Board Diversity and Sustainable Performance: Evidence from Europe

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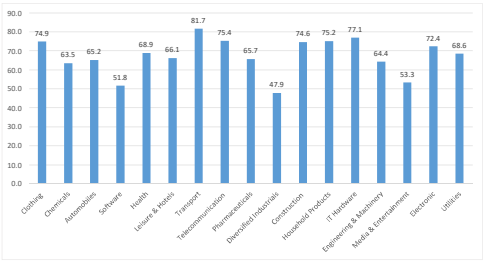
Introduction

Corporate governance and sustainability topics have rarely been linked together in early research. (Rodriguez et al., 2002; Aras & Crowther, 2008). However, recent studies have revealed that sustainability performance can be affected by corporate governance (Oosthuizen & Lahner, 2016). Therefore, the objective of this research is to study the impact of board diversity on corporate sustainable performance.

Literature Review

Sustainability performance is defined as the ability of the company to enhance the wellbeing of the environment, the society and the economy as a whole. Moreover, it means that companies also invest in order to implement better sustainable practices (Kocmanová et al. 2011; Oosthuizen & Lahner, 2016). Studying the effect of board diversity on sustainability has become an important issue because ESG problems are mainly caused by having weak corporate governance of the board directors (Ismail & Latiff, 2019).

The main two theories that support having better firm sustainability practices are the stakeholder theory and resource-based view theory. Stakeholder theory states that the agent has broader responsibilities towards their stakeholders other than wealth maximization. Therefore, their duties towards the environment and the planet are also important (Parkinson, 1993; Ismail & Latiff, 2019). On the other hand, RBV theory states that a company has strategic advantage due to the unique resources that the company possesses. Here, these resources are the board diversity traits that make the company perform better that its competitors (Barako & Brown, 2008; Rao & Tilt, 2016; Ismail & Latfiff, 2019).



Average ESG score per industry

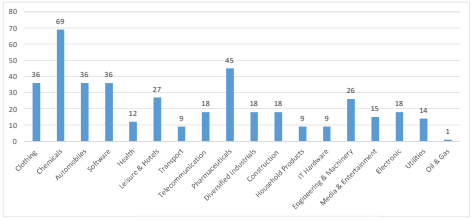
Results

Variable	ESG	Environment	Social	Governance
BrdSize	.3141	1.197	.3355	-.3783
	(1.19)	(3.65)***	(1.07)	(-1.00)
BrdInd	2.410	11.78	9.733	-7.126
	(0.30)	(1.15)	(1.01)	(-0.56)
AgeEDs	.0992	.4002	-.1051	.2931
	(0.47)	(1.50)	(-0.42)	(0.84)
AgeNEDs	.6291	.6916	.1552	1.151
	(3.04)***	(2.65)***	(0.63)	(3.53)***
EduEDs	3.906	4.200	4.100	3.193
	(3.80)***	(3.23)	(3.38)***	(1.88)*
EduNEDs	2.337	-1.327	7.111	.2802
	(1.52)	(-0.68)	(3.92)***	(0.11)
GenderEDs (male)	-.1036	.0386	-.1604	-.1657
	(-2.09)**	(0.61)	(-2.74)***	(-1.89)*
GenderNEDs (male)	-.4307	-.2996	-.4120	-.6723
	(-9.13)***	(-5.03)***	(-7.40)***	(-8.52)***
NatEDs	2.448	-.6524	2.044	6.473
	(1.00)	(-0.21)	(0.71)	(1.59)
NatNEDs	-.4577	-4.694	-6.398	13.61
	(-0.12)	(-0.99)	(-1.44)	(2.33)**
FirmSize	6.963	8.394	5.227	4.683
	(5.28)***	(5.20)***	(3.31)***	(2.81)***
Lvg	-7.237	-9.405	-8.977	-.3812
	(-1.29)	(-1.34)	(-1.36)	(-0.05)
_cons	-63.48	-146.9	-.1515	-32.12
	(-2.59)***	(-4.87)***	(-0.01)	(-0.95)
R^2	0.4225	0.5482	0.2883	0.4204
Wald chi^2	297.73	182.73	206.55	176.49
Prob> chi^2	0.0000	0.0000	0.0000	0.0000

*** = 1% , ** = 5% , * = 10%

Methodology

The data for this study is collected from Thomson Reuters Eikon database and BoardEx. The sample consists of 49 top listed companies in the Germany stock exchange for the period 2012 – 2020 resulting in 416 firm year observations. Descriptive and regression analysis are performed using Stata version 14. The dependent variables include ESG, Environmental, Social and Governance score. While, the independent variables include board size, board independence, age of EDs, age of NEDs, Gender and nationality diversity. Control variables include firm size and leverage. Hausman's specification test is performed to determine the best fit regression model and whether a fixed-effect or a random panel regression best fits the sample examined. The result shows that chi^2 = 17.75 and prob>chi^2 = 0.1235 which indicates a random effect regression.



Sample: industrial frequency

Conclusion

To conclude, the results of this study show that having female NEDs positively affects sustainability performance. This may be due to women being more sensitive to environmental issues (Nielsen & Huse, 2010). Thus, females are more likely to be involved in strategic decisions affecting sustainability practices (Manita et al., 2018). Moreover, age diversity of NEDs and education diversity have a positive effect on the sustainability scores. Therefore, board diversity can affect sustainable performance.

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20TH ANNIVERSARY German University in Cairo الجامعة الألمانية بالقاهرة

Prepared for Thesis Poster Display Conference
11th -12th June 2022

Faculty of Management Technology
THESIS Poster Display Conference 2022