SESSION 2: ESG AND SUSTAINABILITY ISSUES

DO GOOD GOVERNANCE PRACTICES, MODERATED BY GENDER PARITY, STRENGTHEN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE FOR EUROPEAN COMPANIES?

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Abstract

This study examines how country-level gender parity interacts with board characteristics to affect environmental, social, and governance (ESG) performance in sustainable European firms. Higher gender parity nations amplify the positive effects of women on boards, non-executive directors, and stakeholder engagement on ESG while reducing the negative impacts of busy directors. Surprisingly, the combined effect of board gender diversity and national gender parity on ESG is negative,

contrary to expectations. These findings enrich research on board characteristics and ESG performance, emphasizing the overlooked role of gender parity.

1. INTRODUCTION

The European Union (EU) Directive 95/2014 mandates non-financial information disclosure, transitioning from voluntary to mandatory reporting. It aims to enhance the communication of comparable, consistent, and relevant non-financial data (European Commission, 2019).

Prior studies examine board composition and environmental, social, and governance (ESG) performance but ignore the Global Gender Gap Index's (GGGI) moderating role. Our study encourages further investigation, exploring how gender diversity, non-executive directors, busy directors, and stakeholder engagement affect ESG performance, especially regarding busy directors. Understanding these dynamics benefits stakeholders. We also anticipate the GGGI's stronger influence in nations with wider gender disparities, shaping board decisions.

This study makes three significant contributions. Firstly, it fills a gap by investigating the impact of board composition on ESG performance in sustainable European firms, including listed ones, which previous research lacked. Secondly, it explores the international perspective, particularly the influence of female directors and the GGGI, addressing a literature gap. Thirdly, it reveals the positive interaction of the GGGI with gender diversity and stakeholder engagement in enhancing ESG performance. Additionally, it identifies a heightened negative impact of busy directors when interacting with the GGGI.

2. FRAMEWORK

Research on board composition and ESG performance reveals significant findings. Lewellyn and Muller-Kahle (2023) found that non-executive directors enhance ESG performance. Pinheiro and Sarmento (2022) observed a positive link with non-executive directors. Conversely, Luu (2022) revealed a negative relationship with busy directors. Lee and Raschke (2023) emphasize stakeholder engagement's role, while Cambrea et al. (2023) found a positive association with female directors. Dyck et al. (2023) argue female directors' impact on environmental performance stems from gender-specific reasons.

Female directors positively impact board decision-making, enhancing information disclosure and monitoring (García-Sánchez et al., 2014). They improve board effectiveness by providing diverse perspectives and abilities (Basuony et al., 2018), leading to better strategic decisions (Nadeem et al., 2020). Additionally, they promote corporate social responsibility (CSR) disclosure, ethical standards, and stakeholder concerns, and exhibit risk aversion (Pucheta-Martínez et al., 2021; Gul et al., 2013).

Female directors prioritize ESG, driven by social engagement, education, leadership, advisory skills, and communication. Yet, in French firms, Dyck et al. (2023) propose female directors' impact on environmental performance may relate to gender-specific factors rather than distinct characteristics from male directors.

H1: The global gender gap indirectly enhances the positive correlation between board gender diversity and ESG performance.

Non-executive directors, valued for impartial judgment, uphold corporate governance (Myllys, 1999). Agency theory (Jensen & Meckling, 1979) suggests they monitor to prevent managerial opportunism, aligning owner and shareholder interests (Liu & Andersson, 2014). They ensure accountability (Daily & Dalton, 2003) and provide reliable information (Hutchinson & Gul, 2004). In emerging economies, they make independent decisions (Zhu et al., 2016). Stakeholder theory views them as resources, prioritizing social and environmental concerns (Ibrahim & Angelidis, 1995).

Tawiah et al. (2024) propose that a higher proportion of non-executive directors improves ESG performance by offering strategic insights. Cambrea et al. (2023) conclude that non-executive directors boost environmental performance through advice and external connections. Homroy and Slechten (2019) highlight their relevant environmental experience. Lewellyn and Muller-Kahle (2023) support the positive link between non-executive directors and ESG performance.

H2: The global gender gap indirectly enhances the positive correlation between the proportion of non-executive directors and ESG performance.

Busy directors, holding multiple board seats, impact ESG performance, with mixed findings. Perry and Peyer (2005) propose they effectively perform controlling duties, aligned with reputational theory. Resource dependence theory suggests they drive proactive environmental strategies (Ortiz-de-Mandojana et al., 2012). Cooper and Uzun (2022) support their positive influence on ESG, emphasizing abilities, education, and managerial skills.

Holding multiple board seats may hinder monitoring, aligning with overcommitment theory (Core et al., 1999). Busy directors' distractions and limited time may impede ESG performance (Elyasiani & Zhang, 2015). Haque (2017) notes their impact on carbon reduction initiatives, while Luu (2022) suggests they detract from environmental performance.

H3: The global gender gap indirectly exacerbates the negative correlation between the proportion of busy directors and ESG performance.

Campanella et al. (2021) confirm stakeholder engagement's positive correlation with ESG performance. Lokuwaduge and Heenetigala (2017) also find it boosts sustainability initiatives in Australian firms.

The GGGI's role in European sustainable firms is likely to boost ESG performance, as gender diversity often supports sustainability.

Stakeholder engagement enhances competitiveness (Maneenop et al., 2024), suggesting a positive impact on ESG performance. Thus, hypothesizing based on stakeholder theory:

H4: The global gender gap indirectly amplifies the positive impact of stakeholder engagement on ESG performance.

3. METHODOLOGY

This study focuses on European sustainable firms listed in the Euronext Vigeo Europe 120 Index, comprising companies committed to ESG principles. Data is sourced from Thomson Reuters Eikon and World Economic Forum reports. The sample spans 2013 to 2022 and includes Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

4. RESULTS

The GGGI positively impacts ESG performance, highlighting robust corporate governance’s significance in European sustainable firms. Elevating women to influential positions fosters better ESG outcomes, particularly in countries with higher gender equality.

The interaction effect between board gender diversity and GGGI yields a negative coefficient (-0.1847) at the 1% level, impacting ESG. Despite women’s leadership in high-level institutional roles overseeing female directors on boards, the anticipated positive impact on ESG performance has not materialized, resulting in a slight decline, particularly in corporate governance. This contradicts previous research (Gangi et al., 2023) leading to the rejection of *H1*.

The second interaction effect examines the relationship between non-executive directors’ activities and GGGI. This interaction effect is found to lack statistical significance. This outcome suggests that the criteria for appointing non-executive directors to boards may be inadequate, failing to meet stakeholder needs, consistent with Al Amosh and Khatib (2021). Consequently, *H2* is refuted.

The interaction between busy directors, the GGGI, and ESG performance shows a small but significant negative coefficient (-0.0313), indicating that the negative influence of busy directors on ESG performance is amplified, possibly due to inadequate supervision from high-level management in European countries. Therefore, *H3* is rejected.

The interaction effect between the GGGI and stakeholder engagement in business decision-making is statistically significant (at 1%), with a positive coefficient of 0.1744. This supports *H4*, indicating the benefits of stakeholder engagement, especially in environments with higher gender parity. This amplifies its impact, aligning with findings from Lee and Raschke (2023).

5. CONCLUSION

Our study investigates how country-level gender parity interacts with board characteristics to affect ESG performance in sustainable European firms. To our knowledge, this is the first study to explore these interactions.

In countries with higher gender parity, women's presence, non-executive directors, and stakeholder engagement have a stronger positive impact. Conversely, the negative impact of busy directors is reduced. This suggests that in settings with high gender parity, non-executive directors and stakeholder engagement play more significant roles in promoting ESG practices.

Against anticipations and existing literature, the combined effect of board gender diversity and national-level gender parity on ESG performance is negative. This suggests that in countries with high gender parity, firms may compensate for low board diversity by engaging more with ESG practices.

Contrary to our hypotheses, increased national-level gender parity does not mitigate the negative effect of having more busy directors. In fact, in countries with higher gender parity, this effect appears to be even more negative.

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