

Women Create A Sustainable Future

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“Women and sustainability are two sides of the same coin. Corporations build better societies if they have balanced boards.”

—Halla Tomasdottir, Executive Chair & Co-Founder, Audur Capital

Diversity is a critical factor in improving not just the quality of a company’s leadership and decision-making, but also its overall financial, environmental, social and governance performance, and ultimately, the company’s sustainability. Indeed organizations like Credit Suisse¹, McKinsey², and Catalyst³ have shown that the presence of women at top levels of management and leadership has been correlated with better financial performance for the company.

Building on these findings, this study addresses an additional factor: Does the presence of women at the top positively affect the environmental and social impact of the firm? We explore and address a potential relationship between women leaders and sustainable business practices—environmental, social and governance—of the firm. This is a path of research intended to investigate and analyze the relationships between top-tier female leaders and corporate sustainability performance.

A growing body of research suggests that adding more women to the upper echelons of the corporate world—and particularly to directorial boards of publicly held companies—may help better balance business’ current emphasis on short-term profit maximization towards a broader focus on longer-term goals, including positive environmental, social, and governance impact.

Research suggests that companies that explicitly place value on gender diversity perform better in general, and perform better than their peers on the

multiple dimensions of corporate sustainability.

Specifically this paper identifies relationships between female corporate directors and corporate sustainability, and highlights why changes are important for the future of business in two main areas of focus:

1. We provide a better understanding of the relationships between female corporate directors and corporate sustainability; and
2. Our research findings build upon existing research that details the many ways women positively impact business, and ultimately, our world.

CORPORATE SUSTAINABILITY & BUSINESS

As companies and regulators spend more time evaluating operational impacts on climate change, terms like “corporate social responsibility” (CSR), “global citizenship,” “stakeholder value,” “sustainability,” and “corporate shared value” are increasingly appearing in shareholder proxy statements, companies’ annual reports, websites, boardroom conversations, and executive leadership team meetings. These various ideologies are largely the result of an evolving need to change business strategy from the historically dominant theme of maximizing shareholder value to a stakeholder-based strategic approach. In an effort to synchronize these terms, we will use the term “corporate sustainability” throughout this paper.

The term “corporate sustainability” was the product of discussions sparked by two seminal reports in 1987 and 2011. In 1987, the United Nations World Commission on Environment and Development (WCED) elevated discussions about global environmental concerns by linking the state of our global environment with development issues. WCED achieved this by introducing a concept called “sustainable development,” defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”⁴ Sustainable development refocused policy-makers,

for-profits, and non-profits on meeting basic human needs and “extending to all the opportunity to satisfy their aspirations for a better life,” ultimately furthering development across all countries. This report, known as the Brundtland Report, recognized that critical issues facing modern societies—such as poverty, resource depletion, and population growth—are embedded within a larger crisis that requires the involvement of all players in global society, including, and importantly, global business. The Brundtland Report called all factions of society to action. Now more than ever, the spotlight is on businesses to respond to this call to action, particularly with weakened government and public sectors.

Since the success and profitability of business often depends on its ability to satisfy market needs for resources and services, business is well positioned to address all types of human needs. Shifting the focus of business to long-term growth empowers corporate leaders to create value and sustain development over the long-term. In fact, progressive business leaders have been innovating for nearly two decades to address environmental, social, and governance issues.

The ‘business case’ for sustainability has been established through the creation of impacting social enterprises, the pronounced differentiation of brands that are more environmentally responsible and ethical, significant savings from adopting more energy-efficient practices, and the unmistakable acquisition and retention of top talent who care about their employers’ positive impact on society, to name just a few.

In 2011, the Washington, D.C.-based Conference Board published another influential report on sustainability.⁵ The report summarizes the “case” for pursuing corporate sustainability for economic growth into the following four categories:⁶

1. Reducing costs and minimizing exposure to risks.
2. Differentiating a firm from competitors, resulting in competitive advantages.

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3. Developing stronger reputations and establishing legitimacy and “license to operate.”
4. Achieving value creation.

An opportunity for female corporate directors with today’s corporations exists. With mainstream companies moving toward more efficient and sustainable business models and strategies, the potential for more women to lead is high. Women have a significant opportunity to use their voice effectively to catalyze, and even lead, this evolution in business strategy.

The presence of women shapes business from the inside-out and outside-in, from the MBA training grounds to consumer to managerial levels. Though beyond the scope of this paper, numerous studies have demonstrated women have proved to be more aligned with and desirous of corporate sustainability as MBA students, employees, consumers, and investors. So the question remains: Can women at the highest echelon of business decision-making and agenda-setting influence business to be more financially, socially and environmentally sustainable? And if so, how?

RESEARCHING FEMALE CORPORATE DIRECTORS & CORPORATE SUSTAINABILITY

To fully understand the depth of impact that women can have on corporate sustainability, we investigated corporate performance of more than 1,500 companies across three main categories: environmental, social, and governance (ESG). These three categories provide an adaptable and clear-cut framework to

evaluate how and in what ways companies are progressing towards corporate sustainability and also reflect the main content areas/ways that corporate sustainability recognizes.

We used data from MSCI Inc. that evaluates industry-specific risks and opportunities facing firms across ESG issues. MSCI is the leading and only major index provider with in-house ESG research expertise since 1972. The MSCI ESG data is collected in three phases: (1) key issues are identified by industry, (2) risk exposure and management strategies are evaluated, and (3) companies are rated against sector peers.

- In addition to analyzing risks and management strategies, we found information on the percentages and numbers of women on boards of directors for each firm. Of the companies evaluated, 68% had at least one female on their board.
- Environmental issues captured in our data include carbon emissions, energy efficiency, water stress, biodiversity and land use, packaging materials, and waste.
- Similarly, key social issues examined in the data include supply chain, labor, human capital development, access to finance and healthcare, and opportunities in nutrition and health.
- Some examples of the variables addressing governance issues include corruption and instability, ethics and fraud, anti-competitive practices, and corporate governance.

Given limited data access and sources, we were unable to conduct regressions to determine causality. Furthermore, there are many additional variables that must be controlled for in a regression, which we were unable to collect for the entire sample. Therefore, it is important to note that our preliminary exploration highlights correlative relationships.

PURPOSE

The overall goal of our study was to analyze information to identify possible relationships and trends where the presence of more women on the board was correlated with a greater corporate sustainability and ESG performance. It should be noted that we mean

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proactively managing ESG issues as part of business risk and opportunity on the front end, not after failing to do so becomes a massive emergency for a company and requires crisis management and reaction on the back end. The aim of this research was to prove whether or not firms with higher numbers of women on their boards are more proactively managing their ESG performance, and hence, improving the firm's social, environmental and governance impact(s).

FINDINGS

The results below provide illustrative detail on the correlative findings between women as directors, and corporate sustainability performance:⁷

ENVIRONMENTAL ISSUES

Companies with more women on their board of directors are more likely to be:

- Companies that proactively invest in renewable power generation and related services.
- Companies that have integrated climate change

effects into their actuarial models while *developing products to help customers manage climate change related risks*.

- Companies that *measure and reduce carbon emissions of their products* throughout the value chain and implement programs with their suppliers to reduce carbon footprint.
- Companies that *proactively reduce the environmental impact of their packaging*, including use of recycled content material and establishment of take-back and recycling programs. Specifically making efforts to get ahead of regulations and change consumer demand by reformulating packaging, recovering products for recycling, and supporting recycling where it is not mandated.
- Companies that *proactively address the environmental risks* embedded in their financing decisions.
- Companies that take *proactive steps to manage and improve the energy efficiency* of their operations.
- Companies with operations that *do not disturb large and/or fragile areas of biodiversity* and have strategies to minimize and mitigate biodiversity losses.

Consider, for example, Wal-Mart's recent environmental initiatives. Wal-Mart has committed itself to achieving zero waste by 2025, to reduce packaging by 5 percent globally by 2013, and to have globally neutral packaging practices by 2025. Companies like Wal-Mart have already publicly committed to and are delivering on these types of goals. Our research findings to date suggest that the presence of more women corporate directors encourages the proactive pursuit of sustainable business practices and opportunities. Wal-Mart has three women corporate directors on its board.

SOCIAL ISSUES

Companies with more women on their boards of directors are more likely to be:

- Companies that take advantage of opportunities for longer-term growth and protect their "license to operate" through efforts to *improve access to health-*

care in developing countries and for under-served populations in developed markets.

- Companies that *provide strong employment benefits and performance incentives* and offer employee engagement and professional development programs.
- Companies that *offer products with an improved nutritional or healthier profile* and have sought credible verification for its healthier status.
- Companies that *proactively manage human capital development* through offering competitive benefit packages, implementing formalized training programs, and actively measuring employee satisfaction.
- Companies that *offer products and services to communities with limited or no access to financial products*.

Take for example, a company like Nestlé, which has recently turned its focus toward creating shared value with its product offerings in three areas: nutrition, water, and rural development. Nestlé uses science-based solutions to improve the quality of life through food and diet. This type of social initiative is well aligned with corporate sustainability for Nestlé. Our research findings to date suggest that having more women corporate directors is correlated with these types of strategies and outcomes. Nestlé's Board of Directors has three women.

GOVERNANCE ISSUES

Companies with more women on their board of directors are more likely to be:

- Companies that institute *strong governance structures*, demonstrate a high level of transparency, and avoid large-scale controversy.
- Companies that have programs, guidelines, and clear policies to *avoid corrupt business dealings*, have strong partnerships with local communities, and have high levels of disclosure and transparency.

SUMMARY

The ESG trends identified above, along with previous studies linking women at the top with higher management quality and higher financial return for

companies, are good business practices. This seems a highly desirable trend in today's business world, especially following the recent economic downturn and waves of corporate misconduct, business failings, and public mistrust of companies.

SUPPORT FROM FEMALE DIRECTORS

To better understand the data, we reached out to female corporate directors on their experiences on boards with ESG performance. Many of the women we spoke with had already embraced this relationship with sustainability throughout their careers. Halla Tomasdottir, Executive Chair and Co-Founder of Audur Capital in Iceland, told us *“Women and sustainability are two sides of the same coin.”* She went on to say *“Corporations build better societies if they have balanced boards.”*

We heard similar claims from the public and non-profit sector as well. Ann Veneman, the former Executive Director of UNICEF and the former U.S. Secretary of Agriculture, shared her belief that *“organizations benefit both from having more women on Boards and more women in the C-suites. The voices of women are critical in advancing the goals of corporate shared value.”* The relationship between concepts like shared value, societal improvement, and women corporate directors seemed to be emerging across the industries and sectors we examined. Ann serves on the board of Nestlé, as well as on Nestlé's internal Corporate Shared Value committee.

Women currently serving as corporate directors also echoed a deep understanding of the value of sustainability and their relationship to it. Dina Dublon, former EVP and CFO of JP Morgan Chase, and a Director of PepsiCo, Accenture, and Microsoft, stated *“There is an element of self-selection for me. I choose to serve on Boards who have openness to ESG issues because I care deeply about these issues. It is important the company is measuring their performance and impact on ESG factors, and I hear the same view expressed by many- not all- women in my Board circles.”*

Our preliminary research served to heighten our curiosity around the specific ways women corporate directors have done and can promote corporate sustainability. Our initial findings confirmed the presence of compelling trends that are in need of further exploration. We would like to further tease out our

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findings with qualitative interviews with both male and female corporate directors and leaders. Our research also led us to wonder what actions could be taken to promote the placement of women corporate directors and the use of their voice to enable corporate sustainability efforts.

TAKING ACTION

Women Corporate Directors is a global membership organization with over 1,400 members who serve on 1,550 boards, and is led by Susan Stoutberg. “WCD's mission is to be a powerful and trusted community of women corporate directors strengthened by a focus on development, diversity of thought and experience, education, new board placement opportunities and a robust dialogue around best practices in corporate governance. Corporate governance today demands a world view,” she stated. Consequently, WCD has issued a Plan of Action and established a Global Nominating Commission to work with the *Fortune* 500, FTSE 100, and other top companies to increase diversity on their boards.

Building off of the powerful efforts of WCD to date, we propose four critical next steps. We must:

1. Ask and answer more difficult questions, conduct more research, and acquire more knowledge, to identify specific ways to help qualified women get on to corporate boards, and to get boards to value this ESG-focused leadership approach that women bring to the table.
2. Continue to build a pipeline of women who can serve on corporate boards and to expand the talent pool. It is critically necessary to keep women engaged in MBA and graduate programs to acquire critical tools for leadership in business, including corporate sustainability and ESG strategy. We need to find ways to ensure that rising women see business as a force for positive social and environmental impact, and that they remain within the powerful corporate sector and harness and influence the power of the corporation toward corporate sustainability.
3. Foster a business community of sponsors for females that includes both men and women. Those who are already there can clear a path for women corporate directors and empower them to use their authentic business voice toward corporate sustainability. We need current female corporate directors to bring ESG factors and corporate sustainability to the board discussion table.
4. Train male and female business leaders to be change agents. This is perhaps the most difficult, yet most important, call to action. Both men and women corporate executives should be inspired and encouraged to advance both corporate sustainability goals and the presence of women on boards. The outcome will be positive for the company and for the world.

Empowering women to foster sustainable growth should be a key area of focus for business schools, companies as they set employee goals and make hiring decisions, boards of directors as they steer the course of their companies, and investment teams as they seek to invest in sustainable growth opportunities. This issue should permeate all aspects of strategic business planning—all the time, every single day.

This is not about simply having *a woman* present and at the table; this is about tapping into the talent and resources of 52% of the population and having *multiple* women at the table. This is about women being actively engaged in the process to renew trust in business and to help correct the unsustainable paths we are currently charging down. This is about every man and woman who leads in businesses actively fostering and encouraging every female to stand up, authentically use her voice and her power, and play the significant role that she so aptly can on today's global business stage.

About the Authors

This study was supported by KPMG, in partnership with Women Corporate Directors (WCD). The research was conducted by the following Haas School of Business authors:

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Kellie McElhaney is the Whitehead Faculty Fellow in Corporate Sustainability and the Founder of the Center for Responsible Business at the Haas School of Business at UC Berkeley. Her research is in the area of corporate sustainability strategy, corporate sustainability and brand, and women, business leadership in relation to sustainability. She is also the author of the book *Just Good Business*.

SANAZ MOBASSERI

Sanaz is completing her PhD at UC Berkeley's Haas School of Business. Her background is in corporate finance, specifically mergers, acquisitions, and capital raising transactions across a variety of industries including consumer goods and diversified industrials. She also consulted for technology start-ups before getting her MPP at the Goldman School of Public Policy at UC Berkeley.

About the Center for Responsible Business

The Center for Responsible Business is an “action tank” that builds on the Haas School of Business’ culture of innovation and UC Berkeley’s tradition to run—not walk—towards social progress. Building upon nearly a decade of research, teaching and industry engagement, the Center for Responsible Business brings together students, company leaders, and forward-thinking faculty to redefine good business for a sustainable future.

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- 6 *Ibid.*
- 7 Correlations range from 0.15-0.47.