More female board directors add up to improved sustainability performance

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As a corporate responsibility consultant, Kellie McElhaney publicly criticized Apple's recent appointment of another man to an already all-male executive team. McElhaney's new research goes one step further, indicating that the number of women on a corporate board correlates with a firm's sustainability performance.

"While not studied in this paper, the cases of strong ESG performance leading to improved financial and more women in leadership leading to better financial performance has been well documented," says Adj. Asst. Prof. McElhaney. "The gap we want to fill in this study is to investigate a linage between women and ESG performance to make this scenario a win-win-win."

McElhaney found that companies with one or more women on their boards are significantly more likely to have improved sustainability practices. "This is not a women's or men's issue, it's a collective and business opportunity," says McElhaney who is also faculty director, Center for Responsible Business at the University of California, Berkeley's Haas School of Business.

The study, "Women Create A Sustainable Future," is co-authored by Sanaz Mobasseri, PhD candidate, Berkeley-Haas Management of Organizations Group, and sponsored by KPMG and Women Corporate Directors (WCD). MSCI Inc. provided the dataset of Fortune 1500 companies and their environmental, social, and governance (ESG) performance, which they have been measuring since 1992.

To measure corporate performance, the authors reviewed each organization's ESG performance. Environmental criteria include steps to improve energy efficiency of operations, to measure and reduce carbon emissions, the reduction of packaging, and investment in renewable power generation. Examples of social factors include health care access for underserved populations in developing market supply chains, strong employment benefits and performance incentives, products with improved health or nutritional benefits, and products and services to communities with limited or no access to financial products. Finally, governance is defined as avoiding corruption and bribery, clean accounting, and a high level of disclosure and transparency about business practices.

ESG is a widely accepted measure of corporate sustainability among the investment community as indicators of risk management, opportunity recognition, and strong leadership.

"We also found, like researchers before us, that the sweet spot is three. Companies with at least three female board members had a better ESG performance but we're talking about very few companies who meet this threshold–just three of the 1,500 we studied: Kimberly-Clark, General Motors, and Walmart," says McElhaney.

McElhaney interviewed several female directors to learn more about their personal experiences on a board.

"Women and sustainability are two sides of the same coin …. Corporations build better societies if they have balanced boards," says Halla Tomadottir, executive chair and co-founder of Audur Capital in Iceland, interviewed in the study.

The study's authors also spoke with former U.S. Secretary of Agriculture Ann Veneman, who serves on the board of Nestle. "The voices of women are critical in advancing the goals of corporate shared value," says Veneman in the study.

Others female directors told McElhaney that they evaluate invitations to sit on boards based on the organizations' ESG factor. Dina Dublon, former executive vice president and chief financial officer of JP Morgan Chase, is a director at PepsiCo, Accenture, and Microsoft. "There is an element of self-selection for me," says Dublon. "I choose to serve on boards who have openness to ESG issues because I care deeply about these issues."

McElhaney points out that "causality" remains problematic. "Is a company that's not managing risk like ESG going to realize that it's a risk not to have more women in senior leadership–Which happens first –adding more women to a board or improving sustainability initiatives?"

The next phase of McElhaney's research will be to interview more female, as well as male board members. McElhaney also cites four critical next steps to expand female board membership: conduct more research in this area, continue to build a pipeline of women to serve on corporate boards, foster a business community of sponsors for females that includes both men and women, and train business leaders of both genders to be "change agents."

More information: See the full paper: [responsiblebusiness.haas.berke … ue_FINAL_10_2012.pdf]

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