Female board members help improve firms' corporate sustainability reporting, finds study

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New research has revealed that firms with female directors on the board, regardless of how many, improves the quality of corporate sustainability disclosures than those with no board representation.

Companies are required by law to report on how sustainability issues, such as climate change, impact their business and how their operations in turn affect people and the planet.

The findings suggest that female directors can influence boardroom decisions in favor of stakeholders and oppose managers' illegal and unethical policies, which has positive implications for the quality of firms' social and environmental performance and their reporting.

The study, led by researchers at the University of Portsmouth, also revealed that an increase in the proportion of female directors on the board, as well as the audit committee, increases their positive influence on reporting.

The researchers analyzed data from annual and sustainability reports from 2012 to 2021 for 300 non-financial Pakistani listed companies.

Lead author of the study Professor Khaled Hussainey, from the School of Accounting, Economics and Finance at the University of Portsmouth, said, "Regardless of their position or status, female directors—whether independent or executive—play a significant positive role in improving the quality of corporate sustainability disclosures.

"The findings indicate that female board members are likely to be more vigilant, critical, and capable of raising their concerns regarding managers' unethical policies and decisions which are implicitly or explicitly harmful to stakeholders' interests."

"The results also endorse many previous studies advocating that female directors have unique feminine attributes and strong analytical skills, which positively influence firms' financial and nonfinancial performance and the quality of their reporting."

The research also examined the effect of female directors' educational levels on the impact on reporting. It found female directors who hold a master's or above degree have a significant positive effect on corporate sustainability reporting, while those with a bachelor's or below degree have no significant effect.

In addition, female directors' education background has an impact too. Those with a business-related education positively contribute marginally higher than those with a non-business background in improving firm's sustainability disclosures.

Professor Hussainey added, "These findings support the hypothesis that highly educated female directors are more aware and serious about different social and ecological challenges, thereby, proactively push firms toward improving their sustainable performance and its reporting."

"They also explain that it's neither tokenism nor the numerical representation of female directors but rather their other attributes such as position and experience (independent and executive) and education (level and background) that matter."

"Therefore, firms should prioritize the independence, higher level of relevant education, experience, and monitoring skills of female directors in increasing boardroom gender diversity rather than blindly following corporate governance codes, regulations and social norms and avoiding pressure from regulators, society, media, and other stakeholders."

The study is published in the journal *Business Strategy and the Environment*.

More information: Haseeb Ur Rahman et al, Is it the mere female directors or their attributes that matter for the quality of corporate sustainability disclosures?, *Business Strategy and the Environment* (2023). DOI: 10.1002/bse.3501

Provided by University of Portsmouth