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# Board Characteristics, Social Trust and ESG Performance in the European Banking Sector

**Bruna Miranda [1], Catarina Delgado [2,3] and Manuel Castelo Branco [4,*]**

1 Faculty of Economics, University of Porto, 4200-464 Porto, Portugal
2 Faculty of Economics, University of Porto, CEF.UP, 4200-464 Porto, Portugal
3 Faculty of Economics, University of Porto, LIAAD/ INESC TEC, 4200-465 Porto, Portugal
4 Faculty of Economics, University of Porto, CEF.UP and OBEGEF 4200-464 Porto, Portugal
* Correspondence: mcbranco@fep.up.pt

**Abstract:** The aim of this study is to examine the impacts of board size, gender diversity and independence on ESG performance whilst also examining the impact of country-level social trust on such performance. We perform a panel data analysis and the least squares method for a sample of 75 European banks and a time span of 4 years from 2016 to 2019. We find that ESG performance is positively associated with board gender diversity and independence, and negatively associated with board size. Surprisingly, we find a negative relationship between country-level social trust and ESG performance. This is an important finding that we interpret as being related to the loss of confidence in the banking sector in the wake of the 2008 financial crisis. To regain such trust, the banking sector is likely to have suffered higher social pressure to engage in ESG activities in countries where social trust is lower.

**Keywords:** banking sector; board characteristics; ESG performance; Europe; social trust

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## 1. Introduction

The topic of corporate social responsibility (CSR) has been discussed since the last century (Turker 2009), and in recent years it has become a more important and relevant issue for stakeholders and companies (Bidari and Djajadikerta 2020; Schroder 2021). Companies have become increasingly concerned with a variety of issues: environmental (such as pollution, resource depletion and protection, climate change, waste treatment, and global warming), social (working conditions, human rights, poverty and social equality) and economic (employment, gross domestic product (GDP) and growth rate) (Bidari and Djajadikerta 2020; Schroder 2021).

Although CSR has been gaining great prominence and importance in the academic, business and political worlds, there is no consensus about its concept; this may be because each researcher defines social responsibility based on their study (Bidari and Djajadikerta 2020). According to McWilliams and Siegel (2001), socially responsible activities refer to actions that promote and satisfy the needs, interests and objectives of stakeholders and the company, which go beyond the interests of the company and what is required by law. For Peillex and Comyns (2020), CSR corresponds to the voluntary inclusion of environmental and social issues in the company's activities, bringing about an alignment between the practices and policies established by the company and the socially accepted values. Despite this diversity, CSR can be broadly defined as "the commitment of companies to contribute to sustainable economic development" (Ward 2004, p. 3).

In the business context, sustainability can be explained as the level of commitment assumed by companies in terms of economic growth, social equality and environmental protection (Bansal 2005; Brammer and Pavelin 2008). The so-called ESG factors represent how companies integrate environmental, social and governance aspects into their business models (Gillan et al. 2021) and are used to measure the level of development in terms of sustainability (Deng and Cheng 2019). These have been introduced as key factors in decision-making and investment processes in the banking sector and have become increasingly important for investors (Bektur and Arzova 2022; Chen and Wan 2020), and they even push for attention to be paid to these issues (La Torre et al. 2021). Many studies use the CSR and ESG concepts as synonyms (Batae et al. 2021; Birindelli et al. 2018; Deng and Cheng 2019), given the imprecision of the boundaries of these terms (Pollman 2021); we will do the same.

A historical milestone that reinforced companies' engagement with CSR was the 2008 financial crisis, which turned concepts such as CSR and ESG into a crucial part of the financial market discourse (Leins 2020). The banking sector was one of the sectors greatly affected by this crisis. To overcome this crisis and due to pressure from customers, investors and regulators, banks have started to integrate ESG factors into their business strategies, risk management models and governance structures, thus supporting the transition to a more sustainable economy and the mitigation of sustainability risks (Coleton et al. 2020). Therefore, in recent years there has been a growing interest in assessing ESG performance in the banking sector (Bektur and Arzova 2022).

Through its lending and investment policies, such as financing projects of a sustainable nature, socially responsible investments and granting microcredits (Coleton et al. 2020; Miralles-Quirós et al. 2019; Peillex and Comyns 2020; Scholtens 2009; Schroder 2021), the banking sector ensures the achievement of a more inclusive and sustainable economy (Birindelli et al. 2018). Due to the promotion of these policies and social responsibility investment projects, banks contribute to the development and economic growth of countries (Miralles-Quirós et al. 2019).

The banking sector also can influence its customers, employees and society. Banks build links with their stakeholders by paying attention to the economic situation of their customers, creating better working conditions for their employees, conducting their business ethically and responsibly, and avoiding social and financial exclusion, thus, contributing to the well-being of society (Schroder 2021; Shen et al. 2016). Taking all these aspects into account, the banking sector plays an important role in the pursuit of sustainable development (Miralles-Quirós et al. 2019; Scholtens 2009).

The involvement of banking institutions with ESG issues has several benefits, including the promotion of sustainable products, raising the awareness and sensitivity of customers and employees to the importance of adopting socially responsible activities and behaviors, and improving reputation, legitimacy and ranking in terms of ESG performance (Coleton et al. 2020).

The board of directors plays a key role in decision-making processes and socially responsible behaviors (Bektur and Arzova 2022); its composition (such as gender diversity and the degree of independence of its members) and its size have an influence on the ESG performance achieved by the bank (Birindelli et al. 2018). In addition, ESG activities are affected by the cultural context of the country where the bank is headquartered (Khlif et al. 2015; Laidroo and Sokolova 2015). For example, country-level social trust corresponds to a set of social norms that can discourage or encourage banks to engage in socially responsible activities (Chen and Wan 2020).

The aim of this study is to examine whether board size, gender diversity and independence have an impact on ESG performance, whilst also examining the impact of country-level social trust on such performance. We focus on the European banking sector, as there are few studies exploring the relationship between the variables mentioned above and ESG performance in this sector. To the best of our knowledge, no previous study has explored the relationship between social trust and ESG performance with a focus on the financial sector. This means that no study has explored the relationships between the composition and size of the board and ESG performance whilst also examining the impact of the variable country-level social trust on such performance. We see this examination as the main contribution of our study. Based on a sample of 75 banks in Europe, we use panel data analysis to examine how certain characteristics of the board of directors and cultural factors are associated with ESG performance. We limit the period of analysis to the years 2016–2019 to avoid any potential effects of the COVID pandemic crisis on ESG performance, as well as because using previous years would make the sample much smaller.

The remainder of the study is organized as follows. In Section 2, we offer a presentation of the theoretical framework and develop the hypotheses. Section 3 is devoted to presenting the methodology used. Section 4 is used to present and discuss the empirical results. Finally, in Section 5, the main conclusions, some limitations of the study, and a few suggestions for future research are presented.

## 2. Theory and Hypotheses

### *2.1. Resource Dependence Theory and Board-Related Hypotheses*

Pfeffer and Salancik (1978) put forward that managers bring four benefits to organizations: provision of specific resources, such as knowledge and advice from people with expertise in various areas, access to information channels between external organizations and the organization itself, preferential access to resources and legitimacy.

Furthermore, they enable the provision of critical resources or the securing of these resources through the links established with the external environment (Hillman et al. 2000; Pfeffer and Salancik 1978). Resource dependency theory proponents view boards of directors as a means to manage external dependencies and integrate external organizations (Pfeffer and Salancik 1978). These boards will enable the reduction of environmental uncertainty (Pfeffer 1972) and transaction costs associated with environmental interdependence.

Managers bring a range of resources to boards, such as experience, different perspectives, links with other organizations, access to key constituents (e.g., suppliers, buyers, public policymakers, community), information, competencies, skills and legitimacy (Hillman et al. 2000, 2002). In other words, through their experiences and personal characteristics, they provide the organization with links to the external environment, as well as knowledge and information. Such connections make it possible to reduce uncertainty, interdependence and transaction costs (Hillman et al. 2000).

To be effective, a board of directors must provide resources to the organization, including legitimacy, advice, and connection with other organizations (Bear et al. 2010). In this way, the board's resources, which are based on the collective experience and expertise of its members, can assist the organization in managing business challenges and enable it to deal effectively with external organizations (Bear et al. 2010; Pfeffer 1972). A diversity of resources enables the organization to increase innovation through the development of alternative solutions (Bear et al. 2010), and to increase external linkages. Establishing these connections can assist the organization in understanding and responding to its environment, providing advice, knowledge and links, thus promoting collaboration and cooperation with key stakeholders (Bear et al. 2010). As such, this diversity of board resources encourages the adoption of socially responsible practices and addressing the business environment as it enables access to knowledge and advice from external organizations and enhances understanding and problem-solving (Bear et al. 2010).

According to the resource dependence theory, the experience and connections established by boards facilitate access to external and critical resources that, consequently, drive the organization to join CSR initiatives (Haque and Jones 2020). In other words, the resources obtained by boards enable better management of social responsibility issues as they help to understand and respond to their environment (Bear et al. 2010).

The board of directors has as its main functions the approval and supervision of the implementation of the strategic objectives, the management system and the promotion of the culture of a bank (Birindelli et al. 2018). A recent literature review of the impacts of ESG performance on aspects such as the cost of capital, financial performance and risk, suggests that "there have been and will be positive impacts from CSR and environmental management" (Saeed and Sroufe 2021, p. 15). To explain this relationship, it is suggested that an entity that adopts more developed ESG practices has a competitive advantage in the long run, and these practices are defined by the board of directors. As such, for a board to be successful and competitive, it must then take into consideration ethical business issues and socially responsible activities (Birindelli et al. 2018).

Due to the above, it can be considered that the size and composition of the board of directors, namely, the gender diversity and degree of independence, influence ESG performance, as it plays a key role in strategic decision-making, socially responsible behaviors (Bektur and Arzova 2022) and the inclusion in strategies and business models of these ESG issues (Birindelli et al. 2018).

According to resource dependency theory, a diverse and gender-balanced board consists of members with different knowledge, professional experiences, perceptions, and opinions that help banks address environmental challenges (Adams et al. 2015; Shakil et al. 2020) and increase a bank's overall performance (Shakil et al. 2020). A diversified board is more likely to improve ESG performance and disclose information about it (Lu and Wang 2021). In addition, this theory considers that the integration of women on boards is something essential, as it enables banks to legitimately achieve ESG performance (García-Sánchez et al. 2018; Shakil et al. 2020).

Shakil et al. (2020) uphold that ESG performance is influenced by gender diversity. These researchers state that women's interpersonal and intellectual characteristics lead to banks undertaking more CSR activities. Women are more aware of social and environmental issues and, therefore, encourage banks to adopt socially responsible activities (Birindelli et al. 2018; Shakil et al. 2020), making them more ethical and responsible (Birindelli et al. 2018) due to their personal and professional traits. Women's educational and professional background may influence them to be more involved in ESG issues than men (Bear et al. 2010; Williams 2003), and their psychological characteristics, such as concern for others and well-being, sensitivity, compassion, helpfulness and empathy, can lead them to adopt more socially responsible behaviors (Birindelli et al. 2018; Zhang et al. 2013).

The type of behavior adopted also differs between women and men. Generally, the female gender is characterized by facilitative and friendly behaviors, which are more oriented toward people and their well-being in social environments (Arayssi et al. 2020; Manita et al. 2018). In turn, males adopt assertive, independent, and problem-solving behaviors, being more likely to act in task-oriented environments (Arayssi et al. 2020; Manita et al. 2018).

Women and men present differences between each other in terms of values, beliefs, experiences, perspectives and ways of working, with women being more oriented toward ESG practices (Birindelli et al. 2018; García-Sánchez et al. 2018), as mentioned above. Thus, it is believed that female members are more likely to perform legitimate actions, which consequently increases banks' environmental and social activities. Banks that have gender diversity in their boards are more prudent in dealing with socially responsible activities and adopt more legitimate ESG practices, which are in line with the sustainability goals they set (Shakil et al. 2020).

Additionally, some studies show that the presence of women on the board of directors influences companies to be more innovative and creative in their decision-making processes, which impacts their business strategy (Torchia et al. 2011). Consequently, female board participation makes companies more oriented towards ESG issues and finding innovative solutions that effectively address them (Bear et al. 2010).

Studies on the relationship between the proportion of women on the board of directors and ESG performance present contradictory results, and there is still no consensus on this relationship. Some studies highlight a positive relationship (Birindelli et al. 2018; Galletta et al. 2022; Lu and Wang 2021; Shakil et al. 2020), negative (Harjoto et al. 2015; Husted and de Sousa-Filho 2019) or inconclusive relationships (Khan 2010; Manita et al. 2018). However, a positive influence is mostly evidenced. Due to the above, the following hypothesis is formulated:

**H1.** *The proportion of women on the board is positively related to ESG performance.*

Board independence ensures more effective board monitoring and enables the policies set by companies to meet stakeholders' interests and expectations (Ortas et al. 2017). Boards consisting of independent members are more aware of environmental issues and stakeholder interests than other members, so they encourage a greater practice of socially responsible activities (Harjoto and Jo 2011).

There are differences between independent and non-independent boards. Dependent members focus and care more about economic aspects. More independent boards pay more attention to ESG factors (Ibrahim and Angelidis 1995; Ibrahim et al. 2003), they pay more attention to the social goals set by the company and therefore adopt and comply with socially responsible behavior (Ibrahim and Angelidis 1995). This greater attention to ESG aspects can be explained by the fact that their reputation is put at stake (García-Meca et al. 2018).

García-Sánchez et al. (2018) suggest that independent board members not only take into consideration the profit maximization objectives but also ESG objectives. These authors found evidence that there is a positive influence of these bodies on issues related to society, suggesting that they are more concerned about the environment and the interests of stakeholders. This allows banks' actions to be legitimate, and there is a minimization of conflicts of interest. Due to such findings, the researchers concluded that board independence leads banks to adopt and define socially responsible activities.

Some theories explain the influence that board independence may have on ESG performance. Agency theory's proponents view independent bodies as enabling a more effective oversight of board practices since they are not as involved in the company's operations and are not as influenced by the Chief Executive Officer (CEO) and are then able to be more objective in their opinions about management performance and the activities adopted by the company (Jizi 2017). In addition, this theory states that boards with a higher degree of independence perform their monitoring function better (Ahmed et al. 2006; Cheng and Courtenay 2006) and are more oriented towards socially responsible activities (Jizi et al. 2014).

According to stakeholder theory, greater independence minimizes conflicts of interest and encourages the maximization of the company's market value and greater transparency (Ahmed et al. 2006; Cheng and Courtenay 2006). In other words, boards that are composed of more independent members have a higher level of disclosure and facilitate socially responsible investments (Cheng and Courtenay 2006).

Proponents of resource dependency theory encourage boards to consist of independent members, as they can contribute with their professional experience and possibly external links (Maxfield et al. 2018). Jizi et al. (2014) note the associations between board independence, better stock returns, better operational performance, and a higher level of transparency.

Birindelli et al. (2018) and Lu and Wang (2021) showed that there is a negative relationship between board independence and ESG performance. However, there are also studies that have presented an opposite conclusion, i.e., they showed a positive relationship. Haque and Ntim (2018) found evidence of an increase in environmental performance when there is greater board independence. This is because independent members adopt offsetting policies related to ESG factors and due to their extensive knowledge and experience, which consequently influences the minimization of conflicts of interest among stakeholders and encourages managers to engage in environmental activities. In the same vein, Cucari et al. (2018) provide evidence that companies with a higher proportion of independent members influence ESG disclosure and performance, leading managers and investors to take CSR issues into consideration in their decision-making processes. For all the reasons presented, the following hypothesis is developed:

**H2.** *The percentage of independent board members is positively related to ESG performance.*

The functions of the board of directors are executive oversight and risk monitoring, which may be influenced by the level of responsibility and workload assigned to them, and by their personal and professional skills. The effectiveness and efficiency of these functions are dependent on the size of the board of directors.

On the one hand, smaller boards are more efficient and effective in terms of monitoring and controlling executives (Ahmed et al. 2006), commit to a higher level of accountability, and have more power to mitigate possible opportunistic behavior by managers (Birindelli et al. 2018). These types of boards are more easily able to reach a consensus with stakeholders and, thus, protect their interests (Tapver 2019). However, when they are entrusted with a greater workload and more responsibilities, they may not have the necessary skills to oversee all this work, i.e., the quality of oversight can be negatively affected (Jizi et al. 2014), and they could exercise their oversight role less effectively (Beiner et al. 2004). This may be because members belonging to these types of boards are poorly diversified in terms of education, professional experience and stakeholder representation (Birindelli et al. 2018).

On the other hand, a larger board is more bureaucratic and has slower decision-making processes (Batae et al. 2021). These boards are characterized by a greater variety in terms of stakeholder representation, so unlike smaller boards, they are more efficient when they have a higher workload and more responsibilities (Birindelli et al. 2018). Larger boards are, thus, considered to consist of members with different skills, knowledge and views who have a strong orientation towards a culture of sustainability and engage in socially responsible activities that improve their ESG performance (Cheng and Courtenay 2006; Jizi et al. 2014; Tapver 2019). Moreover, they perform their oversight and monitoring roles more effectively, stimulate comparison of strategic objectives, and influence managers to support and disclose non-financial performance (Birindelli et al. 2018; Tapver 2019).

According to Birindelli et al. (2018), there is a positive relationship between board size and ESG performance, and there are other studies that reach the same conclusion (Cheng and Courtenay 2006; Jizi 2017; Jizi et al. 2014). Due to the above, the following hypothesis is reached:

**H3.** *Board size is positively related to ESG performance.*

### *2.2. Social Trust and Country-Level Hypothesis*

Social trust is defined as a set of values, norms or beliefs shared by a society, which establishes the behaviors that its members may adopt (Guiso et al. 2008; Rousseau et al. 1998). This trust contributes to economic growth and financial market development (Algan and Cahuc 2010; Guiso et al. 2008; Kanagaretnam et al. 2018a; Zak and Knack 2001). For example, as argued by Zak and Knack (2001, p. 296), given that "trust reduces the cost of transaction, high trust societies produce more output than low trust societies". It also allows for increased cooperation and interaction among society members, so that more effective social outcomes are achieved.

Chen and Wan (2020) argue that CSR behavior and the decisions managers make in firms are influenced by social trust, and that there are two approaches that explain this relationship: the social norms approach and the social networks approach. Both suggest that social trust can prevent managers from engaging in non-socially responsible activities and encourage them to adopt socially responsible behaviors.

According to the social norms approach, social trust is represented as a set of values, norms or beliefs that are shared within a society and that promotes cooperative actions among its members (Rousseau et al. 1998). This perspective considers that there is a greater acceptance of local norms by individuals and firms (Chen and Wan 2020). In countries with a higher level of social trust, the community has more respect for the values of honesty and reliability; consequently, this has an impact on the decisions made by managers, as they will incorporate these values into their personal characteristics (Guiso et al. 2006). In turn, this honesty and trustworthiness lead managers to take into greater consideration the stakeholders' interests and to give more importance to the relationship they establish with them, thus allowing companies to adopt and comply with socially responsible activities, such as investing in ventures that promote public welfare and environmental protection (Chen and Wan 2020). Therefore, managers belonging to these types of countries commit more to ESG factors and adopt socially responsible behaviors because they are pressured to incorporate these social standards into their personal codes of conduct and to avoid possible social sanctions (Chen and Wan 2020; Kanagaretnam et al. 2019). In addition, these managers tend to repay the trust that society has placed in them and to be more sensitive to issues related to fairness and maintaining social connections (Kanagaretnam et al. 2018b).

The higher social trust impacts the expectations that stakeholders have about the companies; that is, stakeholders believe that a higher level of social trust encourages companies to be socially responsible (Chen and Wan 2020). Social trust also allows disciplining managers, i.e., influences them to adopt more ethical and responsible behaviors, ensuring that the company has legitimacy and can survive in society (Chen and Wan 2020). Social responsibility also encompasses the social expectations of moral behavior (Carroll 2000; Hill et al. 2007), which influences companies to engage in activities that make the world better. Thus, more expectations are created for companies to be socially and morally responsible when they are located in countries with high levels of social trust. Therefore, it is possible to state that companies act in a socially responsible way when pressured and confronted by these social norms, which allows them to obtain a better ESG performance (Chen et al. 2021).

The social network approach suggests that social trust corresponds to the set of social networks through which individuals are able to obtain benefits (Payne et al. 2011). In countries with high levels of social trust, social networks are built in which stakeholders have the incentive to interact and cooperate with each other since, in this way, they can achieve win–win outcomes (Chen and Wan 2020). Social responsibility enables companies to improve their strategic position and achieve strategic resources such as reputation and better financial performance (Chen and Wan 2020). Therefore, companies located in countries with a higher level of social trust (i.e., where there are greater social networks) adopt socially responsible and thus achieve higher returns, which drives them to commit to more social responsibilities (Chen and Wan 2020). On the other hand, in countries with low levels of social trust where there are not so many social networks established, the returns obtained are lower, consequently encouraging these companies not to engage in socially responsible activities (Chen and Wan 2020).

Companies are able to establish closer relationships with their stakeholders when located in countries with high levels of social trust (Hosmer 1995). Thus, companies that behave in a socially responsible way can obtain greater returns from stakeholders, such as lower capital costs, a higher reputation, greater customer loyalty and greater commitment from their employees, which has the effect of increasing their future benefits (Chen et al. 2021).

Chen and Wan (2020) and Chen et al. (2021) argue that social trust has a positive and significant influence on ESG performance. This idea complements what was previously mentioned, i.e., social trust allows managers to protect stakeholders' interests and encourages both managers and stakeholders to carry out socially responsible activities. Thus, companies located in countries with a higher level of social trust are considered to have better ESG performance (Chen and Wan 2020; Kanagaretnam et al. 2019).

The discussion above leads us to put forward the following hypothesis is formulated:

**H4.** *Country-level social trust is positively related to ESG performance.*

## 3. Methodology

### *3.1. Sample*

The sample of this study is composed of 75 European banks. The reason for analyzing only these banks is related to the availability of information on the variables considered essential in this research. As for the time interval, a period of 4 years is considered, from 2016 to 2019, inclusive. This is the period that allows obtaining a more relevant sample, and the year 2020 is not included due to the potential effects of COVID-19 on the variables studied.

The choice of banks to be examined was initially made from the Refinitiv database available on the Thomson Reuters platform. Some criteria were used in this database, namely that they had to belong to the European continent and that the evaluation instrument had to be equity. After this selection, the sample consisted of 564 banks. This sample was then filtered as follows: (1) excluding banks for which no information was available on ESG scores, the percentage of women, the number of independent members and the size of the board of directors; and (2) eliminating banks for which data on social trust at country level were missing.

### 3.2. Variables

ESG performance is measured through ESG scores made available in the Refinitiv database. This database is frequently used by scholars (Batae et al. 2021; Birindelli et al. 2018; La Torre et al. 2021; Shakil et al. 2020; Tasnia et al. 2021), is reliable, has a clear and transparent methodology and contains over 400 ESG indicators. Moreover, it ensures the distinction between companies that disclose the minimum information about their shares from those that over-disclose, and its form of measurement is sensitive to this fact.

ESG scores provide a transparent and objective measure of a company's overall ESG performance, commitment, and effectiveness based on its publicly disclosed data and information. These are grouped into ten categories that reformulate the scores in the three dimensions (environmental, social and corporate governance) and the final ESG score.

Table 1 presents a brief description of how the variables used are measured and the expected relationship with ESG performance. The information and data about these variables are taken from the Refinitiv database available on the Thomson Reuters platform, the World Value Survey (WVS) and the United Nations Development Programme.

**Table 1.** Description of variables.

| Variable Name | Measurement | Expected Relationship | Studies |
|---|---|---|---|
| Dependent variable | | | |
| ESG performance | ESG score obtained from Refinitiv database available on the Thomson Reuters platform | - | - |
| Independent variables | | | |
| Women | Percentage of women on the board of directors | Positive | (Birindelli et al. 2018; Galletta et al. 2022; Lu and Wang 2021; Shakil et al. 2020) |
| Board independence | Percentage of independent members on the board of directors | Positive | (Cucari et al. 2018; Haque and Ntim 2018) |
| Board size | Total no. of members of the board of directors | Positive | (Birindelli et al. 2018; Cheng and Courtenay 2006; Jizi 2017; Jizi et al. 2014) |
| Social trust | Score taken from the WVS report on trust in others | Positive | (Chen and Wan 2020; Chen et al. 2021) |
| Control variables | | | |
| Bank size | Logarithm of total assets (euros) | | (Batae et al. 2021; Birindelli et al. 2018; Chen et al. 2021; Crespi and Migliavacca 2020; Gurol and Lagasio 2023) |

**Table 1.** *Cont.*

| Variable Name | Measurement | Expected Relationship | Studies |
|---|---|---|---|
| Profitability | Return on equity (ROE): Net profit divided by shareholders' equity | | (Birindelli et al. 2018; Crespi and Migliavacca 2020) |
| Human development index | Score measuring average performance in three basic dimensions of human development | | (Ashraf et al. 2022; Naomi and Akbar 2021; Tanjung 2021) |

Data about social trust at the country level were obtained from a survey conducted by the World Value Survey (WVS) in 57 countries between 2017 and 2020 on trust in others (Haerpfer et al. 2022). WVS is a database widely used in several studies on this variable (Kanagaretnam et al. 2018a, 2018b, 2019).

The figures are based on the response to the question, "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people". The possible answers were "Most people can be trusted" and "Need to be very careful", and the results are presented as a percentage. Due to the fact that, in companies, changes happen slowly, and since social trust can remain stable for long-time intervals (Chen and Wan 2020), in this research, the average value for the period analyzed is used.

We control for bank-specific factors: bank size and profitability, which are widely used in several studies on this topic (Batae et al. 2021; Birindelli et al. 2018; Chen et al. 2021; Miralles-Quirós et al. 2019; Shakil et al. 2020). To control for the effect of other country-level characteristics on ESG performance, we use as a control variable the human development index (HDI), for which there is evidence of a relationship with such performance. The HDI was developed by the United Nations Development Programme and aggregates socioeconomic indicators that measure the average performance of three basic dimensions of human development: longevity, the standard of living and knowledge and education.

### *3.3. Regression Model*

In this study, panel data analysis is used to control for omitted or unobserved variable bias (Birindelli et al. 2018) and the ordinary least squares method. This analysis technique has the advantage of exploring the data over a longer period of time and, in the literature, on ESG performance, especially in the banking sector, it is often adopted Batae et al. (2021). Since the country-level social trust data is constant across the years analyzed, the fixed effects model is not effective, so we resort to panel regressions with random effects. To assess the relationship between ESG performance and the independent variables, the following model is used:

$$\text{Performance\_ESG}_{i,t+1} = \alpha_{i,t} + \beta 1_t\ (\text{Women}_{i,t}) + \beta 2_t\ (\text{Independence}_{i,t}) + \beta 3_t\ (\text{Size}_{i,t}) + \beta 4_t\ (\text{Social trust}_{i,t}) + \beta 5_t\ (\log(\text{Size\_bank})_{i,t}) + \beta 6_t\ (\text{Profitability}_{,i,t}) + \beta 7_t\ (\text{HDI}_{i,t}) + \mu_{i,t}$$

## 4. Results

### *4.1. Descriptive Statistics*

Table 2 presents the descriptive statistics for the independent and control variables. In terms of the composition of the board of directors, on average, the banks had a relatively low percentage of women (26.88%), which reveals gender inequality. Furthermore, there were boards that did not have a single female member, but despite this, most of the boards of the banks considered consisted of more than three women. In terms of independence, there were boards made up only of independent members, but the opposite was also true, with banks not having a single independent member. On average, boards of directors were composed of 12 members, with a minimum of 3 and a maximum of 28 members. With regard to social trust at the country level, only about 36% of people considered that "Most people can be trusted". The country that showed the highest level of this variable was Denmark (73.9%), and the one with the lowest level was Greece (8.4%).

**Table 2.** Descriptive statistics of the independent and continuous control variables.

| Variables | Average | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| Women | 26.888 | 12.566 | 0 | 53.846 |
| Independence | 57.385 | 23.027 | 0 | 100 |
| Board size | 12.420 | 3.862 | 3 | 28 |
| Social trust | 36.019 | 17.277 | 8.4 | 73.9 |
| Bank size [1] | 321.2584 | 499.313 | 1.424 | 2422.078 |
| Profitability | 8.350 | 9.075 | −50.291 | 35.296 |
| HDI | 0.901 | 0.040 | 0.808 | 0.955 |

[1] The figures for the size of the bank are expressed in billions of euros.

As for the continuous control variables, Table 2 shows a large discrepancy between the minimum and maximum bank size and that, on average, a bank earns 8.35 euros for every 100 euros invested by shareholders. European countries have a high HDI, which means that they are increasingly developing in terms of health, education and economic development.

Regarding the dependent variable and each dimension of ESG performance specifically, as presented in Table 3, it should be noted that the average values were very close to each other; this corresponds to a relatively homogeneous performance by European banks concerning the three dimensions. In terms of maximum values, the environmental and social factors have the highest values (97.538 and 97.585, respectively), but also the lowest minimum values, with even the environmental performance having a value of zero. Table 3 shows the gap between the maximum and minimum values, which means that although some banks adopted socially responsible behavior and established ESG policies, others were not concerned with these issues.

**Table 3.** Descriptive statistics of the ESG dimensions.

| Scores | Average | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| ESG | 62.403 | 17.550 | 8.526 | 94.246 |
| Environmental | 60.509 | 28.489 | 0 | 97.538 |
| Social | 66.018 | 19.611 | 2.732 | 97.585 |
| Governance | 59.923 | 21.013 | 11.745 | 95.087 |

### *4.2. Correlation*

The correlation matrix (Table 4) highlights very important relationships between the main variables of the study. More specifically, ESG performance was positively and significantly associated with board composition and size, as well as with bank size. These relationships show that more ethical and responsible banks tend to frequently appoint more women to their boards. Furthermore, the presence of female board members was positively correlated with bank size. Regarding social trust, it can be observed that it was significantly and negatively correlated with ESG performance. The positive correlation between social trust and the profitability of a bank is highlighted and this can be explained through the social network approach. This perspective states that companies based in a society with a high level of trust obtain higher returns, as interaction and cooperation are established among all members so that no one is harmed in economic terms.

**Table 4.** Correlation matrix.

| Variables | ESG | Women | Independence | Board Size | Social Trust | Bank Size | Profitability | HDI |
|---|---|---|---|---|---|---|---|---|
| ESG | 1 | | | | | | | |
| Women | 0.318 *** | 1 | | | | | | |
| Independence | 0.172 *** | 0.394 *** | 1 | | | | | |
| Board size | 0.362 *** | 0.157 *** | −0.091 | 1 | | | | |
| Social trust | −0.119 ** | 0.359 *** | 0.570 *** | −0.163 *** | 1 | | | |
| Bank size | 0.564 *** | 0.376 *** | 0.272 *** | 0.400 *** | 0.096 * | 1 | | |
| Profitability | 0.052 | 0.060 | −0.071 | −0.164 *** | 0.060 | −0.153 *** | 1 | |
| HDI | −0.031 | 0.375 *** | 0.677 *** | −0.079 | 0.820 *** | 0.196 *** | −0.132 ** | 1 |

Note: *** significance level of 0.01; ** significance level of 0.05; * significance level of 0.10.

In relation to HDI, this control variable showed a positive and statistically significant correlation with the composition of a board of directors, indicating that female and independent members have a greater sensitivity to social issues, so they will consider these aspects in the decisions they make, so that the country develops in terms of health, education and welfare. Table 4 shows a positive correlation between HDI and social trust.

*4.3. Regression*

In Table 5, summary statistics resulting from the regression model estimation are presented. Findings suggest that the percentage of women has a positive and statistically significant influence on the banks' engagement with ESG factors, supporting Hypothesis 1. Through their interpersonal and intellectual characteristics, such as compassion, sensitivity, empathy, experiences and knowledge, they guide banking institutions to develop ESG practices and policies (Shakil et al. 2020). Such facts support the resource dependency theory, showing that female members are a critical resource for banks to legitimately achieve good ESG performance, as they are more likely to take legitimate actions, which results in the implementation and adoption of socially responsible activities and behaviors (García-Sánchez et al. 2018; Shakil et al. 2020). In addition to these skills, women provide human and relational capital that influences and facilitates sustainable banking activities and affects board deliberations, as they bring ideas and resources on biodiversity policies and programs (Haque and Jones 2020). Thus, women seem to be more committed to ethical standards, concerned about environmental issues and focused on social aspects, causing women to address ESG issues more frequently on boards of directors (Arayssi et al. 2020; García-Sánchez et al. 2018).

**Table 5.** Results of the regression equations for ESG performance.

| Variables | Coef. |
|---|---|
| Women | 0.215 *** |
| Independence | 0.219 *** |
| Board size | −0.487 ** |
| Social trust | −0.489 *** |
| Bank size | 6.898 *** |
| Profitability | 0.103 * |
| HDI | 31.694 *** |
| N | 300 |
| $R^2$ Adjusted | 0.369 |
| Wald statistics of F | 26.028 *** |

Note: *** significance level of 0.01; ** significance level of 0.05; * significance level of 0.10.

In light of the results, we conclude that a diverse and gender-balanced board increases the ESG performance of banking institutions, which encourages greater participation of women on their boards. Thus, a gender-balanced bank enables information to flow more easily and allows for a wide range of issues and solutions to be discussed. This type of board is associated with better communication, which consequently facilitates deliberations, improves board functions, allows for more effective problem-solving and an improvement in a bank's business strategy (Birindelli et al. 2018).

In terms of board independence, a positive and significant impact on ESG performance was evidenced, supporting Hypothesis 2, and suggesting that these members encourage the banking sector to engage and develop environmental, social and governance activities. This result shows that a higher proportion of independent members enables environmental and social needs to be addressed more easily and the assurance that banking institutions consider socially responsible practices beyond shareholder interests (Arayssi et al. 2020; García-Sánchez et al. 2018); that is, these bodies focus on showing compliance with rules and the adoption of socially responsible behavior (García-Sánchez et al. 2018). The disclosure of information, by a bank, on the activities and practices related to ESG factors allows for an improvement of its social profile and promotion as a "good citizen" (Arayssi et al. 2020). Therefore, independent boards are considered to be involved with ESG issues, and there is a balance between the banks' social and financial responsibilities (Arayssi et al. 2020).

As previously mentioned, the board members' roles are to monitor and supervise risks, and these are dependent on their size. This study shows that a larger board of directors has a negative and significant influence on ESG performance, not supporting Hypothesis 3. This result can be explained by the fact that the larger the board, the more complicated the monitoring and supervision of banks' decisions and activities may become, given that there is a greater difficulty and limitation in terms of communication and coordination among its members (Siregar and Bachtiar 2010). Consequently, they will not take ESG factors into consideration when making decisions and implementing policies, being more concerned with economic issues. Furthermore, the type of sector analyzed in the study may influence the ESG performance obtained. That is, the banking sector, relative to other sectors, is lagging behind in relation to sustainability challenges and, therefore, attaches less importance to the impacts that their business has on the environment and society and only briefly analyze these aspects (Al Hawaj and Buallay 2022).

By analyzing Table 5, it is possible to observe that social trust at the country level shows a negative and statistically significant relationship with ESG performance, not supporting Hypothesis 4. Social trust, as previously mentioned, corresponds to the set of values, norms or beliefs shared by a society (Guiso et al. 2008; Rousseau et al. 1998). This concept meets the definition of legitimacy, that is, an action is legitimate when it is appropriate and fits within a social system consisting of norms and values (Al Hawaj and Buallay 2022). For a bank to legitimize its role in society, it needs to assess and align its social values with that of the country where it is based (Al Hawaj and Buallay 2022), and this legitimacy is compromised by social expectations (Rojas Molina et al. 2022). Consequently, the bank's social performance is negatively impacted (Laidroo and Sokolova 2015). A possible explanation for the obtained result is based on the link between these concepts and the 2008 financial crisis. This crisis strongly affected the population's trust in the banking sector, i.e., the legitimacy of banking institutions was called into question. To restore this legitimacy, there is a need to adopt and develop ESG practices (Rojas Molina et al. 2022), since it is one of the ways banks can survive, develop and grow after this complicated moment (Al Hawaj and Buallay 2022). To regain and rebuild lost trust again, banks have felt the need to engage in ESG issues and have also been pressured by stakeholders to develop "green" financial products and invest in social responsibility projects (Herzig and Moon 2012; Laidroo and Sokolova 2015). Therefore, the implementation of environmental activities, socially responsible behaviors and governance policies by the banking sector is seen as an opportunity to increase social trust and consequently improve ESG performance (Herzig and Moon 2012).

With regard to bank-specific variables, it can be seen from Table 5 that these exert a positive and statistically significant influence on ESG performance, i.e., larger and more profitable banks achieve a better ESG score. A possible explanation for this relationship is the fact that these types of banks have more resources and a larger workforce, which enables investment and financing of socially responsible activities. In other words, banking institutions channel part of their profits to participate in environmental and social projects, thus implying the achievement of a better ESG performance (Arayssi et al. 2020; Shakil et al. 2020). In addition, stakeholders are pressing for ESG policies and practices to be integrated into banks' business strategies. In this way, they are able to meet stakeholders' informational needs and interests, as they make a greater effort to disclose information on these aspects and to align their activity with social expectations (Schroder 2021). Banks located in countries with a high HDI seem to have a better ESG performance, which may be associated with the fact that in such countries, there is an obligation to integrate these factors into their business models, as well as the fact that there is a vast knowledge base and entrepreneurial acumen that leads banks to take these aspects into consideration in their decision-making processes (Ashraf et al. 2022). Therefore, larger and more profitable banks based in countries with a high level of human development exhibit greater engagement with ESG issues and adopt socially responsible behaviors (Birindelli et al. 2018; Chen and Wan 2020; Chen et al. 2021; Naomi and Akbar 2021).

### *4.4. Additional Analysis*

Because there are a few databases exploring social trust at the country level, an additional analysis was carried out to find out if there are differences between them. Therefore, a survey conducted by Eurostat in 2013 on trust in others was used as an alternative to the WVS. According to the Eurostat report (Eurostat 2015), trust is a central element in the relationships an individual establishes and in their social interactions. This variable is of a general nature, i.e., it does not refer to a specific group of individuals and is based on the opinion of the person interviewed. The sample of this study consists of subjects living in private households, aged over 16 years, and belonging to the 28 Member States of the European Union, Iceland, Norway, Switzerland and Serbia. The level of trust in others corresponds to the average of the evaluations of all individuals on a scale from 0 ("Do not trust any person") to 10 ("Most people can be trusted"). As with the WVS data, information is not available for each year of the time interval studied. Therefore, the same assumption is followed that changes in a company occur slowly and that social trust remains stable for a certain time (Chen and Wan 2020); therefore, the value of 2013 is used for the analyzed period.

Social trust at the country level negatively and significantly affects the ESG performance of the banking sector, as occurs when using the WVS database. Therefore, the conclusions drawn on this variable are the same as those mentioned above. With Eurostat, social trust exerts an even more negative influence on ESG performance compared to the WVS.

Despite the existence of a time lag between the databases used, we found that we reached the same conclusions about the influence of social trust at the country level on ESG performance. Therefore, it is proven that social trust does not change over the years, i.e., it remains stable over a period of time.

We have also conducted an analysis changing the variable Women to reflect the presence of three or more women on the board (Torchia et al. 2011; De Masi et al. 2021), rather than the proportion of women on the board. The results are similar to the main analysis.

## 5. Conclusions

The study concludes that a board of directors that has a higher proportion of women and independent members and is smaller in size positively impacts a bank's ESG performance. In other words, this type of bank adopts socially responsible behavior, makes ethical decisions and includes strategies that take ESG issues into consideration. This is because, according to the literature on the subject, women have a greater sensitivity and orientation towards environmental and social issues, bring ideas and resources on biodiversity policies and programs and, therefore, encourage the implementation of socially responsible activities. Regarding independent members, these have a greater awareness of stakeholder interests and environmental and social issues, so they lead managers to pay attention to ESG practices in decision-making, encouraging them to adopt socially responsible behaviors. The monitoring and supervision of a board of directors become more complicated when it is larger, which makes communication more difficult and influences it to become more involved in economic issues. As a result, bank members will not be as focused on environmental, social, and governance factors, negatively influencing ESG performance.

Social trust negatively affects the level of ESG performance, which is contrary to the studies reviewed. This trust, in turn, is affected by historical events and social expectations. In other words, the 2008 financial crisis caused society to lose confidence in the banking sector. In order to regain this trust and gain legitimacy, the banking sector engaged in ESG activities.

The study shows that ESG factors in the banking sector should be seen as an opportunity since they contribute to achieving a more sustainable world. When a bank invests in environmental and social practices, it shows a care for the society where it operates and a concern for the environment. This research thus contributes to a better understanding of the influence of the composition and size of a board of directors and the culture of a country on the implementation of ESG activities and policies.

This study has some practical implications. Companies wishing to improve their ESG performance are well advised to include women and independents on the board and have relatively smaller boards. In addition, finding suggest that multinational corporations should design their ESG practices taking into account the levels of social trust in the countries in which they operate.

However, it should be noted that this study has some limitations. Some of them are related to the sample, which only includes European banks and is small in size. But there are also limitations related to the variables used. There is a time lag between the variable social trust and the remaining variables, and the same value is assumed for the 4 years analyzed (given the lack of information for each year), which may lead to the results obtained not being so reliable and updated. This is, however, a limitation shared by most of the studies that have examined the impacts of socio-cultural aspects, not only country-level social trust (e.g., Kanagaretnam et al. 2018a, 2018b, 2019) but also other aspects of national culture (e.g., García-Meca et al. 2018; Ho et al. 2012; Hope et al. 2008; Khlif et al. 2015), given that measurements of these aspects are made only from time to time.

The limitations identified above also offer insights into future studies that can address them. In addition to using a larger sample size, which could allow for more robust results, it would be interesting to analyze, in possible future research, the influence of board composition and size and cultural factors in other sectors and compare it with the banking sector in order to see if the relationships established vary depending on the sector under analysis. It would also be relevant to compare European countries with countries from other regions and verify whether considering companies from other geographical regions, such as the United States and China, changes or corroborates the results. It would also be interesting to compare the relationship between social trust and ESG performance before the 2008 crisis with a later period to see whether the relationship referred to is similar or, as suggested above, may be different.

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