Research Note
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Values of Directors, Gender Diversity and Environmental, Social, and Governance Performance of Firms in the Industrial Region of Ghana

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We examine gender gaps in the values of female and male directors and investigate the effect of gender diversity on Environmental, Social, and Governance (ESG) outcomes in Greater Accra—the industrial region of Ghana. Overall, we find gender gaps in values between male and female directors, with female directors ranking low in power but high in hedonism compared to male directors. Additional results are that gender diversity has a positive effect on firms' ESG outcomes. However, further analysis of the three components of ESG indicates that the positive effect is mainly established for corporate social responsibility (CSR) compared to the environmental and governance components. We find a positive nonlinear relationship between gender diversity and CSR, suggesting that gender-diverse directors increase CSR. However, appointing more than six women out of ten directors within a firm could adversely affect CSR gains.

Introduction

In recent years, gender diversity has gained considerable attention from regulatory institutions and academics due to the recognition of the crucial role it plays in the improvement of corporate governance. The available literature is indicative of its influential positive role in improving decision-making, broadening the information base, enhancing reputation and goodwill, fostering ethical values and attitudes and enabling effective monitoring (Chen et al., 2019; Levi et al., 2014 and Adams & Ferreira, 2009). These positive effects have implications on firms' Environmental, Social and Governance (ESG) outcomes. The ESG ecosystem emphasises practices that engender firms' sustainability as they act as agents of production. Given the uncertainties in the business environment caused by the COVID-19 pandemic, climate change, global supply shocks, and economic challenges, the sustainability of firms is crucial. Therefore, it may be necessary for firms to go beyond focusing solely on financial indicators and consider non-financial indicators such as ESG practices and strategies to ensure sustainable operations. An ESG performance framework offers numerous direct and indirect benefits, including competitive advantage, attracting investors, improving financial performance, fostering customer loyalty, and enabling sustainable operations (Gillan et al., 2021; Huang, 2021; and Tarmuji et al., 2016).

However, most of the existing literature on gender diversity and ESG outcomes is based on data from high-income countries. The evidence for developing countries is rare or, at best, nascent. This raises concerns as the available evidence may be at odds with the experience of developing countries due to differences in culture, demographics, institutional quality, regulation, and economic development.

Against this background, the current study focuses on three objectives: (1) to examine the gender gaps in values at the corporate director level; (2) to investigate the link between gender diversity and firm's ESG outcomes; and (3) to examine the effect of gender diversity on each of the three components of ESG outcomes.

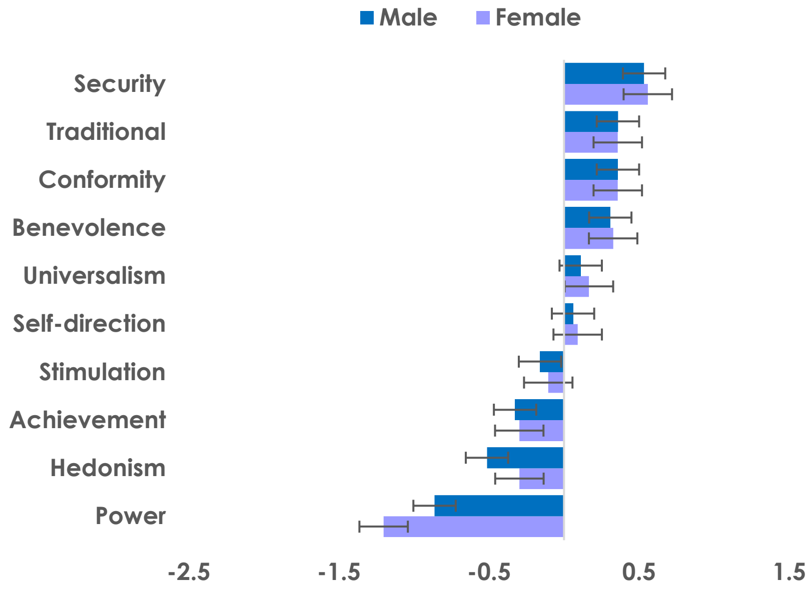
Data and Methods

The sampling and data collection were undertaken by the Ghana Statistical Service using the most recent Integrated Business Establishment Survey (IBES) sampling frame. Out of the total 360 medium and large firms randomly sampled from the IBES frame, data was successfully collected on 312 firms, registering a response rate of 86.7 percent. We used the World Bank's (2009) sample size estimation method for sampling enterprise and indicator surveys, employing a stratified sampling approach that categorised establishments into sectors and relevant geographies. From the 312 firms, we collected values data on 792 respective directors comprising 292 female and 500 male directors. We used Schwartz's 40-question Portrait Value Questionnaire (PVQ) to generate the value measures for the individual directors. Gender diversity was measured as the proportion and number of female directors within a firm. Based on the available literature, the ESG outcomes were measured using environmental, social and governance practices that engender sustainability at the firm level (Maignan & Ferrell, 2000; Kacanski, 2021; Hastalona & Sadalia, 2021; Syed, 2017; Nsour & Al-Rjoub, 2022). In terms of methodology, we carried out descriptive analyses and two variants of econometric analyses, namely the Ordinary Least Square (OLS) and the propensity score matching technique. While the descriptive analyses offer preliminary statistics, distributions, and relationships between outcomes and firm characteristics, the econometric analyses allow to establish the link between gender diversity and firms' ESG outcomes.

Main findings

We first report the results on gender gaps in values between female and male directors. Our findings highlight the persisting gender differences at the director level, as shown in Figure 1; here, higher values signal higher priority given to those values. In analysing the differences in terms of statistical significance, we find that only two values (hedonism and power) differ significantly between male and female directors. Thus, female directors rank lower in power but higher in hedonism compared to male directors. This finding is further confirmed when controlling for background information on directors, such as educational level, household size and ethnicity. The findings suggest that female directors have different value priorities compared to their male counterparts. Interpreting these findings within the framework of Schwartz (1994), which focuses on values and motives, indicate that female directors are more inclined towards openness to change (hedonistic) but less focused on self-enhancement (power) when compared to their male counterparts. This implies that firms with a higher representation of female directors are more likely to promote sustainable environmental, social and governance practices, as they prioritise broader societal issues.

Figure 1: Values comparison for male and female directors



Source: Authors' calculations based on fieldwork, 2022.

Figure 2 shows key statistics on gender diversity. Our results indicate that the average percentage of gender diversity is 30.5%, and that in more than two out of five firms (47.6%) at least a third of directors are female. One out of every four firms (25.2%) has its Chief Executive Officer (CEO) or top director being female. These statistics reveal that there are more women at the director level than women at the topmost positions. This, perhaps, signals women's momentum in corporate leadership, especially within a developing country context, with the prospect that having more women in director positions will create a critical pool of experienced women to break the glass ceiling and assume the topmost director/CEO positions.

Figure 2: Key statistics on gender diversity

KEY INDICATORS	MEASUREMENT	PERCENTAGE
Average Percentage of Gender Diversity	Proportion of Female Directors	30.5%
Gender Diversity Dummy	A third of Directors are Female	47.6%
CEO/Top Director Gender Diversity	CEO/Top Director is Female	25.2%

Source: Authors' calculations based on fieldwork, 2022.

Next we report the results of our causal analysis. Figure 3 illustrates the effect of gender diversity on ESG performance. The coefficients shown in Figure 3 control for key firmographics such as sector of operation, age of firm, size, and location. The first bar indicates that gender diversity (measured by the proportion of female directors in the firm) increases ESG performance by 0.058 units. The second bar reveals that gender diversity (measured by the number of female directors) increases ESG performance by 0.281 units. These findings suggest that gender diversity can have positive ESG outcomes due to its ability to harness diverse perspectives into decision-making, attracting and retaining talented employees, improve corporate reputation, and manage risk. Companies that prioritise gender diversity are more likely to achieve long-term sustainability and improve their ESG performance.

Figure 3: Effect of gender diversity on ESG performance

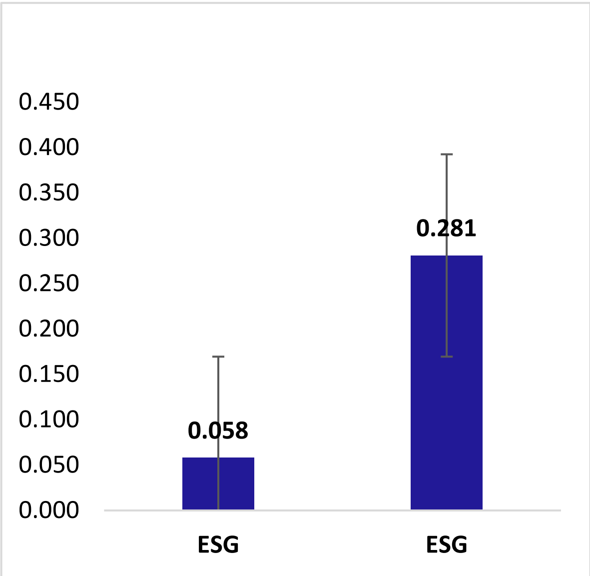
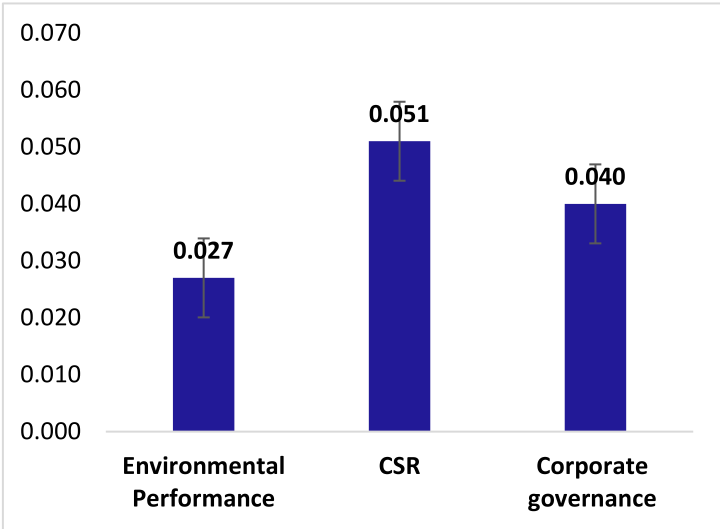


Figure 4: Effect of gender diversity on ESG components

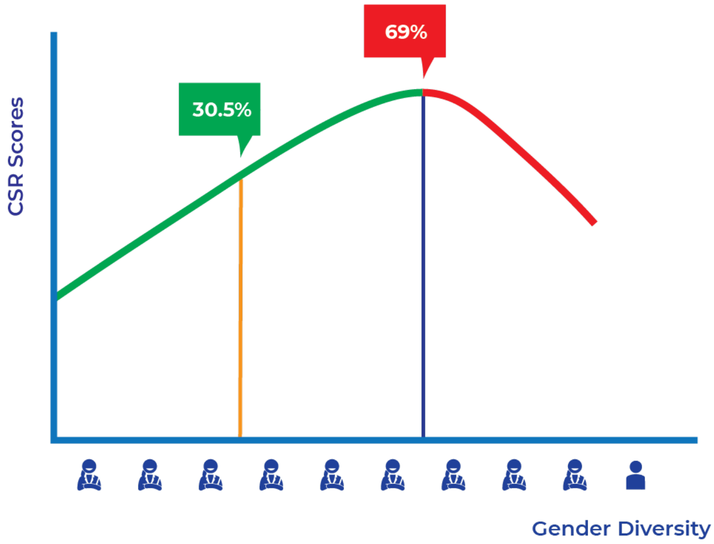


Source: Authors' calculations based on fieldwork, 2022

Figure 4 shows the effect of gender diversity on each of the three components of ESG outcomes. The analysis of the three components of ESG reveals that the positive effect is mainly observed in the domain of CSR compared to the environmental and governance outcomes. Focusing on CSR, the findings further reveal that gender-diverse firms have the biggest effect in increasing ethical responsibility, followed by discretionary, economic, and legal responsibilities. These findings align with Schwartz's (1994, 2012) framework of values and motives, which suggest that the values of female directors predispose them towards motivations that transcend self-interest, placing a strong emphasis on the welfare of the broader society.

Finally, following critical mass theory, we examine whether the relationship between gender diversity and CSR is nonlinear. Figure 5 depicts the nonlinear relationship between gender diversity and CSR at the corporate level. The figure shows that gender-diverse directors increase corporate social responsibility. However, appointing more than six out of ten directors as women could adversely affect corporate social responsibility gains. This finding suggests that firms with gender-diverse directors will advocate CSR in the decision-making body of firms; however, it cautions against female dominance in the upper echelons of companies. Figure 5 further demonstrates that with the current average gender diversity being 30.5 percent, there is more than a doubling of gains before the cap of 69 percent.

Figure 5: Nonlinear relationship between gender diversity and CSR



Source: Authors' calculations based on fieldwork, 2022

Policy impact

There are at least two policy implications to draw from our study. First, the findings on gender gaps in values imply that the composition of directors at the corporate level should be of concern to everyone, given that different values engender diverse motives, which are reflected in decision-making and their consequences on sustainable ESG outcomes. Second, the findings reveal that gender diversity increases ESG performance (in general) and CSR (in particular). This calls for a need to stimulate gender diversity outcomes within the context of developing countries to boost sustainable firm outcomes.

Moving forward

We will conduct a new survey on boardroom gender diversity and ESG outcomes. Given that sensitive and high-level decisions are made in the boardroom compared to the directors' level, a compelling case can be made for gender diversity from the boardroom perspective within a developing country context. Meanwhile, the preparations for the 2023 Integrated Business Enterprise Survey are far advanced. Conversations with the Ghana Statistical Service, the partner institution on this project, will capture information on medium and large firms with a well-defined board structure. This will provide a relevant frame to sample firms for a study on boardroom gender diversity and ESG outcomes at the firm level. Additionally, the geographical coverage of the project will be extended from the current focus on the Greater Accra region to other regions in Ghana. We will also revise the conceptual basis of the project in order to incorporate new theoretical frameworks.

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