Does corporate governance influence ESG indicators? Evidence from the U.S. banking sector

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Abstract

This study aims to verify if the environmental, social and governance (ESG) indicators are influenced by the governance structure of the banks. Previous studies have provided conflicting results on this association. The sample analyzed includes all banks listed in the U.S. in the period 2018–2022. The methodology used concerns multiple regression on panel data with fixed effects also considering some control variables to make the model more robust. The first results of the statistical analysis show that some governance variables have a significant influence on ESG factors. The results of this research can help banks and regulators to define the guidelines for improving the bank’s performance in environmental, social and governance terms.

1. ANALYSIS AND METHODOLOGY

The transformation of banking models is recently involving the issue of sustainability and is destined to play an important role. For credit institutions, the incorporation of variables related to the environment, social impacts and governance is a significant challenge, with various critical issues, but it also offers development opportunities for those who know how to adapt virtuously. Ensuring high environmental, social and
governance (ESG) performance values means guaranteeing higher value for shareholders. Considering that previous studies have provided inconsistent results on the association between corporate governance and ESG performance, it is useful to highlight that more work is still needed to better understand these relationships. In order to verify whether there is a relationship between bank governance and ESG factors, a large sample was considered. The sample analyzed includes all banks listed in the U.S. in the period 2018–2022. The analysis period is influenced by the availability of historical data series, especially ESG data. The methodology used concerns multiple regression on panel data with fixed effects also considering some control variables to make the model more robust. The data sources used in defining the analysis sample are different. The dependent ESG variables were obtained from the Refinitiv ESG data while the independent governance variables were obtained from the BoardEx database. The independent control variables, on the other hand, were identified from Moody’s Analytics BankFocus.

2. FIRST RESULTS AND EXPECTED RESULTS

This study aims to verify whether the characteristics of banks’ boards of directors influence their ESG performance. In particular, banks with a higher female presence, larger board size, independent and more qualified directors are more likely to show better ESG performance. Furthermore, it is expected that banks with a propensity to pursue an innovation strategy (e.g., fintech) are more likely to have better ESG performance. The first results of the statistical analysis show that some governance variables have a significant influence on ESG factors. However, these results require robustness checks which will be carried out in the complete version of the study. Assuming that the first results are confirmed, then it will be possible to precisely outline what the governance levers could be to improve the ESG performance of banks and define specific guidelines that can also help the banking supervisory authorities to define specific regulations. Additionally, these results could also be useful for the owners as the achievement and maintenance of higher ESG performances allow to guarantee a higher value for the shareholders.

REFERENCES


