# DO BOARD COMMITTEES CONTRIBUTE TO ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE: THE MODERATING ROLE OF GLOBAL GENDER GAP INDEX

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## Abstract

The development and economic growth of companies have a significant impact on environmental, social, and governance (ESG) issues (Almeyda & Darmansya, 2019), often resulting in serious problems such as pollution, global warming, forced and illegal labor, corporate ethical issues, and corruption (Suttipun, 2021). Investors and other stakeholders increasingly penalize companies with low ESG performance and involvement in ESG controversies (Shakil, 2021). Consequently, companies are adopting a more responsible approach by integrating ESG issues into their corporate strategies. This not only enhances their legitimacy and reputation but also improves relationships with stakeholders, reduces stock volatility, and mitigates the firm's overall risk (Velte, 2016).

The board of directors is a corporate governance mechanism that ensures the monitoring and supervision of management and provides the necessary resources for the success of the firm (Jensen & Meckling, 1976;

Hillman et al., 2009). However, boards may experience deficiencies stemming from their limited understanding of the complexities within the company or insufficient coordination among members, leading to instances of social loafing (Boivie et al., 2016). Consequently, the presence of specialized committees within relevant areas of the organization serves as valuable resources to enhance board effectiveness. In this sense, several corporate governance codes recommend the inclusion of the corporate governance committee, corporate social responsibility (CSR) committee, and nomination and compensation committee. Furthermore, past research studies provide evidence that female directors on corporate boards offer diverse knowledge, skills, and experiences, enhancing management activities and increasing both financial and non-financial performance (Orazalin & Mahmood, 2021). Female board members often demonstrate greater concern for stakeholders and show heightened awareness towards social and environmental aspects, enabling them to provide strategic solutions to challenges related to ESG issues (Arayssi et al., 2020). The existence of board sub-committees and the presence of females on the board enhance the functions of the board, improving the company's relationships with shareholders and stakeholders, and increasing ESG performance (Michelon & Parbonetti, 2012). Additionally, this study includes the Global Gender Gap Index (GGGI) which is a global report by the World Economic Forum. This index offers a measure of the extent of gender-based parity in countries based on four dimensions: economic participation and opportunity, educational attainment, health and survival, and political empowerment.

The main goal of our study is to examine the moderating effect of the GGGI in the association between the proportion of female directors on board and board sub-committees and ESG performance. This manuscript is based on agency (Jensen & Meckling, 1976), stakeholders (Freeman, 1984), and legitimacy theory (Dowling & Pfeffer, 1975) to justify the hypotheses proposed. This sample of this study comprises European sustainable companies included in the Euronext Vigeo 120 Index sustainable stock index, over the 10-year period from 2014 to 2023. Therefore, the final sample comprising 1,019 firm-year observations of 14 countries was obtained from the Refinitiv Eikon database, which contains financial ratios, corporate governance information, and ESG scores. We employ static panel data analysis, allowing for the examination of a substantial amount of data across diverse units over multiple time points while controlling for potential correlations and time-invariant heterogeneity. To address possible endogeneity issues between corporate governance and ESG performance variables, we utilize the generalized method of moments (GMM). This econometric model facilitates the control of endogeneity problems by implementing a first-difference equation and incorporating a lagged period for the instruments (Pham et al., 2021).

We consider the GGGI of the countries as an external contingency factor that can influence the relationship between female directors on board and board sub-committees and ESG performance. Countries with higher gender parity values would present companies with a greater presence of females on boards and the existence of specialized subcommittees that would improve ESG performance.

Our main findings reveal that the GGGI has a positive and significant effect on ESG performance. This suggests that companies located in countries with higher gender parity tend to demonstrate better ESG performance. The degree of gender parity within a country, viewed as an external political and socio-cultural contingency factor, influences the ESG performance of sustainable European companies. A higher level of gender parity at the national level signifies a stronger commitment to achieving gender equality across political and economic spheres, thereby motivating companies to enhance their commitment and awareness, consequently improving their ESG initiatives. Indeed, the presence of both corporate governance committees and CSR committees positively influences ESG performance. This indicates that the activities undertaken by the corporate governance committee assist the board in formulating and overseeing the firm's ESG strategy, increasing transparency, safeguarding the interests of various stakeholders, and reducing agency costs, ultimately enhancing ESG performance. Similarly, the existence of a CSR committee positively impacts ESG performance. This may be attributed to the CSR committee providing legitimacy to the company's ESG practices, enhancing corporate image, and facilitating access to external resources.

When we analyze the moderating effect of the GGGI on the association between female directors on board and board subcommittees and ESG performance, we obtain different results. The GGGI does not moderate the relationship between female directors on the board, nomination committee, compensation committee, and ESG performance. On the other hand, the GGGI negatively moderated the relationship between the corporate governance committee and ESG performance. This could be interpreted as countries with higher gender parity not influencing the business environment to improve the functions of corporate governance committees, reducing their positive impact on ESG performance. This could indicate that the members of the corporate governance committee may perceive gender equality issues as less of a priority, potentially limiting their consideration of these aspects within the company's governance policies and standards, which leads to a decrease in ESG performance. This situation repeats for CSR committees, the GGGI negatively moderated the relationship between CSR committee and ESG performance. This could be interpreted as the members of the CSR committees not being aware of how they affect the levels of gender equality in the environment external to the company, such as political and economic spaces, not promoting these within the formulation of ESG strategy and policies considerations, which leads to a reduction in ESG performance. Therefore, it is relevant for board sub-committees to recognize the role of gender equality and actively incorporate it into their governance policies and practices. By creating a culture of inclusivity and diversity, companies can enhance their ESG performance, strengthen stakeholder relationships, and drive sustainable growth in the long run.

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