INCREASED SUSTAINABILITY INITIATIVES AMONG THE LARGEST CANADIAN FIRMS: ROUTINE, STRATEGIC OR BOARD OVERSIGHT?

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Abstract

Using a multi-theory framework, we analyze why there is a difference in reporting between firms in their number of sustainability indicators. Firms not only need to earn profits but also contribute to the well-being of society and the environment. A firm's corporate social responsibility (CSR) activities as visible from its sustainability reporting disclosure help it in various ways such as gaining greater legitimacy among its stakeholders, improving its competitive advantage (Grant et al., 2015), attracting talent (Turban & Greening, 1996), reducing risk (Godfrey et al., 2009), etc. Formal sustainability reporting has been available for over two decades and is no longer considered novel. However, the diversity and details in their reporting differ among these firms.

1. INTRODUCTION

Stakeholder theory suggests that firms try to keep their stakeholders happy and maintain their legitimacy with them (Freeman, 1984). Stakeholders such as suppliers, investors, consumers and employees control access to critical resources that firms need and by maintaining their legitimacy with them, firms can guarantee continued access to these resources (Fombrum et al., 2000; Su, et al., 2016). Per legitimacy

theory a firm's disclosure about itself focuses on legitimising the firm's actions (Deegan et al., 2002) by meeting the prevailing standards in society (Long & Driscoll, 2008) and being transparent about its actions (Deegan & Blomquist, 2006). The development and disclosure of its environmental, social and economic sustainability initiatives display the firm's commitment to the environment and to society (Deegan & Rankin, 1996) and distinguish themselves from their competitors.

Signalling theory suggests that the signaler tries to signal their reliability and their tacit qualities to the receivers (Connelly et al., 2011). To show that the firm is committed to sustainability, it needs to convince its stakeholders that its sustainability agenda is real. The board of directors plays an important role when decision-making is not concentrated in a few hands as would be the case when board diversity is low. A board that is diverse is signaling its commitment to widening decision-making. A larger board can protect stakeholders' interests by overseeing management's actions and vetoing those decisions that do not serve the best interests of the majority of the stakeholders. Though large board size has also been associated with delayed decision-making (Kassinis & Vafeas, 2002). However, a larger board may simply be because of firm size and a better indicator of the diversity of the board is considering the ratio between the independent and non-independent directors in the board.

Research on board of directors and corporate governance has paid attention to board structure and has found that outside directors (Weisbach, 1988); gender diversity (Terjesen et al., 2015) and nationality can attract resources (Cox, 2001) and improve financial performance. However, the impact of board structure and the level of sustainability initiatives across the three pillars of sustainability — economic, environmental and social — is not clear. While some research suggests that directors' diversity results in greater transparency on sustainability initiatives of firms (Fuente et al., 2017), other research has found that firm boards are not always positively linked to corporate social responsibility (CSR) disclosures (Prado-Lorenzo & Garcia Sanchez, 2010; Michelon & Parbonetti, 2014).

1.1. Ratio of independent to non-independent directors

In our study, we examine board structure and board gender diversity and their impact on the number of sustainability initiatives under each sustainability pillar. We suggest that given the complexity that modern corporations face and that managing the different aspects associated with economic, environmental and social sustainability, as the ratio of independent to non-independent increases the corporation is more likely to be associated with greater sustainability disclosures.

H1: The ratio of independent to non-independent directors is positively related to the number of sustainability initiatives (total, social, environmental and economic sustainability initiatives) reported.

1.2. Gender board diversity

Boards that have women directors would be different than those that only have males as females tend to be more inclusive (Eagly & Johnson, 1990), empathetic (Eagly et al., 2003), connected to the community (Hillman et al., 2002), and aware of environmental issues and politics (Nielsen & Huse, 2010). CSR-related actions of firms receive greater attention from female directors (Valls Martínez et al., 2019). However, there is equivocality in past research about the impact of gender diversity on CSR practices, while some found a positive impact (Liao et al., 2019) others have found a negative relation (Darus et al., 2015) or no significant link between gender diversity on the board and CSR (Fauzi & Locke, 2012).

Moreover, what is the impact of gender diversity on a number of sustainability initiatives undertaken by firms? Gender diversity has a positive impact on firms' kickstarting sustainability initiatives, but what is the impact on those firms that have already started these initiatives, does gender diversity also influence the number and variety of initiatives undertaken by firms?

Recent research by Valls Martínez et al. (2020) test U.S and European markets data and find an inverted U-shaped relationship between the number of women and a firm's CSR performance, suggesting that while gender diversity on firm boards positively impacts CSR in both the U.S and European markets there is a limit to a favourable impact of women directors. Past research has not examined the impact of gender diversity on the number of sustainability initiatives among firms that already have a history of sustainability initiatives. We propose the following hypothesis:

H2: The gender diversity is positively related to the number of sustainability initiatives (total, social, environmental and economic sustainability initiatives) reported.

1.3. Sustainability reporting history

Firms that have engaged in sustainability reporting for a while understand the process of reporting and are likely to engage in more initiatives than those that have recently started a formal reporting process. Having a culture of sustainability reporting implies that the firm understands the reporting standards and also the attention that such reporting attracts. Many firms especially the larger and more established ones seek to differentiate themselves from their competitors by discussing their social and environmental performance along with their economic performance (Singh & Walsh, 2022). Doing this helps them gain greater legitimacy among their stakeholders (Grant et al., 2015). Over time companies' sustainability reports have become more

sophisticated and detailed (Perez & Sanchez, 2009). We suggest that the more that firms have engaged with sustainability reporting, the greater the number of sustainability initiatives that they have undertaken.

H3: The history of sustainability reporting is positively related to the number of sustainability initiatives (total, social, environmental and economic sustainability initiatives) reported.

1.4. Support of charities

When firms support charities, they contribute to the success of these charities and also gain greater legitimacy by demonstrating their commitment to corporate social responsibility. They are able to distinguish themselves from their competitors who may not engage in such charitable work. Firms associate with those charitable causes after a due diligence process of matching the causes supported by these charities and the reputation of the charities themselves (Amran et al., 2014). While these partnerships create a positive image for the firms, they also showcase a firm's commitment to CSR activities and help in understanding whether their actions follow their words. A successful association would motivate them to disclose this association in their sustainability reports. Being associated with visible charitable causes implies that they are more likely to engage in other causes that are not as visible, which prompts the following hypothesis.

H4: The support of charities is positively related to the number of sustainability initiatives (total, social, environmental and economic sustainability initiatives) reported.

2. DATA AND METHODS

Our data was the 234 firms in the Standard & Poor (S&P)/Toronto Stock Exchange (TSX) Composite index in 2020's publicly disclosed sustainability initiatives. Our final dataset comprised 222 firms. We chose the Canadian context as publicly traded Canadian firms must detail all significant issues regarding environmental and social issues that impact them. Through their sustainability reports, Canadian firms can show their commitment to social, economic and environmental principles to not only indigenous people but also their other stakeholders. The firms comprising the S&P/TSX composite index are among the largest firms in Canada and they and their boards face a lot of scrutiny.

Our dependent variable was the number of sustainability initiatives the firms had undertaken across economic, social, environmental and total sustainability initiatives. Only those firms that had a formal sustainability report were considered. There were 140 firms that had

formal sustainability reports. We calculated a sustainability reporting index (SRI), by using the Global Reporting Initiative's G4 guidelines (GRI). There were specific economic, environmental and social sustainability measures.

Our independent variables are:

- *Board independence*: ratio of independent directors to non-independent directors in the board;
- *Gender diversity*: ratio of female directors to total directors on the board;
- *Sustainability reporting history*: number of reports developed before the focal year;
- *Support of charities*: their mention of charities supported in the annual report;
- *Controls*: based on past research, we controlled for firm age, size and whether the industry that they belonged to was vulnerable to scrutiny.

We used STATA 17 to conduct our analysis. As our dependent variables were the *likelihood to report sustainability initiatives*, a probit regression analysis was conducted. The results of the final models are included in Tables 1–4 below.

Table 1. Total sustainability initiatives

Variables	***Full model***
Age	0.0003
Size	4.1**
Vulerable industry	0.637***
Independent variables	
IndepDepBoard	0.617
FemaleTotal	-0.426
Sustainhistory	0.144***
SupportCharity	1.072***
Pseudo R2	0.125
N	222

*Note: * = p < 0.1, ** = p < 0.05, *** = p < 0.000.*

Table 2. Social sustainability

Variables	***Full model***
Age	0
Size	5.39**
Vulerable industry	0.515***
Independent variables	
IndepDepBoard	0.492
FemaleTotal	-0.198
Sustainhistory	0.300***
SupportCharity	1.077***
Pseudo R2	0.27
N	234

*Note: * = p < 0.1, ** = p < 0.05, *** = p < 0.000.*

Table 3. Environmental sustainability

Variables	***Full model***
Age	0.406
Size	0*
Vulerable industry	0.689***
Independent variables	
IndepDepBoard	0.904
FemalevsTotal	-0.924
Sustainhistory	0.154***
SupportCharity	1.062***
Pseudo R2	0.203
N	222

*Note: * = p < 0.1, ** = p < 0.05, *** = p < 0.000.*

Table 4. Economic sustainability

Variables	***Full model***
Age	0.002
Size	2.71
Vulerable industry	0.731***
Independent variables	
IndepDepBoard	0.632
FemalevsTotal	-0.561
Sustainhistory	0.135***
SupportCharity	1.099***
Pseudo R2	0.182
N	222

*Note: * = p < 0.1, ** = p < 0.05, *** = p < 0.000.*

3. DISCUSSION AND CONCLUSION

In our database, 99% of the firms had at least one female director. However, the ratio of females to the total number of members on the board differs and is a better indicator of gender diversity in organizations. Many of these companies already have a long sustainability reporting history and have a fairly well-established CSR agenda. An increasing number of females does not have an impact on the number of sustainability initiatives undertaken by firms. It may be as women are considered more pragmatic, especially among those holding a position on the board, they do not believe that more numbers of measures need to be reported formally. Increased reporting may be counterproductive as this increases scrutiny and therefore, reporting on initiatives that may be more controversial can be counterproductive.

In our analysis, we find that board independence does not have an impact on the number of sustainability initiatives undertaken by firms. As these are the largest Canadian corporations, they face a lot of attention and therefore are likely to have a reasonable number of independent directors. Similar to some past research we find that board

independence too does not have an impact on the number of sustainability initiatives undertaken by them.

We find that the longer the history of sustainability reporting of a firm, the more the number of initiatives they report on suggesting that when firms have engaged in sustainability reporting they have seen benefits from being transparent about their actions and are more aware of what needs to be done with respect to the different initiatives and have tended to increase the scope of their actions.

Firms that support charities also report more sustainability initiatives. Firms that publicly support charities are showing their commitment to CSR and are more likely to engage in other sustainability initiatives than firms that do not disclose this public support of charities.

Our study has some limitations, we only consider a one-year snapshot of firms and the impact of board structure on sustainability initiatives.

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