

Dear Sir/Madam,

You are cordially invited to attend the **EIZ Seminar** on Wednesday, 29 May 2024, at **2:00 p.m.**, at the **Institute of Economics, Zagreb**, when Professor **Irena Vodenska** (Boston University) will present the paper

Does ESG Matter for Corporate Performance and Risk?

The working language of the presentation is English.

Summary

This study investigates the relationship between corporate governance factors and firm performance and risk, focusing on financial considerations, board characteristics, and adherence to governance principles. It aims to explore the impact of governance practices on business resilience and financial performance. The investigation seeks to understand whether effective corporate governance practices lead to better financial performance and lower risk, enhancing firm's value.

The paper applies panel regression analysis on 601 public companies from the US (437) and the EU (164) between October 2019 and February 2023. The companies belong to various sectors, including Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Industrials, Information Technology, Materials, Real Estate, and Utilities. The EU sample covers Developed European countries, including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Preliminary results reveal significant relationships between governance factors and firm performance and risk. Higher accruals (a typical measure of low earnings quality) are associated with lower net income. Independent audit committees may negatively impact financial performance but are not significantly related to corporate risk. Having a risk management expert on the Board is associated with higher volatility and lower performance while having a financial expert is positively related to net income. The involvement of individuals or entities closely connected to the companies in various transactions, including asset transfers, loans, and loan guarantees, is negatively related to financial performance measured by gross margin.

The study highlights the different perspectives on governance practices between US and EU companies. Higher accruals are negatively related to financial performance in the US, while they are positively related to performance in the EU. Also, while having a financial expert on the Board is positively associated with performance in the US, it is negatively related to gross margin in the EU. The transactions by related individuals and entities and audit committee independence significantly negatively affect firm performance only in the US. On the other hand, the negative relationship between having a risk management expert on the Board and financial performance is only significant in the EU and not significant in the US.

About the presenter

Dr. Vodenska's research focuses on sustainability in finance and macroeconomics. She conducts theoretical and empirical interdisciplinary research using quantitative approaches for modeling interdependences of financial networks and systemic risk, including environmental considerations, given that climate change has become an increasingly significant risk factor for the global economy. Her research includes investigating the propagation of climate disinformation via social networks such as Twitter and understanding the distortion's effect on the public, governance, and policy. She studies the impact of media reporting on Environmental, Social, and Governance (ESG) concerns on corporate sustainability. She uses AI-powered tools, including natural language processing (NLP) and Large Language Models (LLMs), to text-mine and understand crucial ESG factors affecting company performance and risk, corporate reporting, and global economic trends, primarily related to climate change and social responsibility. Professor Vodenska holds a Ph.D. in statistical finance and an MA in economics from Boston University, an MBA from Owen Graduate School of Management at Vanderbilt University, and a BS in computer information systems from the University of Belgrade. She is also a Chartered Financial Analyst (CFA) charter holder. In 2023, Dr. Vodenska won a National Science Foundation (NSF) research grant to explore AI-powered ESG solutions.

<https://www.bu.edu/met/profile/irena-vodenska/>