

## Final Report for the AFAANZ Grant Received for 2018-2019

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Project Title: **Sustainability committee demographics and corporate social performance: The Australian evidence**

### Updated Project Summary:

In this project, we aimed to use upper echelons theory to explore the linkage between sustainability committee demographics and corporate social performance. The ASX recommendations do not require companies to have a sustainability committee; however, it is a common practice among Australia companies to voluntarily appoint a sustainability committee. Although companies see value in establishing a sustainability committee, there is no academic research on the sustainability committee demographics or its impact on corporate social performance. We aimed to fill the research gap.

Due to budget restriction, we deviated from the original research plan of manually collecting data from company annual reports. Rather, we mostly relied on commercial databases such as Thomson Reuter's Asset4, Bureau van Dijk's ORBIS, and S&P Capital IQ to conduct this study. We used Thomson Reuter's Asset4 database to source corporate social performance data for ASX listed companies from 2013-2018. During the sample period, social performance data was available for 1,949 firm-year observations. After merging Asset4 and ORBIS database, we were left with 1,594 firm-year observations. We collected financial data from S&P Capital IQ database. Due to missing financial and other control variables, we lost a further 167 firm-year observations. Our final sample consisted of 1,427 firm-year observations (338 unique firms). In this project, a sustainability committee is assumed to be present when the board committee name in the ORBIS database includes any of these terms: social responsibility, environment, ethics, and safety. Overall, we found 669 individuals representing 193 firm-year observations who are members of the sustainability-themed committee. We collected the demographic information of those identified as sustainability-themed committee members from the ORBIS database <sup>1</sup>- more specifically, name, gender, age, college/universities attended, degrees

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<sup>1</sup> ORBIS database provides current information on board and committee demographics. Since it does not provide yearly composition of board and committee members, we used the yearly ORBIS disks created December, each year from 2013-2018.

obtained, and other board membership data.<sup>2</sup> The sustainability committee size varied from 1 member (18 cases) to 8 members (3 cases). About 60% of the observations (116 firm-year observations) had sustainability committee consisting of 3-4 members. Out of these observations, at least one female director was present in 107 instances. In about 74% of cases (79 firm-year observations), the number of female directors on the committee was one. In 24 of the cases (22.43%), the number of female members was 2. The maximum number of female directors on a sustainability committee was found to be 3 (4 instances). The average age of sustainability committee members was found to be 60 years while the mean busyness of sustainability committee members stood at 15.9. As part of educational qualification, data was quite limited. For example, out of 669 individuals, educational institutional level data were available for 179 individuals (26.76%) while degree information was present for 151 individuals. Due to the very small number of companies with a sustainability committee and limited information on committee members' demographics, it is only possible to conduct univariate analysis.

**Funds Granted:** AUD 5,000 (NZD5,5506)

### **Detailed Report on Expenditure of Funds against Budget Items**

A casual research assistant (NZD 24.13/hour) was employed to collect demographic data from different databases and annual reports and merging the databases. We used the total fund for payment to the casual research assistant.

### **Outcomes**

As is mentioned in the project summary, out of the 1,594 firm-year observations, sustainability committee was present in about 12.11% cases (193 firm year observations). Hardly any data was available for committee members educational qualification and educational institutions attended. Due to severe data limitation, we were only able to conduct the univariate analysis. As a result, the findings of the study are unlikely to be publishable in top quality accounting or finance journals. However, we aim to discuss the above-mentioned issues with our accounting colleagues for their opinion. This project will be a learning experience for our future endeavour.

### **Future Intentions**

The investigators are currently exploring the options of using other research methodologies to understand the data limitation issues. One of the options is conducting interviews for understanding why Australian companies do not see value in appointing sustainability committees. Unfortunately, the available data was not sufficient to conduct the study as proposed in the grant application, but, certainly, the data collected can be used in other studies originating from the observations we had during the data collection. The AFAANZ funding will be acknowledged in future studies that use the data collected for this research.

### **Summary of Outcomes and Benefits**

- Using 6-years data from 2013-2018, we find that a sustainability committee is present in 12% of the firm-year observations in Australia, implying that nearly 90% of the firms do not have any such committee;
- Very limited information on committee demographics is available from commercial databases which should be considered as a warning sign by the future researchers in this area.

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<sup>2</sup> We checked the company annual reports to find missing gender information.