Curso de verano spainsif

Colaborador Académico

Patrocinador

09:40-10:10 h La inclusión desde la perspectiva de género en la valoración de la empresa (*Masterclass*)

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Diversidad e inclusión en el ámbito de las inversiones

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Themes

- What Is Sustainable Corporate Governance?
- How To Achieve Sustainable Corporate Governance
- Improved Diversity on Boards of Directors
- Enabling and Impeding Owners
- Conclusion

What is Sustainable Corporate Governance?

"[I]ncreasing gender diversity in energy-decision making will distribute political power and influence to encourage a more sustainable society."

Pearl-Martinez and Stephens (2016)

Sustainability: Science, Practice and Policy

- Are they right?
- Sustainability should not be reduced to environmentalism

What is Sustainable Corporate Governance?

- Sustainable corporate governance has been defined in various, interrelated ways
- The three main definitions are

I. The cake

II. Weathering storms

III. The United Nations’ definition

The Cake

- Corporations should be run in such a way that they do not merely focus on shareholder value, but also consider their stakeholders in their decision making
- A criticism is that the size of the cake might be fixed
  - Increasing the part of the value generated by the firm that goes to the stakeholders reduces the part that goes to the shareholders, and vice-versa
- Others argue that looking after stakeholder interests increases the size of the cake, which in turn benefits the shareholders

- The aim of sustainable corporate governance is twofold
  - Ensure that corporations are well governed and are more resilient to shocks
  - Prevent (waves of) corporate failures

The United Nations' Definition

- This definition focuses on sustainability more broadly defined
- The "Bruntdland Commission" set up by the United Nations defines sustainability as meeting "the needs of the **present** without compromising the ability of **future** generations to meet their own needs"
- The focus is on reducing poverty across the world but also reducing "environmental stress" caused by
  - Growing demand for scarce resources by the well off
  - The poor who often have to destroy their environment to survive
- Nevertheless, the definition is broad to form the basis for 17 sustainable development goals (SDGs)

What is Sustainable Corporate Governance?

- The three definitions are **not** mutually exclusive
- All three definitions focus on creation of **long-term** rather than **short-term** shareholder value
- A focus on short term (*short-termism*) may
  - Boost profits in the short run
  - Come at the cost of long-term shareholder value
  - Jeopardise the firm's survival
- This would harm both shareholders and stakeholders

What is Sustainable Corporate Governance?

- The third definition is the broadest one
  - It encompasses the first two definitions
  - It considers a much broader set of stakeholders than the first one
  - It also takes into account how the firm interacts with its ecosystem

What is Sustainable Corporate Governance?

Sustainable corporate governance is the set of arrangements that ensure that the firm focuses on maximising **long-term shareholder value**, which goes hand in hand with the consideration of **broader stakeholder interests** in the firm's decision making. The focus on long-term shareholder value creation not only enhances the **survival of the firm** in the long run, but it also promotes the **preservation of the firm's ecosystem**.

How To Achieve Sustainable Corporate Governance

- How can we move towards
  - Long-term shareholder value
  - More resilient businesses
  - Greater stakeholder orientation
- Potential ways forward are
  - Improved diversity on boards of directors
  - Enabling owners

Gender Diversity and Firm Performance

- What does the academic evidence conclude about the effect of gender diversity on firm value/ performance?
  - The effect is ______?
    - Positive
    - Negative
    - Neutral

Gender Diversity and Firm Performance

- A major methodological issue in corporate governance research is **endogeneity**
  - Correlation versus causation
  - E.g. Credit Suisse (2012) study on "Gender diversity and corporate performance"
- Measuring long-term shareholder value is trickier than measuring short-term shareholder value
- There is evidence that gender diversity on boards intensifies corporate governance and improves quality of decision making

Women on the board and stock-market performance

Figure 7

Share price performance of all companies (with market cap > USD 10 bn)*

Source: Thomson Reuters, Credit Suisse
* Calculated on a sector-neutral basis

Figure 8

Share price performance of all companies (with market cap < USD 10 bn)*

Source: Thomson Reuters, Credit Suisse
* Calculated on a sector-neutral basis

Figure 9

Relative share price performance of all companies (with market cap > USD 10 bn)*

Source: Thomson Reuters, Credit Suisse
* Performance of stocks with some female board representation divided by the performance of stocks with no women on the board, where all stocks have market capitalization greater than USD 10 bn

Our headline result is that, over the past six years, companies with at least some female board representation outperformed those with no women on the board in terms of share price performance.

Getting to this result was not straightforward. There is a bias from the skew in female representation towards certain sectors (consumer-related), certain markets (Europe) and towards large-cap stocks. Take the sector issue by way of example. The consumer staples sector ranks higher than average in terms of female board representation, but arguably the considerable share price outperformance the sector has delivered over the past few years has little to do with board composition and much more to do with the very stable and defensive nature of its earnings in a world of considerable earnings uncertainty.

Hence, in calculating the returns generated by companies with (a) one or more women on the board compared with those with (b) no women on the board, we have made three adjustments:

1. We look at performance from a sector-neutral stance. In other words, we have allocated the same sector weights in the calculations of both (a) and (b) in order to mitigate the impact of overall sector performance;
2. We split the sample universe into two baskets: one containing companies with market capitalization greater than USD 10 billion and one containing companies with market capitalization less than USD 10 billion. Hence, in broad terms, we are aiming to compare women versus no women on the board of large caps and separately, women versus no women on the board of mid-to-small caps. In this way, we can partially mitigate the survivor bias of small cap stocks in the construction of our sample universe; and
3. We look at the returns generated (on a sector-neutral basis) within each region as well as at the aggregate global level.

Figure 7 and Figure 8 illustrate the results for the large-cap (greater than USD 10 billion) stocks and for stocks of less than USD 10 billion in market capitalization, respectively, for the full global universe. **In both examples, the results demonstrate superior share price performance for the companies with one or more women on the board**.

Specifically, we find that for large-cap stocks (market cap greater than USD 10 billion), the companies with women board members outperformed those without women board members by 26% over the past six years. For small-to-mid cap stocks, the basket of stocks with women on the board outperformed those without by 17% over the same period. However, the performance pattern is far from con-

"In both examples, the results demonstrate superior share price performance for the companies with one or more women on the board.

Gender Diversity and Firm Performance

- Greater gender diversity has been associated with
  - Better corporate governance practices
    - Greater emphasis on monitoring (more board meetings)
    - Better attendance by both males and females at board meetings
    - Greater dividend payouts for firms with weaker governance
  - Improved quality of decision making and reduced groupthink
    - Better decisions on mergers and acquisitions
    - Mitigating cognitive biases (e.g., overconfidence) in male CEOs

More Resilient Businesses

- These better corporate governance practices and improved quality of decision making are reflected in
  - Improved earnings quality and less earnings management
  - Decreased corporate tax aggressiveness
  - Less corporate misconduct and other malpractices
  - Reduced incidences of corporate fraud
  - Actions to reduce perceived risks

Greater Stakeholder Orientation

- There are two possible reasons why women might be more likely to pursue CSR-related issues
  1. Women define morality and ethics differently from men
  2. The type of helping behaviour also differs across gender
- Female directors have been associated with greater stakeholder orientation
  - Reduction in negative business practices (areas of concern for KLD)
  - More voluntary disclosures about CSR
  - Less downsizing
  - Philanthropic assistance to victims of natural disasters

Greater Stakeholder Orientation

- Are female directors more concerned about their firm's environmental impact?
  - Firms with female directors have better environmental CSR ratings
  - Such firms are less likely to be subject to environmental lawsuits
  - S&P 500 firms with female directors consume a greater proportion of their total energy consumption in the form of renewable energy
    - Effect was economically significant
      - A one-percentage point increase in female directors results in a 1.03 to 1.58 percentage increase in renewable energy consumption
    - Effect was only observed for boards with two or more women
    - The combination of female directors and greater renewable energy consumption improves firm value!

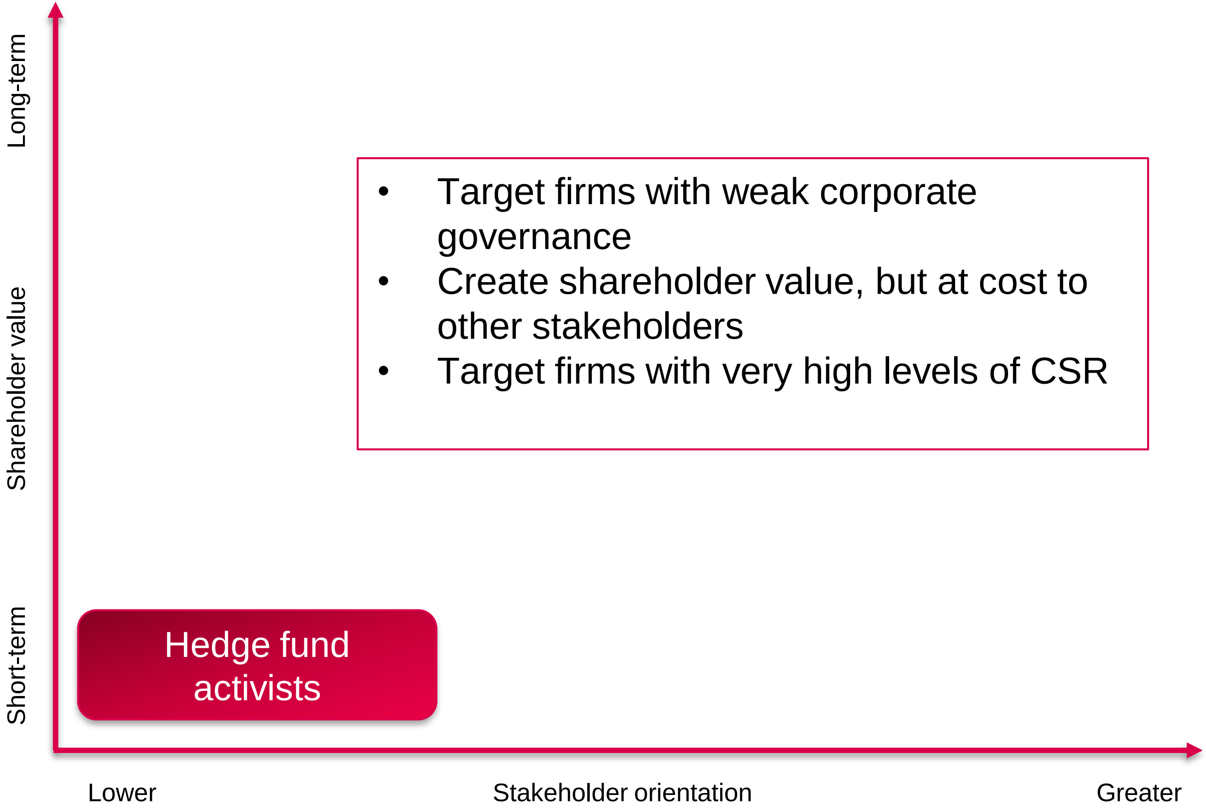
Enabling and Impeding Owners

- Sustainable corporate governance might be difficult to achieve unless a company has sympathetic owners or shareholders
- What does the evidence tell us about
  - The stakeholder orientation
  - The focus on long-term versus short-term shareholder value

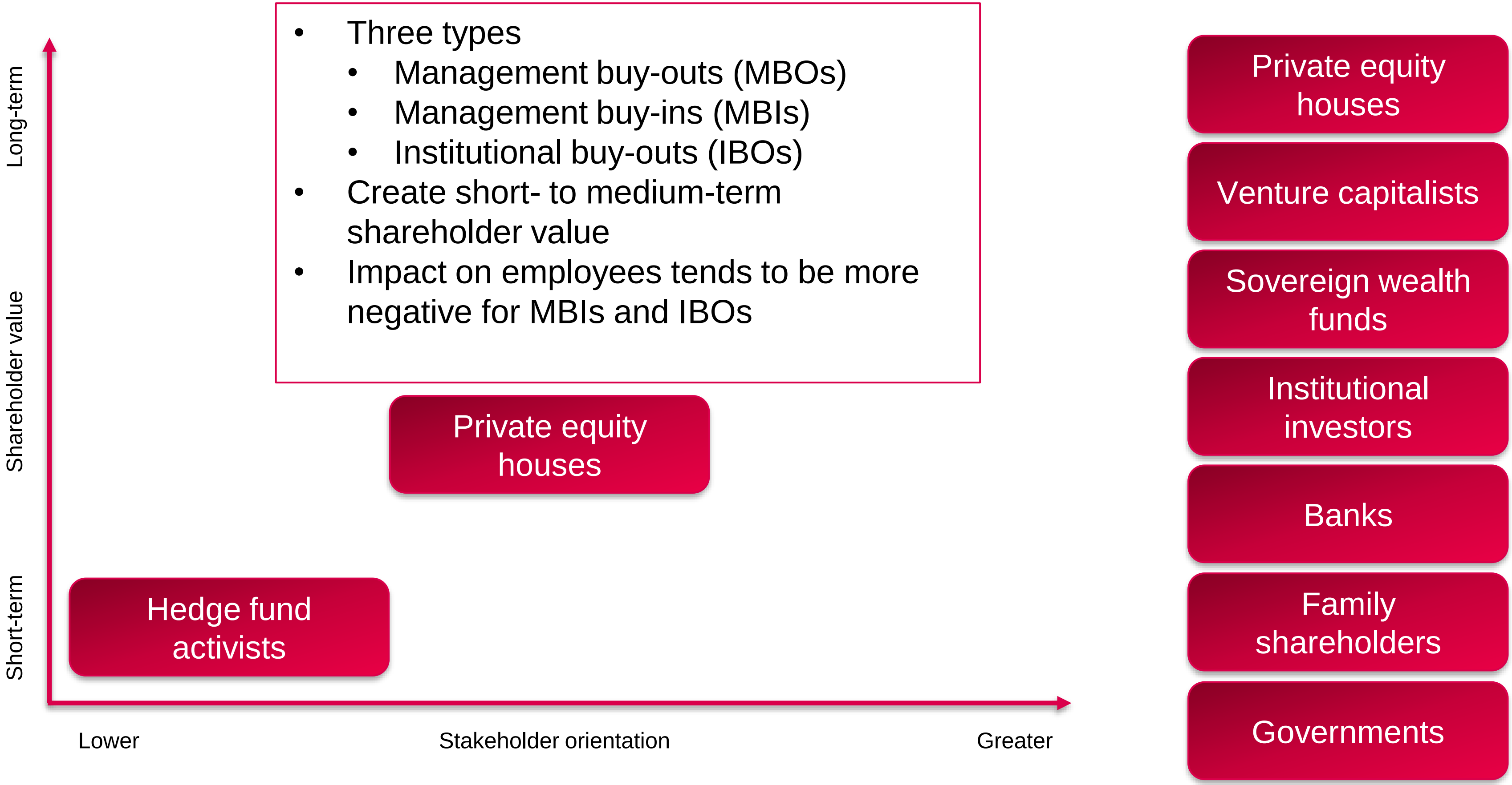
of various types of shareholders?

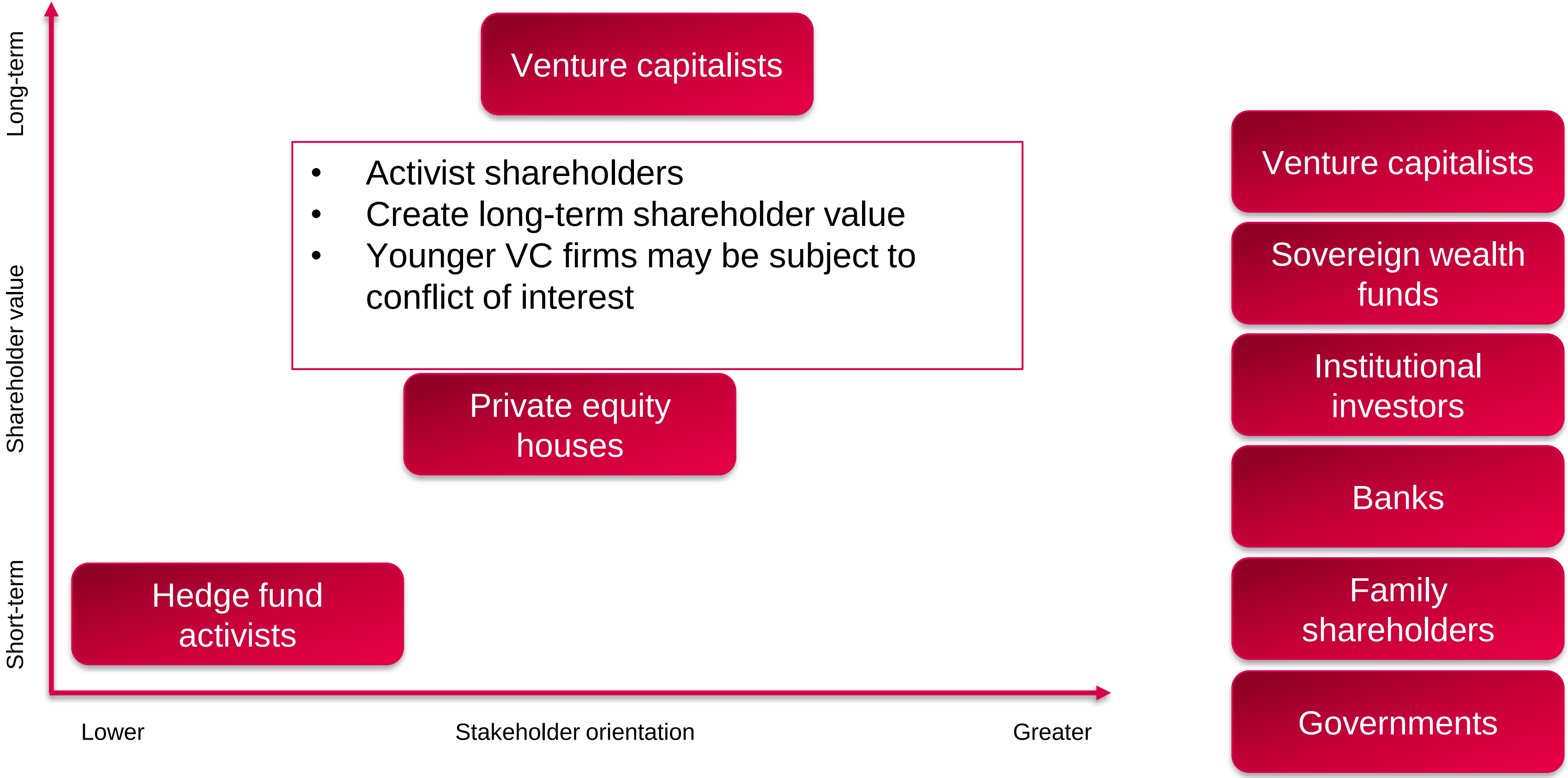
Enabling and Impeding Owners

- Hedge fund activists
- Private equity houses
- Venture capitalists
- Sovereign wealth funds
- Institutional investors
- Banks
- Families
- Governments

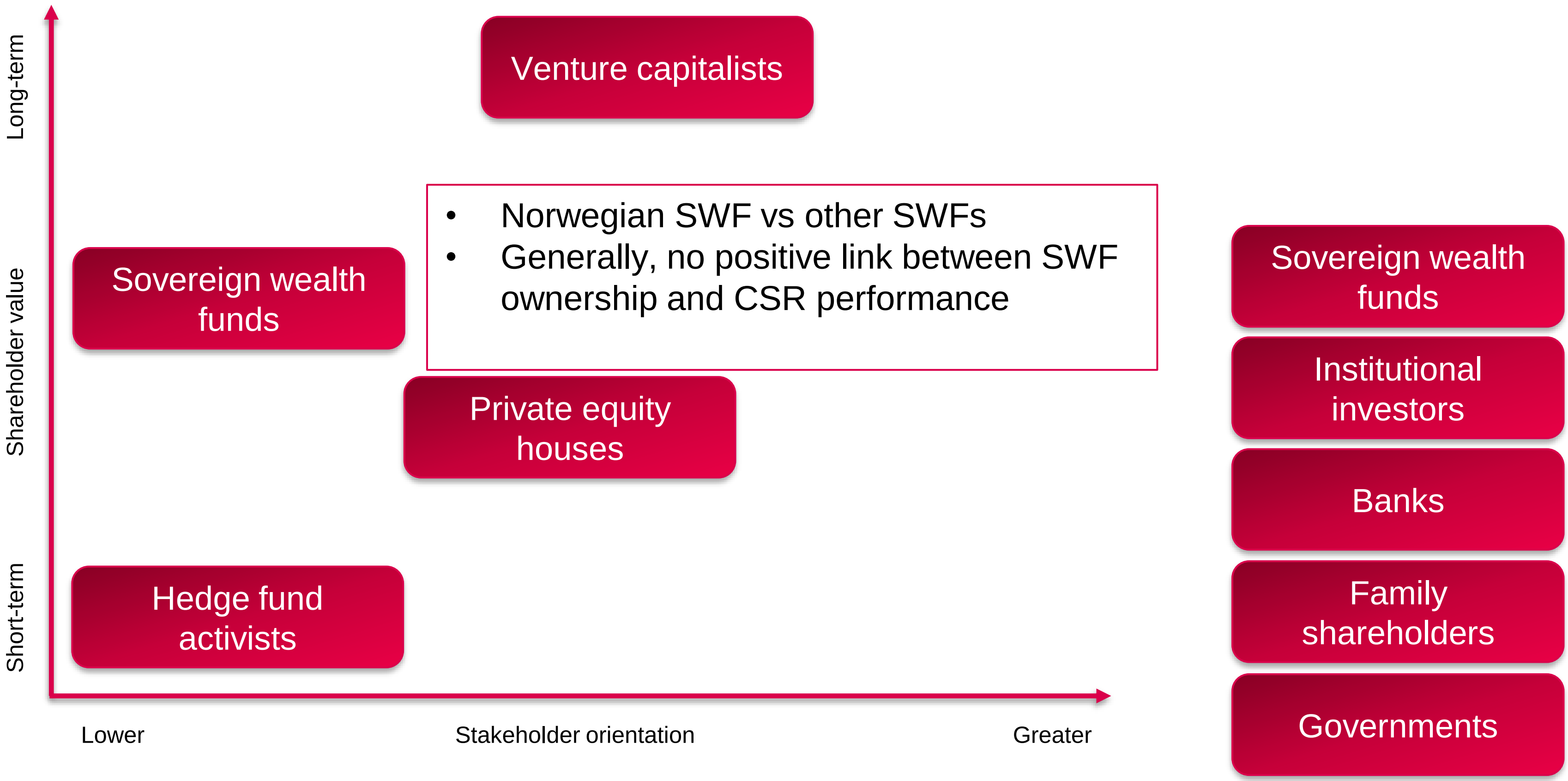


- Hedge fund activists
- Private equity houses
- Venture capitalists
- Sovereign wealth funds
- Institutional investors
- Banks
- Family shareholders
- Governments

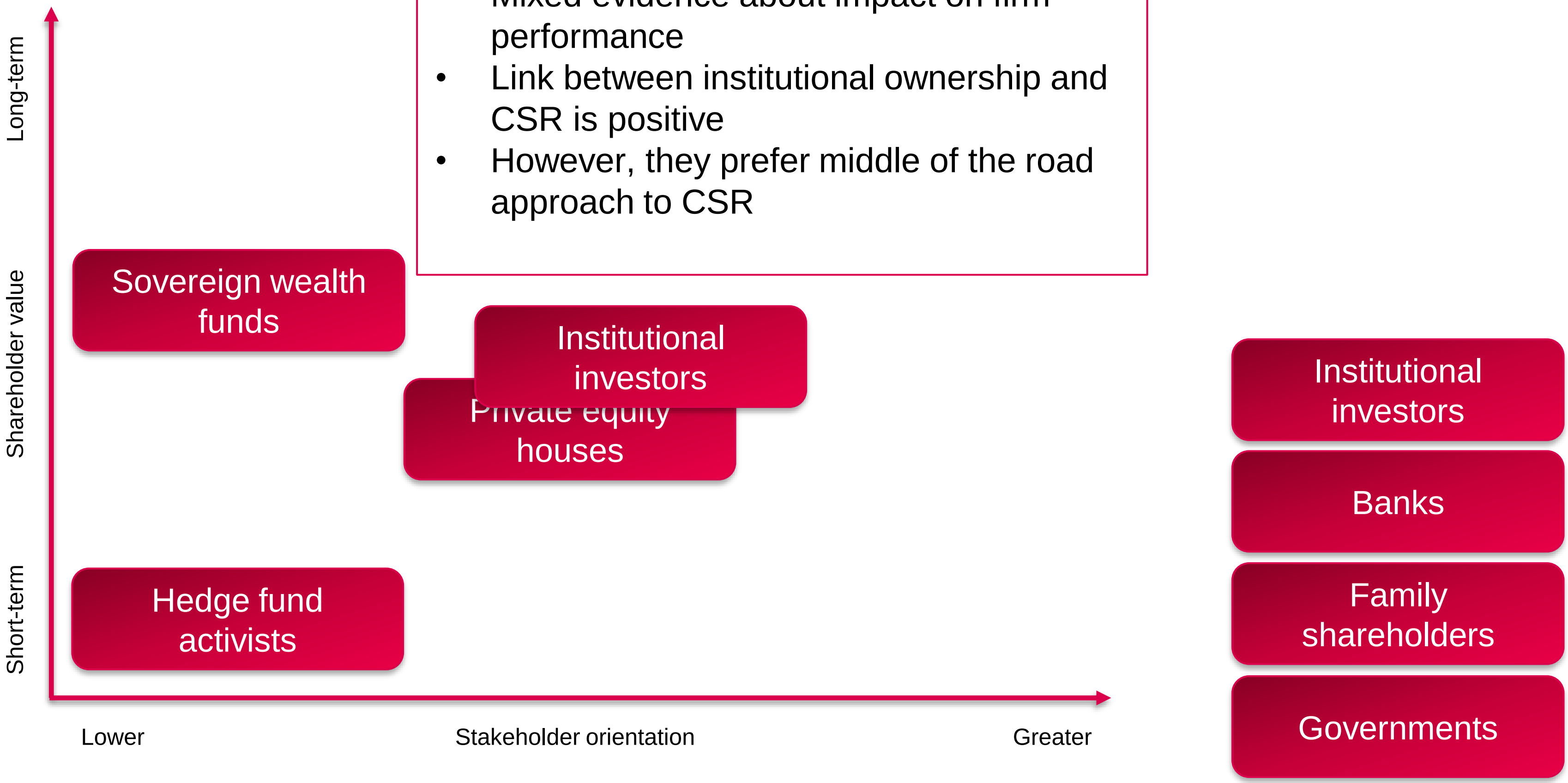

• Three types
• Management buy-outs (MBOs)
• Management buy-ins (MBIs)
• Institutional buy-outs (IBOs)
• Create short- to medium-term shareholder value
• Impact on employees tends to be more negative for MBIs and IBOs
Long-term
Shareholder value
Short-term
Private equity houses
Hedge fund activists
Lower
Stakeholder orientation
Greater
Private equity houses
Venture capitalists
Sovereign wealth funds
Institutional investors
Banks
Family shareholders
Governments

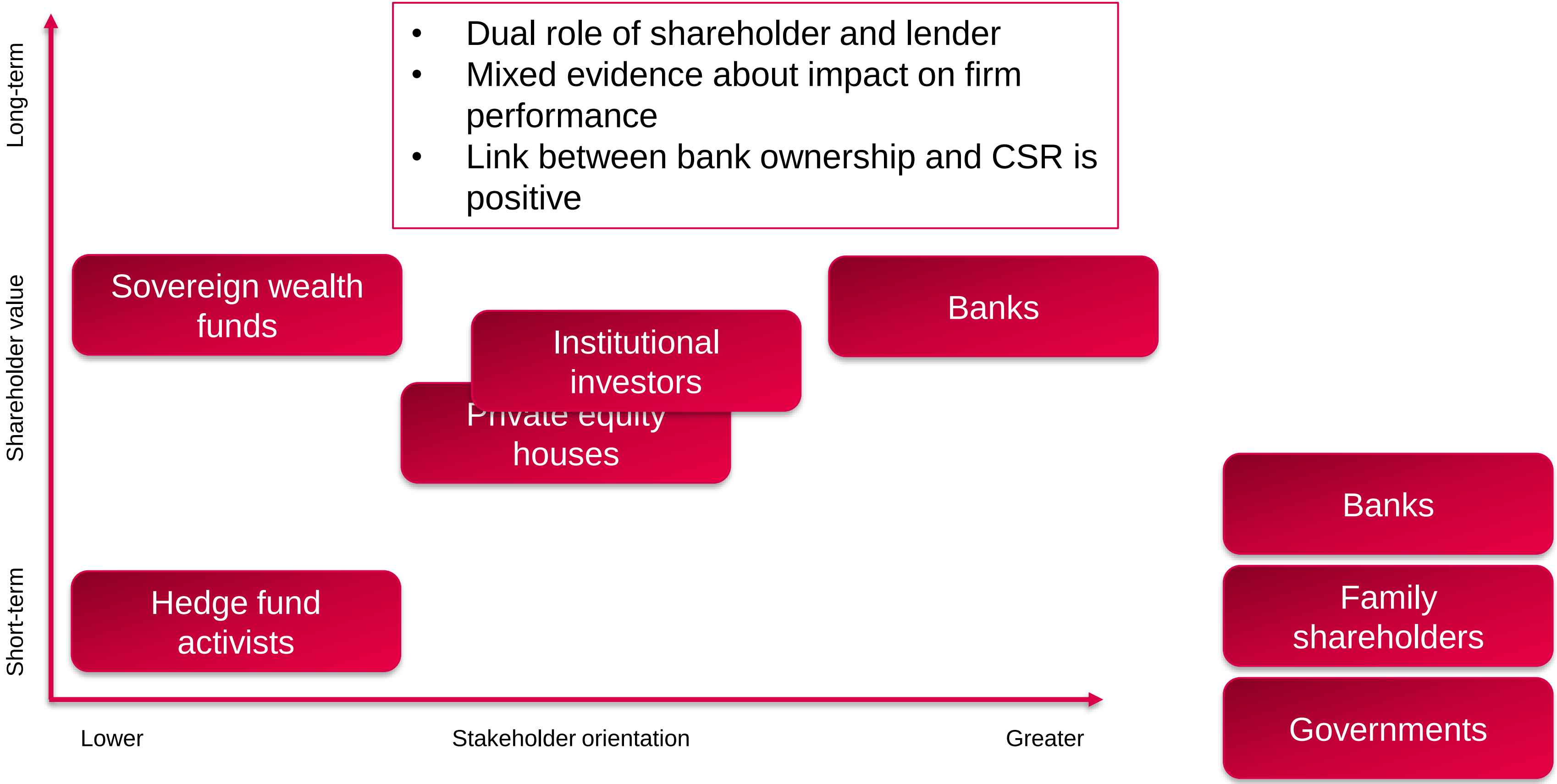


Venture capitalists
Activist shareholders
Create long-term shareholder value
Younger VC firms may be subject to conflict of interest
Private equity houses
Hedge fund activists
Long-term
Shareholder value
Short-term
Lower
Stakeholder orientation
Greater
Venture capitalists
Sovereign wealth funds
Institutional investors
Banks
Family shareholders
Governments

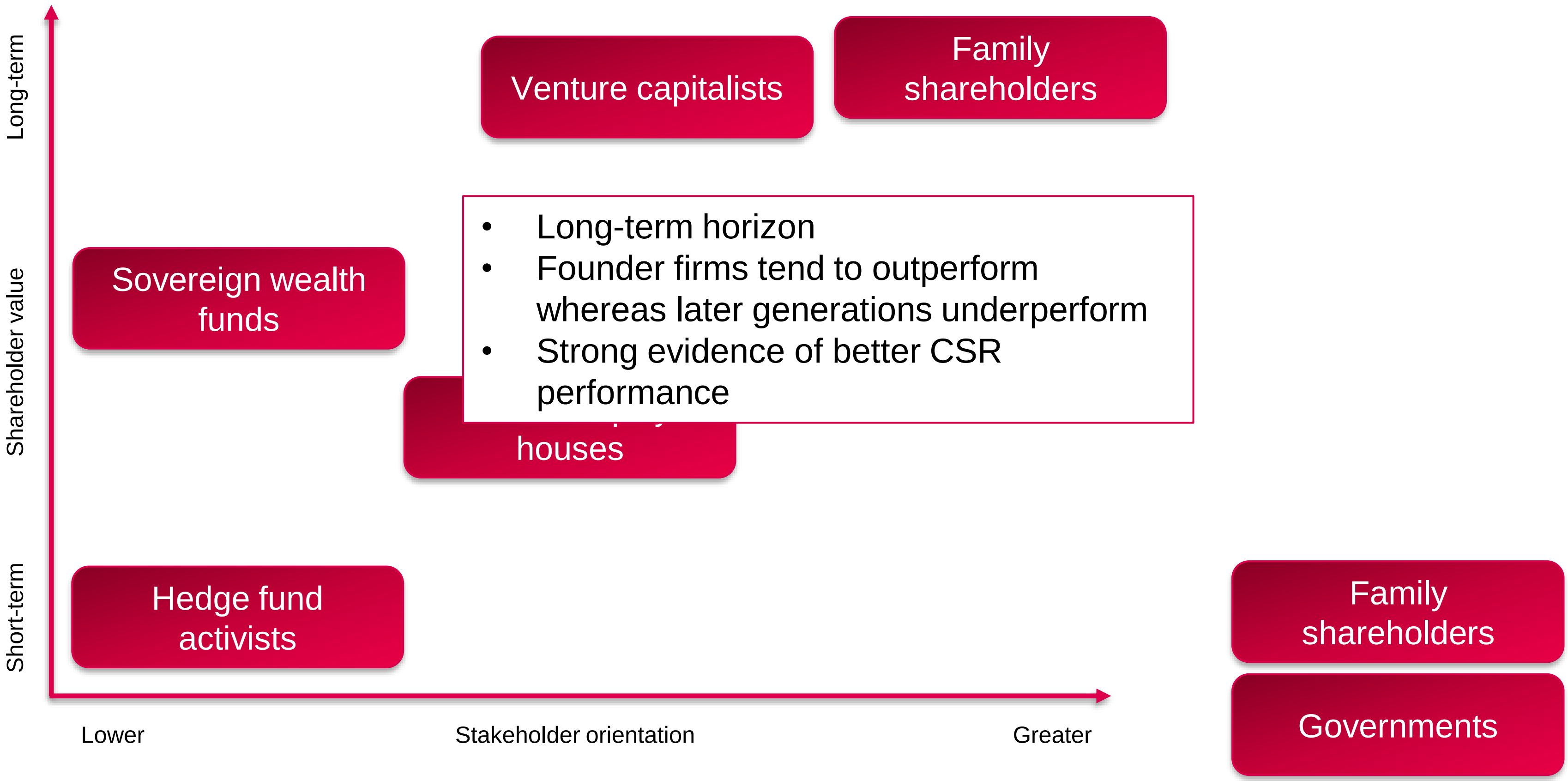

Long-term
Shareholder value
Short-term
Venture capitalists
Sovereign wealth funds
• Norwegian SWF vs other SWFs
• Generally, no positive link between SWF ownership and CSR performance
Private equity houses
Hedge fund activists
Sovereign wealth funds
Institutional investors
Banks
Family shareholders
Governments
Lower
Stakeholder orientation
Greater

- Mixed evidence about impact on firm performance
- Link between institutional ownership and CSR is positive
- However, they prefer middle of the road approach to CSR

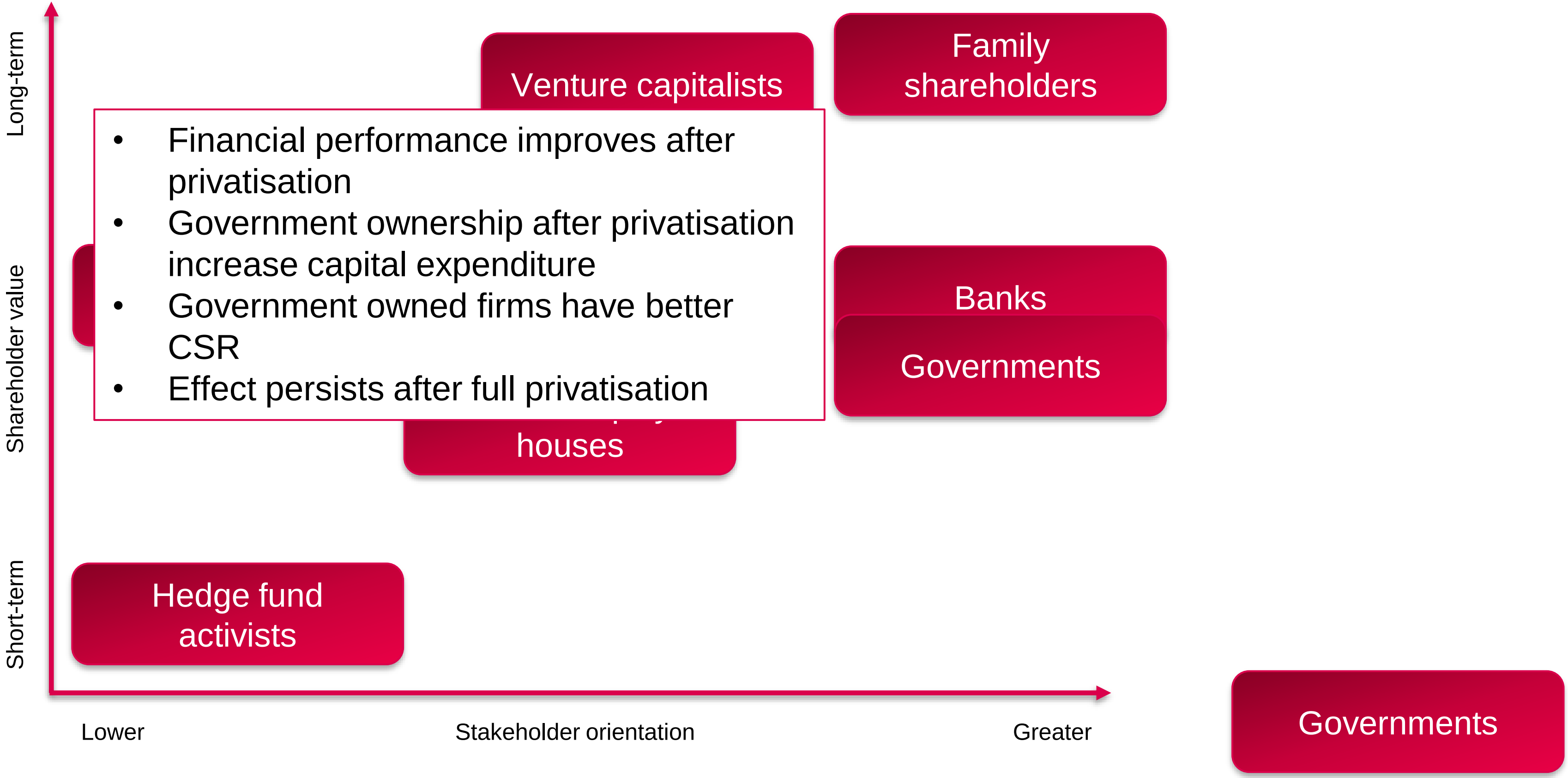




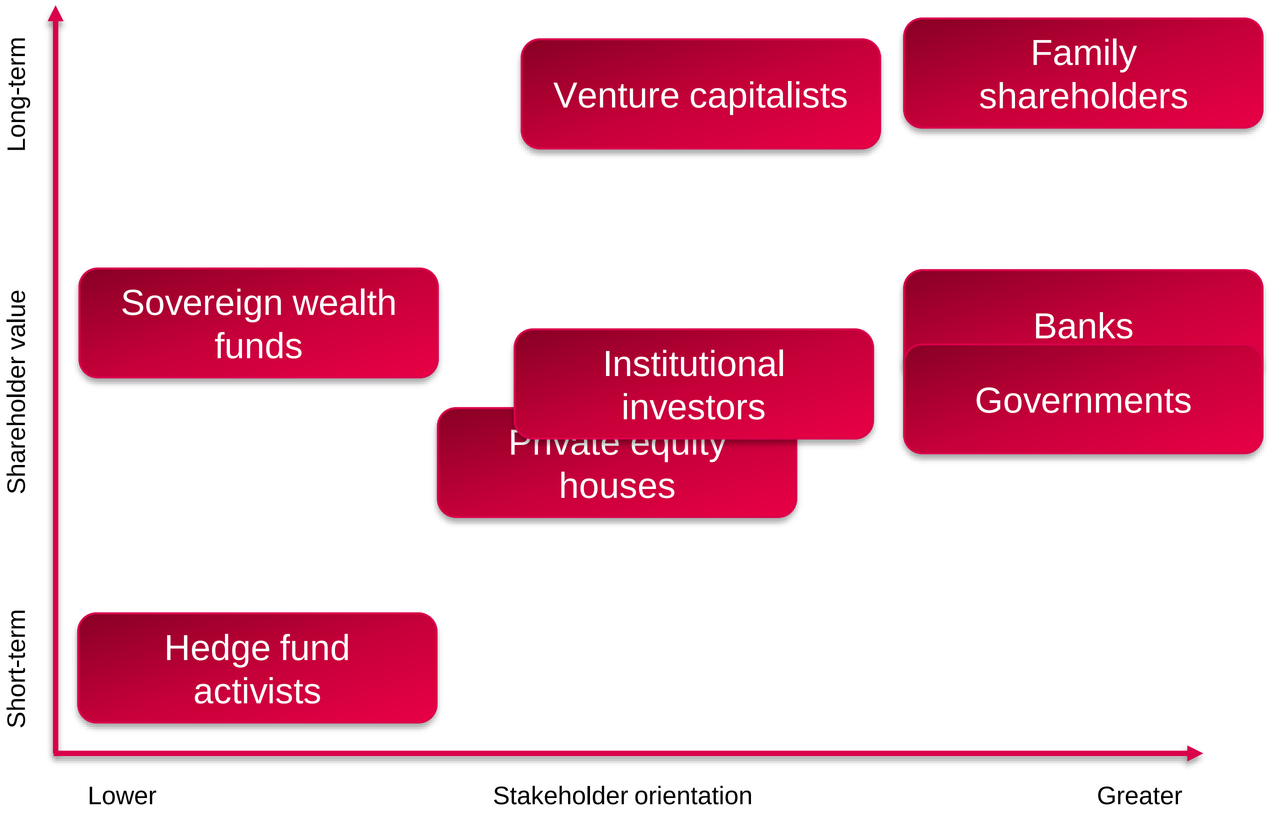
Dual role of shareholder and lender
Mixed evidence about impact on firm performance
Link between bank ownership and CSR is positive
Long-term
Shareholder value
Short-term
Sovereign wealth funds
Institutional investors
Private equity houses
Banks
Hedge fund activists
Banks
Family shareholders
Governments
Lower
Stakeholder orientation
Greater



Long-term
Shareholder value
Short-term
Venture capitalists
Family shareholders
Sovereign wealth funds
• Long-term horizon
• Founder firms tend to outperform whereas later generations underperform
• Strong evidence of better CSR performance
houses
Hedge fund activists
Family shareholders
Governments
Lower
Stakeholder orientation
Greater



- Financial performance improves after privatisation
- Government ownership after privatisation increase capital expenditure
- Government owned firms have better CSR
- Effect persists after full privatisation


Long-term
Shareholder value
Short-term
Venture capitalists
Family shareholders
Sovereign wealth funds
Institutional investors
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Lower
Stakeholder orientation
Greater

Conclusion

- Moving towards (more) sustainable corporate governance requires a major rethink and reboot in boardrooms
  - Greater board diversity would move away from groupthink and stale approaches
  - Board diversity should not just be limited to gender
- The onus is also on the owners or shareholders to enable sustainability

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