

SESSION 4: ESG AND SDG ISSUES

THE EFFECTS OF CORPORATE GOVERNANCE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE: EVIDENCE FROM THE U.S. BANKING SECTOR

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Abstract

In recent years, corporate sustainability has become an important objective for company stakeholders and a topic of particular interest for corporate scientific research.

The trend towards companies' sensitivity to sustainability issues has grown considerably in recent years. Sustainability reporting is on the rise, with approximately 70 percent of monitored companies publishing sustainability reports in 2021 triple the percentage compared to 2016 (United Nations, 2023).

Overall, the trend towards better sustainability reporting is a positive development as it indicates a growing awareness of the need to prioritize sustainable practices across all sectors.

It is plausible to think that when a company focuses on sustainability its business becomes at least potentially more profitable, consequently increasing the overall value of the company.

However, there is no universally accepted definition of sustainability in the literature but there are many depending on the aspect being analyzed. It should be highlighted that the concept of sustainability is increasingly identified in the literature in terms of environmental, social and governance (ESG). In this sense, the concept of sustainability is divided into three fundamental dimensions to verify, measure, control and support the sustainability commitment of a company or organization.

The topic of this study falls within that line of research that seeks to understand whether corporate governance and in particular the composition and activity of a company's board of directors can influence its ESG performance.

Especially in the banking sector, ESG performance has still been little explored with reference to the role of the board of directors.

This study seeks to fill this gap in the literature by analyzing the relationship between bank board composition (the main independent variables are gender diversity, independence, size, activity, and ESG/CSR committee) and performance of the ESG dimensions.

Among the board characteristics examined in this study, board independence and gender diversity have become important issues in corporate governance, although the literature has mostly focused on non-financial corporations.

The statistic methodology is based on the application of panel regression models on a large sample of banks listed, composed of the banks that are part of the Dow Jones U.S. Banks Index, for the period 2012–2021.

The results of this statistical analysis can allow us to define best practices for the management of banks even in times of crisis and provide useful elements for reflection also to banking supervisory authorities and policymakers to evaluate correct incentive policies in general for sustainability and to ESG dimensions.

In fact, banking regulation and supervision regimes have positive effects in terms of the overall ESG of the banking system and can influence governance in different ways depending on the size of the bank, the restrictions on the activity and ownership of the bank, the power of official supervision and the deposit insurance structure.

Furthermore, the results of this study can help banks identify best practices to maximize ESG performance, financial performance, and, therefore, corporate value, as well as provide food for thought to different categories of stakeholders, including regulators and supervisors banking sector.

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