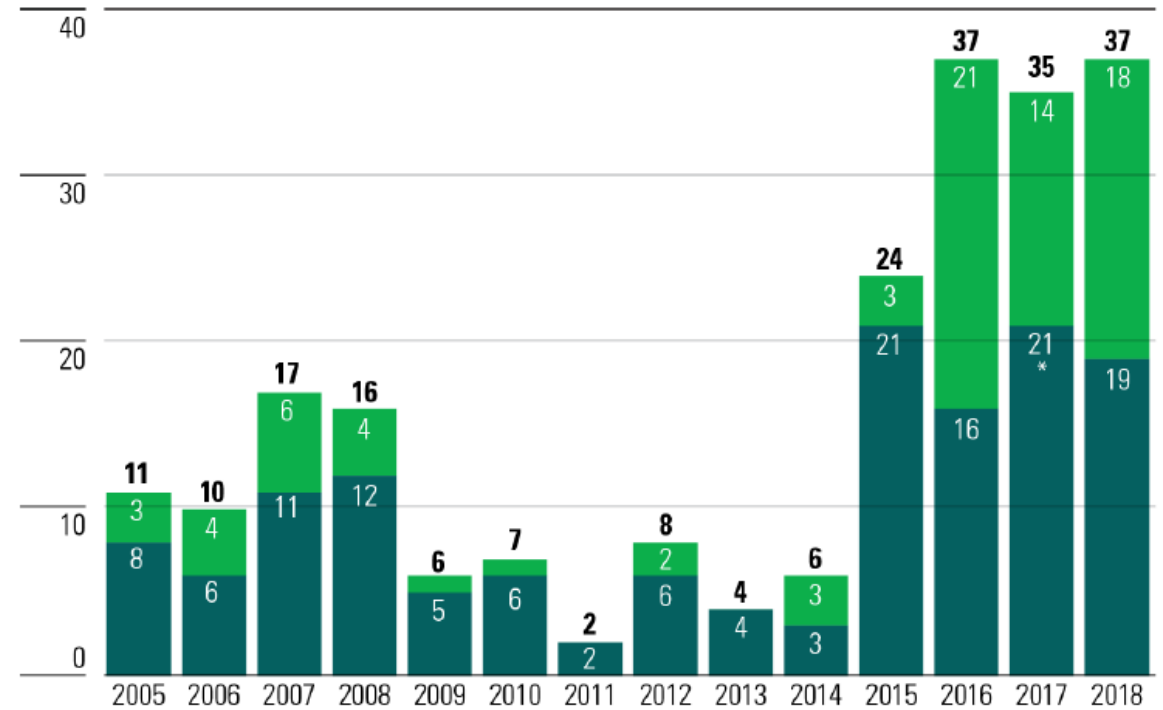
### Interest in Sustainable Investing Jumps in 2019

FIGURE 1

How interested are you in sustainable investing (also known as impact investing) which is the practice of making investments in companies or funds which aim to achieve market-rate financial returns while pursuing positive social and/or environmental impact?



### Exhibit 1 Sustainable Fund Launches: A Multiyear Growth Trend



Source: Morningstar Direct. Data as of 12/31/2018.

Corporate sustainability performance considers “the extent to which a firm embraces economic, environmental, social and governance factors into its operations, and ultimately the impact they exert on the firm and society” (Artiach et al., 2010).

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**E**

as in environment



- CO<sub>2</sub> emissions and climate change
- Population growth
- Biodiversity
- Food security

**S**

as in social



- Human rights
- Labor conditions and standards
- Child labor
- Equality

**G**

as in governance



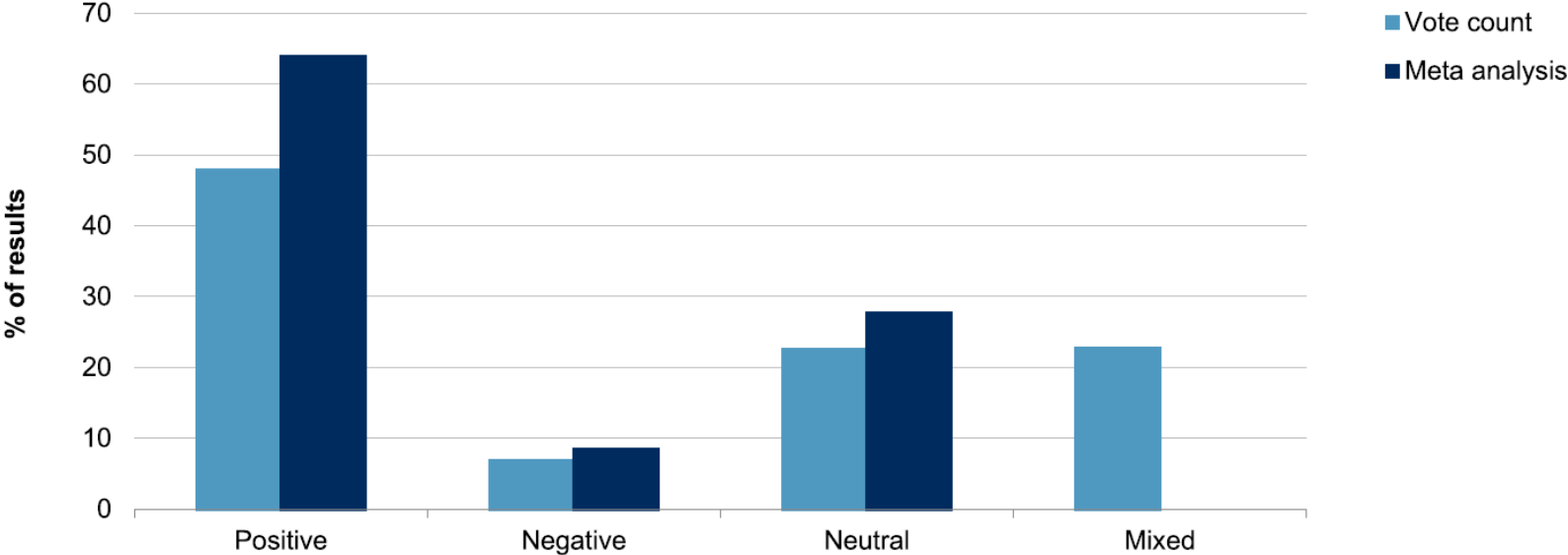
- Quality and diversity of board of directors
- Corruption
- Executive compensation
- Shareholder rights

Source: Credit Suisse (n.d.). ESG investing. Retrieved June 24, 2020, from <https://www.credit-suisse.com/be/en/asset-management/esg-investing.html>

# Research has found strong evidence of a non-negative relationship between ESG and firm performance.

## ESG And Corporate Financial Performance Study Findings

Aggregate evidence from more than 2,000 empirical studies



Source: Friede, Busch, Bassen, ESG, and financial performance: aggregate evidence from more than 2,000 empirical studies, Dec. 15, 2015.

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How does diversity  
affect ESG and firm  
performance?

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# Firms benefit from heterogeneity in experiences, skills and knowledge.

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- ❖ Improve understanding of marketplace
- ❖ Encourage creativity and innovation
- ❖ Produce higher quality problem-solving



Firms become better equipped to address the interest of multiple stakeholders through ESG initiatives

How about diversity within the board of directors?



# Firms benefit from heterogeneity in experiences, skills and knowledge.

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- ❖ Traditionally homogenous
  - ❖ Likely to come to quick agreements, resulting in increased risk potential
- ❖ Diversity better represents all stakeholders



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How about diversity within the board of directors?





# Diversity within the board of directors improves decision-making and governance.

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How about diversity within the board of directors?



# Diversity within the board of directors improves decision-making and governance.

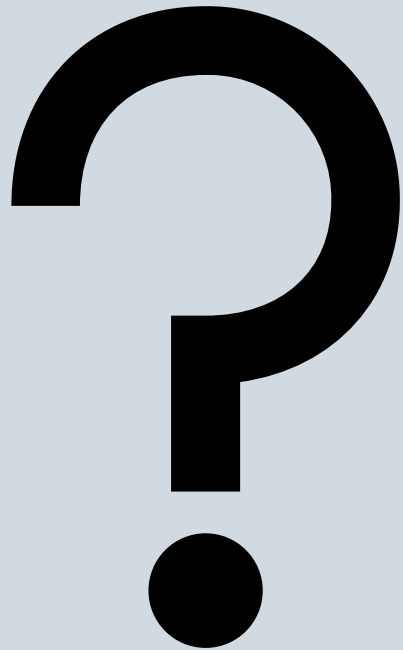
- ❖ Women encourage more participation in strategic decision-making and tougher CEO monitoring
- ❖ They bring different knowledge, experience and skills to the boardroom



Firms become better equipped to address the interest of multiple stakeholders through ESG initiatives

What about board gender diversity specifically?



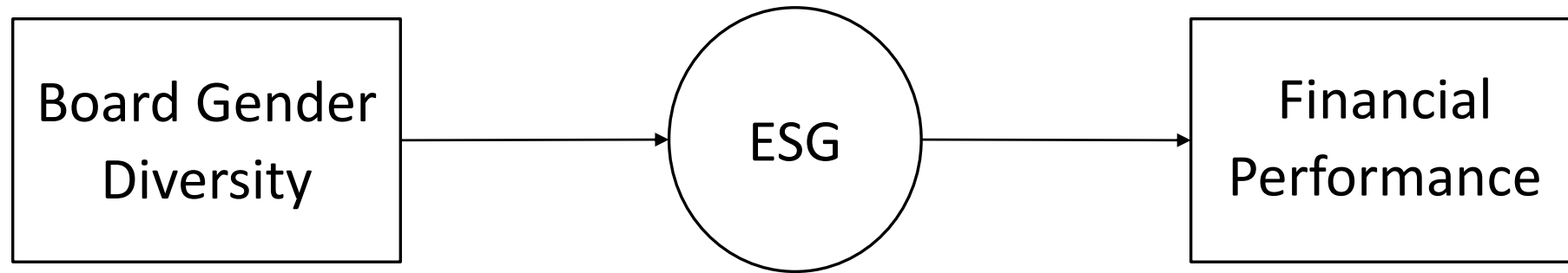


How does board  
gender diversity  
affect ESG?

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# Conceptual Model & Hypothesis

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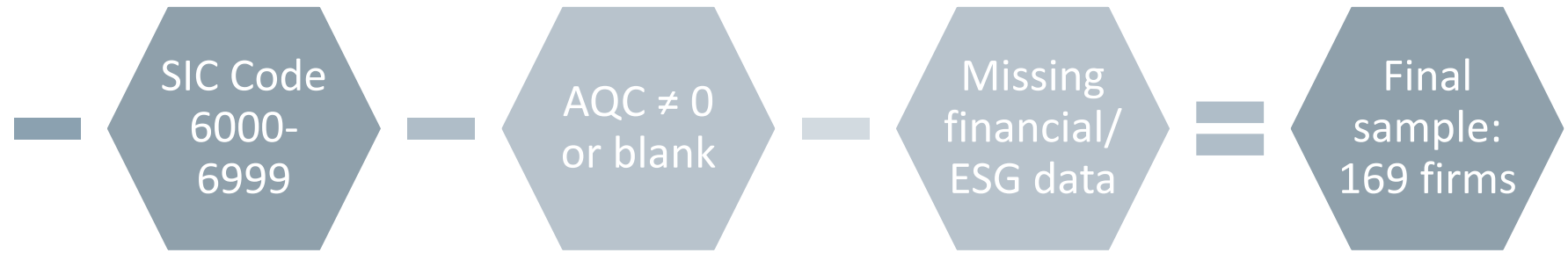


H1: Board gender diversity is positively associated with ESG performance.

H2: Financial performance of the firm is positively associated with ESG performance.

H3: The association between financial performance and ESG performance is moderated by the effect of board gender diversity.

# Sample Selection & Data Sources



Variable	Data Sources
ESG	TruValue Labs
Financial Data	Compustat
Board Data	Bloomberg & Proxy Statements

# TruValue Labs provides an “outside-in” perspective of a firm’s ESG performance.

## HOW WE DO IT TRUVALUE LABS

### Aggregate

Product Design & Lifecycle Management  
Business Model Resilience  
Supply Chain Management  
Materials Sourcing & Efficiency  
Physical Impacts of Climate Change

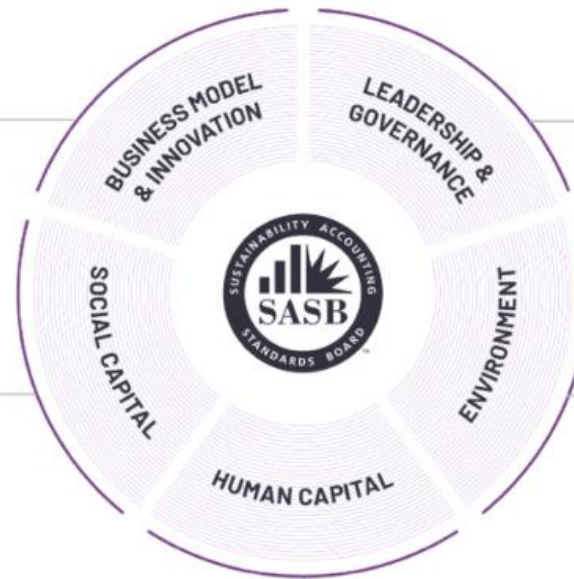
### Extract

Human Rights & Community Relations  
Customer Privacy  
Data Security  
Access & Affordability  
Product Quality & Safety  
Customer Welfare  
Selling Practices & Product Labeling

### Analyze

### Generate

### UNIVERSE OF 26 SUSTAINABILITY ISSUES ACROSS 5 AREAS

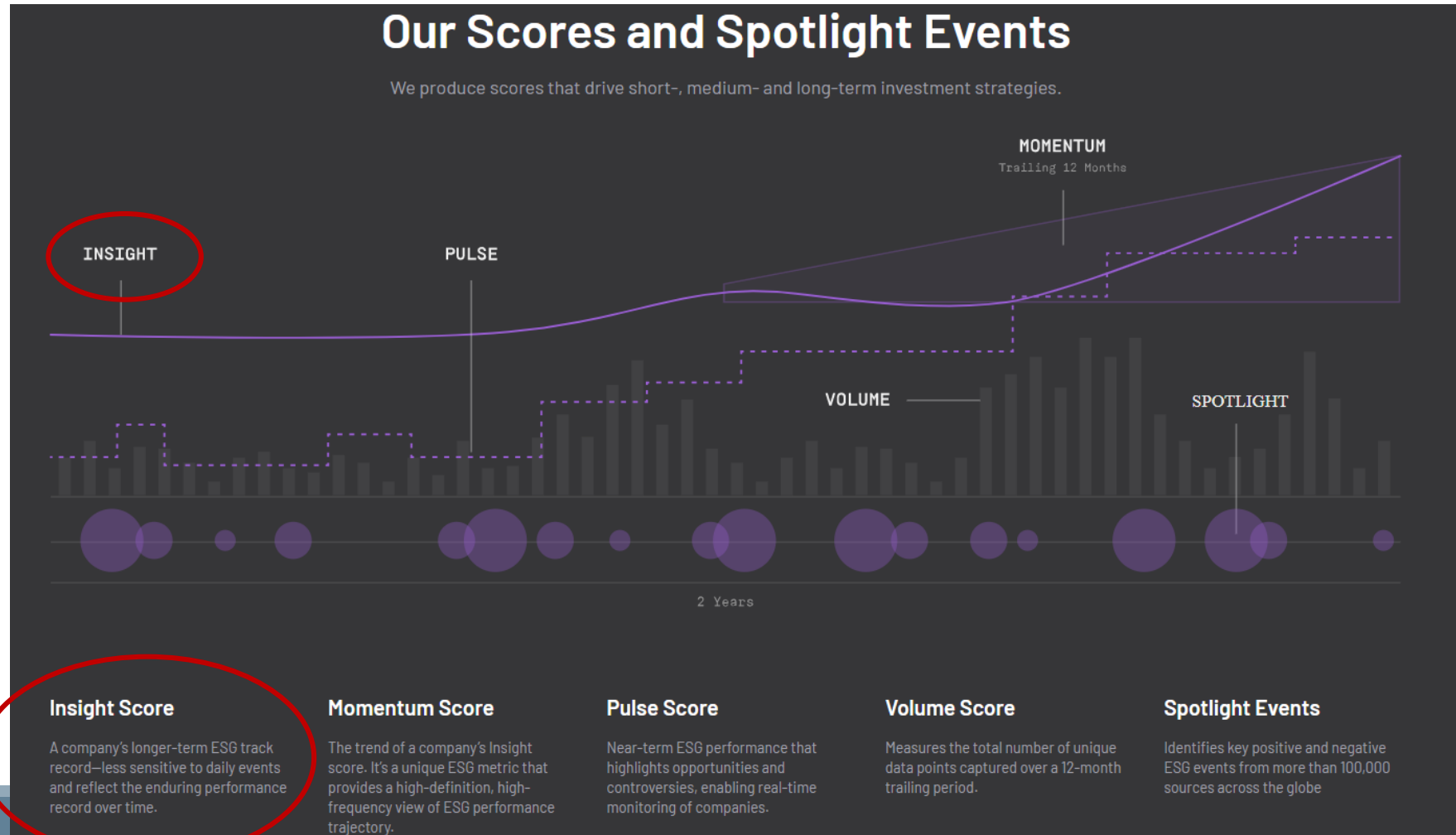


Business Ethics  
Competitive Behavior  
Management of the Legal & Regulatory Environment  
Critical Incident Risk Management  
Accident and Safety Management

GHG Emissions  
Air Quality  
Energy Management  
Water & Wastewater Management  
Waste & Hazardous Materials Management  
Ecological Impacts

Employee Engagement, Diversity & Inclusion  
Employee Health & Safety  
Labor Practices

# TruValue's Insight Score reflect the long-term ESG performance of a firm.



# Regression Models

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$$\text{H1: } ESG_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 B\_IND_{t-1} + \beta_6 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (1)$$

$$\text{H2: } TOBINQ_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (2)$$

$$ROA_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (3)$$

$$\text{H3: } TOBINQ_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t \quad (4)$$

$$ROA_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t \quad (5)$$



$$ESG_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 B\_IND_{t-1} + \beta_6 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (1)$$

Variable	Coefficient (1)	Coefficient (1)
Intercept	66.6574***	66.6606***
SIZE	-3.8132**	-3.8138**
LEVERAGE	11.3737*	11.3698*
GROWTH	-1.7040	-1.7045
LOSS	-9.8608***	-9.8590***
B_IND	4.2491	4.2427
B_DIV	-	0.0561
Industry dummies	Included	Included
# of Observations	169	169
Adjusted R-square (%)	23.84%	23.21%

$$TOBINQ_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (2)$$

$$TOBINQ_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t \quad (4)$$

Variable	Coefficient (2)	Coefficient (4)
Intercept	3.1553***	4.7349***
SIZE	0.0636	0.0720
LEVERAGE	-2.4588***	-2.4966***
GROWTH	2.1884***	2.1842***
LOSS	-0.0250	-0.0324
B_IND	-0.8224*	-2.7296*
B_DIV	0.5670	0.1638
ESG	0.0018	-0.0255
ESG_BDIV	-	0.0058
ESG_BIND	-	0.0335
Industry dummies	Included	Included
# of Observations	169	169
Adjusted R-square (%)	67.72%	67.50%

$$ROA_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \text{Industry dummies included} + \varepsilon_t \quad (3)$$

$$ROA_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_IND_{t-1} + \beta_7 B\_DIV_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t \quad (5)$$

Variable	Coefficient (3)	Coefficient (5)
Intercept	0.0618	0.0366
SIZE	0.0195**	0.0196**
LEVERAGE	-0.1745***	-0.1739***
GROWTH	0.0672***	0.0672***
LOSS	-0.1098***	-0.1093***
B_IND	-0.0011	0.0347
B_DIV	0.0936**	0.0631
ESG	0.0009*	0.0013
ESG_BDIV	-	0.0006
ESG_BIND	-	-0.0006
Industry dummies	Included	Included
# of Observations	169	169
Adjusted R-square (%)	65.94%	65.37%

# Discussion & Conclusion

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Reject H1: no support for relationship between board gender diversity and ESG

- Effect of female CEO or gender diversity within the top management team?
- Need to reach the “critical mass” of 3 women or more on the board?

Mixed evidence for H2

- Small positive significance for ROA but no evidence for Tobin’s Q
- Need a longer time lag?
- Role of ESG as a control mechanism? Measure the impact on strategic decision making instead?

Reject H3: no significance of interaction variable



Thank you!  
Any questions?

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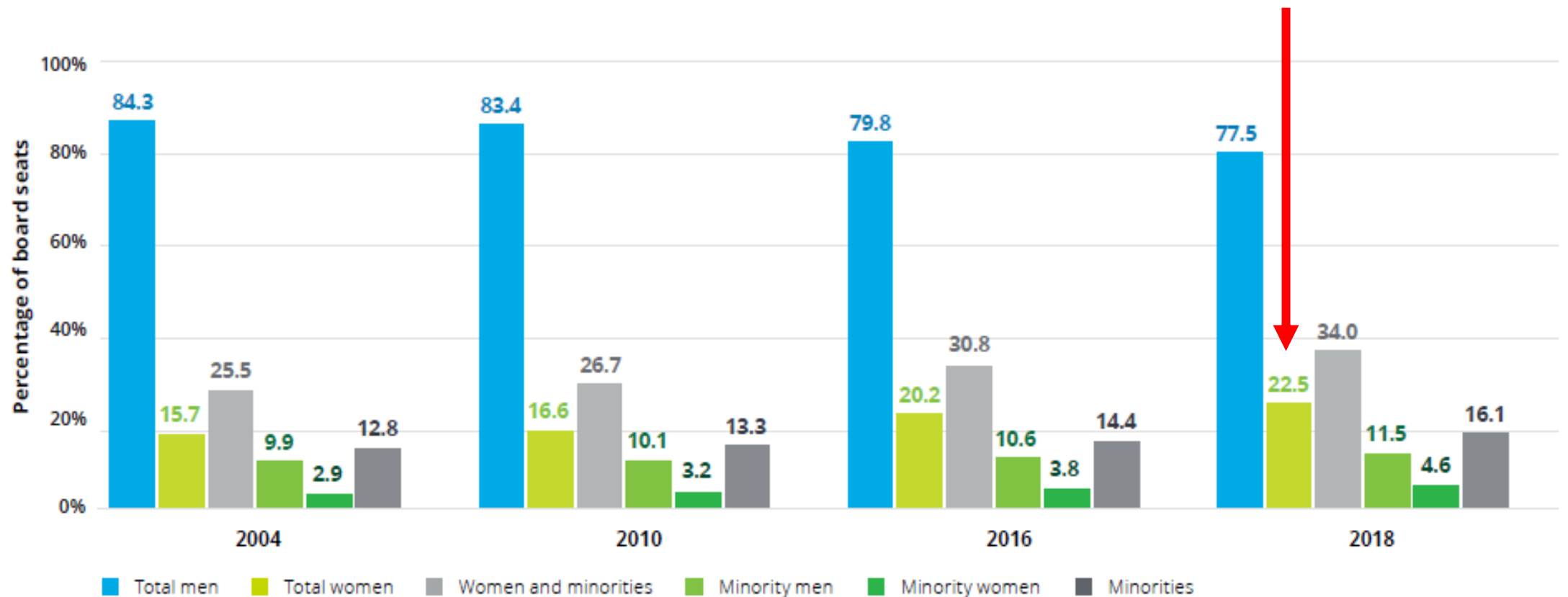
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# Appendix

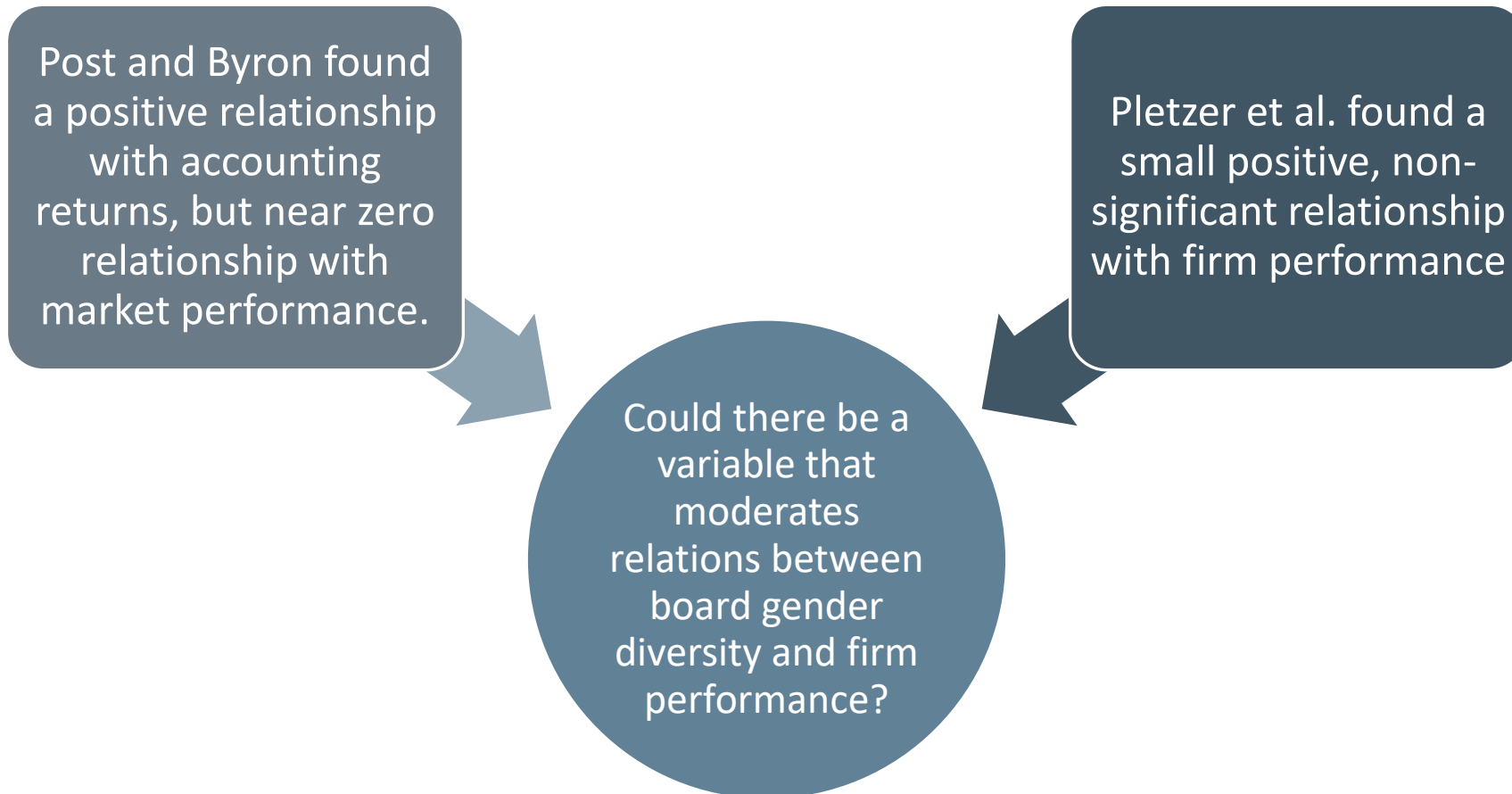
# As of 2018, women held only 22.5% of board seats among Fortune 500 companies.

Figure 7. Fortune 500 percentage of board seats by gender and minority status



Previous research on the impact of board gender diversity on financial performance has found mixed results. Two meta-analyses came to similar conclusions.

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# Control Variables

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Variable	Expected Sign	Explanation
SIZE	Positive	Natural logarithm of total assets
LEVERAGE	Negative	Ratio of liabilities to assets
GROWTH	Negative	Natural logarithm of market to book value of equity
LOSS	Negative	=1 if firm had negative net income, 0 otherwise
B_IND	Positive	Percentage of independent directors
INDUSTRY	-	First 2 digits of SIC Code

# Descriptives

Variables	N	Mean	Median	Minimum	Maximum	Std. Dev
AT	169	22738.91	9435.66	246.8720	330314	39800.08
SIZE	169	3.9889	3.9748	2.3925	5.5189	0.5669
LT	169	15405.68	5474.00	95.5600	208668	27263.26
NI	169	853.6620	297.8	-6177	14239	2397.88
SALE	169	14605.45	6527.80	693	197518	29283.09
ROA	169	0.0353	0.0358	-0.3735	0.3194	0.0876
TOBINQ	169	1.8703	1.5354	0.8975	5.3658	0.9494
MKT2BOOK	169	6.0728	2.5938	0.1300	175.0714	15.3580
GROWTH	169	0.5058	0.4139	-0.8861	2.2432	0.4011
LEVERAGE	169	0.6433	0.6523	0.1093	0.9784	0.1740
ESG	169	60.6656	62.3164	29.6732	86.6664	11.8785
B_DIV	169	0.1644	0.1667	0	0.5	0.0911
B_IND	169	0.8194	0.8571	0.4286	0.9142	0.1162





$$ESG_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 B\_DIV_{t-1} + \beta_6 B\_IND_{t-1} + \text{Industry dummies included} + \varepsilon_t$$

Variable	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	74.8534***	78.0123***	75.7486***	66.6574***	70.2516***	66.6606***
<b>SIZE</b>	-5.5777***	-5.5626***	-5.7531***	-3.8132**	-3.7161**	<b>-3.8138**</b>
<b>LEVERAGE</b>	11.6093**	11.2223**	11.2171**	11.3737*	11.3214*	<b>11.3698*</b>
GROWTH	-3.2752	-3.3287	-3.4147	-1.7040	-1.5428	-1.7045
LOSS	-12.1127***	-12.0393***	-12.0192***	-9.8608***	-10.1218***	-9.8590***
B_IND	5.4560	-	3.9788	4.2491	-	4.2427
B_DIV	-	<b>9.2087</b>	<b>8.0348</b>	-	<b>0.8170</b>	<b>0.0561</b>
Industry dummies	-	-	-	Included	Included	Included
# of Observations	169	169	169	169	169	169
Adjusted R-square (%)	17.29%	17.50%	17.12%	23.84%	23.71%	23.21%

$$TOBINQ_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_DIV_{t-1} + \beta_7 B\_IND_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t$$

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	2.7311***	3.7787***	3.1553***	4.7349***
SIZE	-0.0432	-0.0405	0.0636	0.0720
LEVERAGE	-2.2237***	-2.2604***	-2.4588***	-2.4966***
GROWTH	1.9984***	1.9986***	2.1884***	2.1842***
LOSS	-0.0462	-0.0491	-0.0250	-0.0324
B_IND	-0.3042	-1.8486	-0.8224*	-2.7296*
B_DIV	0.7494*	2.0476	0.5670	0.1638
ESG	-0.0022	-0.0201	0.0018	-0.0255
ESG_BDIV	-	-0.0218	-	0.0058
ESG_BIND	-	0.0265	-	0.0335
Industry dummies	-	-	Included	Included
# of Observations	169	169	169	169
Adjusted R-square (%)	62.73%	62.44%	67.72%	67.50%

$$ROA_t = \alpha + \beta_1 SIZE_t + \beta_2 LEVERAGE_t + \beta_3 GROWTH_t + \beta_4 LOSS_t + \beta_5 ESG_t + \beta_6 B\_DIV_{t-1} + \beta_7 B\_IND_{t-1} + \beta_8 ESG \times B\_DIV + \beta_9 ESG \times B\_IND + \text{Industry dummies included} + \varepsilon_t$$

Variable	Coefficient	Coefficient	Coefficient	Coefficient
Intercept	0.0454	0.1278	0.0618	0.0366
SIZE	0.0057	0.0057	0.0195**	0.0196**
LEVERAGE	-0.1256***	-0.1288***	-0.1745***	-0.1739***
GROWTH	0.0571***	0.0571***	0.0672***	0.0672***
LOSS	-1.413***	-0.1418***	-0.1098***	-0.1093***
B_IND	0.0309	-0.1005	-0.0011	0.0347
B_DIV	0.0194	0.1845	0.0936**	0.0631
ESG	0.0003	-0.0011	0.0009*	0.0013
ESG_BDIV	-	-0.0028	-	0.0006
ESG_BIND	-	0.0023	-	-0.0006
Industry dummies	-	-	Included	Included
# of Observations	169	169	169	169
Adjusted R-square (%)	57.26%	56.90%	65.94%	65.37%