



# The Impact of Employee Board Representation on the Firm's CSR Engagement : evidence from the French Context

Amal Boukadhaba

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Amal Boukadhaba. The Impact of Employee Board Representation on the Firm's CSR Engagement : evidence from the French Context. Business administration. Le Mans Université, 2020. English. NNT : 2020LEMA2001 . tel-03084772

**HAL Id: tel-03084772**

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# THESE DE DOCTORAT DE

LE MANS UNIVERSITE  
COMUE UNIVERSITE BRETAGNE LOIRE

ECOLE DOCTORALE N° 597  
*Sciences Economiques et sciences De Gestion*  
*Spécialité : Sciences de gestion*

Par

**Amal BOUKADHABA**

## **The Impact of Employee Board Representation on the Firm's CSR Engagement: Evidence from the French Context**

Impact de la représentation des salariés au sein du conseil d'administration sur l'engagement RSE de  
l'entreprise : Etude du contexte français

**Thèse présentée et soutenue à Le Mans, le 09 Juin 2020**

**Unité de recherche : GAINS-ARGUMANS Recherche Gestion (N° EA 2167 CNRS)**

**Thèse N° : 2020LEMA2001**

### **Rapporteurs avant soutenance :**

Nicolas Aubert	Professeur des universités, Aix-Marseille Université
Xavier Hollandts	Professeur associé, Kedge Business School

### **Composition du Jury :**

Nicolas Aubert	Professeur des universités, Aix-Marseille Université
Xavier Hollandts	Professeur associé, Kedge Business School
Gilles Paché	Professeur des universités, Aix-Marseille Université
Salma Mefteh Wali	Professeur, ESSCA School of Management

Directeur de thèse :	Mehdi Nekhili	Professeur des universités, Le Mans Université
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*À mes parents,*

*À mon mari,*

*À tous ceux que j'aime,*

*Et à tous ceux qui m'aiment...*



# Remerciements

Au terme de ce travail, je tiens à exprimer ma profonde gratitude à mon cher directeur de thèse Monsieur le Professeur Mehdi Nekhili pour son encadrement, son expertise, sa disponibilité, ses précieux conseils et son énorme soutien tout au long de la période de thèse. Ce travail lui doit beaucoup.

Je remercie Monsieur le Professeur Nicolas Aubert et Monsieur le Professeur Xavier Hollandts d'avoir accepté d'être rapporteurs de ce travail de recherche. Je tiens à remercier également Monsieur le Professeur Gilles Paché et Madame la Professeure Salma Mefteh Wali d'avoir accepté d'être membre de jury de cette thèse

J'adresse aussi mes vifs remerciements aux membres de mon comité de suivi de thèse Monsieur le Professeur Wael Louhichi de l'ESSCA et Madame la Professeure Christine Gonzalez de Le Mans Université pour les discussions enrichissantes ainsi que leurs conseils. Je remercie également Monsieur Haithem Nagati, enseignant-chercheur à l'emlyon, pour ses conseils et commentaires précieux.

Par l'occasion, je remercie les membres du laboratoire de recherche GAINS, professeurs et doctorants pour leurs commentaires et conseils lors des séminaires.

Je ne manquerai pas à remercier mon cher mari Moez pour sa grande patience, son soutien morale et financier, sa relecture et ses précieux conseils.

Je remercie mes parents Lotfi et Moufida, mes sœurs Amani et Eya et mon frère Mohamed Aziz, ma belle famille et mes ami(e)s Safa, Amira, Islem, Soumaya et Fahim ainsi que toute personne qui a contribué de près ou de loin à l'achèvement de ce travail.



# **The Impact of Employee Board Representation on the Firm's CSR Engagement: Evidence from the French Context**

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## **Abstract**

This thesis proposes to examine the relationship between employee board representation and the CSR engagement of the firm. Particularly, we study how investors perceive CSR reporting and ESG performance when employees are represented on the board.

Using a sample of French firms belonging to the SBF 120 index over two different periods from 2001 to 2011 and from 2007 to 2017, our results show that the presence of employee directors on board moderates positively the perception of investors towards CSR reporting and negatively their perception towards ESG performance. More fine-grained examination shows that directors elected by employees by their right of employment enhance exclusively the social performance and moderate negatively the way investors perceive information on ESG performance. In contrast, directors elected by employee shareholders enhance the overall ESG performance as well as the environmental and the governance performances and moderate positively the way investors perceive the ESG performance of the firm. Our findings highlight a conflict of interest between shareholders and employee directors, particularly with labour representatives.

This thesis covers several disciplines namely accounting, corporate governance and human resource management. As a result, it is with great interest for regulators, investors, managers and shareholders.

***Key words: Employee board representation, CSR reporting, ESG performance, Firm market value.***



# **Impact de la représentation des salariés au sein du conseil d'administration sur l'engagement RSE de l'entreprise : Etude du contexte français**

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## **Résumé**

Cette thèse propose d'examiner la relation entre la représentation des salariés dans le conseil d'administration et l'engagement RSE de l'entreprise. En particulier, nous étudions comment les investisseurs perçoivent-ils le reporting RSE et la performance ESG lorsque les salariés sont représentés au sein du conseil d'administration. En utilisant un échantillon de sociétés françaises appartenant à l'indice SBF 120 sur deux périodes différentes de 2001 à 2011 et de 2007 à 2017, nos résultats montrent que la présence des administrateurs salariés modère positivement la perception du reporting RSE et négativement la perception de la performance ESG par les investisseurs. Un examen plus détaillé montre que les administrateurs élus par les salariés par leur droit de travail améliorent exclusivement la performance sociale et modèrent négativement la perception des investisseurs vis-à-vis de la performance ESG. Au contraire, les administrateurs élus par les salariés actionnaires renforcent la performance ESG globale ainsi que les performances environnementale et de gouvernance et modèrent positivement la perception de la performance ESG par les investisseurs. Nos résultats mettent en évidence un conflit d'intérêts entre les actionnaires et les administrateurs salariés, notamment avec les représentants des travailleurs.

Cette thèse couvre plusieurs disciplines à savoir la comptabilité, la gouvernance d'entreprise et la gestion des ressources humaines. En conséquence, elle intéresse vivement les législateurs, les investisseurs, les managers et les actionnaires.

***Mots clés : Administrateurs salariés, reporting RSE, performance ESG, performance boursière.***



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## Liste des Acronymes

**AGEFI** : Agence Economique et Financière

**CEO** : Chief Executive Officer

**CSR** : Corporate Social Responsibility

**ESG** : Environment, Social and Governance

**ESO** : Employee Share Ownership

**F.P** : Financial Performance

**GMM** : General Method of Moments

**GRI** : Global Reporting Initiative

**KLD** : Kinder, Lydenberg and Domini

**KPI** : Key Performance Indicator

**NER** : Nouvelles Régulations Economiques

**PACTE** : Plan d'Action pour la Croissance et la Transformation des Entreprises

**R&D** : Research and Development

**RSE** : Responsabilité Sociale de l'Entreprise

**SBF** : Société des Bourses Françaises

**VIF** : Variance Inflation Factor



# General Introduction

The starting point of this thesis is that efficient corporate governance, “*the system by which companies are directed and controlled and as a set of relationships between a company’s management, its board, its shareholders and its other stakeholders*” (European Commission, 2011a: 2), is crucial to maintain the confidence of stakeholders in the firm’s outcomes and that inefficient governance raises the likelihood of financial crises and stakeholders’ doubt. Indeed, the wave of scandals in Us (WorldCom, Tyco, Arthur Anderson, Enron), Europe (FlowTex, Parmalat and more recently Thomas Cook) and worldwide (HIH Insurance, Carrian Group, etc) have questioned both the corporate social responsibility (hereafter CSR) of organizations and the efficiency of the board of directors as a mechanism of the corporate governance. These scams highlighted that, on the one hand, shareholders’ supremacy orientation of firms is no longer appropriate in this new context (Gordon & Roe, 2004) and that a stakeholder orientation would, in such case, be a better alternative from the corporate social responsibility perspective. In other words, the outcomes of financial crisis such as employees’ lay off, unpaid suppliers, investors’ doubt, etc., have shown that while maximizing the interests of one stakeholder, namely shareholders, other stakeholders’ interests, crucial to the firm’s continuity, have been neglected. On the other hand, they highlighted the need to enhance the efficiency of the board of directors as the responsible for the firm’s strategies and policies and also for managerial monitoring. In this respect, the composition of the board and more particularly, the diversity of its members may be considered as a solution to enhance its efficiency. Indeed, a diverse board would have different competencies, knowledge, information and views, offering more capacities to perform its monitoring duties (Bagdi, 2015; Huse, Nielson, & Hagen, 2009). As for gender

diversity and the independence of the board members, the representation of employees on the board has attracted increasing attention from regulators and researchers.

The co-determination, a translation for the German word “Mitbestimmung”, is the practice by which workers are represented on the board of directors with voting rights. This representation provides employees with the opportunity to participate in the decision-making process, to express their needs and to defend their interests. Initially, this practice started after the World War II in Germany, particularly in the steel, coal and iron industries, and saw a widespread interest 60 years later in other European countries (Conchon, 2011; Preuss, Haunschild, & Matten, 2009). The renewed interest for employees’ participation in the decision-making process can be justified by their long-term perspective towards the firm (Kleincknecht, 2015). Referring to the stakeholders’ perspective, the representation of employees on the board of directors, mainly a European phenomenon<sup>1</sup>, aims to balance forces (human and financial capitals) on the board. Different laws and directives were launched to support the presence of employees on the corporate boards at the country and European level. At the European level, the launch of the Union Statute of European Companies (EC 2157/2001) and the associated Council Directive (2001/86/ EC) have largely promoted for workers’ participation at the board level. At the country level, 19 from among 31 European Economic Area (EEA) countries have legislations with regard to employees’ participation at the board level. France show an intermediate level of employees’ representation on the board compared to Germany, which mandates a third (half) of the supervisory board for firms with more than 500 (2000) employees, respectively and United Kingdom, which required no employee board level representation. The first French law stipulating labour representation (or the institutional representation of employees) on the board focused on state-controlled firms (law of 1983). Eleven years later, regulators start to pay attention to privatized companies by

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<sup>1</sup> For more details see Conchon, Kluge and Stollt (2015), Worker representation in the 31 European Economic Area Countries.

giving them the possibility to reserve seats for employees and employee shareholders subject to the acceptance of shareholders at the general assembly (law of 1994). Started in 2013, French public listed firms are required to reserve seats for directors elected by employees by right of employment (New laws were launched in 2015 and 2019). Besides the representation of labour on the board of directors, French firms show another specification by representing employee-shareholders on their boards. The representation of employee-shareholders became mandatory for publicly listed French firms in 2006<sup>2</sup> conditional to holding at least 3% of total shares. More details on the different French laws regarding employee board level representation are presented in Appendix 1.

Referring to AGEFI, France is the most advanced country in terms of employee share-ownership with 3.2 million of employee-shareholders representing 43% of total employee-shareholders in Europe. These numbers are expected to increase in the next years for two main reasons. First, referring to BFM Bourse,<sup>3</sup> 81.4% of firms belonging to the SBF 120 index are expected to make a capital increase in favour of employees. Second, Bruno Le Maire, the French ministry of economy, has launched an objective for French firms to reach a level of 10% of employee ownership by 2030. In this context of employee share-ownership encouragement, the “PACTE law of 2019 proposes measures in favour of employee share ownership<sup>4</sup>.

Previous studies have mostly focused on the impact of employee directors on the corporate governance of the firm (Bøhren & Strøm, 2010; Huse et al., 2009; Hollandts & Aubert, 2019; Faleye, Mehrotra, & Morck, 2006; Fauver & Fuerst, 2006; etc.). In relation to the corporate social responsibility of the firm, a number of authors examined the impact of CSR initiatives on employees’ attitudes (Brammer, Millington, & Rayton, 2007 ; Kim, Lee,

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<sup>2</sup> The application decree of the law 2002 had not been published which makes the law inapplicable.

<sup>3</sup> <https://www.tradingsat.com/actualites/dossier/en-france-un-actionnaire-salarie-possede-pour-plus-de-36500-euros-de-titres-en-moyenne-878665.html>

<sup>4</sup> For more information, refer to the web site <https://www.economie.gouv.fr/plan-entreprises-pacte>

Lee, & Kim, 2010) while others examined the perception of employees towards CSR initiatives (El Akermi, Gond, Swaen, & Igalens, 2018; Gao & Young, 2016; Jones, Willness, & Madey, 2014; Triana, Jayasinghe, Pieper, Delgado, & Li, 2018; etc). So far, however, there has been little discussion about the relationship between the presence of employees on the board of directors and CSR (Hillman, Keim, & Luce, 2001; Huse et al., 2009; Preuss et al., 2009). The aim of this thesis is to shine new light on the debates on employee board representation by focusing on the impact of employee directors on the firm's CSR engagement. More particularly, we aim to examine the extent to which the presence of employee directors on the board may impact the perception of the market towards CSR reporting and CSR performance (hereafter environmental, social and governance (ESG) performance).

### **1. What are the Differences between Directors Elected by Employees by Right of Employment and Directors Elected by Employee-Shareholders?**

Employee participation in the decision-making process may be either a long-term, formal and consultative participation (i.e. participation on the supervisory boards or boards of directors with voting rights) or a short-term and informal participation (as in the case of participation in working councils). However, recent legislations have largely encouraged formal participation of employees on the board (Law 2006, law 2013, law 2015, law 2019).

France represents an interesting context for studying employee board representation. Indeed, in French boards, we can find two types of employee directors: directors elected by employees by their right of employment and directors elected by employee-shareholders. Referring to Johnson, Daily and Ellestrand (1996), directors on the board have three main roles : (1) an agency role consisting on assuring that shareholders' interests are taken into consideration and that CEO is acting in the same orientation, (2) a resource-dependence role consisting on facilitating access to valuable resources for the firm and (3) a strategic role

consisting on bringing valuable information and knowledge to help managers in their decision-making. Besides these responsibilities, employee directors are asked to represent either employees or employee-shareholders' preferences and interests on the board.

The human capital is as important as the financial capital for the firm's survival. However, the representation of traditional employees (without share-ownership) on the board show mixed results. For their advocates, giving the opportunity for labour to be represented on the board is beneficial for the firm. More particularly, labour representatives enable valuable information to be shared with the other directors and contribute to the board's efficiency (Huse et al., 2009), enhance the financial performance of the firm by assuming their control and advice responsibilities on the board (Hollandts, Guedri & Aubert, 2009), reduce negative shocks in time of crisis (Kleinknecht, 2015) and it is important for firms with higher needs of coordination with workers (Fauver & Fuerst, 2006). However, for their opponents the institutional representation of employees on the board reduces the firm's value (Bøhren & Strøm, 2010) and the efficiency of self-managed firms (Jensen & Meckling, 1979). In addition, labour representatives on the board are likely to increase conflict of interests with other shareholders by reducing payout ratios (Ginglinger, Megginson, & Waxin, 2011) and by voting for decisions that maximize their own interests (such as decisions which guaranty their jobs and increase their fixed and residual claims) at the expense of shareholders' value maximization. Whereas the presence of workers on the board does not serve shareholders value maximization, some authors recommend a prudent level (between one-third and one-half of the board's seats) of employee board representation to enhance board's monitoring and reduce agency costs (Fauver & Fuerst, 2006).

Traditional employees may become shareholders through several ways: they can either buy the firm's stocks individually on the market or obtain them through employee share ownership (hereafter ESO) plans. However, it is noteworthy to mention that ESO plans are

the most used tool for employees to become shareholders. Indeed, firms tend to encourage employee share-ownership plans in order to motivate their employees and reduce their debt-dependency to creditors. French government and legislators, also, show support for the employee share ownership plans (the PACTE law of 2019).

Employee shareholders' representation on the board seems to be legitimated by their double investments: human and financial. In addition, employee shareholders are more attached to the survival of the firm (Kleinknecht, 2015). Indeed, unlike others shareholders, employees have lower opportunity to leave the firm. Referring to Ginglinger et al. (2011), directors elected by employee-shareholders enhance the French firms' profitability. However, according to Hollandts and Aubert (2011), these directors have a hierarchical-dependency relationship with their managers. Consequently, their representation on board would encourage managerial entrenchment (Hollandts, Aubert, Abdelhamid, & Prieur, 2018).

More details on the personal characteristics and the process of nomination on the board of directors are presented in Appendix 2.

## **2. Theories Explaining the Employee Board Representation-CSR Relationship**

Examining the literature, we find that four theories may explain the relationship between employee board representation and CSR, namely the agency theory, the stakeholder theory, the neo-institutional theory and the social identity theory.

### *The agency theory*

Employees and shareholders have different interests. While employees seek for safe jobs and long-term survival of the firm (Kleincknecht, 2015), shareholders usually look after profitability. Therefore, representing employees on the board of directors with voting rights may increase conflicts of interests with other directors representing the shareholders. A large number of studies advance that employee directors primarily maximize their interests on the

board (Bøhren & Strøm, 2010) and deviate the firm from shareholders value maximization (Faleye et al., 2006). Another argument supporting the rise of conflicts between employee directors and shareholders is provided by Pagano and Volpin (2005). Indeed, the authors argue that the close relationship between employees and managers, as insiders within the firm, may result in a powerful coalition against shareholders' decisions.

Whereas employee directors increase the board's efficiency in terms of CSR and strategy controls (Huse et al., 2009), some authors argue that CSR increases the conflict of interests between inside and outside shareholders (Barnea & Rubin, 2010). In such a case, increasing CSR engagement when employees are on the board may increase conflicts of interests with shareholders.

#### *The stakeholder theory*

The stakeholder theory aims to tell a new story about the business by advancing that making money for shareholders is no longer the main purpose of the firm. Instead, firms have to create value for all stakeholders. This theory is considered as a mix between business and ethics. More particularly, it advances that firms would create value by considering the needs of its different stakeholders and by meeting their expectations. Confirming the stakeholder view of business, previous findings confirm that meeting stakeholders' needs and expectation creates value for the firm, particularly by focusing on primary stakeholders, namely employees, shareholders, customers (Hillman & Keim, 2001; Van der Laan, Van Ees, & Van Witteloostuijn, 2008).

From a stakeholder perspective, the firm needs to pay more attention to its different stakeholders rather than focusing only on shareholders. Therefore, the inclusion of directors elected by employees (either by right of employment or by employee-shareholders) on the board may sign for better attention to stakeholders' needs, particularly the workers' issues.

From a CSR perspective, a stakeholder-oriented board is likely to reach higher levels of social and environmental performances (Shaukat, Qiu, & Trojanowski, 2016). Along similar lines, the representation of employees on the board is documented to increase the board's engagement in CSR issues (Huse et al., 2009).

#### *The neo-institutional theory*

Companies working in the same institutional environment may face different institutional pressures, namely coercive, mimetic and normative pressures (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). To gain legitimacy of its societal context, crucial for their survival, organizations have to respond to these pressures. For Preuss et al. (2009), CSR is an important institutional pressure in the twenty-first century. CSR stipulates that firms have to act in a responsible way towards all its stakeholders. In that sense, firms may reserve seats for their employees on the corporate board to show their compliance with the concept of CSR and to gain the legitimacy of their workforce and potential job seekers. A change in the corporate structures or strategies could result from corporate cultural or political-legal processes. Therefore, firms may appoint employees to their boardroom in response to the different French laws (Law of 2006, Law of 2013, Law of 2015 and more recently the law of 2019) or because the culture of the firm encourages the democracy in the decision-making process.

#### *The social identity theory*

The social identity theory (hereafter SIT), proposed by Turner (1985) and Tajfel and Turner (1985), argue that the social identity of individuals is likely to impact their attitudes and behaviours towards their in-group (group holding similar values) and out-group (group holding different values). The social identity of individuals is thus generated by their feeling of membership and their comparison with other group members. Based on the SIT, a large body of research examining the impact of CSR initiatives on the behaviour of employees has

shown that a company that acts responsibly is likely to have more engaged employees (Brammer et al., 2007, Turker, 2009). However, the irresponsible behaviour of firms generates negative effects on employee behaviour (Triana et al., 2018). In this sense, employee directors, concerned about the socially responsible behaviour of their companies, are likely to strengthen the board's interest for CSR, which will, in turn, intensify the social identity of employees.

### **3. Motivations**

Representing the employees on the board of directors with voting rights serves to implement a project of justice and democracy in the decision-making process (Conchon, 2011). Previous studies have examined the impact of employee directors on the board's efficiency (Huse et al., 2009), on corporate governance (Bøhren & Strøm, 2010; Faleye et al., 2006; Fauver & Fuerst, 2006; Hollandts & Aubert, 2019), on company's resilience (Kleincknecht, 2015), on firm's performance (Hollandts et al., 2009), on financial policies (Ginglinger et al., 2011), on value creation (Poulain-Rehm & Lepers, 2013), on CEO entrenchment (Hollandts et al., 2018), and CSR (Huse et al., 2009; Preuss et al., 2009). Summarizing previous findings, we claim that the representation of labour on the corporate board is beneficial for firms which demand a high level of coordination with employees (Fauver & Fuerst, 2006) and in time of crisis (Bagdi, 2015; Kleinknecht, 2015). Moreover, Employee directors defend workers' interests (Bøhren & Strøm, 2010), increase the board's involvement in CSR (Huse et al., 2009), enhance the board's monitoring and reduce private block holders' privileges (Fauver & Fuerst, 2006) and finally reduce the likelihood of strikes by providing credible information from the board to workers and unions (Fauver & Fuerst, 2006). Nevertheless, employee directors are likely to deviate the board from shareholder value-maximization (Faleye et al., 2006) which may raise conflict of interests with other board members. Besides, employee directors reduce the boards' efficiency (Jensen & Meckling, 1979) and facilitate CEO's

entrenchment (Hollandts et al., 2018). From a stakeholder standpoint, these findings suggest that employee directors succeed in defunding the workers' interests and balancing forces between the human capital and the financial capital. However, from an agency standpoint, employee directors may oppose to shareholders' decisions if they are not aligned with their interests, resulting in increased shareholders' mistrust in the board's outcomes. These arguments motivated us to examine whether the presence of employees on the board may moderate the perception of the market participants towards the firm's CSR engagement.

### *3.1. CSR criteria, an important feature for investors' decision making*

In the new global economy, CSR has become a central issue for the firm and its stakeholders and an interesting field of study for researchers. One frequently used definition of CSR is, as proposed by the Commission of the European Communities (2001), "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary base" (Dahlsrud, 2008).

French legislation has experienced a "green revolution" during the last decade. Particularly, three laws were launched to encourage the social and environmental engagement of firms, namely NRE law (2001), Grenelle I law (2009) and Grenelle II law (2010). Contrary to the two first laws and inspired by the GRI guidelines, Grenelle II has identified the different extra-financial information that firms should disclose in their annual reports.

Stakeholders and particularly the market participants care about the CSR engagement of the firm and use the extra-financial criteria to make their perception and decision (Lydenberg, 2013; Nekhili, Boukadhaba, Nagati, & Chtioui, 2019). Stakeholders may assess the CSR engagement of the firm through two criteria; the extra-financial reporting and the extra-financial performance. The extra-financial reporting (CSR reporting) encloses a set of information related to social, environmental and sustainability investments of the firm. These information aims primarily to increase the awareness of stakeholders about the CSR activities

of the firm. Accordingly, firms may use CSR reporting as a channel to help investors understanding their ESG performance (Fuente, García-Sánchez, & Lozano, 2017). The extra-financial performance (ESG performance) is a rating provided by independent extra-financial agencies aiming to assess the relationship between the firm and its stakeholders. The main ESG rating and index providers are Thomson Reuters Asset4, MSCI, S&P Dow Jones and RobecoSAM and FTSE Russell (Pagano, Sinclair, & Yang, 2018).

Investors and more particularly responsible investors pay attention to ESG performance when making their sell-buy decisions (Lydenberg, 2013). Indeed, the ESG performance helps investors to analyse the firm's financial and extra-financial prospects (creation of value for both shareholders and the different stakeholders), identify firms with values that match with their owns and finally, identify the firm's potential risks and rewards through assessing its relationship with the different stakeholders.

### *3.2. CSR: a board control task*

From a CSR perspective, the board of directors is responsible for setting the CSR strategies and orientations of the firm, verify that CSR decisions made by the CEO and its management team meet CSR requirements and assure that CSR expenses are likely to create value for shareholders and stakeholders. An efficient board, from a CSR point of view, is expected to enhance the trust of stakeholders by providing higher quality of CSR reporting and by meeting the stakeholders' expectations and needs.

The board composition is argued to impact the board's CSR control task (Huse et al., 2009), the quality of CSR reporting (Cormier, Aerts, Ledoux, & Magnan, 2009) and the ESG performance of the firm (Boulouta, 2013; Coffey & Wang, 1998; Dunn & Sainty, 2009; Hafsi & Turgut, 2013). In accordance, Huse et al. (2009) advance that board diversity and directors' competencies are the most important qualities that may impact the CSR engagement of the

firm. In that sense, the board composition may be a good filter for the market participant to assess the engagement of the firm towards CSR issues.

### *3.3. Employee board representation and CSR*

The perception of employees towards CSR initiatives has been widely discussed by previous studies. Related literature shows that a positive perception of CSR initiatives may result in satisfied and proud workers (El Akermi et al., 2018). On the contrary, a negative perception of the firm's actions towards its employees is likely to reduce the psychological health of workers and increase negative job attitudes (Triana et al., 2018). El Akermi et al. (2018) find that employees care about all stakeholders and make higher perception over CSR activities related to employees, shareholders, customers, natural environment, local community and suppliers.

Considering the representation of workers' interests as the primary role of employee directors (Hammer, Curall & Stern, 1991), employee board representation is likely to increase the board's involvement in CSR issues (Huse et al., 2009). Studying the Norwegian context, Huse et al. (2009) find that employee directors enhance the quality of discussion on the board by providing valuable and different information. Besides, focusing on the American context, Hillman et al. (2001), show that employee directors enhance the environmental performance of the firm. This finding suggests that employee directors may provide the board with special skills and knowledge related to the production process and the working conditions, helping to reach better ESG performance.

### *3.4. Employee board representation and the market perception towards the firm's CSR engagement*

The "business case" for CSR engagement is not yet well understood. Indeed, CSR initiatives are costly for the firm and CSR related-benefits are expected to manifest in the long-term perspective (Kanter, 2011). Moreover, the CSR outcomes may result in tangible and

intangible advantages (Lydenberg, 2013) and may bring more benefits for inside shareholders (large shareholders, managers and employees) than for outside shareholders (Barnea & Rubin, 2010).

Previous findings examining the perception of the market participants towards CSR reporting (Cahan, De Villiers, Jeter, Naiker & Van Staden, 2016; Nekhili, Nagati, Chtioui, & Nekhili, 2017) and ESG performance (Friede, Busch, & Bassen, 2015; Nekhili et al., 2019; Orlitzky, Schmidt, & Rynes, 2003) document mixed findings. This inconclusiveness of findings could be explained by the unclear managerial incentives behind voluntary CSR reporting and CSR expenses since managers have full discretion over CSR decisions. In such a case, the scepticism of stakeholders and particularly investors towards the real CSR engagement of the firm would be more significant.

Referring to the CSR studies, providing a better quality of CSR reporting and meeting stakeholders' expectation is likely to be influenced by the board's composition (Cormier et al., 2009; Hafsi & Turgut, 2013; Nekhili et al., 2017). Therefore, the appointment of employees on the boardroom could be used as a filter by investors to assess the CSR engagement of the firm. Indeed, on the one hand, employee representatives have different knowledge, expertise, realistic view and valuable information to bring to the board. Accordingly, the presence of employees on the boardroom may enhance the board's CSR task (Huse et al., 2009) and enhance CSR decisions (Preuss et al., 2009). However, on the other hand, employees have different interests than those of shareholders and especially regarding CSR initiatives. In that sense, employee directors may be more willing to ally with managers in order to increase the workers-related initiatives.

Employees and shareholders have not the same interest neither the same benefits from CSR initiatives (Barnea & Rubin, 2010). In other words, whereas shareholders may benefit from the enhanced reputation and the firm's performance resulting from CSR activities,

employees have more advantages comparing to shareholders who provide the financial support to the firm. Employees may profit from enhanced working conditions, equal treatment and opportunities, more trainings, higher salaries, etc., without supporting any costs. Together, the arguments discussed above motivated us to dig deeper on the value relevance of CSR reporting and ESG performance of the firm. In this study, we are going to examine the moderating effect of employee directors on the CSR reporting-financial performance relationship and the ESG-financial performance relationship.

#### **4. Methodology**

A considerable number of studies on CSR and employee board representation highlight the need to control for the endogeneity problem (Ginglinger et al., 2011; Hollandts et al., 2018; Nekhili et al., 2017). Endogeneity problem is a frequent and important issue that may impact the quality of our results. Three main sources were documented in the literature: unobserved heterogeneity, simultaneity and dynamic endogeneity.

*Unobserved heterogeneity:* This empirical concern may result from unobserved variables such as institutional pressures which may impact employee board representation and ESG (financial) performance. For instance, the corporate culture or the political context may play an important role in increasing the representation of employees on the board and in the CSR engagement resulting in higher CSR reporting and ESG performance.

*Simultaneity:* Simultaneity refers to the reverse causality which is the situation where the independent variable can influence the dependent variable and similarly, the dependent variable can influence the independent variable. In our study, it is likely that a reverse causality exists between the financial performance, the extra-financial performance and the employee board representation. On the one hand, we may expect a reverse causality between the financial performance and the extra-financial performance. Indeed, companies that achieve a good extra-financial performance can generate more financial benefits. At the same

time, companies that are profitable may increase their social and environmental investments and disclose information about these investments in order to gain competitive advantages such as creating a better image, having a good reputation and attracting the interest of responsible investors and potential jobseekers. On the other hand, we can also expect a reverse causality between the representation of employees on the board of directors and the financial performance of the company. In fact, companies with employee directors on the board are found to be more profitable (Hollandts et al., 2009, Ginglinger et al., 2011). At the same time, profitable businesses can be a source of attraction for employees who want to invest their money, which may result in employee-shareholders' board representation.

*Dynamic endogeneity:* This problem may occur due to a lagged reverse causality between the lagged value of the dependent variable and the independent variables; in our case, between the lagged value of the extra-financial (financial) performance and the appointment of employees on the boardroom.

These problems if not appropriately treated could generate biased results. A commonly used solution for endogeneity problem with small samples is to apply the GMM system (Blundell & Bond, 1998, Roodman, 2009). Examining the literature, this estimator was used to address the problem of endogeneity in studies examining the extra-financial disclosure (Nekhili et al., 2017), the extra-financial performance (Boulouta, 2013, Nekhili et al., 2019) and the representation of employees on the board of directors (Hollandts et al., 2018, Nekhili et al., 2019). Following these researchers, we use the GMM system estimator in our regression analyses. Moreover, to ensure the validity of our GMM system estimator, we use two empirical tests, namely the Arellano and Bond of the second order autocorrelation and the Sargan/Hansen test for over-identifying restrictions. We also control for the dynamic behaviour of our dependent variable by adding its lagged variable to the empirical model.

## **5. Overview of the Thesis' Structure**

The aim of this thesis is to answer the following research question: How investors perceive the firm's CSR engagement when employees are appointed on the board of directors? ESG performance could be a proxy for the CSR engagement by translating the ability of the firm to manage good relationship with its stakeholders. However, to understand this ESG performance, stakeholders need credible quantitative and qualitative extra-financial information. CSR reporting is a key channel for firms to help stakeholders understand their extra-financial performance (Fuente et al., 2017). Consequently, our first chapter focuses on CSR reporting and particularly aims to answer the following research question: To what extent the value relevance of CSR reporting is affected by the employee board representation? In the first section, we present a conceptual framework regarding the motives behind CSR reporting and its related value relevance in order to understand the perception of stakeholders towards this extra-financial disclosure. Then, we highlight the role played by employee directors in moderating the market perceived relevance of CSR information. In the second section, we describe the chosen sample and the methodology used. The sample used for the statistical processing consists of 790 observations of French companies belonging the SBF 120 index for the period from 2001 to 2011. It is noteworthy here to mention that in this first chapter, we use a different period of study, comparing to the two other chapters, in order to capture the voluntary criteria of CSR reporting. Indeed, after the Grenelle II law (2010) came into force in 2012, French firms are mandated to disclose particular social, environmental and sustainability information. In the third section, the empirical results obtained from the system GMM regression analyses are discussed, highlighting the way in which the capital market evaluates higher levels of CSR reporting in the presence of employee directors. Supplementary analyses add to the latter findings by examining our research question for each category of CSR information disclosed, namely social, environmental and sustainability. A

concluding section presents the main results and emphasizes future perspectives that can be considered.

In the second chapter, we raise the question of how investors perceive ESG performance depending on whether employees are appointed or not on the boardroom. To answer this question, first, we review the literature on the impact of employee board representation on the firm's value and then, highlight the moderating role of employee directors on the value relevance of ESG performance. Second, we use a recent study period (2007-2017) to test our hypothesis and after we present the system GMM regression results. Supplementary analyses were used to examine our research question for each pillar of ESG performance namely, social, environmental and corporate governance and then compare the value relevance of ESG performance and its related pillars for firms with and without employee board representation. Last section is dedicated to the conclusion and the future perspectives.

Extending the scope of our second research question, we distinguish, in our last chapter, between the two types of employee directors appointed on French boards, namely employee directors elected by right of employment (labour representatives) and directors elected by employee shareholders (employee-shareholders representatives). First, we examine the impact of the two types of employee directors on the social, environmental and corporate governance pillars of ESG performance. Then, we examine how the perception of investors towards the ESG performance is affected by the type of employee director appointed on the board. Therefore, the last chapter aims to answer two research questions: (1) How each type of employee directors impacts the ESG pillars namely, social, environment and corporate governance? And (2) To what extent the value relevance of ESG performance and its related pillars is affected by the type of employee director on the board? This chapter is organized into different sections. First section is split into four subsections. The first subsection

highlights the impact of employee directors on the social pillar of the ESG performance while the second and third subsections highlight their impact on the environmental and corporate governance pillars, respectively. The final subsection investigates the extent to which each type of employee directors, namely employee directors elected by right of employment and directors elected by employee shareholders, may impact the perception of the market towards the ESG performance. The second section tests our hypothesis using propensity score matching and system GMM estimation. Supplementary analyses were also performed to provide new insights on the moderating impact of each type of employee directors on the value relevance of specific pillars of the ESG performance. Last section concludes and highlights new areas for future research.

In the general conclusion, we discuss the main results of this thesis, identify the major contributions and limitations and emphasize future research perspectives.

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### Appendix 1: The Evolution of Employee Board Representation Laws over Time

Date of the French law	Text of the Law	Representation of employees by right of employment	Representation of employee shareholders
July 26, 1983	State controlled companies (more than 50% of shares are hold by the state) allowed labour representation on board	✓	
October 21, 1986 (Ordonnance)	Privately owned firms are allowed to change their statutes in order to have an elected representatives of employees on board	✓	
July 25, 1994	Privatized companies have to change their statutes before sale to reserve seats for employee representatives on board (1) 2 seats are reserved for labour representatives and one seat for employee shareholders representatives if the board's members is lesser than 15 (2) 3 seats are reserved for labour representatives and one seat for employee shareholders representatives if they are more than 15 N.B: Once the firm was privatized, shareholders have the right to change once again the statutes, cancelling by that the seats reserved for employee representatives. However, employees are obliged to submit to a vote for the general meeting a resolution to ask for seat (s) for employee shareholders once they own at least 5% of total shares. Though, shareholders have the right to agree or disagree with this resolution.	✓	✓
February 19, 2001	The threshold of 5% is reduced to 3%		✓
January 17, 2002 (Modernisation sociale)	Mandated that employee shareholders have to be represented on boards by a nominated director when their ownership exceeds 3%. However, the application decrees had not been published.		✓
December 30, 2006	Employee shareholders of publicly listed firms have to be represented on board when they hold at least 3% of the capital		✓
June 14, 2013 (Sécurisation de l'emploi)	Employees have to be represented on board by 1 director if the board's members is less than 12 members and 2 directors if the board is composed from more than 12 members for firms with at least 5000 employees in France or 10 000 employees in France and	✓	

	around the world		
August 17, 2015 (loi Rebsamen)	The threshold of eligibility of employee representation is reduced to 1000 employees in France or 5000 employees in France and around the world. Moreover, this law allowed a universal representation even for very small firms (less than 11 employees)	✓	
Mai 22, 2019 (loi Pacte)	Employees have to be represented on the board by 1 director if the board members are less than 8 members and 2 directors if the board is composed from more than 8 members for firms with at least 1000 employees in France or 5000 employees in France and around the world.	✓	

## Appendix 2: Comparison between the Different Types of Employee Directors

	<b>Employee directors elected by right of employment (Referring to the study of Carley (2005))</b>	<b>Directors elected by employee shareholders (referring to the study of Hollandts &amp; Aubert, 2011)</b>
<b>Personal characteristics</b>	14% are women	100% are men (except for Thales)
	55% are aged between 35-50 years 45% are aged between 50-65 years	On average, they are over 50 years old
	60% are manual or clerical workers 24% are middle management level 10% are technical and supervisory level 5% are senior managers	These directors have, on most of cases, executive functions (e.g., financial director, marketing manager, branch general manager, management control, etc.)
	Among the employee directors elected by right of employment who respondent to this study, 59% of them are elected by workers of the firm, 34% are nominated by work councils or trade unions. Over three-quarter have between 1-10 years' experience in this function	Almost all directors elected by employee shareholders in their study are nominated by the internal association of employee shareholders (except Renault)  On average, they have 3 years of experience in this function
<b>Process of nomination</b>	<ul style="list-style-type: none"> <li>• Elected by the workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Elected by employee shareholders</li> </ul>
	<ul style="list-style-type: none"> <li>• Nominated by work council</li> <li>• Nominated by trade union</li> <li>• Nominated by the European work council</li> </ul>	<ul style="list-style-type: none"> <li>• Nominated, mostly, by the internal association of employee shareholders</li> </ul>



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# **Chapter I: Does Employee Board Representation Matter for the Relevance of CSR Reporting?**

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## **1. Introduction**

For the last two decades, corporate social responsibility (hereafter CSR) reporting has been used as a channel to inform the firm's stakeholders (shareholders, employees and investors, etc.) about social and environmental activities. Reporting extra-financial information is largely considered as a good strategy to gain legitimacy in the eyes of stakeholders, who have different interests concerning CSR (Sahed-Granger & Boncori, 2014). Nevertheless, the use of CSR reports may change from stakeholder to another. For example, while investors may use extra-financial information to assess the competitiveness of the firm and its future perspectives, shareholders may use it to understand how their funds have been used. Employees are also interested in such information since they are directly affected by social investments (work conditions, training, etc.). Indeed, André, Husser, Barbat and Lespinet-Najib (2011) document that CSR reports of French companies tend to strongly favour the issue of employees (retirement, training, mobility, etc.). The other stakeholders, such as governments, institutions, creditors, etc., may use CSR reports to assess the firm's social and environmental impact and its reputation as a socially responsible or irresponsible firm.

Whereas increasing the awareness of stakeholders about the firm's CSR activities is value relevant and it has grown constantly over time (Allix-Desfautaux and Makany, 2015), the motivation of managers behind such disclosure is not clear. High level of CSR disclosure may be used to improve stakeholders' perception of the firm's social and environmental commitment or, conversely, to divert their attention from unfavourable performance or actions. This indeterminacy is reinforced by the inconclusiveness of findings on the value

relevance of CSR reporting. Previous empirical studies have examined the value relevance of CSR disclosure and report sparse and ambiguous results, thus highlighting the complexity of the relationship between CSR reporting and firm value (Nekhili, Nagati, Chtioui, & Rebolledo, 2017a; Nekhili, Nagati, Chtioui, & Nekhili, 2017b). This inconclusiveness regarding the value relevance of CSR reporting might be explained by the difference in stakeholders' perception, as Bebbington, Larrinaga and Moneva (2008) have argued. More acutely, the credibility of CSR reporting may be called into question. The KPMG international survey on CSR reporting in 2008 revealed that, for French firms, enhancing market share is among the top key drivers for CSR reporting, in front of ethical considerations and innovation.

In this chapter, we argue that a diverse board that includes employee directors may, in such circumstances, reflect higher credibility of CSR reporting. Indeed, employee directors have a special concern for social and environmental activities of the firm (Huse, Nielson & Hagen, 2009). Moreover, they care about the firm's reputation for being socially responsible or irresponsible, since they are directly impacted by it. Previous works argue that Employee representatives can play an important role in CSR decisions (Preuss, Haunschild & Matten, 2009), in the board's effectiveness concerning CSR tasks (Huse et al., 2009). Barnea and Rubin (2010), however, document conflict of interest between shareholders with respect to CSR. More precisely, they argue that inside shareholders (large shareholders, managers and employees) gain more advantages from CSR than institutions and small investors. Along similar lines, Guedri and Hollandts (2008) document that allowing non-executive employees to be represented on the board increases the likelihood of their self-interest maximization at the expense of shareholders value maximization. In this respect, it is possible to expect an alliance between managers and employees counterbalancing shareholders supremacy on board. We, therefore, raise the question of how investors would perceive a high level of CSR

reporting when employees are represented on the board. Would more CSR reporting, when there are employee directors, be conducive to greater credibility for investors or be seen as over-investment at the expense of shareholders? To our knowledge, the present study is the first to examine the relationship between voluntary CSR reporting and firm performance using the moderating role of employee directors.

To do so, first, we use Tobin's  $q$  as a proxy to detect the value relevance of CSR reporting as perceived by the market. Second, we test whether employee board representation and CSR reporting jointly affect firm performance as measured with Tobin's  $Q$  using the joint test technique. We control for endogeneity between the independent variables (CSR reporting and employee directors) and the dependent variable (firm performance) using the system GMM approach (Roodman, 2009).

Using a sample of French firms listed on the SBF 120 for the period from 2001 to 2011, we provide new evidence regarding the impact of employee directors on the value relevance of CSR reporting. Primarily, we find that firms with employee directors on the board report more on their social activities than their counterparts. Our regression analyses show that the capital market positively assesses high CSR reporting when employees are represented on the board. However, the marginal effect of employee directors on the relationship between CSR reporting and market value differs among CSR categories. Meaningfully, we find that, when employees are represented on the board, reporting on environmental and sustainability information is more relevant than reporting on social activities. This finding supports the previous evidence on the conflict of interest between different shareholders and employees. A high level of social reporting may reflect an alliance between managers and employee directors that counterbalances shareholders' power on the board. Moreover, a high level of social reporting may also reflect more advantages for employees at the expense of shareholders' wealth.

Our study contributes to the research mainstreams examining the effects of employee board representation and the voluntary CSR reporting in several ways. First, we show that the market participants pay attention to the board's composition and use filters to assess the credibility of voluntary CSR disclosure. Second, we argue that using moderating variables is likely to provide more deep insights. Third, we highlight conflict of interest between employees and shareholders regarding CSR reporting categories namely, social, environmental and sustainability.

The chapter is organized as follows. We start by examining the motives of the firm behind engaging in CSR and the value relevance of CSR reporting. We then question the role of employee directors in moderating the value relevance of CSR reporting and we suggest hypotheses. Next, after describing the methodology used, we present and discuss the empirical results. Finally, we present our conclusion and suggest new research perspectives.

## **2. Conceptual Framework and Hypotheses Development**

### *2.1. CSR Reporting : Motives and related Value Relevance*

Referring to the meta-analysis work of Aguinis and Glavas (2012), the incentives of the firm behind engaging in CSR can be split into three levels: institutional, organizational and individual. The institutional level suggests that firms engage in CSR activities as a response for institutional forces, namely regulation, standards and certification (Christmann & Taylor, 2006), or as a response for stakeholders' pressure and needs (Johnson and Greening 1999). However, it is noteworthy to mention that under high pressure, firms may engage in symbolic rather than substantive activities to avoid the negative perception of stakeholders or bad reputation. From an organizational standpoint, firms may engage in social and environmental actions to search for legitimacy and competitiveness (Bansal & Roth, 2000) or gain extra-financial benefits such as enhancing its intangible resources (Surroca, Tribó & Waddock, 2010). Moreover, firms with unexpected CSR reporting may reach higher market value as

measured by Tobin's Q (Cahan, De Villiers, Jeter, Naiker & Van Staden, 2016). Lastly, from an individual standpoint, values and personal motives of CEOs and employees may influence the firm's CSR activities (Bansal, 2003; Markey, McIvor & Wright, 2016; Waldman, Siegel & Javidan, 2006).

From a stakeholder theory standpoint, firms can be viewed as a set of relations with different parties (primary and secondary stakeholders). In that sense, meeting the different needs and expectation of their stakeholders through CSR reporting is a key success for firms. CSR reporting encloses "any information that a firm makes public, typically within or alongside its annual accounts or in a stand-alone report, that relates to its performance, standards or activities under the corporate social responsibility umbrella" (Brooks & Oikonomou, 2018: p. 2). These social, environmental and sustainability information disclosed are useful for the different stakeholders and particularly for shareholders allowing them to assess the potential risks and future profitability of the firm as well as its CSR engagement. By reporting on their CSR activities, firms are likely to gain some competitive advantages such as an increased transparency in the eyes of stakeholders (Fuente, García-Sánchez, & Lozano, 2017), good reputation (Bear, Rahman, & Post, 2010), positive image (Adams, 2002), better treatment from regulators (Aerts & Cormier, 2009), and reduced asymmetry of information between managers and investors (Cormier et al., 2009).

Whereas CSR reporting is with benefits for the firm, the incentives of managers behind voluntary disclosure are not yet well understood thus raising the scepticism of stakeholders towards the informativeness of the extra-financial information. First, managers may report on their social and environmental activities to cover the poor performance or hostile actions (such as lay off plans, exceed of CO<sub>2</sub> accepted emission rates, gender discrimination at work, etc). Second, managers could maintain some value-relevant information, namely proprietary information to protect their position in the market. Last but not least, managers may report on

their CSR activities as a result of great pressure from stakeholders. In such a case, the probability of adopting symbolic CSR policies would be higher, thus affecting the quality of CSR information disclosed. Michelon, Pilonato and Ricceri (2015) report that CSR reporting practices (CSR verification by a third independent party, reporting in standalone reports and compliance with GRI guidelines) expected to enhance the credibility of CSR reports are not associated with better CSR reporting quality.

Research on the value relevance of social and environmental information for stakeholders and particularly shareholders provide mixed results. Cahan et al. (2016) investigate the value relevance of CSR information disclosed by 676 firms from 21 countries. They find that CSR disclosure, and particularly unexpected information is positively related to higher firm value (Tobin's q). Similarly, focusing on a sample of British firms from 2005-2009, Qiu, Shaukat and Tharyan (2016) report a positive and significant association between CSR disclosure and the firm's stock price. Contrary to this positive evidence, Nekhili et al. (2017b) show that the level of voluntary CSR disclosure of French firms is negatively and significantly related to the market performance as measured by Tobin's q. Nevertheless, in their investigation of the value relevance of CSR disclosure for a sample of US manufacturing companies during 1997 and 2010, Cho, Michelon, Patten and Roberts (2015) document that CSR information is not associated with firm value. Similar results were obtained in the study of Verbeeten, Gamerschlag and Möller (2016). Using data from 130 German companies over the period 2005-2008, they find that a higher level of CSR information is unrelated to share price. To better understand the perception of the market participants towards CSR reporting, previous research investigate the moderating role of board diversity as measured with female directorship (Nekhili et al. 2017b) and share ownership structure as measured with family ownership (Nekhili et al. 2017a) on the value relevance of social, environmental and sustainability information. Using a sample of French firms over the period 2001-2011,

Nekhili et al. (2017b) find that female directorship moderates positively the relationship between CSR reporting and firm value as measured with Tobin's q suggesting that the market place greater value on CSR information when female directors are on board. Besides, Nekhili et al. (2017a) document that CSR reporting is more relevant for the market when disclosed by family firms, while it is less relevant when disclosed by non-family firms. The previous pieces of evidence suggest that the market participant use filters to assess the value relevance of CSR-related information.

The board of directors, argued to be the apex of the decision making, is responsible for the firm's strategies and policies, including CSR engagement (Huse et al., 2009). Efficient boards are argued to enhance the quality of CSR reporting by disclosing extensive and transparent information (Cormier et al., 2009). More precisely, the board composition variables such as female directors, independent directors and board CSR committee, are documented to enhance the CSR reporting (Cormier et al., 2009; Fuente et al., 2017; Nekhili et al., 2017b). Considering the discussion above, the board composition may be a relevant filter for the market participant to consider the relevance of social, environmental and sustainability information.

## *2.2. Employee board representation and the value relevance of CSR reporting*

Besides female and independent directors, the presence of employee representatives on board is another way to examine the board composition. Providing the opportunity for employees to be represented on board is expected to increase the firm's involvement towards CSR (1) by playing an active role in CSR decisions (Preuss et al., 2009) and (2) by contributing to CSR controls (Huse et al., 2009).

CSR reporting is an effective tool to keep up stakeholders with the firms' CSR activities. However, from all stakeholders, employees may be the most interested in CSR actions and policies. In fact, employees, an insider stakeholder, care about, assess, react, and

contribute to the firm's CSR activities (El Akermi, Gond, Swaen, & Igalens, 2018; Huse et al. 2009; Jones, Willness, & Madey, 2014). In order to understand how employees assess and react to the CSR activities of the firm, El Akermi et al. (2018) develop a new measure to detect the employee CSR perception. Using this new measure, they document that the positive perception of employees towards CSR activities of their organizations makes them feel pride, committed and satisfied. Focusing on the firm's attractiveness to job seekers, Jones et al. (2014) report that firms with higher community commitment are more able to recruit talented employees. Employees also pay attention to the social justice within their organizations and react to irresponsible actions regarding this issue. Using a sample of published and unpublished studies on gender discrimination effects on employees, Triana, Jayasinghe, Pieper, Delgado and Li (2018) argue that firms which discriminate between its workers based on their gender are more likely to deal with negative job attitudes and poorer quality of psychological health of their workers. Concerning employee contribution to CSR, previous studies document that workers awareness play an important role in adopting and suggesting socially responsible actions (Markey et al., 2016; Preuss et al., 2009). Studying the Australian context, Markey et al. (2016) argue that employee participation in the decision making process is positively associated with CO2 reduction decision in the workplace. Similarly, Bansal (2003) finds that the individual values and discretion of employees (and senior managers) plays a considerable role in the firm environmental engagement, particularly firm's response to natural environmental issues. For example, she shows that employees may propose some CSR initiatives that they esteem relevant in their working place such as energy management and waste recycling.

The participation of employees in the decision-making process is likely to enhance the quality of social and environmental information disclosed to stakeholders. First, employees have more valuable, real and precise information about the firm's workplace and the workers'

needs. Consequently, they would enhance the efficiency of social investments related to employees. In such case, stakeholders may treat with confidence CSR information and particularly human capital information disclosed. Second, employees are dependent on the viability of their organization. Therefore, they may encourage extensive CSR reporting in order to increase stakeholders' awareness, essential for their firm's viability. Third, employee directors enhance the board's efficiency (Huse et al., 2009), which is responsible for better quantitative CSR reporting (Cormier et al., 2009). Last but not least, employees as insiders witness of the social and environmental actions and policies which makes them different from other stakeholders. Taken together, we suggest that employee directors may impact positively the way the market perceives CSR reporting.

**H1a:** CSR reporting is more relevant for firms with employee directors than for firms without employee directors.

Nevertheless, previous studies argue an opportunistic behaviour of employees on board. Meaningfully, employee directors may use their power on board to maximize their own interests rather than shareholders' interests (Bøhren & Strøm, 2010; Faleye, Mehrotra, & Morck, 2006; Guedri & Hollandts, 2008). Employee representatives on board are likely to use their voting rights to increase the interests of the workers at the expense of those of shareholders (Faleye et al., 2006). More particularly, they may increase social investments with benefits to employees such as enhancing the working conditions, more training, higher salaries, etc. In that sense, extensive CSR reporting may signal a powerful position of employees on board that threat the shareholders supremacy and/or may indicate a possible managers-employees coalition. The possible coalition between managers and employees may result from the close relationship between the two parties within the firm (Pagano & Volpin, 2005). Certainly, the CSR investments enhance the intangibles assets of the firm (Surroca et al., 2010). However, they would not necessarily increase shareholders' value (Barnea &

Rubin, 2010), neither reflect a real social responsibility. In fact, Barnea and Rubin (2010) document that high CSR expenditure brings personal benefits for managers, employees and large shareholders at the expense of minority shareholders. Therefore, the perception of the market participants towards CSR reporting may be negatively influenced by employee board representation. Taken together, we suggest that:

**H1b:** CSR reporting is less relevant for firms with employee directors than for firms without employee directors.

### **3. Methodology**

#### *3.1. Sample and data*

In this study, we focus on French listed firms belonging to the SBF 120 index for a period of eleven years starting in 2001 to 2011. After excluding financial, assurance and real estate firms, we end up with a sample composed from 91 firms. The French context shows an increasing interest in CSR and in CSR reporting specifically. Indeed, our study period (2001-2011) extends from enactment of the NRE law in 2001 to the year before Grenelle II came into force in 2012 and encloses the implementation of the Grenelle I in 2009. NRE, Grenelle I and Grenelle II are French laws encouraging the engagement of firms in social activities. During our study period, reporting on CSR was made on a wholly voluntary basis. Our data concerning corporate governance, ownership and CSR variables were manually compiled from public annual reports and standalone reports. As to financial and accounting data, they were collected from the ThomsonOne database.

### *3.2. Dependent variable: Tobin's q*

Based on previous value relevance studies, we rely on Tobin's q to measure the firm's market value. Largely used in literature (for example, Cahan et al. 2016; Ginglinger et al. 2011; Nekhili et al., 2017b), this measure provides a good proxy to studying the market perception towards CSR reporting (Cahan et al. 2016). Not being influenced by accounting conventions is another benefit for the use of Tobin's q.

### *3.3. Endogenous variable: CSR-related reporting*

We use the un-weighted disclosure index method proposed by Botosan (1997) to measure the CSR reporting level. The first step requires item identification. For that, we use the Grenelle II grid because of its accuracy, simplicity and its compliance with GRI guidelines. The Grenelle II grid lists all CSR information required. We identify three main categories (social, environment and sustainability). For each category there are several required pieces of information, deemed relevant for disclosure. For social reporting, we find 19 items dealing with employment, organization of work, training and labour relations, equal treatment, health and safety, and compliance with the clauses of basic agreements of the International Labour Organization (ILO). For environmental reporting, 14 items are required, variously related to the firm's environment policy, pollution and waste management, the sustainable use of resources, response to climate change, and the protection of biodiversity. Information required in relation to sustainability (9 items) includes the territorial, social and economic impact of the firm's activities, its relationship with stakeholders, subcontractors and suppliers, honesty in practices, and the measures taken on behalf of human rights. All items are listed in Appendix I.1. For each item, we assign the value 1 if it is clearly disclosed in annual reports and/or standalone reports, and 0 otherwise. We then calculate the level of CSR disclosure index as the ratio of the assigned total score to the maximum score (42 items).

### *3.4. Moderating variable: employee directorship*

In this study, we focus solely on the presence of employee directors on the board, since shareholders are opposed to both types of employee directors (Bøhren & Strøm, 2010; Faleye et al., 2006). We measure the moderating role of employee directors using a dummy variable that takes the value 1 if there is at least one employee director on the board and 0 otherwise.

### *3.5. Control variables*

In this study, we control for several variables that may affect our dependent variable, Tobin's  $q$ , such as board characteristics, ownership structure and others variables. First, some corporate governance characteristics are considered as a tool to ensure that managers act to defend not only shareholders' interests but also those of interest owners in the broader sense (Haniffa & Cooke, 2005). Peters and Romi (2014) consider CSR committee and CSR assurance as two important sustainability-oriented corporate governance mechanisms in order to manage and monitor sustainability concerns. Firms that verify their CSR reports through a third party are likely to produce better quality of CSR information (Gillet, 2012). The presence of CSR committee may signal higher engagement of the board to encouraging sustainability and having a greater propensity to report their CSR practices/increasing transparency through the disclosure of more information (Fuente, García-Sánchez, & Lozano, 2017). Independent directors pay attention to all stakeholders (Haniffa & Cooke, 2005); consequently, they may encourage the firm's CSR disclosure to increase the awareness of stakeholders towards the firm's CSR activities. Board meetings may translate a better engagement of board members to discuss important issues such as those related to CSR (Nekhili et al., 2017a, 2017b). CEO power (CEO tenure and CEO/chair duality) on board may impact the voluntary disclosure of CSR information (Galbreath, 2010; Lewis, Walls & Dowell, 2014). The second category of control variables concerns ownership structure that has an influence on the disclosure of social and environmental information (Prado-Lozano et

al, 2009). Family owners are likely to report less on CSR duties (Nekhili et al., 2017a). In contrast, institutional owners may exhibit higher pressure on the firm's managers and require greater disclosure of CSR-related information. Employee ownership is considered to be an important counterbalance to other shareholders and tends to be willing to support CSR activities and disclosure. The third category of control variables concerns firm characteristics that are commonly investigated in the literature. Accordingly, we control for leverage, foreign assets, firm systematic risk (measured by beta), R&D intensity and company size. Finally, to comply with the French regulatory context, we control the introduction of the law known as Grenelle I adopted on July 23, 2009.

### 3.6. Estimation method

CSR reporting may impact the firm's market value; however, profitable firms may disclose more information on their CSR activities than less profitable firms. Moreover, employee board representation may be driven by board size and board size may impact CSR reporting (Giannarakis, 2014). In such case, if we do not control for board size our results would be biased. Here, two serious problems of endogeneity, namely reverse causality and omitted variables, may arise. Consequently, we opt for the use the two-step system GMM (known as system GMM) estimator, argued to be the better solution for the endogeneity problem in small samples (Blundell & Bond, 2000). In addition, we control for the dynamic structure of Tobin's q by adding its lagged value to our model.

We use the following empirical model to examine the impact of employee board representation on the value relevance of CSR reporting:

$$\begin{aligned} \text{Tobin's } Q_{it} = & \beta_0 + \beta_1 \text{LagTobin's } Q_{it} + \beta_2 \text{CSR\_REP}_{it} + \beta_3 \text{EMP\_REP}_{it} + \\ & \beta_4 \text{CSR\_REP*EMPL\_BOARD} + \beta_5 \text{CSR\_ASS}_{it} + \beta_6 \text{CSR\_COM}_{it} + \beta_7 \text{BOARD\_SIZE}_{it} + \\ & \beta_8 \text{BOARD\_IND}_{it} + \beta_9 \text{BOARD\_MEET}_{it} + \beta_{10} \text{DUAL}_{it} + \beta_{11} \text{TENURE}_{it} + \beta_{12} \text{FAM\_OWN}_{it} + \\ & \beta_{13} \text{INST\_OWN}_{it} + \beta_{14} \text{EMPL\_OWN}_{it} + \beta_{15} \text{LEV}_{it} + \beta_{16} \text{BETA}_{it} + \beta_{17} \text{FOR\_ASS}_{it} + \beta_{18} \text{R\&D}_{it} + \\ & \beta_{19} \text{SIZE}_{it} + \beta_{20} \text{GRE1}_{it} + \beta_{21} \text{INDUSTRY}_{it} + \varepsilon_{it} \end{aligned}$$

All variables are as described in Table I.1.

Examining the consistency of system GMM estimator is crucial to avoid biased results.

Referring to previous works (for example, Nekhili et al., 2017b), we use two statistical tests :  
the second-order autocorrelation test and the Sargan/Hansen over-identifying test.

**Table I. 1: Variables and Their Measurement**

Variable	Description	Measure <sup>5</sup>
<i>Dependent variable</i>		
Tobin's Q	Tobin's q	Stock market capitalization plus book value of liabilities as a ratio of total assets
<i>Endogenous variables:</i>		
CSR_REP	CSR reporting	CSR reporting index as the ratio of the assigned total score to the maximum CSR score (42 items, see Appendix I.1).
SOCIAL_REP	Social reporting	Social reporting index as the ratio of the assigned total score to the maximum social score (19 items, see Appendix I.1)
ENVIR_REP	Environmental reporting	CSR reporting index as the ratio of the assigned total score to the maximum environmental score (14 items, see Appendix I.1)
SUST_REP	Sustainability reporting	CSR reporting index as the ratio of the assigned total score to the maximum sustainability score (9 items, see Appendix I.1)
<i>Moderating variable</i>		
EMPL_BOARD	Employee board representation	Binary variable that takes the value 1 if the firm have at least one employee on board and 0 otherwise
<i>Governance variables</i>		
CSR_ASS	CSR assurance	Binary variable that takes the value 1 if CSR assurance is adopted and 0 otherwise
CSR_COM	CSR committee	Binary variable that takes the value 1 if the company has a CSR committee and 0 otherwise
BOARD_SIZE	Board size	Natural logarithm of the number of directors on the board
BOARD_IND	Board independence	Ratio of number of non-executive independent directors to total number of board directors
BOARD_MEET	Board meetings	Natural logarithm of the number of annual board meetings
DUAL	CEO duality	Dummy variable coded 1 if the CEO serves as board chair; 0 otherwise.
TENURE	CEO tenure	Number of years within the company as CEO
<i>Ownership variables</i>		
FAM_OWN	Family ownership	Percentage of capital held by family
INST_OWN	Institutional ownership	Percentage of capital held by institutional investors
EMPL_OWN	Employee ownership	Percentage of capital held by employees
<i>Other control variables</i>		
LEV	Leverage	Ratio of total financial debt to total assets
FOR_ASS	Foreign assets	Ratio of foreign assets to total assets
BETA	Beta	Equity beta
R&D	R&D intensity	Ratio of Research and Development to total sales
SIZE	Firm size	Natural logarithm of the total assets
Industry	Industry	Binary variable that takes the value 1 if the company belongs to the sector in question and 0 otherwise

<sup>5</sup> Note: Variables from ThomsonOne are winsorized at the 1% and 99% levels.

## **4. Results**

### *4.1. Descriptive Statistics*

Table I.2 presents the descriptive statistics for the sample observation. With regard to market value, our sample firm-years have an average Tobin's  $q$  of 1.135. As reported in Table I.2, only 27.85% of firm-years have employee representatives on their boards. Our sample firm-years disclose on average 44.27% of the total items included in the Grenelle II Act grid. As regards dimensions of CSR information disclosed by firms in our sample, the average social, environmental and sustainability disclosure score is 45.31%, 39.71% and 56.62%, respectively. Only 19.84% of firms provide assurance of their CSR information and 27.84% of firms have a CSR committee. Boards are, on average, composed from 11 directors, of whom 42.74% are independent. On average, board meetings are around seven per year. 54.10% of our firm-years present a duality in function of the CEO and the chairman of the board. Approximately, CEO's tenure is around nine years. With regard to ownership structure, family, institutions and employees own 26%, 15% and 2%, respectively of total shares. Leverage is around 26%, the average proportion of foreign assets is 38%, and the average beta is 0.885. As reported in Table I.2, average R&D intensity is 1.92%. The companies' average size is 16.717 billion euros.

**Table I. 2: Descriptive Statistics**

	Mean	Median	Standard Deviation	Minimum	Maximum
Tobin's Q	1.135	0.888	0.827	0.256	4.557
EMPL_BOARD	27.85%	0	44.85%	0	1
CSR_REP	44.27%	47.62%	25.10%	0	90.48%
SOCIAL_REP	45.31%	52.63%	29.05%	0	100%
ENVIR_REP	39.71%	35.71%	27.88%	0	92.86%
SUST_REP	52.62%	50%	31.29%	0	100%
CSR_ASS	19.84%	0	39.90%	0	1
CSR_COM	27.84%	0	44.84%	0	1
BOARD_SIZE (number of directors)	11.613	12	3.962	3	26
BOARD_IND	42.74%	42.86%	23.46%	0	100%
BOARD_MEET (number of meetings)	7.219	7	3.547	0	30
DUAL	54.10%	1	49.86%	0	1
TENURE (number of years)	9.089	7.14	6.987	0	43
FAM_OWN	26.64%	22.91%	26.20%	0	99.37%
INST_OWN	15.45%	5%	22.65%	0	90%
EMPL_OWN	2.50%	0.99%	4.73%	0	32.75%
LEV	26.21%	25.28%	13.63%	0.93%	60.07%
FOR_ASS	38.81%	37.99%	29.20%	0	97.36%
BETA	0.885	0.899	0.273	0.203	1.575
R&D	1.92%	0	4.46%	0	24.17%
SIZE (in billions of euros)	16.717	5.185	29.784	4	240.559

Note: All variables are as defined in Table I.1.

#### 4.2. Univariate Analysis

Table I.3 presents differences in variables between firms with and without employee representation. Consistently with Ginglinger et al. (2011), firms without employee representation achieve better market-based performance, as measured by Tobin's Q, than firms with employee representation (1.211 and 0.897, respectively). Our study shows that the level of CSR disclosure and its components is greater for firms with employee representation than without employee representation (54.26% and 40.63%, respectively). Provision of assurance services and the presence of a CSR committee are also more prevalent in firms with employee representation than in firms without employee representation. Firms with and without employee representation differ also significantly in terms of board characteristics. Similarly to Ginglinger et al. (2011), we find that firms with employee representation tend to have a larger board size (14.25 versus 10.59) and more annual meetings (8.3 versus 6.7) than firms without employee representation. The separation of chairman and CEO functions is

greater than in firms with employee representation (51.41% versus 60.98%). The average length of tenure for CEOs working in firms with employee representation is higher than in firms without employee representation (9.8 versus 8.8 years). No significant difference is observed for board independence between the two panels. Regarding ownership structure, Table I.3 shows that family shareholders hold more capital in firms without employee representation (31.37%) than in firms with employee representation (14.39%). Conversely, employee shareholders hold less of the capital of firms without employee representation (1.06%) than in firms with employee directors (6.13%). For the other control variables, we observed significant statistical differences regarding foreign assets, beta, R&D intensity, and firm size. There are no significant differences in terms of leverage between firms with and without employee representation.

**Table I. 3: Mean Difference Test**

Variables	Firms with at least one employee board member	Firms without employee board member	t-test
Tobin's Q	0.897	1.211	5.079***
CSR_REP	54.26%	40.63%	7.629***
SOCIAL_REP	52.85%	42.42%	4.981***
ENVIR_REP	52.27%	34.84%	8.871***
SUST_REP	66.01%	48.46%	8.017***
CSR_ASS	33.33%	15.69%	6.129***
CSR_COM	40.15%	24.27%	4.902***
BOARD_SIZE (number of directors)	14.257	10.594	12.420*** <sup>a</sup>
BOARD_IND	44.02%	42.43%	0.939
BOARD_MEET (number of meetings)	8.367	6.770	7.027*** <sup>a</sup>
DUAL	60.98%	51.41%	2.655***
TENURE (number of years)	9.802	8.812	2.325*** <sup>a</sup>
FAM_OWN	14.39%	31.37%	9.340***
INST_OWN	15.95%	15.26%	0.420
EMPL_OWN	6.13%	1.09%	16.681***
LEV	25.19%	26.44%	1.271
FOR_ASS	32.18%	41.61%	4.483***
BETA	0.928	0.875	2.692***
R&D	2.44%	1.69%	2.294**
SIZE (in millions of euros)	33,652	10,659	9.723*** <sup>a</sup>
Number of observations	264	684	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

<sup>a</sup> t-tests are based on natural logarithm transformed values.

All variables are as defined in Table I.1.

#### *4.3. Multivariate Analysis*

Before carrying out regression analyses, the pairwise correlation matrix and the VIFs are used to assess the correlations between the independent variables. Table I.4 reveals no strong multicollinearity between independent variables, and no correlation exceeds 0.5. This condition is crucial for the validity of our instruments. Table I.4 also shows an excellent variance inflation factor ( $VIF < 3$ ).

**Table I. 4: Pairwise Correlation**

	1	2	3	4	5	6	7	8	9	10	11	12	VIF
1. Tobin's Q	1.000												
2. CSR_REP	-0.157*	1.000											1.82
3. SOCIAL_REP	-0.137*	0.932*	1.000										1.55
4. ENVIR_REP	-0.109*	0.858*	0.677*	1.000									1.67
5. SUST_REP	-0.193*	0.775*	0.631*	0.538*	1.000								1.65
6. EMPL_BOARD	-0.167*	0.240*	0.159*	0.277*	0.252*	1.000							1.84
7. CSR_ASS	-0.079	0.442*	0.423*	0.346*	0.376*	0.195*	1.000						1.50
8. CSR_COM	-0.067	0.389*	0.349*	0.361*	0.287*	0.157*	0.141*	1.000					1.31
9. BOARD_SIZE	-0.253*	0.376*	0.297*	0.389*	0.318*	0.375*	0.248*	0.238*	1.000				1.91
10. BOARD_IND	-0.179*	0.215*	0.204*	0.168*	0.198*	0.030	0.280*	0.086*	0.096*	1.000			1.45
11. BOARD_MEET	-0.059	0.157*	0.144*	0.115*	0.160*	0.223*	0.130*	0.157*	0.045	-0.011	1.000		1.18
12. DUAL	-0.085	0.071	0.009	0.128*	0.100*	0.086*	-0.044	-0.094*	0.038	-0.175*	-0.025	1.000	1.17
13. TENURE	0.082	0.265*	0.205*	0.228*	0.292*	0.075	0.223*	0.136*	0.163*	0.028	-0.074	0.172*	1.24
14. FAM_OWN	0.282*	-0.083	-0.037	-0.108*	-0.110*	-0.290*	-0.193*	-0.069	-0.148*	-0.278*	-0.093*	-0.020	1.54
15. INST_OWN	-0.192*	0.178*	0.156*	0.159*	0.143*	0.013	0.183*	0.049	0.060	0.301*	-0.055	0.046	1.41
16. EMPL_OWN	-0.236*	0.127*	0.076	0.140*	0.164*	0.476*	0.021	0.031	0.179*	-0.017	0.034	0.188*	1.24
17. LEV	-0.206*	0.009	-0.001	0.034	-0.011	-0.041	0.017	-0.056	0.023	-0.006	0.042	0.045	1.13
18. BETA	0.022	0.074	0.103*	-0.034	0.134*	0.087*	0.176*	0.042	0.001	0.102*	0.254*	-0.038	1.24
19. FOR_ASS	-0.062	0.007	-0.028	-0.035	0.125*	-0.144*	0.018	-0.022	0.059	0.247*	0.078	-0.117*	1.19
20. R&D	0.233*	0.110*	0.109*	0.068	0.110*	0.074	0.127*	-0.006	-0.033	0.086*	0.013	-0.067	1.15
21. SIZE	-0.281*	0.465*	0.370*	0.427*	0.474*	0.303*	0.421*	0.273*	0.659*	0.308*	0.140*	-0.079	2.54

**Table I.4: Continued**

	13	14	15	16	17	18	19	20	21
13. TENURE	1.000								
14. FAM_OWN	0.017	1.000							
15. INST_OWN	-0.061	-0.426*	1.000						
16. EMPL_OWN	0.110*	-0.173*	0.083	1.000					
17. LEV	-0.079	-0.046	0.049	-0.093*	1.000				
18. BETA	0.046	-0.223*	-0.016	-0.069	-0.032	1.000			
19. FOR_ASS	0.107*	-0.106*	0.063	-0.168*	-0.052	0.093*	1.000		
20. R&D	0.168*	0.037	-0.067	-0.101*	-0.192*	0.085*	0.000	1.000	
21. SIZE	0.146*	-0.265*	0.091*	0.100*	0.104*	0.200*	0.127*	-0.012	1.000

Note:\* Represents significance at the 0.01 level. All variables are as defined in Table I.1.

Table I.5 presents the system GMM regression results of Tobin's  $q$  on CSR reporting and employee representation. Model 1 of Table I.5 shows a positive (0.735) and significant impact ( $z = 6.60$ ) from CSR reporting on market-based performance as measured by Tobin's  $q$ . In line with Cahan et al. (2016) and Qiu et al. (2016), shareholders are more likely to assign value relevance to CSR information disclosed. Nevertheless, a negative and significant relationship is found between employee board representation and Tobin's  $q$  suggesting that the market participants do not appreciate the presence of employees on board. One explanation is that investors may consider employees' presence on board as a threat for their supremacy on board. In other words, employees may use their voting rights to maximise their own interests at the expense of shareholders (Guedri & Hollandts, 2008).

The positive and significant relationship between CSR reporting and market-based performance remains unchanged when we introduce employee board representation into the model. No significant impact is observed for CSR assurance, suggesting that providing assurance services is not rewarded by a higher valuation in the financial markets. We also note a negative and significant correlation between the existence of a CSR committee and market value. These results imply that sustainability-oriented corporate governance mechanisms may be perceived by market participants as costly and simply as symbolic actions with regard to sustainability issues.

As regards corporate governance structures, board characteristics are most often negatively related to firm performance. Table I.5 shows negative and significant coefficients between board size, board independence, board meetings and CEO duality of function, suggesting that smaller boards with fewer board outsiders, fewer board meetings and high separation between CEO and chairman functions are more valued by the market. Concerning ownership variables, our findings show that family ownership is positively and significantly

linked with market performance as measured by the Tobin's q, whereas employee ownership is negatively linked with Tobin's q, suggesting that employee ownership reduces firm value. No significance is found for institutional ownership. For the other control variables, firm leverage and foreign assets are negatively and significantly related to Tobin's q. R&D intensity and beta are found to be positively related to Tobin's q. Finally, no significance is observed for firm size.

**Table I. 5: System GMM Regression of Tobin's q on CSR Reporting and Employee Board Representation**

Variables	Model 1		Model 2	
	Coef.	t-test	Coef.	t-test
<i>Lag Tobin's Q</i>	0.089***	16.46	0.080***	9.32
CSR_REP	0.735***	6.60	0.690***	5.46
EMPL_BOARD			-0.302***	-3.49
CSR_ASS	-0.043	-1.26	-0.022	-0.55
CSR_COM	-0.143***	-4.83	-0.128***	-4.29
BOARD_SIZE	-0.265***	-5.56	-0.184***	-3.27
BOARD_IND	-0.180**	-2.01	-0.189**	-2.15
BOARD_MEET	-0.089***	-2.92	-0.048	-1.47
DUAL	-0.250***	-7.35	-0.209***	-5.81
TENURE	0.001	0.03	0.015	0.46
FAM_OWN	0.461***	4.12	0.356***	3.26
INST_OWN	-0.051	-0.73	-0.133	-1.60
EMPL_OWN	-2.392***	-6.12	-1.237**	-2.28
LEV	-0.596***	-6.50	-0.590***	-6.07
BETA	0.290***	6.48	0.305***	5.38
FOR_ASS	-0.273***	-4.15	-0.340***	-5.47
R&D	1.263***	4.30	1.590***	3.74
SIZE	-0.029*	-1.76	-0.021	-1.30
Intercept	2.153***	6.49	1.832***	5.85
Year	Yes		Yes	
Industry	Yes		Yes	
Number of observations	790		790	
Fisher (Prob. > F)	8812.63 ( $p = 0.000$ )		4865.23 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.94 ( $p = 0.003$ )		-2.90 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	0.21 ( $p = 0.837$ )		0.14 ( $p = 0.887$ )	
Sargan test (Chi-square, $p$ -value):	734.31 ( $p = 0.000$ )		733.83 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	77.83 ( $p = 0.218$ )		77.10 ( $p = 0.211$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table I.1.

In Table I.6, we determine whether CSR reporting and the presence of employee on the board jointly affect firm market performance. We test this proposition using the joint test technique. We first derive a dummy variable to represent high CSR reporting, by coding 1 for

firm-year observations with CSR reporting greater than the median (47.62%), and 0 otherwise. We then measure the marginal effect of higher CSR reporting on market performance in firms with employee directors by testing the effect of the sum of the coefficients ( $HCSR\_Reporting + HCSR\_Reporting * EMPL\_BOARD$ ) on market value. Model 1 of Table I.6 shows a positive impact of high CSR reporting on Tobin's  $q$ . These results confirm that shareholders are concerned about CSR information contained in annual or standalone sustainability reports. Qui et al. (2016) and Cormier, Aerts, Ledoux and Magnan (2009) document a positive and significant effect of CSR reporting on firm value.

In Model 2 of Table I.6, we determine how high CSR reporting and employee board representation affect firm performance in combination by including the interaction between high CSR reporting and employee board representation ( $HCSR\_Reporting * EMPL\_BOARD$ ). We then conduct a joint test of the coefficient for  $HCSR\_Reporting$  and  $HCSR\_Reporting * EMPL\_BOARD$ . In line with Huse et al. (2009), who document that employee board representation may specifically contribute to CSR, Model 2 in Table I.6 shows a strongly positive and highly significant impact of the interaction term ( $HCSR\_REP * EMPL\_BOARD$ ) on Tobin's  $q$ . These results suggest that a higher level of CSR reporting, when provided by firms with at least one employee on the board, is rewarded by a higher valuation in the financial markets. The marginal effect of employee directors on the value relevance of a higher level of CSR reporting is assessed by the joint test of the sum of the coefficient ( $HCSR\_REP + HCSR\_REP * EMPL\_BOARD$ ) on Tobin's  $q$ . For Tobin's  $q$ , the joint coefficient is positive (1.393) and significant at the 1% level ( $z = 5.43$ ). In accordance with hypothesis H1a, we find that market participants value a higher level of CSR reporting provided by firms with at least one employee on the board.

**Table I. 6: System GMM Regression of Tobin's q on Higher CSR Reporting and Employee Board Representation**

Variables	Model 1		Model 2	
	Coef.	t-test	Coef.	t-test
Lag Tobin's Q	0.128***	16.73	0.107***	10.12
HCSR_REP	0.141***	4.15	-0.213***	-3.03
EMPL_BOARD	-0.085	-0.81	-1.188***	-3.61
HCSR_REP *EMPL_BOARD			1.606***	5.64
CSR_VERIF	-0.006	-0.15	-0.047	-1.08
CSR_COM	-0.048*	-1.66	-0.089**	-2.86
BOARD_SIZE	-0.213***	-4.87	-0.185**	-2.37
BOARD_IND	-0.153*	-1.96	-0.211**	-2.31
BOARD_MEET	-0.061*	-1.40	-0.068	-1.56
DUAL	-0.201***	-5.67	-0.150***	-3.62
TENURE	0.025	0.76	-0.029	-0.75
FAM_OWN	0.496***	4.20	0.453***	4.01
INST_OWN	-0.134	-1.49	-0.225	-1.50
EMPL_OWN	-1.84***	-3.07	-1.375	-1.47
LEV	-0.521***	-5.50	-1.034***	-8.62
BETA	0.237***	5.30	0.121*	1.90
FOR_ASS	-0.281***	-4.00	-0.086	-1.05
R&D	1.113***	3.50	0.487	1.08
SIZE	0.001	0.05	0.014	0.62
Intercept	1.291***	5.04	1.622***	5.92
Year	Yes		Yes	
Industry	Yes		Yes	
Number of observations	790		790	
Fisher (Prob. > F)	12774 ( $p = 0.000$ )		5170.61 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.88 ( $p = 0.004$ )		-2.92 ( $p = 0.004$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	0.34 ( $p = 0.737$ )		0.39 ( $p = 0.698$ )	
Sargan test (Chi-square, $p$ -value):	736.84 ( $p = 0.000$ )		669.35 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	75.10 ( $p = 0.259$ )		67.11 ( $p = 0.473$ )	
Joint test: HCSR_REP + (HCSR_REP * EMPL_BOARD)			1.393***	5.43

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.  
All variables are as defined in Table I.1.

#### 4.4. Supplementary Analysis

The preceding results are obtained for firms based on their combined score of CSR reporting. We now analyse whether different CSR disclosure score categories (environmental, social and sustainability) lead to different results. Indeed, the value relevance of CSR information depends on the specific type of information provided (Qiu et al., 2016; Verbeeten et al., 2016). Accordingly, we examine the effect of employee board representation on the value-relevance of each dimension of CSR reporting. We test this proposition using the joint test technique. We first derive a dummy variable to represent each specific type of high CSR

information provided. Table I.7 shows the value relevance of a high level for each category of CSR reporting. Results suggest that shareholders have different sensitivity levels with regard to CSR components.

Model 1 in Table I.7 reports a positive and significant impact of high social disclosure on Tobin's  $q$ , suggesting that the more social information the firm discloses, the greater its commitment to its employees and other stakeholders, which in turn could lead the market to expect increased future cash flows for the firm (Qiu et al., 2016). Another explanation is that social disclosure provides information on the firm's human capital, which consequently impacts its future performance (Flammer, 2015). Furthermore, extensive social disclosure helps create a competitive advantage that can enhance firm value. Extensive social reporting may also reflect good labour relations and thus reduce potential strikes.

Model 2 in Table I.7 examines the value relevance of high environmental disclosure and shows a positive impact of high environmental disclosure on Tobin's  $Q$ . Environmental disclosure provides information on the firm's interaction with the environment and how it contributes, for example, to climate change or waste management. This result suggests that firms with high environmental disclosure are viewed favourably by investors (Radhouane, Nekhili, Nagati, & Paché, 2018). Indeed, reporting on environmental activities reflects a positive commitment to the environment and the avoidance of future costly disasters that could reduce firm value.

However, in contrast to social and environmental disclosure, shareholders assign a negative value to a higher level of sustainability information disclosed by firms. One explanation could be that sustainability-related information as described in Appendix I.1 is ambiguous, thus leading investors to misinterpret the information provided (Nekhili et al., 2017b).

**Table I. 7: System GMM Regression of Tobin's q on Higher Social, Environmental and Sustainability Reporting and Employee Board Representation**

Variables	Model 1		Model 2		Model 3	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's Q	0.056***	5.65	0.124***	15.72	0.218***	18.14
HSOCIAL_REP	0.094**	2.15				
HENVIR_REP			0.188***	5.00		
HSUST_REP					-0.205***	-3.53
EMPL_BOARD	-0.775***	-6.22	-0.137*	-1.83	0.032	0.36
CSR_VERIF	0.062	1.33	0.001	0.04	0.011	0.45
CSR_COM	-0.024	-0.68	-0.057**	-2.29	0.021	0.85
BOARD_SIZE	-0.048	-0.72	-0.195***	-4.60	-0.256***	-7.58
BOARD_IND	-0.225***	-2.64	-0.149***	-2.64	0.010	0.19
BOARD_MEET	-0.015	-0.42	-0.051*	-1.85	-0.098***	-3.16
DUAL	-0.132***	-3.00	-0.195***	-5.06	-0.115***	-3.82
TENURE	0.085***	2.92	0.026	0.92	0.008	0.29
FAM_OWN	0.211**	2.31	0.493***	4.77	0.525***	6.27
INST_OWN	-0.271***	-2.88	-0.074	-0.97	0.000	0.00
EMPL_OWN	0.352	0.43	-1.616***	-3.33	-1.442***	-2.75
LEV	-0.573***	-4.50	-0.484***	-5.80	-0.399***	-5.11
BETA	0.327***	5.31	0.271***	5.28	0.218***	4.44
FOR_ASS	-0.379***	-4.87	-0.265***	-4.49	-0.167***	-3.53
R&D	1.708***	4.23	1.108***	2.76	1.003***	3.06
SIZE	0.033**	2.01	-0.001	-0.01	0.020	1.30
Intercept	0.443*	1.66	1.128***	4.64	1.199***	5.45
Year	Yes		Yes		Yes	
Industry	Yes		Yes		Yes	
Number of observations	790		790		790	
Fisher (Prob. > F)	1436.21 ( $p = 0.000$ )		13873.03 ( $p = 0.000$ )		12355.82 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.86 ( $p = 0.004$ )		-2.87 ( $p = 0.004$ )		-2.91 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	0.10 ( $p = 0.923$ )		0.36 ( $p = 0.719$ )		0.81 ( $p = 0.418$ )	
Sargan test (Chi-square, $p$ -value):	696.56 ( $p = 0.000$ )		740.44 ( $p = 0.000$ )		726.31 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	70.83 ( $p = 0.290$ )		75.00 ( $p = 0.186$ )		76.78 ( $p = 0.218$ )	

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table I.1.

In Table I.8, we measure the marginal effect of employee board representation on the value relevance of a higher level of each component of CSR reporting (social reporting, environmental reporting and sustainability reporting). For social reporting, our empirical results of Model 1 in Table I.8 show that both the interaction term (HSOCIAL\_REP\*EMPL\_BOARD) and the joint coefficient (HSOCIAL\_REP + HSOCIAL\_REP\*EMPL\_BOARD) are not significant, suggesting that high social reporting, as compared to environmental or to sustainability reporting, reflects more advantages for employees at the expense of shareholders (Bøhren & Strøm, 2010) and a higher level of social

reporting when employees are represented on the board will be financially penalized in terms of the market value of the firm.

Models 2 and 3 in Table I.8 show a positive and significant link between the interaction variables (HENVI\_REP\*EMPL\_BOARD) and (HSUST\_REP\*EMPL\_BOARD) and Tobin's q, suggesting that the market positively assesses high environmental and sustainability reporting when employees are included on the board. A possible explanation is that, since employees are more attached to CSR activities than other directors on the board, investors may interpret the environmental and sustainability information disclosed as more credible. The joint coefficients in Model 2 (HENVI\_REP + HENVI\_REP\*EMPL\_BOARD) and Model 3 (HSUST\_REP + HSUST\_REP\*EMPL\_BOARD) are positive and significant on the market-based performance, indicating that a higher level of environmental and sustainability reporting, when provided by firms with at least one employee on the board, are financially rewarded by market participants.

**Table I. 8: System GMM Regression of Tobin's q on the Interaction between Higher Social, Environmental and Sustainability Reporting and Employee Board Representation**

Variables	Model 1		Model 2		Model 3	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's Q	0.060***	5.78	0.097***	9.88	0.148***	10.65
HSOCIAL_REP	0.151***	2.56				
HENVIR_REP			-0.017	-0.30		
HSUST_REP					-0.670***	-8.45
EMPL_BOARD	-0.622***	-3.74	-0.709***	-3.54	-2.836***	-7.29
HSOCIAL_REP *EMPL_BOARD	-0.358	-1.39				
HENVIR_REP *EMPL_BOARD			0.725***	3.81		
HSUST_REP *EMPL_BOARD					3.277***	7.52
CSR_VERIF	0.087	1.77	-0.004	-0.10	-0.128***	-3.45
CSR_COM	-0.041	-1.08	-0.104***	-3.74	-0.027	-0.68
BOARD_SIZE	-0.025	-0.36	-0.138**	-2.53	-0.205***	-2.83
BOARD_IND	-0.214**	-2.47	-0.210***	-3.03	-0.334***	-3.07
BOARD_MEET	0.002	0.06	-0.059**	-2.07	-0.164***	-5.15
DUAL	-0.130***	-2.91	-0.190***	-4.95	-0.031	-0.73
TENURE	0.089***	3.02	0.036	1.44	0.025	0.82
FAM_OWN	0.175*	1.81	0.463***	4.76	0.524***	4.38
INST_OWN	-0.285***	-2.98	-0.077	-1.00	0.007	0.05
EMPL_OWN	0.668	0.79	-1.328**	-2.37	-2.685**	-2.42
LEV	-0.524***	-4.05	-0.681***	-7.63	-1.059***	-13.08
BETA	0.359***	5.59	0.319***	5.90	0.115	1.59
FOR_ASS	-0.449***	-4.89	-0.220***	-2.88	-0.181**	-2.02
R&D	2.001***	4.26	1.568***	3.71	0.811*	1.96
SIZE	0.040**	2.23	0.003	0.15	0.063***	3.60
Intercept	0.179	0.54	1.624***	5.02	1.823***	5.28
Year	Yes		Yes		Yes	
Industry	Yes		Yes		Yes	
Number of observations	790		790		790	
Fisher (Prob. > F)	32162.52 ( $p = 0.000$ )		3323.06 ( $p = 0.000$ )		13127.25 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.84 ( $p = 0.004$ )		-2.88 ( $p = 0.004$ )		-2.92 ( $p = 0.004$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	0.12 ( $p = 0.906$ )		0.35 ( $p = 0.725$ )		0.78 ( $p = 0.434$ )	
Sargan test (Chi-square, $p$ -value):	694.82 ( $p = 0.000$ )		740.11 ( $p = 0.000$ )		564.881 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	69.59 ( $p = 0.295$ )		73.99 ( $p = 0.184$ )		74.06 ( $p = 0.259$ )	
Joint test: HSOCIAL_REP	-0.207	-0.93				
+ (HSOCIAL_REP * EMPL_BOARD)						
Joint test: HENVIR_REP			0.708***	4.37		
+ (HENVIR_REP * EMPL_BOARD)						
Joint test: HSUST_REP					2.607***	5.50
+ (HSUST_REP * EMPL_BOARD)						

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table I.1.

## 5. Conclusion

Setting out from the idea that not all stakeholders on the board have the same attachment to CSR and that employee directors may use their power on boards to defend their interests at the expense of shareholders, the presence of employee directors on the board may impact stakeholders' perception of CSR reporting. The present study is designed to examine the

extent to which the value relevance of voluntary CSR reporting is impacted by the appointment of employees to boards in the French context.

Using a sample of French firms listed in the SBF120 from 2001 to 2011, we found that firms with employee directors report more on their CSR activities than their counterparts. We find that the value relevance of high CSR reporting is enhanced by the presence of employee directors on the board. However, the value relevance of CSR information depends on the type of information provided. Accordingly, we carried out supplementary analyses to assess the impact of employee directors on the value relevance of each category of CSR disclosure. Our results indicate that employee directors enhance the value relevance of both environmental and sustainability reporting. Nonetheless, we find that investors do not value a high level of social reporting in firms with employee directors on the board. A possible explanation is that higher social reporting by such firms could indicate either over-investment in social duties to the advantage of employees and a possible alliance between employees and managers to counterbalance shareholder supremacy on the board.

This study has thrown up many questions in need of further investigation. First, we believe that it would be interesting to carry out a cross-country study to assess the impact of the representation of employee directors on the value relevance of CSR reporting. More information on the impact of employee directors on the value relevance of CSR before and after the adoption of the Grenelle II Act would also help to establish a greater degree of accuracy on this subject. Finally, it will be with importance to investigate the type and nature of decisions that employee directors may impact the most. Indeed, Huse et al. (2009) document that employee directors influence the strategic control task of the board which is often of a qualitative nature, but they do not impact the budget control task which is often of a quantitative nature.

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## Appendix I. 1: Items of Grenelle II Act

<i>Components</i>	<i>Description</i>
<b>1 Social Reporting (19 items)</b>	
1.1 Employment	1.1.1 Number of employees and how they are subdivided according to age, gender and geographic distribution (based on numbered data and diagram) 1.1.2 Hiring and firing 1.1.3 Remuneration and its evolution
1.2 Organization of work	1.2.1 Organization of working time (flexibility of working hours, weekly working hours, etc.) 1.2.2 Absenteeism
1.3 Labour relations	1.3.1 Social dialogue (information procedures, consultation of staff and negotiating with employers) 1.3.2 Outcome of collective agreements
1.4 Occupational Health and safety	1.4.1 Health and safety conditions at work 1.4.2 Outcome of the collective agreements signed with trade unions and the staff representatives in terms of occupational health and safety 1.4.3 Frequency and seriousness of accidents
1.5 Training	1.5.1 Policies implemented with regard to training 1.5.2 Total number of training hours
1.6 Equal treatment	1.6.1 Measures promoting equality between women and men 1.6.2 Measures promoting employment and integration of people with disabilities 1.6.3 Policy against discrimination
1.7 Respect of the clauses of fundamental conventions of the International Labour Organization (ILO)	1.7.1 Respect for the right to organize and collective bargaining 1.7.2 Abolition of discrimination in employment and occupation 1.7.3 Abolition of forced or compulsory labour 1.7.4 Abolition of child labour
<b>2 Environmental Reporting (14 items)</b>	
2.1 Environmental policy	2.1.1 Organization of the company to take into account environmental concerns, and, if applicable, environmental evaluation and verification approaches 2.1.2 Training and information towards employees on environmental protection 2.1.3 Budget devoted to environmental protection and environmental risk mitigation 2.1.4 Financial provisions for environmental risks
2.2 Pollution and Waste Management	2.2.1 Prevention, reduction and fixing of air/water/soil emissions 2.2.2 Prevention, recycling and cutting waste 2.2.3 Noise pollution and other type of pollution
2.3 Sustainable use of resources	2.3.1 Water consumption and supply considering local resources 2.3.2 Consumption of raw materials and measures taken to improve the efficiency of raw materials use 2.3.3 Energy consumption and measures to improve energy efficiency and the use of renewable energy 2.3.4 Land use
2.4 Climate change	2.4.1 Greenhouse gas emissions 2.4.2 Measures to adapt to climate change
2.5 Protection of biodiversity	2.5.1 Measures taken to save and develop biodiversity
<b>3 Sustainability reporting (9 items)</b>	
3.1 Territorial, economic and social impact of the activity	3.1.1 Measures in favour of environment, employment and regional development 3.1.2 Measures taken in relation to people living in the area around the business
3.2 Relationships with stakeholders	3.2.1 Conditions for dialogue with stakeholders 3.2.2 Measures promoting partnership or sponsorship
3.3 Subcontracting and suppliers	3.3.1 Amount of subcontracting 3.3.2 Taking into account social and environmental responsibility with suppliers and subcontractors
3.4 Honesty in practices	3.4.1 Measures to prevent corruption 3.4.2 Measures in favour of consumers' health and safety
3.5 Measures in favour of human rights	3.5.1 Measures preventing all forms of discrimination and promoting equal treatment



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# Chapter II: ESG Performance and Market Value: The Moderating Role of Employee Board Representation

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## 1. Introduction

In an interview published in the French business magazine *L'Usine Nouvelle*, Antoine Frérot, CEO of Veolia, one of the biggest SBF 120 French firms, said, “Corporate social responsibility (CSR) must be considered at the same level as the creation of economic value”. This statement acknowledges the need for firms to include CSR in their objectives and to view them as equally important as financial objectives (Lydenberg, 2013). Moreover, achieving good financial and extra-financial performance is essential if firms are to gain competitive advantage and attract investors, particularly socially responsible investors (Lydenberg, 2013).<sup>1</sup> Environmental, social and governance (ESG) ratings help investors make effective responsible investments and anticipate long-term performance advantages (Crifo & Mottis, 2013). In this context, ESG ratings seem to attract the attention of French shareholders, as ESG criteria figure among the major points to be discussed during the 2019 general assembly of SBF 120 French firms.<sup>2</sup>

ESG performance is an important aspect of corporate strategy, which reflects corporate ability to maintain good relations with its various stakeholders (Friede, Bush & Bassen, 2015). Starting in 1970, a broad range of research has aimed to examine the connection between ESG performance and financial performance (hereafter ESG-FP). Though previous

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<sup>1</sup> The concept of CSR has made great progress, affecting both academics' work and corporate behaviour. At this stage, Moura-Leite and Padgett (2011) argue that whereas CSR was coupled with strategy literature during the 1990s, CSR became definitively an important strategic issue in the 2000s.

<sup>2</sup> [https://www.challenges.fr/finance-et-marche/ce-qui-va-secouer-les-ag-des-entreprises-au-printemps-2019\\_638610](https://www.challenges.fr/finance-et-marche/ce-qui-va-secouer-les-ag-des-entreprises-au-printemps-2019_638610)

researchers claim that results on the ESG-FP relationship are ambiguous, inconclusive and contradictory (Tang, Hull, & Rothenberg, 2012), Friede et al. (2015) find that recent aggregated evidence from 2200 empirical studies suggest that there is a positive relationship. Moreover, in a more recent literature review, Brooks and Oikonomou (2018) suggest overall that high ESG performers are more likely to achieve better financial performance than low ESG performers.

For better ESG performance, some authors recommend the adoption of stakeholder-oriented boards (Shaukat, Qiu & Trojanowski, 2016), in that the involvement of stakeholders in the decision-making process adds value to their contribution toward organizational goals and changes the market perception of ESG performance. A major change in corporate governance in recent years has been the growing awareness of the importance of the presence of employee representatives on the board (Huse, Nielson & Hagen, 2009; Ginglinger, Megginson & Waxin, 2011). However, from the standpoint of shareholders, high ESG performance when employees are represented on the board may lead to two different outcomes. On the one hand, employee directors may have a positive impact on ESG performance, since they may play an important role in CSR decisions (Preuss, Haunschild & Matten, 2009) and because they are more concerned about socially responsible activities than other board members (Huse et al., 2009). On the other hand, good ESG performance may reflect the high impact of employees on the board, since they are the primary beneficiaries of ESG investment (Barnea & Rubin, 2010). Bøhren and Strøm (2010) argue that employees on the board may over-use their power and lobby for the maximization of their own interests. Furthermore, good ESG performance when employees are on the board might stem from a managerial entrenchment strategy. Indeed, Pagano and Volpin (2005) point out that managers and employees are natural allies in the firm. Consequently, ESG performance may be used by

managers to obtain personal benefits at the expense of shareholders, who bear the underlying costs (Barnea & Rubin, 2010; Berrone & Gomez-Mejia, 2009; Surroca & Tribó, 2008).

In this chapter, we raise the question of how investors perceive ESG performance and their supporting pillars (social, environmental and governance), depending on whether or not employees are represented on the board of directors. We capture the market perception of ESG performance through the relationship between ESG ratings and firms' market value measured by Tobin's  $q$ . We then identify the moderating impact of employee directors by comparing the value relevance of ESG performance for firms with and without employee representation on the board. We control for endogeneity of the relationship between ESG performance and firm performance by using an appropriate econometric specification. To our knowledge, the present study is the first to examine the ESG-FP relationship using the moderating role of employee directorship.

Using a sample of French firms listed on the SBF 120 for the period from 2007 to 2017, we provide new evidence regarding the impact of employee board representation on the value relevance of ESG performance. Our primary finding is that investors react negatively to the representation of employees on board. Importantly, our regression analyses show a negative relationship between market value and ESG performance when employees are represented on the board. The marginal effect of employee board representation on the value relevance of ESG pillars (i.e., social, environmental and governance) is negative. In other words, we find that, when employees are represented on the board, neither social nor environmental and governance performance are relevant for investors. These findings support previous evidence on the conflict of interest between shareholders and employees and suggest that higher ESG performance may reflect an alliance between managers and employee directors that counterbalances shareholders' power on the board. Moreover, high ESG performance may

result in more advantages for employees at the expense of shareholders and may lead to greater entrenchment on the part of managers.

Our study makes a number of contributions to the literature on both employee board representation and the value relevance of ESG performance, thus helping to make good existing perceived shortcomings. First, we show that the use of moderating variables, such as employee board representation, enhances understanding of the ESG-FP relationship. Second, we present new evidence on the conflict of interest between shareholders and employees with respect to CSR, and highlight the fact that shareholders' perception with respect to ESG pillars differs according to whether or not employees are represented on the board.

The chapter is organized as follows. We start by examining the impact of employee board representation on the firm's market value. We then question the role of employee directors in moderating the value relevance of ESG performance. Next, after describing the sample and the methodology used, we present and discuss the empirical findings. Finally, we present our conclusion and suggest new research perspectives.

## **2. Conceptual Framework and Hypotheses Development**

### *2.1. Employee directorship and firm value*

Employee representation on boards varies widely around the world and is more likely to be a European phenomenon (OECD, 2017).<sup>3</sup> While a high proportion is mandatory in Germany, some countries' regulations, such as those of United Kingdom and United States of America, do not require there to be employee representation on boards. In France, an intermediate level

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<sup>3</sup> The 2017 edition of the [OECD report on Employment Outlook](#) states that in some countries such as Austria, Denmark, Finland, France, Germany, Hungary, Luxembourg, Netherlands, Norway, Poland, the Slovak Republic, Slovenia, and Sweden, companies above a certain size are required to have employee representatives on the board. This is the case for firms with more than 500 employees in Germany, more than 300 employees in Austria, more than 35 employees in Denmark, more than 30 employees in Norway and more than 25 employees in Sweden. In other countries, such as Chile, Greece, Ireland, Poland, Portugal and Spain, employees may be represented on the boards only of state-owned enterprises.

of employee directors is mandatory. Inspired by the German codetermination system,<sup>4</sup> the French law mandates that employees in large publicly listed firms can elect two types of directors to represent them on the board: the first are elected by employees by virtue of their right of employment and the second are elected by employee-shareholders (Ginglinger et al., 2011).<sup>5</sup>

The appointment of employees to boards has several benefits for the firm. Employee participation on the board enhances its efficiency by allowing diverse and valuable information to be shared with the board and by having a variety of backgrounds, which improves the quality of decision-making (Huse et al., 2009). Zhu, Xie, Warner, and Guo (2015) consider that when employees participate in the decision-making process, their satisfaction level increases and they make greater discretionary efforts. Employee representation on the board may be also viewed as a way of maintaining harmonious relations with trade unions and increasing workers' protection, while at the same time acting as motivation for workers. Bagdi (2015) confirms that representing employees on the board is beneficial for firms in times of crisis, and shows that, during the last international financial crisis, firms which strengthened participatory rights of employees on the board experienced fewer negative effects from the crisis and even managed to remain profitable. Kleinknecht (2015) documents that employee participation on the board increases firms' resilience when they suffer negative shocks. In their study of the French context, Ginglinger et al. (2011)

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<sup>4</sup> It is, however, worth noting that Germany has a dual-board system with two strictly separated administrative bodies: the supervisory board (non-executive directors only) and the management board (executive directors only). Employees in Germany thus sit on the supervisory board but not on the board of directors. In France, firms may adopt either a board of directors or a dual system with an executive board and a supervisory board.

<sup>5</sup> Compared to other European countries, France has shown great interest in employee board representation. The first French legislation stipulating labour representation on boards focused on state controlled firms (the law of 1983). Eleven years later, regulators start to pay attention to private companies, allowing them to reserve board seats for employees and employee shareholders subject to acceptance by shareholders at the general assembly (the law of 1994). Starting in 2006, representation of employee shareholders became mandatory for publicly listed French firms when employees hold at least 3% of the total shares. As for directors elected by employees by their right of employment, French boards have been obliged to reserve seats for employee directors since 2013.

argue that the presence of directors elected by employee-shareholders enhances firms' market value.

There is also counter evidence suggesting that labour participation in the corporate governance process may be perceived negatively by shareholders. In an early study, Jensen and Meckling (1979) argue that employees and shareholders have different interests and that worker representation on the board may be a source of inefficiency in self-managed firms. In their study of Norwegian listed firms over the period 1989-2002, Bøhren and Strøm (2010) find that employee directors may have the power to divert the board from shareholder value maximization to their own advantage. Employee directors may exert pressure on the board to defend their interests and obtain higher salaries at the expense of shareholders, who bear the associated cost (Jensen & Meckling, 1979). Similarly, Ginglinger et al. (2011) show that the institutional participation of employees on boards significantly reduces the dividend payout ratio. Faleye, Mehrotra and Morck (2006) argue that firms with directors elected by employee-shareholders invest less in long-term assets, create fewer jobs, take fewer risks, employ fewer workers and grow more slowly. Last but not least, Guedri and Hollandts (2008) confirm that employees' representation on boards facilitates their lobbying for the maximization of their own interests to the detriment of shareholders' value maximization.

From the standpoint of shareholders, other arguments against employee directorship can be found in the literature. Aubert, Garnotel, Lapied and Rousseau (2014) argue that managers use employee share ownership (ESO) plans as an entrenchment tool. More particularly, they argue that in order to retain their jobs, low-performing managers tend to offer stock ownership to workers. Accordingly, Hollandts, Aubert, Abdelhamid and Prieur (2018) have studied the moderating impact of employee shareholders' representation on the board on the ESO-CEO relationship for French firms. They argue that the presence of directors elected by employee shareholders increases the impact of ESO on CEO entrenchment. Similarly,

previous researchers have shown that employee representation on the board is likely to reduce the board's monitoring effectiveness (Jensen & Meckling, 1979). Due to the hierarchical dependency relationship between employees and managers, employee directors may facilitate amicable monitoring of CEOs (Guedri & Hollandts, 2008). Along similar lines, Bøhren and Strøm (2010) confirm that having non-executive employees on the board facilitates their lobbying for the maximization of their own interest. In such cases, a close alliance between managers and employees against shareholders can be identified (Pagano & Volpin, 2005).

## *2.2. The moderating role of employee directorship*

Unlike the traditional view of the firm which views shareholders as the only stakeholders that matter, stakeholder theory suggests that all stakeholders' needs should be taken into account when initiating action (Freeman, 1984). The reason for this is that stakeholders, as "persons or groups that have, or claim, ownership, rights, or interest in a corporation and its activities, past, present, or future" (Clarkson, 1995 p. 106), are crucial for the continuity of the firm. From this perspective, stakeholder theory is arguably the most appropriate theory for ESG studies (Weber & Gladstone, 2014, Wood & Jones, 1995). Dunn and Sainty (2009) advance the idea that the essence of corporate social performance is recognition that a firm has multiple duties towards various stakeholders over the long term. Hence, ESG performance may reflect the capacity of the firm to manage relations with its stakeholders. Accordingly, the better the firm's ESG performance, the more it is able to maintain good relations with its stakeholders and the more likely it is to be profitable, in particular when targeting its primary stakeholders, namely employees, consumers and investors (Hillman & Keim, 2001). Based on a stakeholder framework, Clarkson (1995) defines the firm as "a system of primary stakeholder groups, a complex set of relationships between and among interest groups, with different rights, objectives, expectations, and responsibilities" (p. 107). A more fine-grained examination of the ESG-FP relationship through the moderating role of stakeholder

management provides interesting results (Hillman & Keim, 2001; Van der Laan, Van Ees & Van Witteloostuijn, 2008; Weber & Gladstone, 2014). Consistently with Clarkson (1995), Van der Laan et al. (2008) shows that ESG performance targeting primary stakeholders is more closely related to financial performance than ESG performance targeting secondary stakeholders (i.e., community, diversity and human rights). Employees, as key stakeholders, are of great importance with regard to the ESG-FP relationship. For instance, Weber and Gladstone (2014) document that targeting in terms of ESG apparently improves financial performance. Similarly, Berman, Wicks, Kotha and Jones (1999) show that maintaining good relations with employees has a significant impact on firms' financial performance. Qiu, Shaukat and Tharyan (2016) find that investors pay more attention to social performance than environmental performance because they expect economic returns from creating good relations with employees and other stakeholders (such as the community and consumers). In that respect, social investments may create competitive advantages for the firm by creating intangible assets such as human capital and corporate reputation (Marsat & Williams, 2014). Moreover, firms that pay greater attention to their workers' needs are more likely to attract talented job seekers (Jones, Willness & Madey, 2014). Employee satisfaction and productivity is also likely to be influenced by the level of firms' ESG performance. Gao and Yang (2016), for example, examine the impact of corporate philanthropy on employees' level of productivity in Chinese firms, and find that, as a form of the corporate social responsibility, it enhances employees' productivity.

While earlier studies concentrated on the impact of strategic human resource management on firms' performance (Richard & Johnson, 2001), the positive role played by socially and environmentally aware employees has been studied more recently (Ehnert, Parsa, Roper, Wagner & Muller-Camen, 2016; Haddock-Millar, Sanyal & Muller-Camen, 2016; Kramar, 2014; O'Donohue & Torugsa, 2015). Hur, Moon and Ko (2016) show that, when

employees have a positive perception of their firm's CSR engagement, they become more creative. Further, CSR initiatives could be an excellent "internal marketing program" for motivating employees. Accordingly, employee directors may make specific contributions to CSR tasks, in that they are more concerned about health, the environment and social issues than other directors on the board and have the power to increase the firm's CSR engagement (Huse et al., 2009). Through three case studies from Belgium, Germany and France, Preuss et al. (2009) analyze the implications of the rise of CSR on employee representation on the board and on human resource management. Their qualitative study reports that employee directors may play an active role in CSR. Moreover, employees are more dependent on the long-term survival of the firm. Consequently, employee directors are likely to increase investment in CSR activities, since the benefits from such investment are manifested in the long term. Markey, McIvor and Wright (2016) show that employee directors may have the power to reduce carbon emissions in their work places by developing and implementing measures to control them.

Nevertheless, ESG performance may be also used by managers to obtain private benefits at the expense of shareholders, who bear the associated costs (Barnea & Rubin, 2010; Berrone & Gomez-Mejia, 2009; Surroca & Tribó, 2008). More specifically, ESG performance may increase managerial entrenchment (Surroca & Tribó, 2008), CEO compensation (Berrone & Gomez-Mejia, 2009) and conflicts of interest between shareholders and managers (Barnea & Rubin, 2010). In order to protect their jobs and strengthen their position in the firm, managers may opt for a collusion strategy with stakeholders other than shareholders (Surroca & Tribó, 2008). For example, managers may offer high salaries to workers in order to gain their protection against internal disciplining mechanisms (Surroca & Tribó, 2008). This concession would be to the advantage of managers at the expense of shareholders. Moreover, managers may choose to maintain good relations with the community in order to enhance

their personal reputation. Coffey and Wang (1998) find that managerial control on board increases expenditure on corporate philanthropy. In such cases, high ESG performance could be detrimental to the creation of value for shareholders.

Barnea and Rubin (2010) identify a conflict of interest between shareholders with respect to CSR. They argue that affiliated shareholders (those influenced by the activity and the reputation of the firm, such as managers, employees, large shareholders and directors) and non-affiliated shareholders (such as institutions and small investors seeking profitable investments in the short term) have different interests in relation to CSR. This conflict of interest would be greater if employees are represented on the board, since employees are seen as natural allies for managers (Pagano & Volpin, 2005).

While employee directors may be expected to have a positive impact on ESG performance, leading in turn to better financial performance, the fact that employees are considered to be natural allies for managers and may influence their decisions, employee board representation may negatively moderate the relationship between ESG performance and market value. In line with these arguments, we consider the following alternative hypotheses:

**H1a:** Employee board representation positively moderates the relationship between ESG performance and market value.

**H1b:** Employee board representation negatively moderates the relationship between ESG performance and market value.

### **3. Methodology**

#### *3.1. Sample and data*

Our aim is to examine to what extent the value relevance of ESG performance is affected by employee representation on the board. To this end, we use a sample of 91 French firms listed in the SBF 120 (excluding financial, insurance and real estate companies) over a period of eleven years (2007 to 2017). For ESG performance, we use the Thomson Reuters/S-Network

ESG Best Practice Ratings, which provide information on European firms from December 2007. Our period starts one year after employee shareholders' representation on board became mandatory in 2006 for publicly listed firms in cases where employees hold at least 3% of the capital. Before 2006, information on employee board representation was scarce. Corporate governance and ownership variables were collected from firms' annual reports and standalone reports, while financial and accounting data were obtained from the ThomsonOne database.

### *3.2. Dependent variable: Tobin's q*

Following Cahan, De Villiers, Jeter, Naiker and Van Staden (2016), Ginglinger et al. (2011) and Nekhili, Nagati, Chtioui and Nekhili (2017), we use Tobin's q as a measure of firm performance. Tobin's q reflects the market's assessment of the long-term expected value of a firm, as explained by Cahan et al. (2016). Accordingly, the benefits of ESG performance on firm value are more likely to appear in the long term and be captured by Tobin's q. For this reason, we use Tobin's q to reflect market participants' perception of ESG performance. This measure has a number of advantages. First, it is a favoured measure that in practice can be used by investors and other market participants in making relevant decisions. Tobin's q is also a market-based instrument, and can therefore detect the perception of the market (by investors) (Cahan et al., 2016) and is unaffected by accounting conventions.

### *3.3. Endogenous variable: ESG Performance*

To measure ESG performance, we use the Thomson Reuters/S-Network ESG Best Practice Ratings. This measure provides ratings regarding composite ESG performance and its three pillars (environmental, social and governance) of over 5000 firms worldwide. Unlike ASSET4 ratings, which use an equally weighted key performance indicators (KPIs), Thomson Reuters/S-Network ESG Best Practice Ratings assign a specific weight for each KPI used to measure the ESG performance. Assigning these specific weights enhances the quality of the ESG performance measure, making it more consistent and objective.

### *3.4. Moderating variable: employee directorship*

Employee representation varies from country to country. While a high proportion is the norm in Germany, United Kingdom regulations do not require there to be any employee representation on boards. In France an intermediate level of employee directors is mandatory. Following Ginglinger et al. (2011) and Guedri and Hollandts (2008), we measure employee board representation by the number directors elected by employees as a proportion of the total number of directors on the board.

### *3.5. Control variables*

Following previous empirical studies on ESG, we included various features of firms that may influence ESG performance and firm performance: governance variables, ownership variables and other control variables. Verification of CSR reports by independent third parties reflects firms' desire to enhance the credibility of their CSR information in the eyes of stakeholders (Gillet, 2012). The existence of a board committee for CSR issues demonstrates the commitment of top management towards the firm's stakeholders, which increases its ESG performance (Velte, 2016). Board independence provides better alignment with the social views of external groups (Haniffa & Cooke, 2005), and is likely to influence the firm's extra-financial performance (Dunn & Sainty, 2009). For Nekhili, Nagati, Chtioui and Rebolledo (2017a) and Nekhili, Nagati, Chtioui and Nekhili (2017b), the number of board meetings is a proxy for diligence and an indicator of directors' concerns, such as CSR duties. Similarly, long-tenured CEOs are better able resist pressures and change, and are less likely than newly appointed CEOs to acquiesce to stakeholder pressure. CEO/chair role duality gives CEOs greater power, and may lead to CEOs disregarding further involvement in social and environmental activities (Galbreath, 2010). Family owners are likely to have a positive impact on ESG initiatives (Bingham, Dyer, Smith & Adams, 2010). Similarly, institutional holders exert strong control over managerial activities and increase ESG the firm's performance (Ben

Lahouel, Perretti & Autissier, 2014). We control for employee ownership because since it is considered as an important tool for managers to serve their entrenchment strategy (Aubert et al., 2014). We also follow Nekhili et al. (2017a, b) by controlling for company size, leverage and R&D intensity. Previous studies dealing with ESG performance widely control for industry. We use the Industry Classification Benchmark (ICB) developed by Dow Jones and FTSE and used by Euronext. Lastly, we control for the labour law reforms of 2013, which make it mandatory for employees to be represented on the board by one director if there are fewer than 12 board members, and by two directors if the board has more than 12 members in the case of firms with at least 5,000 employees in France or 10,000 employees in France and internationally. This variable equals 1 after the adoption of the labour law reforms in 2013 and 0 otherwise.

### 3.6. Estimation method

Whereas ESG performance and employee board representation may affect firm performance, their potential impact may be driven by firms' characteristics, which at the same time affect performance. This situation is known as the archetypical endogeneity problem, and it may arise due to reverse causalities and omitted variables. To check for the endogeneity problem, we use the two-step General Method of Moments (system GMM).

We use the following equation to estimate the extent to which the value relevance of ESG performance is affected by employee representation on the board:

$$\begin{aligned} \text{TOBIN}_{it} = & \beta_0 + \beta_1 \text{Lag TOBIN}_{it} + \beta_2 \text{ESG\_PER}_{it} + \beta_3 \text{EMPL\_BOARD}_{it} + \beta_4 \\ & (\text{ESG\_PER} * \text{EMPL\_BOARD})_{it} + \beta_5 \text{CSR\_ASS}_{it} + \beta_6 \text{CSR\_COM}_{it} + \beta_7 \text{BOARD\_SIZE}_{it} + \beta_8 \\ & \text{BOARD\_IND}_{it} + \beta_9 \text{BOARD\_MEET}_{it} + \beta_{10} \text{DUAL}_{it} + \beta_{11} \text{TENURE}_{it} + \beta_{12} \text{FAM\_OWN}_{it} + \beta_{13} \\ & \text{INST\_OWN}_{it} + \beta_{14} \text{EMPL\_OWN}_{it} + \beta_{15} \text{LEV}_{it} + \beta_{16} \text{R\&D}_{it} + \beta_{17} \text{SIZE}_{it} + \beta_{18} \text{LAW2013}_t + \beta_{19} \\ & \text{INDUSTRY}_i + \varepsilon_{it} \end{aligned}$$

All variables are as described in Table II.1.

**Table II. 1: Variables and Their Measurement**

Variable	Description	Measure <sup>6</sup>
<i>Dependent variable</i>		
TOBIN	Tobin's q	Stock market capitalization plus book value of liabilities as a ratio of total assets
<i>Endogenous variables</i>		
ESG_PER	ESG performance	Corporate social performance as measured by Thomson Reuters/S-Network ESG Best Practices Ratings encompassing environmental, social, and corporate governance performance.
SOCIAL_PER	Social performance	Social performance is a pillar of the ESG performance as measured by Thomson Reuters/S-Network ESG Best Practices Ratings. This pillar examines employment quality, health and safety, training and development, diversity, human rights, community and finally product responsibility.
ENVIR_PER	Environmental performance	Environmental performance is a pillar of the ESG performance as measured by Thomson Reuters/S-Network ESG Best Practices Ratings. This pillar examines the resource and emission reduction and product innovation.
CG_PER	Corporate governance performance	Corporate Governance performance is a pillar of the ESG performance as measured by Thomson Reuters/S-Network ESG Best Practices Ratings. This pillar examines the board structure, compensation policy, board functions, shareholders rights and vision and strategy.
<i>Moderating variable</i>		
NBEMPL_BOARD	Number of employees on board	Number of employee directors on board
EMPL_BOARD	Employee board representation	Proportion of employee directors to the total number of board directors
<i>Governance variables</i>		
CSR_ASS	CSR assurance	Binary variable that takes the value 1 if CSR assurance is adopted and 0 otherwise
CSR_COM	CSR committee	Binary variable that takes the value 1 if the company has a CSR committee and 0 otherwise
BOARD_SIZE	Board size	Natural logarithm of the number of directors on the board
BOARD_IND	Board independence	Ratio of number of non-executive independent directors to total number of board directors
BOARD_MEET	Board meetings	Natural logarithm of the number of annual board meetings
DUAL	CEO duality	Dummy variable coded 1 if the CEO serves as board chair; 0 otherwise.
TENURE	CEO tenure	Number of years within the company as CEO
<i>Ownership variables</i>		
FAM_OWN	Family ownership	Percentage of capital held by family
INST_OWN	Institutional ownership	Percentage of capital held by institutional investors
EMPL_OWN	Employee ownership	Percentage of capital held by employees
<i>Other control variables</i>		
LEV	Leverage	Ratio of total financial debt to total assets
R&D	R&D intensity	Ratio of Research and Development to total sales
SIZE	Firm size	Natural logarithm of the total assets
LAW2013	Labour law reform in 2013	Binary variable equal to 1 after the adoption of the labour law reform in 2013 and 0 otherwise
Industry	Industry	Binary variable that takes the value 1 if the company belongs to the sector in question and 0 otherwise

<sup>6</sup> Note: Variables from ThomsonOne are winsorized at the 1% and 99% levels.

With regard to the consistency of system GMM, two tests are called for. The first is the second-order autocorrelation test for the error term. This test examines the null hypothesis of the absence of a second autocorrelation for the error term. The second is the Sargan/Hansen test of over-identifying restrictions, which examines the overall validity of instruments.

## **4. Results**

### *4.1. Descriptive statistics*

Table II.2 presents the descriptive statistics of variables for the sample observation. With regard to market value, the firms in our sample have an average Tobin's q of 1.218. As reported in Table II.2, employee directors represent 6.48% of total directors on the board. Our sample firm-years have on average a combined ESG performance of 63.28%. As regards ESG pillars, the average social, environmental and governance performance is 69.17%, 70.87% and 53.26%, respectively. A large majority of firms in the SBF 120 provide assurance of their CSR information (73.93%) and have a CSR committee (62.18%). The board size of our sampled firms is about 13 directors, of whom 51.96% are independent. The average number of meetings held each year is seven. The CEO is also the chairman of the board in 58.38% of cases and the average tenure of the CEO is almost eight years. The average proportion of total shares owned by family, institutions and employees of the sample firms is 20.82%, 34.55% and 2.65%, respectively. Leverage is approximately 24.25% and the average R&D intensity is 2.76%. As reported in Table II.2, the average market value of the sample firms is 24.192 billion euros.

**Table II. 2: Descriptive Statistics**

	Mean	Median	Standard Deviation	Minimum	Maximum
TOBIN	1.218	0.882	1.106	0.252	7.026
NBEMPL_BOARD	0.664	0	1.345	0	7
EMPL_BOARD	6.48%	0	9.42%	0	41.67%
ESG_PER	63.28%	64.33%	10.02%	24.11%	83.30%
SOCIAL_PER	69.17%	70.60%	11.91%	20.71%	97.09%
ENVIR_PER	70.87%	73.32%	12.41%	29.03%	94.50%
CG_PER	53.26%	51.50%	11.87%	19.25%	91.19%
CSR_ASS	73.93%	1	43.92%	0	1
CSR_COM	62.18%	1	48.52%	0	1
BOARD_SIZE (number of directors)	12.898	13	3.032	4	22
BOARD_IND	51.96%	50%	19.21%	0	1
BOARD_MEET (number of meetings)	7.327	7	3.190	2	24
DUAL	58.38%	1	49.32%	0	1
TENURE (number of years)	7.759	5	7.696	1	56
FAM_OWN	20.82%	9.3%	23.78%	0	91.85%
INST_OWN	34.55%	32.73%	30.58%	0	90.66%
EMPL_OWN	2.65%	1.3%	4.29%	0	29.20%
LEV	24.25%	21.54%	15.63%	0.10%	82.36%
R&D	2.76%	0.53%	5.01%	0	25.69%
SIZE (in billions of euros)	24.192	9.371	38.491	7.169	278.941

Note: All variables are as defined in Table II.1

#### 4.2. Multivariate analysis

Table II.3 presents the system GMM regression results of Tobin's q on ESG performance and employee representation on the board. Model 1 of Table II.3 shows a positive and significant impact of ESG performance on market-based performance as measured by Tobin's q ( $\beta_2 = 0.185$ ,  $t = 5.33$ ). In line with Friede et al., (2015) and Brooks and Oikonomou (2018), the market is likely to assign value relevance to ESG performance. Nevertheless, a negative and significant relationship is found between employee board representation and Tobin's q. This result highlights the conflict of interests between different directors on the board (Jensen & Meckling, 1979). The negative coefficient is in accordance with previous studies (Bøhren & Strøm, 2010; Kleinknecht, 2015), suggesting that, from a shareholder standpoint, employee directors might use their power on board to deviate from maximization of shareholder value (Guedri & Hollandts, 2008; Faleye et al., 2006), and oppose decisions that do not serve their interests (Bøhren & Strøm, 2010). Another explanation is that since managers and employees are natural allies (Pagano & Volpin, 2005), employee directors may facilitate amicable

monitoring of managers (Guedri & Hollandts, 2008) and may act as an additional entrenchment tool (Hollandts et al., 2018).

The impact of ESG performance on market-based performance is still stable and positively and significantly related to Tobin's  $q$  when employee directors on the board are introduced into the model. A positive and significant impact is observed for CSR assurance, suggesting that providing assurance services is rewarded by a higher valuation in the financial markets. We also note a positive and significant correlation between the existence of a CSR committee and market value. These results imply that sustainability-oriented corporate governance mechanisms, such as CSR assurance and having a CSR committee, are positively valued by the market.

As regards corporate governance structures, board size has a positive and significant impact on Tobin's  $q$ . However, it loses its significance when we introduce employee directors into the model. In contrast, board independence gains significance when we introduce employee directors into the empirical model. Indeed, we note a positive and significant impact of board independence on Tobin's  $q$  in Model 2. Board duality and CEO tenure show a negative and significant impact on Tobin's  $q$ , suggesting that greater separation between the CEO and chairman functions and CEOs with shorter tenure are more valued by the market. As regards ownership variables, our findings show that family ownership is positively and significantly linked to market performance as measured by the Tobin's  $q$ , whereas neither institutional nor employee ownership has a significant impact. For the other control variables, firm leverage shows a positive and significant coefficient on Tobin's  $q$ , while R&D intensity and firm size have negative and significant impacts on market performance. Finally, the 2013 labour law reform shows a positive and significant impact on Tobin's  $q$ .

In Model 3 of Table II.3 we measure the marginal effect of ESG performance on market performance in firms with employee directors, using a joint-test technique. The key test is the

joint test of the sum of the coefficients on ESG performance (ESG\_PER) and the interaction term (ESG\_PER\*EMPL\_BOARD). In accordance with our hypothesis H1b and in contrast to our hypothesis H1a, employee board representation negatively moderates the relationship between ESG performance and market value. Model 3 shows that the joint coefficient is strongly negative ( $\beta_2 + \beta_4 = -7.814$ ) and highly significant ( $t = -6.71$ ). This finding suggests that ESG performance, when provided by firms with employee directors on the board, is more likely to be destructive of value. Investors may perceive such extra-financial performance as a proxy for an entrenchment strategy to the benefit of employees and managers at the expense of shareholders (Surroca & Tribó, 2008). Another explanation is that employee directors may have the power to divert the board from shareholder value maximization and may exert pressure on the board to defend their interests at the expense of shareholders (Bøhren & Strøm, 2010; Jensen & Meckling, 1979).

**Table II. 3: System GMM regression of Tobin's q on ESG performance and employee board representation**

Variables	Model 1		Model 2		Model 3: ESG_PER*EMPL_BOARD	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> TOBIN	0.833***	156.32	0.813***	179.73	0.807***	125.99
ESG_PER	0.185***	5.33	0.220***	5.39	0.752***	10.75
EMPL_BOARD			-1.852***	-11.35	8.864***	9.19
ESG_PER*EMPL_BOARD					-8.566***	-7.38
CSR_ASS	0.065***	5.10	0.051***	2.71	-0.033*	-1.72
CSR_COM	0.045***	5.32	0.044***	2.61	0.047**	2.16
BOARD_SIZE	0.107***	3.59	0.004	0.07	0.040	0.65
BOARD_IND	-0.026	-0.92	0.353***	7.79	0.381***	9.70
BOARD_MEET	0.010	0.79	0.010	0.40	-0.038	-1.43
DUAL	-0.119***	-8.73	-0.135***	-7.62	-0.140***	-7.05
TENURE	-0.032***	-4.49	-0.020**	-2.13	-0.026**	-2.41
FAM_OWN	0.220***	5.03	0.508***	9.32	0.478***	7.21
INST_OWN	-0.003	-0.10	-0.038	-1.11	-0.081**	-2.52
EMPL_OWN	0.340	1.38	0.403	1.12	0.093	0.29
LEV	0.299***	6.99	0.358***	5.82	0.374***	5.99
R&D	-0.241*	-1.75	0.001	0.01	0.493***	2.98
SIZE	-0.031***	-6.27	-0.064***	-4.98	-0.067***	-6.13
LAW2013	0.067***	8.92	0.004	0.38	0.028***	3.10
Intercept	-0.181***	-2.58	0.017	0.14	-0.293**	-1.99
Industry	Yes		Yes		Yes	
Number of observations	741		741		741	
Fisher (Prob. > F)	1965.33 ( $p = 0.000$ )		6145.54 ( $p = 0.000$ )		7333.52 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.75 ( $p = 0.003$ )		-2.75 ( $p = 0.003$ )		-2.90 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	-0.43 ( $p = 0.670$ )		-0.69 ( $p = 0.887$ )		0.14 ( $p = 0.887$ )	
Sargan test (Chi-square, $p$ -value):	594.41 ( $p = 0.000$ )		591.31 ( $p = 0.000$ )		733.83 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	69.84 ( $p = 0.382$ )		67.33 ( $p = 0.431$ )		77.10 ( $p = 0.211$ )	
Joint test: ESG_PER + (ESG_PER*EMPL_BOARD)					-7.814***	-6.71

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

For further examination of the value relevance of ESG performance when employees are represented on the board, we divided our sample into two sub-samples: firm-years with employee directors (314 firm-year observations) and firm-years without employee directors (427 firm-year observations). We then regressed market value (Tobin's q) on ESG performance for each sub-sample. Results of Table II.4 show that ESG performance provided by firms with employee directors has a negative and significant impact at the 1% level on Tobin's q ( $\beta_2 = -0.479$ ,  $t = -3.43$ ), while ESG performance provided by firms with no employee directors has a positive and highly significant impact on Tobin's q ( $\beta_2 = 0.332$ ,  $t = 4.01$ ). These findings suggest that the market cares about firms' extra-financial performance. However, the representation of employees on the board apparently changes their perception

towards good ESG performance. When employees are on the board, investors do not perceive ESG performance as a greater commitment of the firm towards its stakeholders. Instead, they are more likely to view it as a strategy used by managers to get close to employees and other non-shareholder stakeholders so as to neutralize pressure from shareholders (Surroca & Tribó, 2008).

**Table II. 4: System GMM Regression of Tobin's q on ESG Performance in Firm-Years with and without Employee Board Representation**

Variables	Model 1: Firm-years with employee board representation		Model 2: Firm-years without employee board representation	
	Coef.	t-test	Coef.	t-test
<i>Lag</i> TOBIN	0.848***	71.47	0.862***	78.35
ESG_PER	-0.479***	-3.43	0.332***	4.01
CSR_ASS	0.073	1.65	0.064***	2.80
CSR_COM	0.018	0.31	0.050**	2.28
BOARD_SIZE	0.251*	1.73	0.154	1.27
BOARD_IND	0.008	0.05	0.178	1.28
BOARD_MEET	0.035	0.77	0.021	0.57
DUAL	-0.097***	-3.53	-0.121***	-3.94
TENURE	-0.068***	-3.94	-0.050**	-2.39
FAM_OWN	-0.119	-0.66	0.355**	2.40
INST_OWN	-0.058	-0.82	-0.139*	-1.68
EMPL_OWN	-0.115	-0.05	3.996	0.62
LEV	0.253***	2.69	0.307*	1.76
R&D	1.065	1.54	0.679	1.46
SIZE	-0.022	-0.70	-0.048***	-2.56
LAW2013	0.134***	5.87	0.010	0.63
Intercept	0.267	1.00	-0.513	-0.58
Industry	Yes		Yes	
Number of observations	314		427	
Fisher (Prob. > F)	5908.04 ( $p = 0.000$ )		5920.80 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z$ , $p$ -value):	-2.91 ( $p = 0.004$ )		-2.68 ( $p = 0.005$ )	
Arellano–Bond test AR(2) ( $z$ , $p$ -value):	-1.24 ( $p = 0.737$ )		0.23 ( $p = 0.821$ )	
Sargan test (Chi-square, $p$ -value):	219.28 ( $p = 0.000$ )		380.39 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	30.54 ( $p = 0.538$ )		46.21 ( $p = 0.587$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

### 4.3 Supplementary analysis

The preceding results were obtained for firms based on their combined ESG performance. We now analyse whether each ESG pillar (i.e., environmental, social and governance) leads to different results. Indeed, the value relevance of ESG pillars depends on the specific type of performance provided (Friede et al., 2015; Marsat & Williams, 2014; Qiu et al., 2016).

Accordingly, we examine the effect of employee board representation on the value relevance of each pillar of ESG performance. We test this proposition using the joint test technique. Table II.5 reports results from assessing the value relevance of each of the ESG pillars. For the three models in Table II.5, we note a constant, negative and significant impact of employee board representation on Tobin's  $q$ . However, results suggest that shareholders have differing sensitivity levels with regard to ESG pillars.

Model 1 in Table II.5 reports a highly negative ( $\beta_2 = -1.568$ ) and strongly significant ( $t = -16.06$ ) impact of social performance on Tobin's  $q$ , suggesting that social performance is value destructive. This finding is in contrast with previous studies (e.g., Marsat & Williams, 2014; Qiu et al., 2016), that argue that investing in the social pillar creates intangible assets and may result in future cash flows for the firm. One argument in favour of our finding is that the market may perceive social performance as an entrenchment strategy by managers to get close to non-shareholder stakeholders such as employees and the community (Surroca & Tribó, 2008), in which case, social performance could be detrimental to the creation of shareholder value.

In Model 2 of Table II.5, we examine the value relevance of environmental performance. Environmental performance provides information on the firm's interaction with the environment (e.g., waste management), and the firm's willingness to address climate change. We note a positive ( $\beta_2 = 0.781$ ) and significant ( $t = 10.65$ ) coefficient for environmental performance on Tobin's  $q$ . This result suggests that firms with good environmental performance are financially rewarded by market participants (Kassinis & Soteriou, 2003). Indeed, good environmental performance reflects a positive commitment to the environment and the avoidance of future costly disasters that could reduce firm value.

In Model 3 in Table II.5, we investigate the value relevance of the governance pillar of ESG performance, which expresses the ability of the firm to manage good relationships with

shareholders and shows how its board of directors is governed (board function, board structure, vision and strategy and compensation policy). Model 3 reports a positive and significant impact of corporate governance performance on Tobin's q ( $\beta_2 = 0.344$ ,  $t = 7.24$ ). This finding suggests that corporate governance performance is value relevant to investors since well governed firms are more able to create value (Huse et al., 2009).

**Table II. 5: System GMM Regression of Tobin's q on Social, Environmental and Corporate Governance Performance and Employee Board Representation**

Variables	Model 1: SOCIAL_PER		Model 2: ENVIR_PER		Model 3: CG_PER	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.825***	112.26	0.851***	146.64	0.843***	181.25
SOCIAL_PER	-1.568***	-17.06				
ENVIR_PER			0.781***	10.65		
CG_PER					0.344***	7.24
EMPL_BOARD	-1.220***	-5.42	-1.410***	-10.05	-0.427***	-3.33
CSR_ASS	0.247***	12.01	0.037**	1.98	0.060***	4.09
CSR_COM	0.135***	6.27	0.025**	2.07	0.018	1.33
BOARD_SIZE	0.292***	6.08	0.111**	2.36	0.115***	3.57
BOARD_IND	-0.093	-1.16	-0.399***	-7.68	-0.155***	-2.62
BOARD_MEET	0.068**	2.35	-0.007	-0.36	0.014	0.96
DUAL	-0.140***	-5.37	-0.133***	-7.69	-0.079***	-5.22
TENURE	-0.042**	-2.08	-0.029***	-3.10	-0.029***	-3.26
FAM_OWN	0.008	0.10	0.089	1.59	0.220***	3.45
INST_OWN	0.028	0.55	0.056	1.42	0.032	0.90
EMPL_OWN	0.936**	2.40	0.513*	1.65	0.513*	1.79
LEV	0.105	1.21	0.381***	7.02	0.283***	5.95
R&D	-0.532	-1.49	-0.778***	-3.23	-0.352*	-1.68
SIZE	0.038***	3.45	-0.019**	-2.38	-0.023***	-3.98
LAW2013	0.042***	3.25	0.115***	11.85	0.130***	12.90
Intercept	0.167	0.98	-0.560***	-5.46	-0.266***	-3.50
Industry	Yes		Yes		Yes	
Number of observations	741		741		741	
Fisher (Prob. > F)	2253.56 ( $p = 0.000$ )		11194.02 ( $p = 0.000$ )		9467.88 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z$ , $p$ -value):	-2.90 ( $p = 0.003$ )		-2.74 ( $p = 0.004$ )		-2.82 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z$ , $p$ -value):	-0.09 ( $p = 0.926$ )		-0.19 ( $p = 0.849$ )		0.20 ( $p = 0.982$ )	
Sargan test (Chi-square, $p$ -value):	170.43 ( $p = 0.000$ )		118.95 ( $p = 0.000$ )		189.25 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	59.25 ( $p = 0.150$ )		62.22 ( $p = 0.264$ )		63.54 ( $p = 0.179$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

In Table II.6, we measure the marginal effect of employee board representation on the value relevance of each pillar of ESG performance (social, environmental and governance) using the joint test approach. The results of Models 1, 2 and 3 show a negative impact of the interaction term of each pillar of ESG performance on Tobin's q. For the social pillar, our

empirical results of Model 1 show that the impact of the interaction term (SOCIAL\_PER\*EMPL\_BOARD) is strongly negative ( $\beta_4 = -15.103$ ) and highly significant ( $t = -8.58$ ) on Tobin's  $q$ , suggesting that investors perceive social investments, especially when employees are represented on board, as a collusion strategy between managers and employees that serves managerial entrenchment and the interests of workers at the expense of shareholders (Surroca & Tribó, 2008). The marginal effect of employee board representation on the value relevance of social performance is assessed by the joint test of the sum of the coefficient (SOCIAL\_PER + SOCIAL\_PER\*EMPL\_BOARD) on Tobin's  $q$ . The joint coefficient in Model 1 is negative ( $\beta_2 + \beta_4 = -14.258$ ) and highly significant ( $t = -8.52$ ), suggesting that a higher level of social performance when provided by firms with employee directors on the board is financially penalized by the financial market.

Models 2 and 3 of Table II.6 also show a negative and significant relationship between the sum of the coefficient (ENVIR\_PER + ENVIR\_PER\*EMPL\_BOARD) and Tobin's  $q$ , on the one hand, and between (CG\_PER + CG\_PER\*EMPL\_BOARD) and Tobin's  $q$ , on the other. These results suggest that the market negatively assesses environmental performance and governance performance when employees are appointed to the board. One possible explanation is that managers may use a long-term commitment to the environment to reduce the firm's attractiveness to raiders (Pagano & Volpin, 2005) or to gain private benefits such as a reputation for being "good global citizens" (Barnea & Rubin, 2010).

**Table II. 6: System GMM Regression of Tobin's q on the Interaction between Social, Environmental and Corporate Governance Performance and Employee Board Representation**

Variables	Model 1: SOCIAL_PER*EMPL_BOARD		Model 2: ENVIR_PER*EMPL_BOARD		Model 3: CG_PER*EMPL_BOARD	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.819***	126.87	0.813***	94.42	0.811***	101.48
EMPL_BOARD	15.674***	10.37	8.666***	3.66	6.851***	11.92
SOCIAL_PER	0.844***	6.22				
SOCIAL_PER*EMPL_BOARD	-15.103***	-8.58				
ENVIR_PER			-0.258*	-1.67		
ENVIR_PER*EMPL_BOARD			-8.521***	-3.42		
CG_PER					0.933***	12.26
CG_PER*EMPL_BOARD					-8.767***	-9.30
CSR_ASS	-0.021	-1.00	0.059*	1.83	-0.003	-0.11
CSR_COM	0.050**	2.31	0.091***	3.07	0.031	1.60
BOARD_SIZE	0.027	0.49	0.019	0.29	0.047	0.76
BOARD_IND	0.445***	6.85	0.447***	4.80	0.579***	6.35
BOARD_MEET	-0.008	-0.32	0.003	0.11	-0.109***	-3.07
DUAL	-0.125***	-5.43	-0.109***	-4.64	-0.109***	-4.53
TENURE	-0.023*	-1.75	-0.056***	-3.06	-0.014	-1.11
FAM_OWN	0.447***	5.96	0.325***	3.76	0.650***	6.17
INST_OWN	-0.156***	-3.46	-0.037	-0.72	-0.056	-1.39
EMPL_OWN	-0.422	-1.41	0.534	1.17	0.278	0.71
LEV	0.252***	2.55	0.172**	2.40	0.434***	5.97
R&D	0.385**	2.07	0.808*	1.89	0.631***	2.90
SIZE	-0.077***	-6.73	-0.013	-0.99	-0.072***	-4.93
LAW2013	-0.012	-0.98	0.018	0.90	0.042***	3.85
Intercept	-0.361***	-2.61	0.114	0.63	-0.296**	-1.98
Industry	Yes		Yes		Yes	
Number of observations	741		741		741	
Fisher (Prob. > F)	1348.08 ( $p = 0.000$ )		1753.64 ( $p = 0.000$ )		1592.60 ( $p = 0.000$ )	
Arellano–Bond test AR(1) (z, $p$ -value):	-2.81 ( $p = 0.004$ )		-2.79 ( $p = 0.004$ )		-2.87 ( $p = 0.004$ )	
Arellano–Bond test AR(2) (z, $p$ -value):	-0.56 ( $p = 0.906$ )		-0.41 ( $p = 0.680$ )		-0.20 ( $p = 0.434$ )	
Sargan test (Chi-square, $p$ -value):	573.49 ( $p = 0.000$ )		177.46 ( $p = 0.000$ )		550.07 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	62.12 ( $p = 0.299$ )		58.90 ( $p = 0.333$ )		58.18 ( $p = 0.413$ )	
Joint test: SOCIAL_PER + (SOCIAL_PER*EMPL_BOARD)	-14.258***	-8.52				
Joint test: ENVIR_PER + (ENVIR_PER*EMPL_BOARD)			-8.780***	-3.64		
Joint test: CG_PER + (CG_PER*EMPL_BOARD)					-7.834***	-8.57

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table II.1.

To shed more light on the results of Table II.6, we represent the results of the system GMM regression of Tobin's q on social performance in firm-years with employee directors (Model 1 of Table II.7) and without employee directors on the board (Model 2 of Table II.7). The results of both Models 1 and 2 show a negative and significant impact of social performance on market value as measured by Tobin's q, with a higher impact for the sub-sample of firm-years with employee directors ( $\beta_2 = -1.284$ ;  $t = -7.45$ ) than for the sub-sample of firm-years without employee directors ( $\beta_2 = -0.864$ ;  $t = -5.03$ ). These findings suggest that the presence of employees on the board strengthens the negative relationship between social performance and market value.

**Table II. 7: System GMM Regression of Tobin's q on Social Performance in Firm-Years with and without Employee Board Representation**

Variables	Model 1: Firm-years with employee board representation		Model 2: Firm-years without employee board representation	
	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.812***	19.33	0.846***	87.85
SOCIAL_PER	-1.284***	-7.45	-0.864***	-5.03
CSR_ASS	0.203***	3.10	0.226***	6.69
CSR_COM	-0.004	-0.06	0.134***	4.93
BOARD_SIZE	0.587**	2.51	0.217***	3.27
BOARD_IND	-0.068	-0.55	0.092	0.75
BOARD_MEET	0.022	0.41	-0.016	-0.45
DUAL	-0.263***	-3.45	-0.179***	-6.52
TENURE	-0.048	-1.45	-0.059***	-3.09
FAM_OWN	-0.247	-1.40	0.223***	2.76
INST_OWN	-0.010	-0.11	-0.056	-0.85
EMPL_OWN	-1.137	-0.53	4.887***	2.94
LEV	0.278	1.35	0.187	1.33
R&D	-2.724	-1.18	0.014	0.04
SIZE	0.068	1.46	-0.017	-0.89
LAW2013	0.072***	2.73	0.022	0.95
Intercept	-0.451	-0.63	0.184	0.42
Industry	Yes		Yes	
Number of observations	314		427	
Fisher (Prob. > F)	30553.57 ( $p = 0.000$ )		20512.42 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.09 ( $p = 0.008$ )		-2.60 ( $p = 0.006$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-1.50 ( $p = 0.135$ )		0.53 ( $p = 0.595$ )	
Sargan test (Chi-square, $p$ -value):	129.45 ( $p = 0.000$ )		90.66 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	40.73 ( $p = 0.264$ )		44.87 ( $p = 0.101$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

Note that environmental performance impacts Tobin's  $q$  differently depending on whether or not employees are represented on the board. The results of Model 1 in Table II.8 show a negative and significant impact of environmental performance on Tobin's  $q$  ( $\beta_2 = -1.262$ ;  $t = -4.08$ ) for the sub-sample of firm-years with employee directors. In contrast, the results of Model 2 of Table II.8 indicate a positive and significant impact of environmental performance on Tobin's  $q$  ( $\beta_2 = 0.458$ ;  $t = 3.89$ ) for the sub-sample of firm-years without employee directors. These findings confirm the result from the joint test that employee board representation negatively moderates the relationship between environmental performance and Tobin's  $q$ .

**Table II. 8: System GMM Regression of Tobin's  $q$  on Environmental Performance in Firm-Years with and without Employee Board Representation**

Variables	Model 1: Firm-years with employee board representation		Model 2: Firm-years without employee board representation	
	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.846***	46.29	0.845***	86.87
ENVIR_PER	-1.262***	-4.08	0.458***	3.89
CSR_ASS	0.092	1.51	0.058**	2.44
CSR_COM	0.107***	2.72	0.081***	4.28
BOARD_SIZE	0.045	0.39	0.044	0.40
BOARD_IND	0.212**	2.22	0.1454	1.29
BOARD_MEET	0.085*	1.65	0.017	0.46
DUAL	-0.018	-0.38	-0.134***	-5.89
TENURE	-0.050*	-1.89	-0.033*	-1.93
FAM_OWN	-0.272**	-2.19	0.326***	4.47
INST_OWN	-0.051	-0.70	-0.110	-1.59
EMPL_OWN	0.384	0.77	1.684	0.97
LEV	0.281***	2.78	0.422**	2.39
R&D	4.559*	1.93	0.208	0.46
SIZE	0.050	1.41	-0.038**	-2.31
LAW2013	0.088***	3.88	0.008	0.42
Intercept	0.470	0.91	-0.380	-0.57
Industry	Yes		Yes	
Number of observations	314		427	
Fisher (Prob. > F)	9752.21 ( $p = 0.000$ )		11300.03 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z$ , $p$ -value):	-2.71 ( $p = 0.005$ )		-2.60 ( $p = 0.006$ )	
Arellano-Bond test AR(2) ( $z$ , $p$ -value):	-1.34 ( $p = 0.180$ )		0.53 ( $p = 0.595$ )	
Sargan test (Chi-square, $p$ -value):	220.45 ( $p = 0.000$ )		90.66 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	46.89 ( $p = 0.402$ )		44.87 ( $p = 0.141$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

Similarly to the case of environmental performance, the results of Models 1 and 2 in Table II.9 show opposing coefficients for governance performance. While the result of Model 1 shows a negative and significant impact of governance performance on Tobin's q ( $\beta_2 = -0.374$ ;  $t = -2.38$ ), the result of Model 2 shows a positive and significant impact of governance performance on Tobin's q ( $\beta_2 = -0.469$ ;  $t = 4.28$ ). These coefficients indicate that governance performance is less relevant for the financial market when provided by firms with employee representation on the board.

**Table II. 9: System GMM Regression of Tobin's q on Corporate Governance Performance in Firm-Years with and without Employee Board Representation**

Variables	Model 1: Firm-years with employee board representation		Model 2: Firm-years without employee board representation	
	Coef.	t-test	Coef.	t-test
<i>Lag</i> TOBIN	0.977***	70.30	0.862***	74.32
CG_PER	-0.374**	-2.38	0.469***	4.28
CSR_ASS	0.193	1.45	0.054*	1.83
CSR_COM	0.336***	4.53	0.042	1.40
BOARD_SIZE	0.449***	3.22	0.115	1.30
BOARD_IND	-0.746***	-3.32	0.180	1.56
BOARD_MEET	-0.273**	-2.02	0.041	1.00
DUAL	-0.592***	-3.37	-0.081***	-3.33
TENURE	-0.229***	-3.42	-0.022	-1.29
FAM_OWN	0.385	0.91	0.442***	4.15
INST_OWN	-0.522***	-2.63	-0.068	-1.17
EMPL_OWN	-0.793	-0.55	-0.142	-0.09
LEV	1.712***	4.05	0.296**	2.06
R&D	2.508	1.10	0.514	1.43
SIZE	-0.360***	-5.78	-0.053***	-3.07
LAW2013	0.227***	3.82	0.082***	4.78
Intercept	0.320	0.36	-0.354	-0.60
Industry	Yes		Yes	
Number of observations	314		427	
Fisher (Prob. > F)	12250.54 ( $p = 0.000$ )		21878.36 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.99 ( $p = 0.002$ )		-2.80 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	-1.42 ( $p = 0.155$ )		0.72 ( $p = 0.475$ )	
Sargan test (Chi-square, $p$ -value):	101.84 ( $p = 0.000$ )		102.14 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	35.68 ( $p = 0.300$ )		42.85 ( $p = 0.142$ )	

Note:\*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table II.1.

## 5. Conclusion

Consistent with the conclusions of previous studies that ESG investments may serve managerial entrenchment and that employee directors may use their power on board to defend

their interests at the expense of shareholders, the presence of employee directors on the board may impact stakeholders' perception of ESG performance. The present study is designed to examine the extent to which the value relevance of ESG performance is moderated by the appointment of employees to the board.

Using a sample of French firms listed in the SBF 120 from 2007 to 2017, we find that investors react positively to ESG performance but negatively to the presence of employees on the board. Nonetheless, we find that ESG performance is less relevant for market participants when employees are represented on the board compared to when there are no employee representatives. The value relevance of ESG performance also depends on the type of ESG pillar (i.e., social, environment and governance). Accordingly, we carried out supplementary analyses to assess the impact of employee directors on the value relevance of each ESG pillar. Using the joint test approach, our results show that investors financially penalize social, environmental and governance performances when provided by firms with employee directors. A possible explanation is that high investments in ESG pillars by such firms may point to an alliance between managers and employee directors that counterbalances the power of shareholders on the board. Moreover, high performance in terms of ESG pillars reflects higher CSR expenditure that may lead to greater advantages for employees at the expense of shareholders. To go further, we examined the value relevance of ESG performance as well as its related pillars for firms with and without employee directors. Our findings provide additional evidence that the reaction of market participants to ESG performance and its related pillars varies considerably, according to whether or not employees are appointed to the board.

Our results question the way employee board representation is currently viewed today by financial market participants. These findings should prompt companies to make a greater communication effort to advocate the adoption of stakeholder-oriented boards. Our study also

raises a number of questions regarding the role of employee directors in the decision-making process. We are aware of the limitations of our study, but these in turn offer new directions for future research. In addition to market-based performance, accounting-based performance measures (i.e., return on assets, return on equity) should be considered. While Tobin's  $q$  reflects shareholders' expectations, accounting-based performance measures the efficiency of assets in producing income and may reflect better employee performance. The moderating role of employee directors in the ESG-FP relationship may differ according to the firm's ownership structure (concentration/dispersion), the profile of shareholders (e.g., family, institutional), the industry and firm size. Statutory or demographic attributes of employee directors (e.g., backgrounds, diligence, expertise, age, tenure, etc.) may also influence strategic decision-making and overlap with the ESG-FP relationship. Finally, it would be interesting to carry out a cross-country study to assess the relationship between employee representation on the board, ESG performance and firm performance in different financial market systems and different jurisdictions.

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## **Chapter III: The ESG-Financial Performance Relationship: Does the Type of Employee Board Representation Matter?**

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### **1. Introduction**

While the board of directors is the formal corporate body that determines the orientations of the company acting in the best interest of its shareholders, board diversity is claimed to be a determinant for non-financial performance, a corporate strategy that reflects relations between the firm and its stakeholders (Boulouta, 2013; Coffey & Wang, 1998; Dunn & Sainty, 2009; Hafsi & Turgut, 2013). Board diversity is defined as the variation among board members stemming from their personalities, learning styles, knowledge, age, values and expertise (Coffey & Wang, 1998). From the standpoint of stakeholders, a more diverse board may be viewed as indicative of sensitivity on the part of higher management to their expectations (Luoma & Goodstein, 1999). In the same vein, Huse, Nielson, and Hagen (2009) argue that diversity, including female directors and employee representatives, is an important criterion when selecting board members.

As for board gender diversity (e.g., Bennouri, Chtioui, Nagati, & Nekhili, 2018), the representation of employees on the board has attracted increasing attention from regulators and researchers. The representation of labour may be seen as a policy to balance forces (labour and capital) on the board and to present the concerns of different stakeholders rather than focusing solely on shareholders. From an agency theory perspective, employee board representatives do not necessarily have the same interests as the other directors representing outside shareholders, and may be more concerned about CSR performance (Barnea & Rubin,

2010). Setting out from the supposition that (1) a CSR-oriented board may achieve better social and environmental performance (Shaukat, Qiu, & Trojanowski, 2016) and (2) employees are more concerned about socially responsible activities (Huse et al., 2009) as well as the long-term survival of the firm (Kleinknecht, 2015), employee board representation may be an explicit signal of a firm's greater engagement with all its stakeholders (Hillman, Keim, & Luce, 2001).

Previous studies have focused on the impact of employee board representation on boards efficiency (Huse et al., 2009), agency costs (Fauver & Fuerst, 2006), CEO entrenchment (Hollandts, Aubert, Abdelhamid, & Prieur, 2018), payout policies (Ginglinger, Megginson, & Waxin, 2011), and the implications for human resource management (Preuss, Haunschild, & Matten, 2009). However, to the best of our knowledge, with the exception of Nekhili, Boukadhaba, Nagati, and Chtioui (2019) employee board representation has not been examined with respect to environmental, social and corporate governance (ESG) performance. ESG performance is an important aspect of corporate strategy and can be used by equity analysts and market participants as a proxy for management quality (Eccles, Serafeim, & Krzus, 2011). Nekhili et al. (2019) examine the moderating impact of employee directors on the value relevance of firms' extra-financial performance. They find that employee board representation reduces the relevance of ESG performance in terms of market value. Extending the scope of that study, we consider two different types of employee directors, namely labour board representatives and employee-shareholder board representatives, who may have different interests and different attitudes toward ESG performance. We then examine the moderating role of each type of employee directors on the value relevance of overall ESG performance and each of the three pillars of ESG performance (i.e., environmental, social, and corporate governance). We are thereby able to gain further insights into the relationship between employee directorship and the firm's extra-financial

performance and to determine to what extent the type of employee directors is important for the financial market in the assessment of ESG performance.

France provides an interesting and unique context for studying the effect of employee board representation. Indeed, on French boards, there are two types of employee directors: labour board representatives and employee-shareholder board representatives. Whereas the representation of employees on the board is likely to be a European model of corporate governance (Gordon & Roe, 2004; Gold & Waddington, 2019), French regulators show greater interest in employee board representation compared to other European countries.<sup>12</sup> Starting on 30 December 2006, the representation of employee-shareholders became mandatory for publicly listed French firms when they hold at least 3 % of total shares. In this respect, French firms have experienced a spectacular increase during the past decade in employee ownership (Guedri & Hollandts, 2008; Poulain-Rehm & Lepers, 2013). As for the representation of labour on the board, French firms, depending on their board size, have been required to reserve seats for employee directors elected by right of employment since 2013.<sup>13</sup> It is, however, noteworthy that both types of directors have the same voting and other rights and responsibilities on the board as all the other directors (Ginglinger et al., 2011).

Based on a matched sample of French firms listed on the SBF 120 index for the period 2007-2017, we report that the two types of employee directors have different impacts on the firm's extra-financial (ESG) performance. Our results show that labour board representation tends exclusively to improve social performance, whereas employee-shareholder board representation is found to enhance the overall ESG performance and especially environmental

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<sup>12</sup> An overview of the evolution of French regulation on the employee representation on corporate boards is given in Ginglinger et al. (2011).

<sup>13</sup> Employees have to be represented on board by one director if the board has fewer than 12 members and two directors if the board comprises more than 12 members for firms with at least 5000 employees in France or 10,000 employees in France and around the world. The Rebsamen Law of 17 August 2015 reduced the threshold of eligibility of employee representation to 1000 employees in France and 5000 in France and around the world. In order to improve employee representation, the French PACTE (Action Plan for Business Growth and Transformation) corporate reform law adopted by Parliament on April 2019 reduces the former threshold from 12 to eight board members.

performance and corporate governance performance. Our results support the findings of Bøhren and Strøm (2010) that labour representatives on the board advantage employees at the expense of shareholders' wealth. In accordance with our initial argument, we find that while the presence of employee-shareholders on the board moderates positively market participants' perception of ESG performance, the presence of labour board representatives moderate negatively this relationship. Outside shareholders seem to be more reluctant to have labour board representatives, as these may counterbalance shareholders' power on the board and be inclined to support employees' interests. Conversely, outside shareholders are more prone to view employee-shareholder board representatives as having closer relationships with their representatives on board.

The chapter is structured as follows. Section 2 consists of a literature review of employee board representation and ESG performance. Section 3 describes our methodology, including the sample, variables and empirical model. Section 4 discusses the results. Finally, section 5 concludes and suggests future research perspectives.

## **2. Employee Board Representation and ESG Performance**

Whereas financial performance has received much attention, the non-financial outcomes of the stakeholders' representation on corporate boards have not been thoroughly examined (Hillman et al., 2001). Nekhili et al. (2019) show recently that the capital market perception of ESG performance varies markedly in accordance with board-level employee representation. Nonetheless, the authors do not discuss the direct relationship between employee board representation and ESG performance. Moreover, they consider employee directors as a homogenous group without distinguishing the way they are represented on the board. Distinguishing between the two types of employee directors (i.e., labour board representatives and employee-shareholder board representatives) and their impact on ESG performance would provide a deeper understanding on the outcome of the stakeholders' board

representation. Starting from the fact that ESG performance is a multi-stakeholder notion (Weber & Gladstone, 2014), further examination of ESG performance through its underlying components would enhance our understanding on the extent to which outside shareholders take into account employee board representation in their assessment of ESG performance.

### *2.1. Employee Board Representation and Social Performance*

According to social identity theory, ESG performance plays an important role in employee motivation (e.g., Brammer, Millington, & Rayton, 2007; Kim, Lee, Lee, & Kim, 2010; Turker, 2009). Social identity theory stipulates that individuals classify themselves and others into social groups and then compare the in-group (their social group) and the out-group (the other social group) (Tajfel & Turner, 1985), the comparison being likely to influence their behaviour. In this respect, the behaviour and attitudes of employees as members of an organization is thus influenced by their perception of the socially responsible behaviour of their organization (El Akermi, Gond, Swaen, De Roeck, & Igalens, 2018; Brammer et al., 2007; Kim et al., 2010; Turker, 2009). In particular, employees' perception of the firm's CSR initiatives is found to be linked with affective commitment (Brammer et al., 2007), organizational commitment (Turker, 2009), employee-company identification (Kim et al., 2010), the firm's attractiveness to employees (Jones, Willness, & Madey, 2014; Turban & Greening, 1997) and employees' work attitudes (Triana, Jayasinghe, Pieper, Delgado, & Li, 2019; Zhang, Di Fan, & Zhu, 2014). Taken together, these findings suggest that employees and potential workers prefer organizations that behave in a responsible manner towards their stakeholders, because they can identify with such organizations. Likewise, being responsible towards its stakeholders is likely to increase employees' satisfaction (El Akermi et al., 2018 ; Brammer et al., 2007) and to lead to a better quality of and greater number of job applicants (Turban & Greening, 1997). Socially responsible behaviour is then likely to result in

competitive advantages for organizations and in turn to be beneficial for shareholders in terms of corporate financial performance (Van der Laan, Van Ees, & Van Witteloostuijn, 2008).

Based on the above discussion, it may be presumed that the presence of employees on the board is clearly linked to good social performance. Surprisingly, however, this issue has been only marginally addressed in the literature. Hammer, Curall and Stern (1991: p. 665) suggest that the role behaviour of worker representatives on the board consists of “initiating, participating, voting and communicating with other constituents”. By providing different information and engaging to a greater extent in creative discussions with other directors, employee directors may be more able to fulfil their needs and focus on salient issues through participating in CSR initiatives (Huse et al., 2009). Hillman et al. (2001) consider two types of stakeholder directors – employee directors and community directors<sup>14</sup> – likely to have significant impact on the firm’s stakeholder performance, as representatives of the interests of the firm’s various stakeholder groups such as suppliers, employees, customers, and communities. While community directors are found to increase community performance, Hillman et al. (2001) show that employee directors have no significant impact on employee relations (union relations, long-term policy of company-wide cash profit sharing, substantial sense of worker involvement/ownership, sharing of financial information with employees, employee participation in management decision-making, high employee retirement benefits, other innovative benefits), on diversity issues or on product quality.

With regard to our focus on the type of employee directors, labour board representatives may play a strategic role on the board by providing more valuable labour-related information. In this respect, they may increase the awareness of other directors on the board as to the real needs and wishes of the workers, particularly the importance of CSR initiatives for their social identity and the negative impact of irresponsible behaviour on their attitudes in the

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<sup>14</sup> Hillman et al. (2001, p. 303) define community directors as “directors whose primary occupation is academic, political, or governmental service, a minister or other religious affiliation, non profit affiliation, or in a few cases, other non business professionals such as athletes or celebrities”.

workplace. The board would therefore be in a better position to develop effective strategies and policies towards human capital, resulting in improved social performance. Nevertheless, since they have discretionary power over CSR decisions, managers may increase human capital expenditure in order to gain the support of employees against shareholders (Surroca & Tribo, 2008) and to retain their own personal advantages (Coffey & Wang, 1998). In such cases, higher levels of social expenditure may lead to the destruction of value. Compared to labour board representatives, employee-shareholder board representatives are expected to act like other directors representing outside shareholders and to increase market value, as confirmed by Ginglinger et al. (2011). There is reason to be skeptical, however, regarding outcomes in terms of social initiatives. Consistently with their role of representing employee-shareholders, they may not deviate from maximizing shareholder value. Thus Ginglinger et al. (2011) find that wages paid to employees and officers are higher in firms with labour board representatives than in those with directors representing employee-shareholders.

**H1a:** The proportion of labour board representatives is positively associated with the firm's social performance.

**H1b:** The proportion of employee-shareholder board representatives is negatively associated with the firm's social performance.

## *2.2. Employee Board Representation and Environmental Performance*

Employees are both directly and indirectly impacted by environmental concerns and practices (Markey, McIvor, & Wright, 2016). They are directly impacted by the quality of their work environment, which is crucial for their effectiveness in areas such as CO<sub>2</sub> emissions reduction, noise reduction, green buildings, reduced toxic chemicals, etc. They are also indirectly impacted via broader environmental issues such as the ozone layer depletion, greenhouse gas emissions, climate change, and so forth. Using a sample of 53 firms from United Kingdom and Japan, Bansal and Roth (2000) argue that individual concerns, issue salience and field

cohesion are factor drivers for the organization's environmental responsiveness. Accordingly, employees may suggest environmental practices or adopt environmental measures to improve safety at their workplace (Markey et al., 2016).

Board composition in general and board diversity in particular play an important role in the firm's environmental performance (Huse et al. 2009; Walls, Berrone, & Phan, 2012). CSR-oriented boards (e.g., those with employee directors) develop a more proactive and comprehensive board CSR strategy, which in turn leads to better social and environmental performance (Shaukat et al., 2016). Clearly, employee directors are likely to be concerned about environmental performance, and may encourage the board to comply with legislation so as to avoid costly fines and penalties and acquiring a bad reputation, resulting in turn in decreased shareholder value. Employee directors are more inclined to provide valuable information about the production process, thereby helping the board to adopt effective strategies and resource allocation for product innovation. They are also more likely to increase the board's engagement with environmental issues that may enhance the quality of the environment in the workplace. To our knowledge, very little literature deals with the effect of employee board representation of environmental performance. One exception is the study by Hillman et al. (2001) who find, in the US context, a positive and significant relationship between employee directorship and the firm's environmental performance.

Given that environmental performance is the responsibility of all stakeholders and is critical to the firm as a whole, we propose that employee directors, whether representing labour or employee-shareholders, have the same sensitivity to environmental obligation and may have a positive impact on the firm's environmental performance.

**H2a:** The proportion of labour board representatives is positively associated with the firm's environmental performance.

**H2b:** The proportion of employee-shareholder board representatives is positively associated with the firm's environmental performance.

### *2.3. Employee Board Representation and Corporate Governance Performance*

The corporate governance pillar of ESG performance comprises information on shareholders' rights, board structure, board functions, compensation policy, vision and strategy. In alignment with the stakeholder perspective, employee board representation is seen as formal recognition of the firm's stakeholders, particularly its human capital. Nevertheless, the outcomes of employee board representation in terms of board efficiency are still ambiguous (Fauver & Fuerst, 2006; Huse et al., 2009; Jensen & Meckling, 1979). Judicious representation of labour on the board is argued to enhance the board's monitoring, increase the firm's efficiency and market value, and reduce agency costs (Fauver & Fuerst, 2006). In contrast, labour board representation is found to reduce managerial control (Huse et al., 2009), to decrease the dividends payout ratio (Ginglinger et al., 2011), to hamper the board's effectiveness (Jensen & Meckling, 1979) and to reduce firm performance (Bøhren & Strøm, 2010). A recent study by Nekhili et al. (2019) shows that ESG performance creates value for shareholders only when employees are not represented on the board, suggesting the existence of a potential conflict of interests between shareholders and employees regarding CSR strategy.

The main role of labour representatives on the board is to protect the workers' interests (Hammer et al., 1991). Accordingly, labour board representatives may act in opposition way to what is intended by shareholders (Bøhren & Strøm, 2010), such as promoting higher wages (Jensen & Meckling, 1979), reducing dividend distribution (Ginglinger et al., 2011) and constraining the board's effectiveness (Huse et al., 2009). To protect their jobs, labour board representatives may adopt a risk-averse strategy, resulting in lower value creation in the short term (Kleinknecht, 2015). Huse et al. (2009) investigate the impact of employee directors on the board's control tasks, namely CSR, strategy, behaviour and budget. These authors find that, although labour representatives foster board engagement toward CSR issues, they may

ultimately mitigate the effectiveness of the board with regard to behaviour control tasks, including the evaluation of the CEO and management team's performance and discussion of the CEO's and the top-management team's compensation system. All this suggests that labour representatives may hinder effective managerial control, since employees and managers may have close relationships, such as alliances against takeover threats (Pagano & Volpin, 2005). Doubts can also be raised about the competence of employee-elected directors in terms of their contribution to financial and budget control issues (Bøhren & Strøm, 2005).

It has been argued that employee shareholding leads to closer relationships between directors elected by employee-shareholders and directors representing outside shareholders (Ginglinger et al., 2011). For Huse et al. (2009), esteem and cohesiveness of board members are two features assumed to be critical for effective board task performance. Using survey data on board performance in Norway, Huse et al. (2009) find that employee-elected directors perceive themselves to be less esteemed and viewed as 'second class' members of the board. Accordingly, we expect that directors elected by employee-shareholders to have higher esteem and provide better board cohesiveness than labour board representatives, for at least three reasons. First, compared to labour board representatives, employee-shareholder directors, by sharing the same interests, may have close relationships with directors representing outside shareholders, thus reducing managerial discretion (Ginglinger et al., 2011). Second, apart from financial considerations in terms of the residual equity-based claim, employee-shareholder board representatives often hold management positions (engineers, heads of mission, corporate lawyers, managers, etc.) and possess greater knowledge and skills (Hollandts & Aubert, 2011). Likewise, the application of knowledge and skills is promoted by the esteem and cohesiveness of directors and is viewed as one of the major challenges of board leadership (Huse et al., 2009). Third, as representatives of

employee-shareholders on the board, they may influence the vote of all employee-shareholders in general meetings, thereby providing additional control devices over managers.

**H3a:** The proportion of labour board representatives is negatively associated with the firm's corporate governance performance.

**H3b:** The proportion of directors representing employee-shareholders is positively associated with the firm's corporate governance performance.

### **3. The Moderating Role of Employee Directors in the ESG-Financial Performance Relationship**

Nekhili et al. (2019) recently investigated the relationship between ESG performance and market performance, focusing on the moderating role of employee board representation in the French context. The authors document a negative market perception of overall ESG performance and each of the key ESG pillars (social, environment and corporate governance) when employees are represented on the board. Their results highlight the potential conflict of interests between employee directors and shareholders and suggest that, by achieving a better ESG performance, both employees and managers may attempt to counterbalance shareholders' supremacy on the board. Without questioning the originality of their findings, the authors did not, however, distinguish between the two specific types of employee directors, namely labour board representatives and employee-shareholder board representatives. On the basis of our discussion above, we expect that these two types of employee directors may affect the market perception of ESG performance differently.

Starting from the fact that ESG performance may result in more advantages for employees and managers at the expense of shareholders (Barnea & Rubin, 2010; Berrone & Gomez-Mejia, 2009; Surroca & Tribó, 2008), enhancing ESG performance with directors elected by and drawn from employees may be perceived by shareholders as a managerial entrenchment strategy running counter to the shareholders' interests. It is also noteworthy

that, within this strategy, both managers and employees may share the same interest. While more entrenched managers obtain personal benefits at the expense of shareholders, employees are also found to be better paid by entrenched managers (Cronqvist, Heyman, Nilsson, Svaleryd, & Vlachos, 2009). Comparatively, directors elected by employee-shareholders would have, in addition to their knowledge and skills, closer relationships with directors representing outside shareholders (Ginglinger et al., 2011), probably leading to greater esteem and allowing better board cohesiveness (Huse et al., 2009). Combined with the fact that shareholders are rather sensitive to the firm's ESG performance (Nekhili et al., 2019), employee-shareholder representation on the board will moderate in a positive direction the relationship between ESG performance and corporate financial performance.

In line with the above arguments, we formulate the following hypotheses.

**H4a:** The proportion of labour board representatives negatively moderates the relationship between ESG performance and market value.

**H4b:** The proportion of employee-shareholder board representatives positively moderates the relationship between ESG performance and market value.

## **4. Methodology**

### *4.1. Sample and Data*

In this study, we use a sample of SBF 120 French firms covering a period of eleven years (2007-2017). From this starting sample, we eliminate financial, insurance and real estate firms and foreign companies not subject to French regulation. Our study period starts in 2007 because ESG information as provided by the Thomson Reuters/S-Network ESG Best Practices Ratings is available for European firms since 2007 (Thomson Reuters' press release 2014). Not all firms are rated, resulting in a final sample of 817 firm-year observations. Corporate governance and ownership variables were collected from annual reports available on the official websites of individual companies and the French financial markets regulator

(AMF) website, whereas financial and accounting data were obtained from the ThomsonOne database.

#### *4.2. Dependent variable*

The aim of our study is two-fold: (1) to examine the impact of differing types of employee board representation (i.e., labour board representation and employee-shareholder board representation) on ESG performance and (2) to investigate whether the perception of ESG performance by market participants is influenced by the way employees are represented on board. Two dependent variables are then considered in the analysis: ESG performance and market-based value as measured by Tobin's  $q$ .

ESG performance is a complex notion that requires more precision when being measured than financial performance (Weber & Gladstone, 2014). According to Pagano, Sinclair, and Yang (2018), the four major ESG rating and index providers are Thomson Reuters Asset4, MSCI, S&P Dow Jones and RobecoSAM and FTSE Russell. Previous studies have used different measures for corporate social performance, such as Asset4 ESG ratings (Shaukat et al., 2016; Velte, 2016) and Kinder, Lydenberg and Domini (KLD) ratings (Boulouta, 2013; Hafsi & Turgut, 2013; Van der Laan et al., 2008; Weber & Gladstone, 2014). In their comparison of ESG data from Asset4 and KLD, Bloomberg, Halbritter and Dorfleitner (2015) show that none of the ESG ratings, from the three different (lesquels ?) providers, is able to detect a significant return difference between high and low ESG portfolios. In this study, we use the Thomson Reuters/S-Network ESG Best Practices Ratings that measure the environmental, social, governance and composite ESG performance of over 5,000 companies around the world. These ESG ratings are considered to be an improvement on the Asset4 ESG ratings. Indeed, whereas Asset4 uses equally weighted key performance indicators (KPI), the Thomson Reuters/ S-Network attributes a specific weight to each KPI based on specific considerations and their relative importance. ESG ratings provided by the

Thomson Reuters Asset4 have been widely used in the literature as a measure for corporate social performance (Shaukat et al., 2016).

We use Tobin's  $q$  as a measure to reflect the financial market response to both the firm's ESG performance (e.g., Nekhili et al., 2019) and employee board representation (e.g., Ginglinger et al., 2011; Nekhili et al., 2019). Tobin's  $q$  is a market-based measure that translates the way the market perceives future earnings. As compared to accounting performance measures, Tobin's  $q$  is less influenced by accounting conventions and by the recognized manipulations of earnings (Dechow, Sloan, & Sweeney, 1996). In our study, Tobin's  $q$  is measured as stock market capitalization plus book value of liabilities as a ratio of total assets.

#### *4.3. Endogenous variable*

In our study, the two types of employee board representation, namely labour board representation and employee-shareholder board representation, are endogenously determined. Endogeneity may result from the unobserved heterogeneity, reverse causality and dynamic behaviour of the firm (Bennouri et al., 2018). First, unobserved variables (political context, culture, managerial ability, etc.) may impact both employee board representation and firm ESG performance. Second, reverse causality may be manifested in that firms with higher ESG performance may be more willing to represent their stakeholders on their board as a strategy to satisfy their needs. Conversely, firms with employee board representation would pay more attention to their different stakeholders, resulting in better ESG performance. Lastly, dynamic endogeneity, a recurrent problem in corporate governance studies, refers to the lagged reverse causality between ESG performance and employee board representation.

Similarly to previous studies (Ginglinger et al., 2011; Guedri & Hollandts, 2008; Nekhili et al., 2019), we measure employee board representation as the number of employee directors (elected by labour or by employee-shareholders) divided by the total number of

board directors. The presence of labour board representatives is measured by the proportion of employee directors elected by right of employment in the total number of directors on the board. The presence of employee-shareholder board representatives is measured by the proportion of directors elected by employee-shareholders in the total number of board directors.

#### *4.4. Control variables*

In our study, we control for stand-alone reports and CSR assurance, because firms that make higher CSR investments are more likely to disclose them in a separate report and verify them through an external auditor. We believe that controlling for CSR committees is important in ESG performance studies. Indeed, the role of CSR committees is to meet the firm's social and environmental commitments. The existence of these committees could reflect a greater commitment towards environmental and social issues, thus resulting in higher levels of ESG performance (e.g., Nekhili et al., 2019; Velte, 2016). Following previous studies, we control for board size (e.g., Hafsi & Turgut, 2013), board independence (e.g., Dunn & Sainty, 2009; Johnson & Greening, 1999; Shaukat et al., 2016), board gender diversity (e.g., Boulouta, 2013; Hafsi & Turgut, 2013, Macaulay, Richard, Peng, & Hasenhuttl, 2018; Velte, 2016) and board meetings (e.g., Nekhili et al., 2019). Like Hafsi and Turgut (2013) and Shaukat et al. (2016), we control for CEO duality, which can be expected to influence the board's commitment towards ESG duties. We control for CEO tenure in relation to ESG performance, because CEOs who have held this position for a long time may have more influence on the board (Nekhili et al., 2019). As well as board characteristics, we control for ownership structure. Family ownership (e.g., Rees & Rodionova, 2015; Bingham, Dyer, Smith, & Adams, 2011; Nekhili et al., 2019) and institutional ownership (e.g., Graves & Waddock, 1994; Johnson & Greening, 1999; Nekhili et al., 2019) are expected to affect ESG performance. Employee ownership gives labour both contractual and residual claims,

impacting corporate governance and the firm's strategic orientations (e.g., Faleye, Mehrotra, & Morck, 2006; Poulain-Rehm & Lepers, 2013). Following an extensive research stream (e.g., Bingham et al., 2011; Weber & Gladstone, 2014; Nekhili et al., 2019), we control for debt and ROA. McWilliams and Siegel (2000) and Boulouta (2013) highlight the importance of R&D as a control variable in ESG-related studies. Following previous studies, we also control for firm size and the industry concerned (e.g., Boulouta, 2013; Graves & Waddock, 1994; Shaukat et al., 2016). Finally, in line with Nekhili et al. (2019), we control for the law of 14 June 2013 that mandates the representation of labour on the boards of French firms. All variables are as described in Table III.1.

#### 4.5. Estimation Model

To deal with the endogeneity problems discussed above, we use the two-step system GMM estimation developed by Blundell and Bond (2000). Our model is the following:

$$\begin{aligned} \text{ESG performance}_{i,t} = & \beta_0 + \beta_1 \text{Lag ESG performance}_{i,t} + \beta_2 \text{Employee directorship}_{i,t} + \beta_3 \\ & \text{Standalone}_{i,t} + \beta_4 \text{CSR assurance}_{i,t} + \beta_5 \text{CSR committee}_{i,t} + \beta_6 \text{Board size}_{i,t} + \beta_7 \text{Board} \\ & \text{independence}_{i,t} + \beta_8 \text{Board gender diversity}_{i,t} + \beta_9 \text{Board meeting}_{i,t} + \beta_{10} \text{Duality}_{i,t} + \beta_{11} \text{CEO} \\ & \text{tenure}_{i,t} + \beta_{12} \text{Family ownership}_{i,t} + \beta_{13} \text{Institutional ownership}_{i,t} + \beta_{14} \text{Leverage}_{i,t} + \beta_{15} \text{ROA}_{i,t} \\ & + \beta_{16} \text{R\&D}_{i,t} + \beta_{17} \text{Firm size}_{i,t} + \beta_{18} \text{Law 2013\_FE} + \beta_{19} \text{Industry\_FE} + \varepsilon_{i,t} \end{aligned}$$

Where *i* indexes firms and *t* indexes time. ESG performance is broken down into its three components (i.e., social, environmental and corporate governance). Employee directorship is decomposed into labour board representation and employee-shareholders representation.  $\varepsilon$  is the error term. All variables are as defined in Table III.1.

**Table III. 1: Variables and their Measurement**

<i>Variable</i>	<i>Measure<sup>15</sup></i>
<i>Dependent variables</i>	
Tobin's q	Stock market capitalization plus book value of liabilities as a ratio of total assets
<i>Moderating variables</i>	
ESG performance	Corporate ESG (ESG) performance as measured by Thomson Reuters/S–Network ESG Best Practices Ratings encompassing environmental, social, and corporate governance performance.
Social performance	Social performance is a pillar of the ESG performance. This pillar examines employment quality, health and safety, training and development, diversity, human rights, community and finally product responsibility.
Environmental performance	Environmental performance is a pillar of the ESG performance. This pillar examines the resource and emission reduction and product innovation.
Corporate Governance performance	Corporate Governance performance is a pillar of the ESG performance. This pillar examines the board structure, compensation policy, board functions, shareholders rights and vision and strategy.
<i>Endogenous variables</i>	
Employee directorship	Proportion of employee directors to the total number of board directors
Labour representation	Proportion of employee directors elected by right of employment to the total number of board directors
Employee-shareholders representation	Proportion of employee-shareholders director to the total number of board directors
<i>Control variables</i>	
Standalone CSR report	Dummy variable taking the value one if the company issue a standalone CSR report and zero otherwise.
CSR assurance	Binary variable that takes the value one if CSR assurance is provided by external auditor and zero otherwise
CSR committee	Dummy variable taking the value one if the company has a CSR committee and zero otherwise.
Board size	The log of the total number of board directors.
Board independence	Ratio of the number of non-executive independent directors to the total number of board directors.
Board gender diversity	Proportion of female directors on the board.
Board meetings	Log of the number of annual board meetings.
CEO duality	Dummy variable coded one if the CEO is the chair of the board; zero otherwise.
CEO tenure	Number of years at a company after being appointed to a CEO position.
Family ownership	Percentage of capital held by family members.
Institutional ownership	Percentage of capital held by institutional investors.
Employee ownership	Percentage of capital held by employees.
Leverage	Total financial debt reported to total assets.
ROA	Ratio of EBITDA and total assets.
R&D	Ratio of R&D expenditure to total sales.
Firm size	Log of total assets.
Industry	Binary variable that takes the value 1 if the company belongs to the sector in question and 0 otherwise
Law 2013	Binary variable equal to one after the adoption of the labour law reform in 2013 and zero otherwise.

<sup>15</sup> We winsorize all variables from ThomsonOne at 0.01 and 0.99 tails.

## 5. Results and Discussion

### 5.1. Descriptive Statistics

Table III.2 presents the descriptive statistics of our sample. We find that on average firms in our sample have good ESG, social, environmental and corporate governance performance (63.28 %, 69.17 %, 70.87 % and 53.26 % respectively). For our firm-years, employee directors represent 6.48 % of total directors on the board. More precisely, labour board representatives represent 4.39 % and employee-shareholder board representatives represent 2.09 %. On average, 47.37 % of firms in our sample have stand-alone CSR reports. Regarding corporate governance structure, we report that 73.93 % of firms have CSR assurance carried out by an external auditor and 62.18 % have CSR committees. Boards are, on average, composed of 13 members, half of them outsiders and 23.25 % female. The average number of board meetings is seven. In 58 % of cases, the CEO holds the chairman position and the average tenure of the CEO is about seven and a half years. With regard to ownership variables, the average proportion of total shares owned by family, institutions and employees of the sampled firms is 20.82 %, 34.55 % and 2.65 %, respectively. Finally, the sampled firms have an average size of 24.192 billion euros, an average debt ratio of 24.25 % and an average R&D intensity of 2.76 %.

**Table III. 2: Descriptive Statistics**

	Mean	Standard Deviation	Minimum	Maximum	25 <sup>th</sup> percentile	50 <sup>th</sup> percentile	75 <sup>th</sup> percentile
Tobin's q	1.218	1.106	0.252	7.026	0.609	0.882	1.348
ESG performance (%)	63.28	10.02	24.11	83.3	57.97	64.33	70.34
Social performance (%)	69.17	11.91	20.71	97.09	62.73	70.6	77.39
Environmental performance (%)	70.87	12.41	29.03	94.50	62.48	73.31	79.82
Corporate governance performance (%)	53.26	11.87	19.25	91.19	44.94	51.5	61.54
Employee directorship (%)	6.48	9.42	0	41.67	0	0	11.11
Labour representation (%)	4.39	8.40	0	41.67	0	0	7.69
Employee-shareholders representation (%)	2.09	4.31	0	21.43	0	0	0
Standalone (%)	47.37	49.96	0	1	0	0	1
CSR assurance (%)	73.93	43.93	0	1	0	1	1
CSR committee (%)	62.18	48.52	0	1	0	1	1
Board size (Number of directors)	12.90	3.032	4	22	11	13	15
Board independence (%)	51.96	19.21	0	1	40	50	64.28
Board gender diversity (%)	23.25	14.78	0	66.67	9.76	23.08	35.29
Board meetings (Number of meetings)	7.327	3.190	2	24	5	7	9
Duality (%)	58.38	49.32	0	1	0	1	1
CEO tenure (Number of years)	7.759	7.695	1	56	3	5	10
Family ownership (%)	20.82	23.78	0	91.85	0	9.3	40.85
Institutional ownership (%)	34.55	30.58	0	90.66	1.63	32.73	61.05
Employee ownership (%)	2.65	4.29	0	29.2	0.26	1.3	2.96
Leverage (%)	24.25	15.63	0.10	82.36	13.15	21.54	32.93
ROA (%)	4.66	4.63	-11.99	21.7	2.21	4.14	6.67
R&D (%)	2.76	5.01	0	25.69	0	0.53	3.48
Firm size (in billions of euros)	24.192	38.491	0.007	278.941	4.066	9.371	28.114

All variables are as defined in Table III.1.

## *5.2. Pairwise Correlation*

Table III.3 presents bivariate correlation coefficients between all the variables considered in our study. This statistical test is used to detect the presence of multicollinearity between variables. In this regard, Table III.3 does not show any strong multicollinearity, except for the coefficient of correlation between employee ownership and employee-shareholder directors, which is greater than 0.7. Consequently, we eliminate employee ownership from the following statistical tests.

**Table III. 3: Pairwise Correlation**

	1	2	3	4	5	6	7	8	9	10	11
1. Tobin's q	1.000										
2. ESG performance	-0.187*	1.000									
3. Social performance	-0.180*	0.766*	1.000								
4. Environmental performance	-0.211*	0.826*	0.571*	1.000							
5. Corporate governance performance	-0.132*	0.502*	0.398*	0.325*	1.000						
6. Employee directorship	-0.076	0.209*	0.182*	0.262*	0.038	1.000					
7. Labour representation	-0.046	0.145*	0.160*	0.205*	-0.033	0.889*	1.000				
8. Employee-shareholders representation	-0.078	0.181*	0.092*	0.178*	0.153*	0.452*	-0.004	1.000			
9. Standalone	-0.152*	0.355*	0.362*	0.352*	0.187*	0.189*	0.178*	0.066	1.000		
10. CSR assurance	-0.048	0.475*	0.367*	0.500*	0.181*	0.274*	0.226*	0.160*	0.356*	1.000	
11. CSR committee	0.058	0.264*	0.235*	0.267*	0.157*	0.072	0.116*	-0.065	0.123*	0.192*	1.000
12. Board size	-0.223*	0.295*	0.332*	0.338*	0.118*	0.404*	0.353*	0.197*	0.327*	0.243*	0.160*
13. Board independence	-0.095*	0.310*	0.102*	0.203*	0.361*	-0.243*	-0.287*	0.031	0.013	0.171*	0.066
14. Board gender diversity	0.084	0.267*	0.126*	0.308*	-0.004	0.221*	0.206*	0.081	0.136*	0.515*	0.141*
15. Board meeting	0.010	0.062	0.015	0.039	0.022	0.076	0.129*	-0.088	0.007	0.050	0.102*
16. Duality	-0.193*	0.010	0.053	0.157*	-0.159*	0.146*	0.078	0.170*	0.089	0.115*	0.063
17. CEO tenure	-0.004	-0.024	0.022	0.013	-0.113*	-0.119*	-0.103*	-0.059	0.062	0.093*	0.028
18. Family ownership	0.335*	-0.353*	-0.168*	-0.256*	-0.368*	-0.292*	-0.148*	-0.351*	-0.135*	-0.196*	0.002
19. Institutional ownership	-0.229*	0.297*	0.164*	0.273*	0.276*	0.228*	0.140*	0.226*	0.106*	0.203*	0.075
20. Employee ownership	-0.168*	0.166*	0.148*	0.176*	0.098*	0.323*	0.004	<b>0.701*</b>	0.027	0.112*	-0.001
21. Leverage	0.134*	-0.091*	-0.102*	-0.146*	-0.034	0.017	0.004	0.030	-0.090	-0.004	-0.019
22. ROA	0.569*	-0.101*	-0.043	-0.132*	-0.069	-0.123*	-0.092*	-0.088	-0.079	-0.076	0.036
23. R&D	0.059	-0.109*	-0.128*	-0.049	-0.085	-0.020	0.018	-0.079	-0.151*	-0.037	-0.018
24. Firm size	-0.374*	0.527*	0.421*	0.552*	0.343*	0.442*	0.393*	0.202*	0.335*	0.310*	0.151*
25. Law 2013	0.067	0.243*	0.093*	0.356*	-0.127*	0.166*	0.165*	0.044	0.099*	0.539*	0.187*

\* Represents significance at 0.01 level. All variables are as defined in Table III.1.

**Table III.3: Continued.**

	12	13	14	15	16	17	18	19	20	21	22	23	24
12. Board size	1.000												
13. Board independence	-0.173*	1.000											
14. Board gender diversity	0.039	0.129*	1.000										
15. Board meetings	-0.028	-0.010	0.080	1.000									
16. Duality	0.203*	-0.174*	0.024	-0.052	1.000								
17. CEO tenure	-0.002	0.049	0.171*	-0.036	0.045	1.000							
18. Family ownership	-0.143*	-0.372*	-0.091*	-0.173*	-0.065	0.157*	1.000						
19. Institutional ownership	0.182*	0.311*	0.046	0.056	0.017	0.043	-0.484*	1.000					
20. Employee ownership	0.203*	-0.082	0.053	-0.164*	0.217*	-0.026	-0.290*	0.100*	1.000				
21. Leverage	-0.064	0.041	0.022	0.120*	-0.050	-0.101*	-0.150*	-0.031	0.118*	1.000			
22. ROA	-0.161*	-0.067	-0.059	-0.046	-0.109*	-0.025	0.285*	-0.144*	-0.102*	-0.043	1.000		
23. R&D	-0.213*	-0.028	-0.005	0.180*	-0.020	0.085	0.057	-0.056	-0.126*	-0.193*	-0.093*	1.000	
24. Firm size	0.528*	0.070	0.078	0.039	0.116*	-0.091*	-0.390*	0.303*	0.275*	-0.010	-0.290*	-0.135*	1.000
25. Law 2013	0.063	0.148*	0.722*	0.092*	0.052	0.172*	-0.039	0.025	-0.018	-0.028	-0.076	0.017	0.030

\* Represents significance at 0.01 level. All variables are as defined in Table III.1.

### *5.3. Propensity Score Matching*

Following Rosenbaum and Rubin (1983), we use the propensity score matching (PSM) technique to control for firm-level characteristics. We apply the PSM procedure for employee board representation and each type of employee directors (i.e., labour board representation and employee-shareholder board representation). Accordingly, we derive a dummy variable to represent firm-year observations with and without employee board representation. Tables III.4, III.5 and III.6 report statistics on pre- and post-match pairwise differences of all variables considered in our study with regard to each matched variable. When we compare firm-year observations with employee board representation (treatment) to similar firm-year observations without employee board representation (control), we find that treatment and control groups present non-significant differences for the post-matched sample as compared to the pre-matched sample. These results indicate that our matching is effective for reducing the overlaps between the presence of employee board representation and the firms' other characteristics.

**Table III. 4: Mean Difference Test between Firm-Years with and without Employee Board Representation for Entire and Matched Samples**

Variables	Total sample			Matched sample		
	Firm-years with employee directorship (n = 334)	Firm-years without employee directorship (n = 473)	t-value	Treated (n = 242)	Control (n = 242)	t-value
Tobin's q	1.143	1.269	1.60	1.268	1.122	1.38
ESG performance (%)	65.87	61.49	6.24***	65.30	64.78	0.64
Social performance (%)	71.26	67.81	4.08***	70.20	70.40	0.20
Environmental performance (%)	74.76	68.16	7.68***	73.38	71.66	1.61
Corporate governance performance (%)	54.10	52.62	1.73*	55.19	55.96	0.72
Standalone (%)	54.49	41.65	3.62***	51.65	50.01	0.36
CSR assurance (%)	88.02	64.06	7.92***	81.47	78.03	1.04
CSR committee (%)	66.77	58.56	2.37**	65.70	61.98	0.85
Board size (Number of directors)	14.234	11.994	11.05***	13.574	13.095	1.55
Board independence (%)	49.35	53.42	2.99***	53.48	54.07	0.35
Board gender diversity (%)	28.03	19.77	8.14***	26.35	24.31	1.53
Board meetings (Number of meetings)	7.554	7.230	1.42	7.182	7.376	0.68
Duality (%)	65.27	53.07	3.48***	59.92	57.44	0.55
CEO tenure (Number of years)	7.614	7.844	0.42	8.405	8.203	0.26
Family ownership (%)	12.91	26.62	8.41***	16.64	18.25	0.86
Institutional ownership (%)	43.24	28.37	6.98***	40.47	37.62	1.00
Leverage (%)	25.49	23.48	1.80*	25.45	25.94	0.33
ROA (%)	3.98	5.12	3.46***	4.26	4.45	0.43
R&D (%)	2.02	3.26	3.50***	2.25	1.93	0.99
Firm size (in billions of euros)	38.168	14.439	9.03***	24.852	21.235	1.39

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

**Table III. 5: Mean Difference Test between Firm-Years with and without Labour Board Representation for Entire and Matched Samples**

Variables	Total sample			Matched sample		
	Firm-years with labour representation (n = 229)	Firm-years without labour representation (n = 588)	t-value	Treated (n = 166)	Control (n = 166)	t-value
Tobin's q	1.279	1.192	1.01	1.369	1.103	1.95*
ESG performance (%)	65.54	62.42	4.02***	65.23	65.11	0.13
Social performance (%)	71.21	68.45	2.97***	70.51	71.19	0.56
Environmental performance (%)	75.25	69.16	6.41***	74.38	73.31	0.84
Corporate governance performance (%)	52.01	53.72	1.83*	53.35	53.75	0.32
Standalone (%)	57.64	42.73	3.86***	57.23	50.60	1.21
CSR assurance (%)	90.39	67.47	6.87***	86.75	84.34	0.62
CSR committee (%)	71.62	58.13	3.58***	69.28	65.06	0.82
Board size (Number of directors)	14.555	12.273	10.20***	14.069	13.631	1.49
Board independence (%)	44.59	54.57	6.85***	47.77	47.86	0.04
Board gender diversity (%)	31.02	20.08	10.06***	28.98	29.75	0.51
Board meetings (Number of meetings)	7.812	7.187	2.53**	7.157	7.121	0.10
Duality (%)	62.45	56.40	1.57	61.45	58.43	0.56
CEO tenure (Number of years)	7.913	7.683	0.38	8.002	9.145	1.21
Family ownership (%)	17.62	22.27	2.51**	20.17	22.74	1.04
Institutional ownership (%)	42.72	31.27	4.84***	38.93	34.94	1.60
Leverage (%)	25.24	23.94	1.07	24.84	25.73	0.47
ROA (%)	4.23	4.81	1.59	4.40	4.34	0.12
R&D (%)	2.30	2.92	1.58	2.64	1.92	1.63
Firm size (in billions of euros)	43.407	16.674	9.35***	30.198	27.764	1.62

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table III.1.

**Table III. 6: Mean Difference Test between Firm-Years with and without Employee-Shareholders Representation for Entire and Matched Samples**

Variables	Total sample			Matched sample		
	Firm-years with employee-shareholders representation (n = 194)	Firm-years without employee-shareholders representation (n = 623)	t-value	Treated (n = 154)	Control (n = 154)	t-value
Tobin's q	0.949	1.296	3.74***	1.016	0.927	0.93
ESG performance (%)	67.78	61.98	7.10***	67.94	66.49	1.72*
Social performance (%)	72.17	68.37	3.82***	72.62	73.48	0.88
Environmental performance (%)	76.58	69.21	7.28***	76.31	73.39	2.62***
Corporate governance performance (%)	57.54	51.96	5.68***	57.81	55.69	1.74*
Standalone (%)	54.89	44.62	2.46**	55.84	60.39	0.81
CSR assurance (%)	88.04	69.82	5.02***	87.66	85.07	0.66
CSR committee (%)	63.04	61.64	0.34	66.88	68.83	0.36
Board size (Number of directors)	14.381	12.492	7.67***	14.045	14.071	0.08
Board independence (%)	53.92	51.09	1.76*	55.55	57.23	0.70
Board gender diversity (%)	25.70	22.44	2.64***	25.75	25.90	0.09
Board meetings (Number of meetings)	7.134	7.432	1.11	7.578	7.695	0.34
Duality (%)	73.91	53.45	5.01***	70.13	68.18	0.37
CEO tenure (Number of years)	6.668	8.067	2.16**	7.208	6.266	1.31
Family ownership (%)	4.38	25.84	11.61***	5.24	3.95	1.29
Institutional ownership (%)	47.75	30.62	6.84***	46.93	42.78	1.18
Leverage (%)	25.66	23.91	1.34	26.41	26.32	0.05
ROA (%)	3.66	4.94	3.32***	3.89	3.52	0.84
R&D (%)	1.89	2.99	2.65***	1.76	1.68	0.26
Firm size (in billions of euros)	37.518	20.344	5.40***	35.127	35.397	0.05

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

#### *5.4. Test of H1a to H3b*

Table III.7 presents the system GMM regression results of ESG performance and its related components (i.e., environmental, social and corporate governance) on employee board representation. Findings show that the impact of employee directors is negative and significant on ESG performance and its three components, as documented in Models 1, 2, 3 and 4. These results suggest that board-level employee representation reduces the extra-financial performance of the firm. Unexpectedly, results of Model 2 report a negative impact of employee directors on social performance, suggesting that increasing the board-level employee representation would result in less engagement in social issues. Our finding from Model 3 concerning the environmental pillar is contrary to Hillman et al. (2001), who report a significant and positive impact of employee directorship on firms' environmental performance. One explanation is that the competence and skills of employee directors may not be very relevant for improving firms' environmental performance. Results of Model 4 show a negative and significant relationship between employee directors and corporate governance performance, suggesting that board-level employee representation adversely affects the efficiency of the corporate board. This finding could be explained by the divergence in interests between employee directors and other directors representing outside shareholders (Ginglinger et al., 2011).

With regard to the control variables, results of Table III.7 show that firms adopting a CSR orientation – having a standalone report, CSR assurance and a CSR committee – are more likely to have higher levels of social, environmental and corporate governance performance. Similarly to previous studies (Boulouta, 2013; Hafsi & Turgut, 2013; Johnson & Greening, 1999), we find that board characteristics significantly impact the ESG performance of the firm. Indeed, firms with large boards exhibit lower ESG and corporate governance performance. In line with Boulouta (2013) and Dunn and Sainty (2009), we find

that independent and female directors enhance overall ESG performance. In particular, independent directors enhance environmental and corporate governance performance, but reduce social performance. Female directors are shown to enhance only the overall ESG performance. Surprisingly, Table III.7 shows that boards that meet frequently have lower social and environmental performance. Duality is found to enhance the overall ESG performance, as well as environmental and social performance, but reduces corporate governance performance. CEO tenure is found to decrease the ESG performance in general and corporate governance performance in particular, suggesting that CEOs with long tenure are less acquiescent to stakeholder pressures. Our findings show that family ownership influences the extra-financial performance of the firm. In line with Rees and Rodionova (2015), we find that family firms have lower overall ESG, social and corporate governance performance, but that their environmental performance is unaffected. As regards institutional ownership, we confirm the finding of Barnea and Rubin (2010) by reporting no significant impact on corporate social performance. Firms with higher level of debt are more likely to have lower ESG performance in general and social performance in particular. Financial performance as measured by ROA has a negative and significant impact on the overall ESG and the social performance component. We also show that firms with higher R&D intensity have higher environmental and corporate governance performance but lower social performance. Finally, large firms are more likely to have higher ESG performance, considered as a whole or in terms of the underlying pillars (i.e., social, environmental and corporate governance).

**Table III. 7: System GMM Regression of ESG Performance on Employee Board Representation**

Variables	Model 1: ESG performance		Model 2: Social performance		Model 3: Environmental performance		Model 4: Corporate governance performance	
	Coef.	t-test	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> ESG performance	0.552***	47.58						
<i>Lag</i> Social performance			0.681***	46.56				
<i>Lag</i> Environmental performance					0.747***	87.29		
<i>Lag</i> Corporate governance performance							0.483***	39.08
Employee directorship	−0.088***	−5.50	−0.046**	−2.18	−0.095***	−5.15	−0.174***	−7.70
Standalone	0.005*	1.95	0.006**	2.53	0.006***	3.26	0.012***	3.89
CSR assurance	0.014***	3.25	−0.001	−0.16	0.013***	4.38	0.040***	7.85
CSR committee	0.011***	4.06	0.012***	5.41	0.011***	3.47	0.013***	5.05
Board size	−0.018***	−2.87	−0.004	−0.73	−0.009	−1.46	−0.031***	−2.95
Board independence	0.045***	5.40	0.008	0.96	0.040***	6.46	0.036***	3.06
Board gender diversity	0.036***	2.98	−0.001	−0.02	−0.014	−1.22	0.005	0.41
Board meetings	−0.001	−0.27	−0.008**	−2.52	−0.006***	−2.71	−0.005	−1.37
Duality	0.005*	1.87	0.008***	3.90	0.012***	5.90	−0.023***	−5.35
CEO tenure	−0.003***	−3.30	−0.001	−0.53	−0.002	−1.61	−0.008***	−3.32
Family ownership	−0.020***	−2.91	−0.030***	−3.30	0.006	1.28	−0.093***	−6.19
Institutional ownership	0.001	0.16	0.001	0.17	−0.001	−0.35	−0.010	−1.39
Leverage	−0.015***	−2.62	0.003	0.32	−0.012	−1.61	−0.018*	−1.97
ROA	−0.059**	−2.13	−0.056**	−2.15	−0.034	−1.08	0.067	1.25
R&D	0.044	1.26	−0.142***	−3.33	0.155***	2.94	0.125**	2.43
Firm size	0.011***	9.04	0.008***	5.98	0.005***	3.75	0.012***	4.47
Law 2013	−0.003*	−1.90	−0.002	−1.12	0.020***	11.21	−0.045***	−14.23
Intercept	0.130***	6.77	0.125***	5.79	0.101***	4.84	0.195***	5.43
Industry	Yes		Yes		Yes		Yes	
Number of obs.	444		444		444		444	
F (Prob > F)	1952.51 ( $p = 0.000$ )		652.11 ( $p = 0.000$ )		7797.37 ( $p = 0.000$ )		2829.84 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z, p$ -value):	−5.21 ( $p = 0.000$ )		−4.80 ( $p = 0.000$ )		−5.40 ( $p = 0.000$ )		−4.67 ( $p = 0.000$ )	
Arellano–Bond test AR(2) ( $z, p$ -value):	0.73 ( $p = 0.361$ )		0.62 ( $p = 0.354$ )		0.81 ( $p = 0.205$ )		−0.38 ( $p = 0.420$ )	
Sargan test (Chi-square, $p$ -value):	365.65 ( $p = 0.000$ )		380.32 ( $p = 0.000$ )		362.33 ( $p = 0.000$ )		405.44 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	64.26 ( $p = 0.105$ )		58.03 ( $p = 0.232$ )		64.17 ( $p = 0.102$ )		61.80 ( $p = 0.143$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table III.1.

Tables III.8 and III.9 present the results of the system GMM regressions of ESG performance and the underlying pillars (i.e., social, environmental and corporate governance) on labour board representation and employee-shareholder board representation, respectively. Our results are consistent with the fact that the two types of employee directors do not share the same interests and do not use their power on the board in the same way. Table III.8 shows that the impact of labour board representation is negative and significant on ESG performance as a whole. Going further, when we split ESG performance into its different components, we find that labour board representation enhances the social component of ESG performance (Model 2) and negatively impacts environmental performance (Model 3) and corporate governance performance (Model 4). Consequently, we confirm H1a and H3a and reject H2a. In contrast to Table III.8, Table III.9 reveals a positive and significant relationship between the proportion of directors representing employee-shareholders and ESG performance. Table III.9 also shows that directors elected by employee-shareholders act in the opposite direction to that of labour board representatives with respect to each component of ESG performance. Specifically, the ESG orientations of directors representing employee-shareholders are directed towards environmental and governance performance rather than towards social performance. The relationships predicted by H1b, H2b, and H3b are valid.

**Table III. 8: System GMM Regression of ESG Performance on Labour Board Representation**

Variables	Model 1: ESG performance		Model 2: Social performance		Model 3: Environmental performance		Model 4: Corporate governance performance	
	Coef.	t-test	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> ESG performance	0.545***	58.11						
<i>Lag</i> Social performance			0.756***	37.29				
<i>Lag</i> Environmental performance					0.665***	55.14		
<i>Lag</i> Corporate governance performance							0.475***	49.73
Labour representation	−0.113***	−8.43	0.067**	2.51	−0.067***	−5.32	−0.196***	−12.79
Standalone	0.013***	5.25	0.002	0.69	0.013***	4.37	0.014***	3.45
CSR assurance	0.020***	6.80	−0.005	−0.82	0.014***	5.98	0.009*	1.96
CSR committee	0.005*	1.67	−0.001	−0.12	0.008***	2.78	−0.001	−0.17
Board size	−0.034***	−5.25	−0.011	−0.98	−0.021***	−2.62	−0.042***	−2.94
Board independence	0.064***	12.41	0.041***	2.87	0.061***	6.64	0.023**	2.21
Board gender diversity	0.084***	8.90	0.009	0.63	0.053***	7.23	0.029**	2.14
Board meetings	−0.006***	−4.62	−0.002	−0.71	−0.007**	−2.53	−0.001	−0.26
Duality	0.019***	10.73	0.009**	2.04	0.022***	6.24	−0.011**	−2.43
CEO tenure	−0.009***	−10.09	−0.005**	−2.29	−0.007***	−5.54	−0.013***	−6.60
Family ownership	0.002	0.25	−0.019*	−1.95	0.012	1.19	−0.050***	−6.46
Institutional ownership	0.028***	6.81	0.012*	1.69	0.025***	3.51	0.026***	3.07
Leverage	−0.017***	−3.01	−0.009	−0.81	−0.023***	−3.06	−0.041***	−6.60
ROA	0.022	0.75	−0.075	−1.60	−0.034	−0.76	0.114***	2.74
R&D	−0.025	−1.05	−0.198***	−3.42	0.032	0.59	0.106**	2.05
Firm size	0.012***	9.23	0.002	0.95	0.010***	5.64	0.013***	5.17
Law 2013	−0.020***	−13.14	−0.008***	−2.70	0.011***	6.95	−0.034***	−16.93
Intercept	0.132***	5.67	0.173***	4.84	0.078***	2.62	0.218***	7.47
Industry	Yes		Yes		Yes		Yes	
Number of obs.	313		313		313		313	
F (Prob > F)	3769.38 ( $p = 0.000$ )		839.24 ( $p = 0.000$ )		7950.47 ( $p = 0.000$ )		6676.49 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z, p$ -value):	−3.95 ( $p = 0.000$ )		−3.77 ( $p = 0.000$ )		−4.80 ( $p = 0.000$ )		−3.42 ( $p = 0.001$ )	
Arellano–Bond test AR(2) ( $z, p$ -value):	1.04 ( $p = 0.302$ )		1.44 ( $p = 0.150$ )		1.24 ( $p = 0.125$ )		−0.94 ( $p = 0.349$ )	
Sargan test (Chi-square, $p$ -value):	251.65 ( $p = 0.000$ )		65.42 ( $p = 0.001$ )		279.88 ( $p = 0.000$ )		289.78 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	58.82 ( $p = 0.211$ )		40.89 ( $p = 0.228$ )		60.50 ( $p = 0.223$ )		56.87 ( $p = 0.266$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table III.1.

**Table III. 9: System GMM Regression of ESG Performance on Employee-Shareholders Board Representation**

Variables	Model 1: ESG performance		Model 2: Social performance		Model 3: Environmental performance		Model 4: Corporate governance performance	
	Coef.	t-test	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> ESG performance	0.441***	28.52						
<i>Lag</i> Social performance			0.496***	22.32				
<i>Lag</i> Environmental performance					0.721***	34.47		
<i>Lag</i> Corporate governance performance							0.376***	25.91
Employee-shareholders representation	0.449***	8.59	−0.606***	−6.39	0.414***	7.67	1.047***	10.01
Standalone	−0.008**	−2.23	0.002	0.48	−0.005	−1.63	0.003	0.69
CSR assurance	0.025***	5.95	0.003	0.39	0.005	1.03	0.022*	1.70
CSR committee	0.018***	5.39	−0.001	−0.17	0.018***	6.34	0.036***	4.71
Board size	−0.022	−1.61	0.021*	1.67	−0.011	−1.37	−0.039*	−1.71
Board independence	0.085***	7.03	0.019	1.04	0.049***	4.65	0.104***	5.86
Board gender diversity	0.051***	4.73	0.074***	4.49	−0.016	−1.12	−0.045*	−1.69
Board meetings	0.021***	3.96	0.006	0.47	0.007*	1.66	0.011	1.44
Duality	−0.004	−0.96	0.012**	2.04	0.013***	4.11	−0.049***	−9.73
CEO tenure	0.003	1.17	0.014***	4.91	−0.005**	−2.33	0.004	0.72
Family ownership	0.037	1.25	−0.083***	−2.96	0.057**	2.04	0.034	0.72
Institutional ownership	−0.022**	−2.36	−0.027***	−3.48	−0.009	−1.37	−0.018	−1.34
Leverage	−0.009	−0.54	0.027	1.57	−0.017	−1.12	−0.001	−0.06
ROA	0.027	0.62	0.245***	8.97	0.054	0.94	−0.168***	−3.15
R&D	0.015	0.11	0.110*	1.69	−0.026	−0.47	0.122	0.48
Firm size	0.009***	4.94	0.007**	2.53	0.006***	3.98	0.002	0.97
Law 2013	−0.004**	−2.19	−0.022***	−6.60	0.032***	10.56	−0.041***	−8.10
Intercept	0.146***	3.73	0.167***	3.04	0.062*	1.84	0.322***	6.22
Industry	Yes		Yes		Yes		Yes	
Number of obs.	288		288		288		288	
F (Prob > F)	1742.01 ( $p = 0.000$ )		2377.08 ( $p = 0.000$ )		7455.16 ( $p = 0.000$ )		8314.40 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z, p$ -value):	−3.48 ( $p = 0.000$ )		−3.46 ( $p = 0.000$ )		−3.25 ( $p = 0.001$ )		−3.47 ( $p = 0.001$ )	
Arellano–Bond test AR(2) ( $z, p$ -value):	−1.07 ( $p = 0.252$ )		0.06 ( $p = 0.956$ )		1.44 ( $p = 0.150$ )		−1.83 ( $p = 0.167$ )	
Sargan test (Chi-square, $p$ -value):	231.65 ( $p = 0.000$ )		248.87 ( $p = 0.000$ )		249.77 ( $p = 0.000$ )		254.85 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	42.88 ( $p = 0.169$ )		43.14 ( $p = 0.162$ )		41.97 ( $p = 0.194$ )		44.62 ( $p = 0.128$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table III.1.

### 5.5. Test of H4a and H4b

To test H4a and H4b, we perform a system GMM regression of Tobin's q (as a proxy of market perception) on ESG performance, according to the way employees are represented on the board. We use the joint test procedure, which simultaneously tests the main effect of ESG performance and its interaction with employee board representation. Our estimation model is as follows:

$$\begin{aligned} \text{Tobin's } q_{i,t} = & \beta_0 + \beta_1 \text{Lag Tobin's } q_{i,t} + \beta_2 \text{ESG performance}_{i,t} + \beta_3 \text{Employee} \\ & \text{directorship}_{i,t} + \beta_4 (\text{ESG performance}_{i,t} * \text{Employee directorship}_{i,t}) + \beta_5 \text{Standalone}_{i,t} + \beta_6 \\ & \text{CSR assurance}_{i,t} + \beta_7 \text{CSR committee}_{i,t} + \beta_8 \text{Board size}_{i,t} + \beta_9 \text{Board independence}_{i,t} + \beta_{10} \\ & \text{Board gender diversity}_{i,t} + \beta_{11} \text{Board meeting}_{i,t} + \beta_{12} \text{Duality}_{i,t} + \beta_{13} \text{CEO tenure}_{i,t} + \beta_{14} \text{Family} \\ & \text{ownership}_{i,t} + \beta_{15} \text{Institutional ownership}_{i,t} + \beta_{16} \text{Leverage}_{i,t} + \beta_{17} \text{ROA}_{i,t} + \beta_{18} \text{R\&D}_{i,t} + \beta_{19} \\ & \text{Firm size}_{i,t} + \beta_{20} \text{Law 2013\_FE} + \beta_{21} \text{Industry\_FE} + \varepsilon_{i,t} \end{aligned}$$

where  $i$  and  $t$  stand for firms and time respectively. Tobin's q is our dependent variable. Employee directorship and ESG performance are endogenously determined. Employee directorship is decomposed into labour board representation and employee-shareholder board representation, while ESG performance is broken down to illustrate the impact of each of its components (i.e., social, environmental and corporate governance).  $\varepsilon$  is the error term. All variables are as defined in Table III.1.

In accordance with Nekhili et al. (2019), results of Table III.10 show a negative impact of employee board representative on Tobin's q, suggesting that market participants are unlikely to favour employee board representation. Nevertheless, opposing results with regard to employee directorship are observed in Model 2 and Model 3. Based on the value they provide to the company, market participants are likely to be more favourable towards directors elected by employee-shareholders than to labour board representation. In accordance with Ginglinger et al. (2011), directors elected by employee-shareholders may act in the same

way as other directors representing outside shareholders. Results of Table III.10 also show that the overall ESG performance has a positive impact on Tobin's q in Model 3, albeit not significant in Model 1 and Model 2. This finding suggests that outside shareholders interpret and perceive ESG performance differently, depending on to the way employees are represented on the board.

**Table III. 10: System GMM Regression of Tobin's q on ESG Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee- shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.717***	71.30	0.884***	85.16	0.929***	100.38
ESG performance	0.078	0.30	0.303	1.22	0.376***	3.89
Employee directorship	-1.855***	-5.55				
Labour representation			-2.575***	-8.17		
Employee-shareholders representation					1.659***	5.09
Standalone	0.043	1.58	0.021	0.61	0.041***	3.80
CSR assurance	0.157***	5.04	0.044	0.89	-0.013	-0.52
CSR committee	0.024	0.53	0.003	0.09	0.026**	2.25
Board size	0.110	1.10	0.201*	1.97	0.002	0.06
Board independence	-0.229*	-1.78	-0.137	-1.04	0.082*	1.87
Board gender diversity	-0.008	-0.07	0.054	0.41	0.044	0.79
Board meetings	0.003	0.08	-0.005	-0.11	0.039***	2.62
Duality	-0.089**	-2.36	-0.084**	-2.08	-0.007	-0.46
CEO tenure	-0.022	-1.25	-0.047**	-2.28	-0.023***	-3.28
Family ownership	0.117	0.89	0.267**	2.21	0.305***	5.34
Institutional ownership	0.016	0.18	0.102	1.10	0.006	0.23
Leverage	0.457***	5.03	0.025	0.26	0.218***	4.21
ROA	3.030***	8.14	2.037***	8.39	1.039***	5.45
R&D	1.022	1.00	2.240***	3.85	-0.273	-0.76
Firm size	-0.035	-1.39	0.012	0.43	-0.031***	-4.03
Law 2013	0.099***	3.84	0.042	1.25	0.067***	4.17
Intercept	0.342	0.94	-0.753	-1.57	-0.025	-0.15
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	2167.21 ( $p = 0.000$ )		3128.26 ( $p = 0.000$ )		6785.96 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.43 ( $p = 0.003$ )		-3.06 ( $p = 0.000$ )		-2.58 ( $p = 0.003$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-0.74 ( $p = 0.462$ )		-1.02 ( $p = 0.308$ )		-1.10 ( $p = 0.269$ )	
Sargan test (Chi-square, $p$ -value):	131.71 ( $p = 0.000$ )		107.63 ( $p = 0.000$ )		136.28 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	43.00 ( $p = 0.193$ )		46.57 ( $p = 0.159$ )		41.48 ( $p = 0.199$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

In Table III.11, we measure the marginal effect of employee directorship, labour board representation and employee-shareholder board representation on the ESG-financial performance relationship. For the overall employee board representation (Model 1), the sum

of coefficient (ESG performance + (ESG performance \* Employee directorship)) on Tobin's q is negative ( $\beta_2 + \beta_4 = -2.739$ ) and significant ( $t = -3.54$ ), suggesting that outside shareholders are reluctant to favour an increase in the level of ESG performance of firms when employee directors are represented on the board. Models 2 and 3 show that the results of the marginal effect of employee directorship on the value relevance of ESG performance varies depending on the way employees are represented on board. Meaningfully, the joint coefficient (ESG performance + (ESG performance \* Labour representation)) in Model 2 is strongly negative ( $\beta_2 + \beta_4 = -16.652$ ) and significant at the 1 % level ( $t = -4.06$ ). Our results clearly show that this negative effect comes mainly from the adversely perceived labour board representation and not from the firm's orientation in terms of ESG performance. In contrast, with regard to the marginal effect of directors representing employee-shareholders, results of Model 3 indicate that the impact of the sum of coefficients (ESG performance + (ESG performance \* employee-shareholders representation)) on Tobin's q is highly positive ( $\beta_2 + \beta_4 = 20.964$ ) and significant ( $t = 4.65$ ). In accordance with H4a and H4b, these findings emphasize that outside shareholders are highly sensitive to the type of employee directors when assessing the relevance of the firm's ESG performance.

**Table III. 11: System GMM Regression of Tobin's q on the Interaction between ESG Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.497***	96.13	0.830***	51.34	0.956***	101.15
ESG performance	0.521***	4.77	1.885***	3.87	-0.763***	-4.25
Employee directorship	2.121***	3.88				
ESG performance * Employee directorship	-3.261***	-3.87				
Labour representation			11.859***	3.97		
ESG performance * Labour representation			-18.537***	-4.16		
Employee-shareholders representation					-13.538***	-4.08
ESG performance * Employee-shareholders representation					21.727***	4.70
Standalone	0.010	0.56	-0.029	-0.84	0.063***	5.47
CSR assurance	0.081***	3.76	-0.109**	-2.29	0.011	0.44
CSR committee	0.077***	3.61	-0.015	-0.47	0.026	1.52
Board size	-0.060	-1.04	0.161*	1.88	0.004	0.11
Board independence	-0.029	-0.68	0.005	0.05	0.127**	2.45
Board gender diversity	-0.031	-0.57	-0.026	-0.21	0.027	0.58
Board meetings	0.031	1.57	-0.056	-1.59	0.012	0.57
Duality	-0.116***	-5.32	-0.097**	-2.52	0.042***	2.77
CEO tenure	-0.022*	-1.64	-0.026	-1.58	-0.018**	-2.22
Family ownership	0.283***	3.85	0.335***	3.44	0.191**	2.23
Institutional ownership	-0.115***	-3.44	-0.062	-0.92	0.038*	1.70
Leverage	0.802***	16.27	0.118	1.28	0.145**	2.32
ROA	5.651***	34.40	2.675***	9.95	1.087***	5.62
R&D	2.391***	7.14	2.251***	3.78	0.576**	2.14
Firm size	-0.118***	-10.09	-0.028	-1.16	-0.025***	-3.31
Law 2013	0.073***	6.00	0.091***	3.79	0.058***	4.50
Intercept	1.743***	8.48	-0.943**	-2.05	0.599***	3.26
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	42872.70 ( $p = 0.000$ )		7356.76 ( $p = 0.000$ )		6051.65 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z$ , $p$ -value):	-2.37 ( $p = 0.006$ )		-3.09 ( $p = 0.001$ )		-2.64 ( $p = 0.003$ )	
Arellano–Bond test AR(2) ( $z$ , $p$ -value):	-1.09 ( $p = 0.279$ )		-0.93 ( $p = 0.272$ )		-0.76 ( $p = 0.446$ )	
Sargan test (Chi-square, $p$ -value):	367.43 ( $p = 0.000$ )		222.57 ( $p = 0.000$ )		227.75 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	50.72 ( $p = 0.367$ )		35.74 ( $p = 0.297$ )		37.50 ( $p = 0.231$ )	
Joint test: ESG performance + (ESG performance * Employee directorship)	-2.739***	-3.54				
Joint test: ESG performance + (ESG performance * Labour representation)			-16.652***	-4.06		
Joint test: ESG performance + (ESG performance * Employee-shareholders representation)					20.964***	4.65

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

### *5.6. Supplementary Analysis*

Tables III.12, III.13 and III.14 present the results for the effect of each pillar of ESG performance, namely social, environmental and corporate governance on Tobin's q, respectively. Table III.12 shows that social performance is negatively perceived by the financial market for firm-years with employee directorships (Model 1) and particularly for firm-years with labour board representation (Model 2). Non-significance is, however, observed for firms with employee-shareholder board representation (Model 3). One explanation is that investors may consider high levels of social performance as an excessive and costly investment or the result of an entrenchment strategy (Surroca & Tribó, 2008; Nekhili et al., 2019), especially when employees are appointed to the board in compliance with employment rights. The results of Models 1 and 2 in Table III.13 show that environmental performance and the presence of employees on the board are negatively perceived by market participants. Corporate governance performance is financially rewarded by the market, as reported in Models 1, 2 and 3 of Table III.14. This positive relationship between corporate governance performance and Tobin's q indicates that outside shareholders find information on such ESG performance pillar relevant and that well-governed firms are likely to attract market participants (Fauver & Fuerst, 2006). Once again, we find that the negative relationship between employee directorship and Tobin's q is mainly due to the presence of labour board representatives (Model 2) and not to the presence of directors representing employee-shareholders (Model 3).

**Table III. 12: System GMM Regression of Tobin's q on Social Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee- shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.724***	43.44	0.879***	66.61	0.935***	86.68
Social representation	-1.677***	-4.01	-1.975***	-9.81	-0.103	-0.82
Employee directorship	-4.165***	-7.34				
Labour representation			-2.565***	-6.92		
Employee-shareholders representation					2.274***	6.21
Standalone	0.109**	2.37	0.083**	2.18	0.058***	4.32
CSR assurance	0.321***	6.04	0.103**	2.17	-0.043	-1.51
CSR committee	0.060	1.02	0.070*	1.64	0.062***	3.21
Board size	0.330**	2.06	0.094	0.89	-0.001	-0.05
Board independence	-0.610***	-3.04	0.110	0.76	0.143***	2.65
Board gender diversity	0.135	0.62	0.104	0.72	0.107*	1.65
Board meetings	0.010	0.17	0.031	0.77	0.036*	1.70
Duality	-0.067	-0.96	-0.024	-0.46	-0.005	-0.28
CEO tenure	-0.027	-0.97	-0.078***	-3.04	-0.012	-1.29
Family ownership	-0.195	-1.04	0.254*	1.92	0.361***	3.47
Institutional ownership	0.104	0.73	0.127*	1.67	-0.023	-0.89
Leverage	0.704***	3.83	-0.221**	-2.32	0.197***	2.58
ROA	2.647***	4.69	2.044***	6.67	1.003***	4.25
R&D	0.395	0.27	1.103*	1.66	0.050	0.13
Firm size	0.034	0.73	0.078**	2.39	-0.026**	-2.40
Law 2013	0.052	1.37	-0.028	-0.69	0.054***	3.69
Intercept	-0.018	-0.03	-0.148	-0.26	0.157	0.89
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	411.06 ( $p = 0.000$ )		6189.08 ( $p = 0.000$ )		7164.21 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.48 ( $p = 0.005$ )		-3.08 ( $p = 0.000$ )		-2.60 ( $p = 0.004$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-0.60 ( $p = 0.549$ )		-0.95 ( $p = 0.342$ )		-0.94 ( $p = 0.349$ )	
Sargan test (Chi-square, $p$ -value):	108.85 ( $p = 0.000$ )		101.30 ( $p = 0.000$ )		235.84 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	41.93 ( $p = 0.112$ )		46.65 ( $p = 0.158$ )		37.08 ( $p = 0.286$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

**Table III. 13: System GMM Regression of Tobin's q on Environmental Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee- shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> Tobin's q	0.702***	49.54	0.868***	177.65	0.935***	123.86
Environmental performance	-0.676***	-2.84	-0.103	-1.41	0.195**	2.17
Employee directorship	-2.061***	-5.30				
Labour representation			-0.905***	-7.58		
Employee-shareholders representation					1.472***	5.42
Standalone	0.053	1.44	0.019**	2.34	0.037**	2.54
CSR assurance	0.181***	4.50	-0.004	-0.30	-0.002	-0.08
CSR committee	0.063	1.62	0.042***	2.76	0.034***	2.93
Board size	0.098	0.86	0.013	0.53	-0.010	-0.26
Board independence	-0.118	-0.93	0.082*	1.75	0.071	1.60
Board gender diversity	-0.075	-0.49	-0.086*	-1.72	0.070	1.11
Board meetings	-0.054	-1.19	0.005	0.44	0.046***	3.11
Duality	-0.020	-0.43	-0.043***	-2.86	-0.010	-0.74
CEO tenure	-0.020	-1.04	-0.042***	-5.97	-0.020***	-2.57
Family ownership	0.165	1.22	0.202***	5.96	0.288***	4.38
Institutional ownership	0.066	0.66	0.062**	2.21	0.009	0.39
Leverage	0.516***	5.89	-0.048*	-1.79	0.217***	4.94
ROA	3.312***	8.01	2.456***	35.76	0.989***	5.66
R&D	1.548	1.22	1.229***	7.04	-0.309	-1.06
Firm size	-0.013	-0.45	-0.009	-0.97	-0.032***	-4.19
Law 2013	0.131***	4.45	0.062***	5.26	0.059***	3.85
Intercept	0.466	0.97	0.215*	1.75	0.106	0.71
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	1435.92 ( $p = 0.000$ )		5393.59 ( $p = 0.000$ )		12785.57 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.45 ( $p = 0.005$ )		-3.06 ( $p = 0.002$ )		-2.58 ( $p = 0.005$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-0.71 ( $p = 0.478$ )		-1.07 ( $p = 0.284$ )		-1.03 ( $p = 0.303$ )	
Sargan test (Chi-square, $p$ -value):	125.68 ( $p = 0.000$ )		230.74 ( $p = 0.000$ )		133.73 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	41.08 ( $p = 0.130$ )		46.22 ( $p = 0.546$ )		40.25 ( $p = 0.124$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

**Table III. 14: System GMM Regression of Tobin's q on Corporate Governance Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> Tobin's q	0.705***	73.29	0.858***	92.25	0.944***	149.87
Corporate governance performance	1.207***	5.85	0.404***	7.09	0.188***	3.33
Employee directorship	-2.547***	-7.36				
Labour representation			-0.675**	-2.46		
Employee-shareholders representation					1.417***	4.31
Standalone	0.070**	2.05	0.009	0.42	0.047***	5.01
CSR assurance	0.123***	2.54	-0.007	-0.28	-0.043**	-2.23
CSR committee	0.025	0.47	-0.001	-0.01	0.023**	2.15
Board size	0.191*	1.76	0.057	1.11	0.028	0.82
Board independence	-0.504***	-3.38	-0.039	-0.67	0.060**	2.39
Board gender diversity	0.140	0.89	-0.151**	-2.20	0.106*	1.87
Board meetings	-0.010	-0.21	0.006	0.21	0.036***	2.56
Duality	-0.056	-1.27	-0.031	-1.21	0.011	1.12
CEO tenure	-0.007	-0.28	-0.017	-1.42	-0.018***	-2.63
Family ownership	0.255*	1.79	0.235***	4.82	0.237***	3.22
Institutional ownership	0.039	0.42	-0.006	-0.10	0.018	0.76
Leverage	0.699***	7.25	0.034	0.56	0.178***	3.93
ROA	3.591***	8.23	2.398***	13.15	0.997***	5.16
R&D	1.028	0.80	1.280***	3.89	-0.063	-0.25
Firm size	-0.019	-0.75	-0.021	-1.50	-0.024***	-3.79
Law 2013	0.171***	6.31	0.084***	4.42	0.065***	3.91
Intercept	-0.733*	-1.86	0.049	0.19	-0.042	-0.32
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	1725.49 ( $p = 0.000$ )		4852.70 ( $p = 0.000$ )		6874.50 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.46 ( $p = 0.000$ )		-3.06 ( $p = 0.004$ )		-2.61 ( $p = 0.003$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-0.75 ( $p = 0.455$ )		-1.08 ( $p = 0.281$ )		-0.95 ( $p = 0.342$ )	
Sargan test (Chi-square, $p$ -value):	115.33 ( $p = 0.000$ )		229.80 ( $p = 0.000$ )		240.27 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	38.89 ( $p = 0.187$ )		41.92 ( $p = 0.137$ )		36.88 ( $p = 0.294$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

Tables III.15, III.16 and III.17 present the results of the marginal effect of employee directorship on the value relevance of social, environmental and corporate governance performance, respectively. The results of Model 1 in Table III.15 are in accordance with those of Nekhili et al. (2019). Going further, we show that this marginal effect differs according to the way employees are represented on the board. Results of Model 2 show that the joint coefficient (Social performance + (Social performance \* Labour representation)) is strongly negative ( $\beta_2 + \beta_6 = -18.370$ ) and highly significant ( $t = -7.48$ ). Conversely, the joint test carried out in Model 3 shows a positive ( $\beta_2 + \beta_4 = 14.934$ ) and significant ( $t = 3.69$ ) relationship between the joint coefficient (Social performance + (Social performance \* Employee-shareholders representation)) and Tobin's q. These results suggest that, in contrast to the presence of directors representing employee-shareholders, the presence of labour board representatives indirectly affects firm valuation by altering outside shareholders' perception of a higher level of social performance. With respect to environmental performance, results of Models 1, 2 and 3 in Table III.16 highlight a negative and significant impact for all the joint tests considered. The results obtained for corporate governance performance in Table III.17 are similar to those observed for social performance. Once again, these results provide evidence that market participants react positively to the presence of directors representing employee-shareholders, as this category of employee directors may operate along the same lines as other directors representing outside shareholders (Ginglinger et al., 2011).

**Table III. 15: System GMM Regression of Tobin's Q on the Interaction between Social Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.831***	153.07	0.821***	56.76	0.934***	86.12
Social performance	-1.718***	-7.56	0.301	1.44	-0.619***	-2.57
Employee directorship	6.106***	4.10				
Social performance * Employee directorship	-9.827***	-4.80				
Labour representation			14.790***	7.56		
Social performance * Labour representation			-18.671***	-7.29		
Employee-shareholders representation					-8.624***	-2.90
Social performance * Employee-shareholders representation					15.553***	3.68
Standalone	0.117***	5.68	0.028	1.02	0.071***	3.36
CSR assurance	0.150***	8.49	-0.044	-1.25	0.009	0.38
CSR committee	0.099***	5.66	0.051	1.53	0.057**	2.19
Board size	0.070	1.03	-0.012	-0.11	0.027	0.43
Board independence	-0.067	-0.85	0.258***	2.85	0.177***	3.04
Board gender diversity	-0.049	-0.43	-0.069	-0.65	0.097	1.49
Board meetings	-0.024	-0.85	0.020	0.54	0.027	1.28
Duality	-0.068**	-2.17	-0.043	-1.09	0.011	0.64
CEO tenure	-0.026***	-3.00	-0.059***	-3.15	-0.028***	-3.42
Family ownership	-0.124*	-1.79	0.137*	1.77	0.215	1.62
Institutional ownership	-0.007	-0.15	-0.161***	-2.70	0.007	0.23
Leverage	0.174***	3.15	-0.108	-1.18	0.131*	1.95
ROA	1.547***	7.33	2.245***	8.39	1.208***	5.02
R&D	-0.016	-0.05	0.189	0.40	0.398	0.86
Firm size	0.030**	2.05	-0.043**	-2.38	-0.036***	-2.82
Law 2013	0.079***	3.05	0.067**	2.52	0.060***	4.02
Intercept	0.572**	2.30	0.552	1.39	0.577***	2.82
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	9734.58 ( $p = 0.000$ )		2576.80 ( $p = 0.000$ )		9855.65 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.50 ( $p = 0.005$ )		-3.06 ( $p = 0.001$ )		-2.55 ( $p = 0.005$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	-0.29 ( $p = 0.773$ )		-1.04 ( $p = 0.297$ )		-0.95 ( $p = 0.340$ )	
Sargan test (Chi-square, $p$ -value):	125.32 ( $p = 0.000$ )		90.19 ( $p = 0.000$ )		226.78 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	45.53 ( $p = 0.453$ )		35.61 ( $p = 0.221$ )		36.54 ( $p = 0.266$ )	
Joint test: Social performance + (Social performance * Employee directorship)	-11.545***	-6.12				
Joint test: Social performance + (Social performance * Labour representation)			-18.370***	-7.48		
Joint test: Social performance + (Social performance * Employee-shareholders representation)					14.934***	3.69

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

**Table III. 16: System GMM Regression of Tobin's q on the Interaction between Environmental Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.798***	157.17	0.836***	81.54	0.908***	111.02
Environmental performance	2.229***	15.64	0.911***	2.96	0.638**	2.52
Employee directorship	18.445***	13.72				
Environmental performance * Employee directorship	-24.089***	-13.05				
Labour representation			11.600***	4.43		
Environmental performance * Labour representation			-17.274***	-4.82		
Employee-shareholders representation					11.833***	4.94
Environmental performance * Employee-shareholders representation					-14.131***	-4.49
Standalone	0.043**	2.50	0.056**	2.05	0.040	3.22
CSR assurance	-0.052*	-1.83	-0.103***	-3.04	-0.037	-1.49
CSR committee	0.041**	2.45	0.039	1.07	0.038***	2.58
Board size	0.068*	1.67	0.037	0.58	0.001	0.01
Board independence	-0.082	-1.63	0.083	0.95	0.087**	2.26
Board gender diversity	-0.067	-0.75	0.143	1.15	0.304***	5.89
Board meetings	-0.003	-0.14	-0.082**	-2.33	0.040***	2.84
Duality	-0.180***	-8.22	-0.113***	-2.97	-0.019	-1.52
CEO tenure	-0.018**	-2.26	-0.030*	-1.95	-0.012	-1.54
Family ownership	0.092*	1.96	0.400***	4.83	0.256***	3.43
Institutional ownership	-0.056	-1.62	0.152**	2.26	0.025	1.20
Leverage	0.437***	7.44	0.097	1.27	0.345***	6.19
ROA	2.363***	15.49	3.025***	13.58	0.908***	5.37
R&D	1.158**	2.42	2.854***	4.81	0.082	0.26
Firm size	-0.079***	-6.39	0.019	1.02	-0.025***	-2.91
Law 2013	0.076***	4.44	0.072***	2.88	0.042***	4.38
Intercept	-0.378	-1.39	-1.008***	-3.34	-0.400**	-2.33
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	20798.85 ( $p = 0.000$ )		5261.69 ( $p = 0.000$ )		31680.82 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.46 ( $p = 0.004$ )		-3.09 ( $p = 0.001$ )		-2.58 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	-0.45 ( $p = 0.652$ )		-0.85 ( $p = 0.396$ )		-1.19 ( $p = 0.235$ )	
Sargan test (Chi-square, $p$ -value):	337.58 ( $p = 0.000$ )		226.36 ( $p = 0.000$ )		110.80 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	60.88 ( $p = 0.119$ )		42.50 ( $p = 0.102$ )		41.21 ( $p = 0.127$ )	
Joint test: Environmental performance + (Environmental performance * Employee directorship)	-21.860***	-12.36				
Joint test: Environmental performance + (Environmental performance * Labour representation)			-16.363***	-4.90		
Joint test: Environmental performance + (Environmental performance * Employee-shareholder board representation)					-13.493***	-4.63

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1

**Table III. 17: System GMM Regression of Tobin's q on the Interaction between Corporate Governance Performance and Employee Board Representation**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.486***	85.29	0.765***	50.92	0.919***	59.15
Corporate governance performance	1.819***	10.46	1.578***	8.18	-0.690**	-2.40
Employee directorship	11.322***	6.97				
Corporate governance performance *	-21.289***	-7.37				
Employee directorship						
Labour representation			2.118***	3.81		
Corporate governance performance *			-3.020***	-4.23		
Labour representation						
Employee-shareholders representation					-14.205***	-4.61
Corporate governance performance *					27.316***	5.25
Employee-shareholders representation						
Standalone	0.015	0.50	0.022	0.69	0.093***	5.68
CSR assurance	0.121***	3.62	-0.019	-0.56	-0.034	-1.18
CSR committee	0.064*	1.85	-0.004	-0.09	0.032*	1.79
Board size	0.162**	2.17	0.122	1.23	-0.071	-1.21
Board independence	0.034	0.43	0.107	1.14	0.004	0.07
Board gender diversity	-0.043	-0.32	0.023	0.20	0.123**	2.01
Board meetings	-0.049*	-1.97	0.025	0.82	-0.032	-1.15
Duality	-0.147***	-4.54	-0.041	-1.05	0.065***	3.24
CEO tenure	-0.036***	-2.73	-0.006	-0.39	-0.018*	-1.90
Family ownership	0.539***	5.58	0.380***	4.34	0.178**	2.35
Institutional ownership	-0.086*	-1.64	-0.173***	-2.68	0.053*	1.64
Leverage	1.076***	15.10	0.277**	2.49	0.266***	3.71
ROA	6.216***	25.84	2.742***	12.73	1.644***	7.77
R&D	3.495***	5.56	1.267*	1.80	1.292**	2.52
Firm size	-0.119***	-6.63	-0.076***	-4.72	-0.002	-0.14
Law 2013	0.125***	7.61	0.154***	4.50	0.113***	5.47
Intercept	0.490*	1.80	-0.063	-0.17	0.337*	1.76
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	3732.47 ( $p = 0.000$ )		5951.90 ( $p = 0.000$ )		8409.00 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.39 ( $p = 0.006$ )		-3.07 ( $p = 0.000$ )		-2.43 ( $p = 0.006$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-1.14 ( $p = 0.253$ )		-1.16 ( $p = 0.248$ )		-1.18 ( $p = 0.238$ )	
Sargan test (Chi-square, $p$ -value):	334.83 ( $p = 0.000$ )		97.44 ( $p = 0.000$ )		93.84 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	58.00 ( $p = 0.153$ )		32.81 ( $p = 0.285$ )		35.11 ( $p = 0.239$ )	
Joint test: Corporate governance performance + (Corporate governance performance * Employee directorship)	-19.469***	-7.03				
Joint test: Corporate governance performance + (Corporate governance performance * Labour representation)			-1.442***	-2.35		
Joint test: Corporate governance performance + (Corporate governance performance * Employee-shareholders representation)					26.625***	5.38

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

All variables are as defined in Table III.1.

## 6. Conclusion

Going further than prior studies (Hillman et al., 2001; Huse et al., 2009; Nekhili et al., 2019), we hypothesize that the type of employee directors may make a difference to the perception of ESG issues by market participants. Using a matched sample of French listed firms belonging to the SBF 120 index, we apply the system GMM estimation to investigate the nature of the relationship between employee directorship and ESG performance as well as its supporting pillars (social, environment and corporate governance). We first find that firms with employee-shareholder board representation achieve higher ESG performance in general and higher environmental and corporate governance performance in particular. The presence of labour board representatives is found to be positively and significantly associated with social performance only. These findings suggest that labour board representatives operate mainly in the interest of labour, whereas employee-shareholder board representatives are more concerned about environmental and corporate governance performance than about social performance. Based on these results, we investigate the moderating role of each type of employee directors on the value relevance of ESG performance. In accordance with Nekhili et al. (2019), we find that market participants tend not to favour the presence of employee representatives as a whole on the board and attribute less value to ESG performance of firms with employee board representation. Going further than the study by Nekhili et al. (2019), we find evidence that the reaction of outside shareholders to the level of ESG performance differs considerably depending on the type of employee directors considered in the model. In particular, we document that, while market participants are opposed to ESG performance when employees are represented on board by right of employment, they reward ESG performance when directors representing employee-shareholders are on the board. These results may be explained by the fact that directors representing employee-shareholders may have, through sharing specific information and the same interests, close relationships with

other directors representing outside shareholders (Ginglinger et al., 2011). Consequently, the presence of employee-shareholder board representatives may provide better cohesiveness and esteem among the board members, which is important for ensuring the effective use of employees' knowledge and skills and for improving the effectiveness of the board (Huse et al., 2009).

This research complements previous studies (Bøhren & Strøm, 2010; Ginglinger et al., 2011; Nekhili et al., 2019) in the literature by providing new insights into employee board representation. Labour board representatives and employee-shareholder board representatives are found to complement each other in terms of their effect on the different pillars of ESG performance. With regard to assessing the value relevance of ESG performance, our results indicate that outside shareholders are highly sensitive to the identity of employee directors, whether they are representing labour or employee-shareholders. A meaningful inference to be drawn from our findings is that employee ownership and employee representation on the board as employee-shareholders may bring about basic changes in employees' attitudes and behaviour on the board and may, in this respect, be viewed as a credible way of improving labour relations and creating constructive relationships between employees and shareholders.

Future directions for research can be drawn from this study and may be divided into three areas. First, it will be interesting, following Huse et al. (2009), to explore the extent to which esteem and cohesiveness of board members are better achieved by representing employee-shareholders than by representing labour on the board. Second, competence, experience and other demographic attributes (i.e., age, gender, educational level, etc.) of employee directors should also be taken into consideration as key factors influencing their attitudes and behaviours on the board. Third, further investigation is needed to establish whether and how companies provide support to employee-directors' training, which clearly

influences their ability to make a contribution to the board's decision-making and to align their aspirations with the needs of the organization.

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## General Conclusion

Our thesis is based on a current and highly important issue in the world and particularly in the French context. The French legislation has shown a growing interest in the topics of employee board representation and employee share ownership (law of 2006, law of 2013, law of 2015 and law of 2019) and for the social responsibility of firms (NRE 2001, Grenelle I 2009, Grenelle II 2010). Although a significant relationship between employees and CSR initiatives has been documented, little studies examined the impact of employee directors on CSR. Believing that CSR is at the heart of our understanding of the impact of employee directors on the firm and motivated by the gap in the literature, it was interesting to examine how investors, as potential shareholders, perceive the commitment to CSR when employees are represented on the board of directors. To reach this objective, four research questions have been asked in three chapters:

*To what extent the value relevance of CSR reporting is affected by the employee board representation?*

Examining the French context for the period 2001-2011, we report two main results. First, our findings suggest that firms with employee directors disclose more extra-financial information than their counterparts. Second, our results show that the market participants find environmental and sustainability information more relevant when employees are appointed on the boardroom, suggesting that the presence of employee directors may consider a good filter for the market to assess the quality of CSR reporting. Nevertheless, social information is not considered as relevant, suggesting that higher social reporting may result from an over-investment to the benefit of employees and at the expense of shareholders who support the costs behind. This finding highlights a conflict of interest between shareholders and employees regarding social initiatives. Considering the answers found for our first research

question, we suggest that since market participants make use of employees' presence on the board of directors to assess the relevance of CSR information, they may also use it when making their perception towards the ESG performance resulting from the CSR expenses of the firm. Therefore, we put forward our second research question.

*How do investors perceive ESG performance when employees are appointed on the boardroom?*

Examining a sample of French firms belonging to the SBF 120 index from 2007 to 2017, our results show that the market participants reward a good ESG performance. Nevertheless, their perception is moderated negatively when firms appoint employees on their board of directors. More interestingly, none of the ESG pillars, namely social, environmental and corporate governance is rewarded when boards include employee representatives. For investors, a higher ESG performance may result from an alliance between employee directors and managers. Such an alliance would probably threaten the shareholders' supremacy on the board and would benefit both managers and employees. Given that French boards may have two types of employee directors, labour representatives and employee-shareholders representatives, we believe that examining the perception of investors towards the ESG performance by considering the way employee directors are appointed on the board would provide a deeper understanding with this relationship. Firstly, it is worthy to examine how each type of employee directors impact the different pillars of ESG performance. Therefore, we put forward our third research question.

*How each type of employee directors impacts the ESG pillars namely, social, environment and corporate governance?*

Our findings show an opposite impact of the two types of employee directors on ESG performance and its related pillars. Specifically, we find that employee directors elected by right of employment enhance the social pillar exclusively while reducing significantly the

ESG performance and the environmental and corporate governance pillars. Conversely, directors elected by employee shareholders are shown to increase the ESG performance and the environmental and corporate governance pillars and to reduce the social pillar. These findings could be explained on the one hand, by the different interests of the two types of employee directors and on the other hand, by the different information, knowledge, competences and skills which they bring to the corporate board. Our last research question is the following.

*To what extent the value relevance of ESG performance and its related pillars is affected by the type of employee director on the board?*

Interesting answers were documented for this research question. Indeed, our findings show that the market participants reward firms for appointing employee shareholders on their boards while they penalize them for representing pure labour. Moreover, we find that the market participants value positively a higher ESG, social and corporate governance performance when directors elected by employee shareholders are on the board. In contrast, they value negatively a higher ESG, social and corporate governance when employee directors elected by right of employment are on the board.

Three main conclusions could be drawn from our thesis. First, findings indicate that the market participants rely on the diversity of the board in terms of the presence of employee directors to assess the relevance of CSR reporting. Second, the results of this study show that investors pay attention to the way employee directors are elected on the board when making their perception of the firm's CSR engagement. Finally, we suggest that both types of employee directors are likely to bring benefits to the firm. In other words, by increasing their social performance, firms with labour representatives on the board are likely to motivate their employees and attract potential job seekers. In addition, by increasing their corporate governance performance and the overall ESG performance, firms with employee-shareholders

representatives on the board are likely to attract potential investors and particularly socially responsible investors.

### *Major contributions*

Our study makes several contributions to the current literature. One of the most significant contributions of this thesis is that it examines the impact of employee board representation on a highly important issue in our century namely CSR, a relationship that has been neglected by the previous studies. This is, to our knowledge, the first attempt to examine the impact of employee board representation on CSR reporting and ESG performance. Another contribution is that we did not only examine the presence of employee directors but we also distinguish between the differing types of employee directors, namely employee directors elected by right of employment and directors elected by employee shareholders. Considering the effort of governments and legislators to represent employees on the boardroom (Law 2006, law 2013, law 2015, law 2019), it is with interest to examine the perception of the market towards such policy. This is most important because such human capital representation may counterbalance the supremacy of financial capital providers on the boardroom. Therefore, our findings provide a new understanding of the impact of the differing types of employee directors on the firm.

### *Limitations*

Our thesis suffers from two main limitations: a problem of generalized conclusions and small sample. Focusing on the French context, our findings might not be generalizable to other countries different from France in terms of legislations (no mandatory representation of employees on board) and governance. Moreover, we rely on a sample of French firms belonging to the SBF120 index and we eliminated financial, assurance, real-estate and foreign companies. Financial, assurance and real-estate firms were excluded because they have

special laws comparing to other industries while foreign firms are not subject to the same laws as other French companies. We choose a sample of firms belonging to the SBF 120 index for several reasons. First, only large firms, with 5000 employees in France and 10 000 employees in France and around the world (law of 2013) and after for firms with 1000 employees in France and 5000 employees in France and around the world (law of 2015), were mandated to represent their employees on their board level. Another argument is advanced by Hollandts and Aubert (2011). The authors advance that those firms likely to represent their employee shareholders on the board level belong most to CAC 40. Consequently, our sample is relatively small. For our third chapter, we relied on matched samples because we found significant differences between firms with and without employee board representation due to the presence of employee directors. Whereas such method enhances the quality of our results, it further reduces our firm-years observations.

#### *Future area of research*

For future research, it would be interesting to examine *how* employee board representation may impact CSR reporting and ESG performance by considering the specific attributes of each type of employee directors (experience, certifications, gender, previous function, trainings, etc). Indeed, as argued in literature, female directors have positive impacts on ESG performance and particularly on CSR concerns (Boulouta, 2013; Hafsi & Turgut, 2013); consequently, female employee directors may make different decisions comparing to male employee directors. Another example is the experience of employee directors. That is, more experienced employee directors may make more efficient decisions than less experienced employee directors. Moreover, a cross country study to compare the impact of specific types of employee directors on CSR reporting and ESG performance in different contexts may provide new pieces of evidence on this relationship.

Another area of research would be to carry out a cross-country study to assess the impact of employee directors on the value relevance of CSR reporting and ESG performance. More information on the impact of employee directors on the value relevance of CSR before and after the adoption of the Grenelle II Act would also help to establish a greater degree of accuracy on this subject.

Future research directions could explore the type and nature of decisions most impacted by employee directors. Indeed, Huse et al. (2009) document that employee directors influence the strategic control task of the board which is often of a qualitative nature, but they do not impact the budget control task which is often of a quantitative nature. Finally, we believe that examining the impact of employee board representation on the CSR engagement of firms belonging to controversial industries would provide another piece to the puzzle.

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# **Impact de la représentation des salariés au sein du conseil d'administration sur l'engagement RSE de l'entreprise : Etude du contexte français**

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## **Résumé de la thèse**

Ce travail doctoral s'appuie sur une actualité dans le contexte Français. En effet, durant les deux dernières décennies, la législation française a montré un intérêt croissant, d'une part, pour la représentation des salariés dans le conseil d'administration et pour l'actionnariat salarié dans les entreprises (loi 2006, loi 2013, loi 2015 et loi 2019) et de l'autre part, pour la responsabilité sociale de l'entreprise (ci-après RSE) (loi NRE, loi Grenelle I, loi Grenelle II).

Les recherches antérieures ont montré que les salariés sont plus concernés et plus influencés par les initiatives RSE de leurs entreprises (Brammer, Millington, & Rayton, 2007) et que la représentation des salariés dans le conseil d'administration avec des droits de vote améliore significativement l'efficacité du conseil au sujet de l'engagement RSE de l'entreprise (Huse, Nielson, & Hagen, 2009). L'engagement RSE, qui reflète la prise en compte des attentes et des besoins des différentes parties prenantes, est devenu un critère important pour les investisseurs afin de prendre leurs décisions d'investissement ou de désinvestissement. En revanche, selon la théorie de l'agence, les salariés et les actionnaires ne présentent pas les mêmes intérêts ni profitent des mêmes avantages issus de l'engagement RSE de l'entreprise. Dans ce sens, la représentation des salariés dans le conseil d'administration pourrait influencer la perception que font les investisseurs de son engagement RSE.

L'objectif de cette thèse est de contribuer à la littérature sur la représentation des salariés dans le conseil d'administration en répondant à la question de recherche suivante :

Comment les investisseurs perçoivent-ils l'engagement RSE de l'entreprise lorsque les salariés sont nommés dans le conseil d'administration ? Deux aspects de l'engagement RSE sont étudiés dans ce travail de recherche à savoir ; le reporting extra-financier (i.e., reporting RSE) et la performance extra-financière (i.e., performance environnementale, sociale et de gouvernance (ESG)). La performance ESG pourrait être un indicateur de l'engagement RSE de l'entreprise en traduisant sa capacité à gérer de bonnes relations avec ses différentes parties prenantes. Cependant, pour mieux comprendre cette performance ESG, les parties prenantes ont besoin d'informations extra-financières quantitatives et qualitatives crédibles. Les rapports RSE constituent un moyen essentiel pour aider les parties prenantes, et en particulier les actionnaires, à comprendre la performance extra-financière des entreprises (Fuente, García-Sánchez, & Lozano, 2017).

Notre premier chapitre porte sur le reporting RSE et vise en particulier à répondre à la question de recherche suivante : Dans quelle mesure la présence des salariés dans le conseil d'administration peut-elle impacter la perception des investisseurs vis-à-vis du reporting RSE ? L'utilisation d'un échantillon d'entreprises françaises cotées appartenant à l'indice SBF 120 pour la période allant de 2001 jusqu'à 2011 montre que les entreprises qui nomment des administrateurs salariés dans leurs conseil d'administration divulguent plus d'information extra-financière que d'autres entreprises qui n'ont pas d'administrateurs salariés. Nos résultats montrent aussi que les investisseurs considèrent que les informations relatives à l'environnement et au développement durable sont plus pertinentes lorsque les salariés sont nommés au conseil d'administration. Néanmoins, les informations sociales ne sont pas considérées comme pertinentes pour les investisseurs. Ces résultats montrent que les administrateurs salariés jouent un rôle modérateur sur la perception des investisseurs vis-à-vis de la pertinence des rapports RSE et mettent en évidence un conflit d'intérêts entre les actionnaires et les salariés vis-à-vis des initiatives RSE.

Pour mieux comprendre l'effet modérateur des administrateurs salariés sur la perception des investisseurs à l'égard de l'engagement RSE, nous examinons, dans ce deuxième chapitre, leur effet sur la pertinence de l'information sur la performance ESG. La question de recherche est de savoir comment les investisseurs perçoivent la performance ESG selon que les salariés sont nommés ou non au conseil d'administration. En examinant un échantillon d'entreprises françaises appartenant à l'indice SBF 120 de 2007 jusqu'à 2017, nos résultats montrent que les investisseurs récompensent une bonne performance ESG. Néanmoins, leur perception est modérée négativement par la présence des salariés au sein du conseil d'administration. Plus intéressant encore, aucun des piliers de la performance ESG, à savoir le sociale, l'environnementale et de gouvernance, n'est récompensé lorsque le conseil d'administration inclut des représentants des salariés. Pour les investisseurs, une performance ESG plus élevée peut résulter d'une alliance entre les administrateurs salariés et les dirigeants.

En élargissant le champ de notre deuxième question de recherche, nous avons distingué, dans notre dernier chapitre, entre les deux types d'administrateurs salariés nommés au sein du conseil d'administration des entreprises françaises, à savoir les administrateurs élus par les salariés par le droit de travail (ci-après représentants des travailleurs) et les administrateurs élus par les salariés actionnaires (ci-après représentants des salariés actionnaires). Nous examinons dans un premier temps l'impact de chaque type d'administrateur salarié sur chaque pilier de la performance ESG à savoir le social, l'environnemental et de la gouvernance. Ensuite, nous examinons comment la perception des investisseurs vis à vis de la performance ESG est affectée par la nomination des représentants des travailleurs d'une part et des représentants des salariés actionnaires au conseil d'administration de l'autre part. En utilisant un échantillon de sociétés françaises appartenant à l'indice SBF 120 de 2007 jusqu'à 2017, nos résultats montrent que les représentants des travailleurs renforcent exclusivement le pilier social tout en réduisant de manière significative la performance ESG ainsi que les deux piliers

environnement et gouvernance. Inversement, les représentants des salariés actionnaires améliorent la performance ESG et les piliers environnement et gouvernance et réduisent le pilier social. Nos résultats montrent aussi que les investisseurs récompensent financièrement les entreprises ayant une bonne performance ESG et particulièrement une bonne performance sociale et en matière de gouvernance lorsque les salariés actionnaires sont représentés dans le conseil d'administration. En revanche, ils les pénalisent lorsque les représentants des travailleurs font partie du conseil d'administration.

Nous présentons dans ce qui suit un résumé des trois chapitres de notre thèse. Chaque résumé de chapitre comprend une brève présentation de la littérature suivie de la formulation des hypothèses. Ensuite, nous présentons la méthodologie utilisée et en particulier l'échantillon, les sources de données utilisées ainsi que les définitions des variables. Enfin, nous exposons les principaux résultats.

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## **Chapitre I : La représentation des salariés au sein du conseil d'administration est-elle importante pour la pertinence des rapports RSE ?**

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Les rapports RSE sont principalement utilisés pour informer les parties prenantes de l'entreprise sur ses activités sociales, environnementales et de développement durable. Cette communication d'information extra-financière est considérée comme une bonne stratégie pour gagner en légitimité aux yeux des parties prenantes, ayant des intérêts différents en matière de RSE (Sahed-Granger & Boncori, 2014).

La sensibilisation des parties prenantes aux activités RSE de l'entreprise est importante et elle n'a cessé de croître au fil du temps (Allix-Desfautaux & Makany, 2015). En revanche, la motivation des managers derrière cette divulgation n'est pas encore claire. En effet, un niveau élevé de divulgation RSE peut être utilisé pour améliorer la perception des parties prenantes vis-à-vis de l'engagement social et environnemental de l'entreprise ou, à l'inverse, pour détourner leur attention des mauvaises performances ou actions défavorables. Des recherches antérieures montrent que les investisseurs prennent en considération la composition et plus particulièrement la présence des femmes au sein du conseil d'administration pour juger la crédibilité des informations RSE divulguées (Nekhili, Nagati, Chtioui, & Nekhili, 2017b). De surcroît, la présence des salariés au sein du conseil d'administration peut servir aussi de filtre pour les investisseurs afin d'apprécier la crédibilité des rapports RSE.

Dans ce chapitre, nous examinons l'effet modérateur de la présence des administrateurs salariés sur la relation entre la divulgation des rapports RSE et la valeur du marché de

l'entreprise. En utilisant un échantillon d'entreprises françaises cotées appartenant à l'indice SBF 120 de 2001 jusqu'à 2011, nous montrons que la présence des salariés dans le conseil d'administration joue un rôle important en matière d'engagement RSE de l'entreprise. Néanmoins, nous constatons que l'effet marginal de la présence des administrateurs salariés sur la relation entre le reporting RSE et la valeur du marché de l'entreprise diffère selon la catégorie RSE examinée. Plus particulièrement, nous constatons que les investisseurs trouvent les informations environnementales et de développement durable plus pertinentes que les informations sociales lorsque les salariés sont représentés dans le conseil d'administration. Ce résultat suggère qu'un niveau élevé de reporting social peut refléter plus d'avantages aux salariés aux dépens des actionnaires qui en supportent les coûts.

Notre étude contribue à la littérature examinant les effets de la représentation des salariés dans le conseil d'administration et la pertinence des rapports RSE divulgués volontairement. Premièrement, nous montrons que les investisseurs font attention à la composition du conseil d'administration et utilisent des filtres pour évaluer la crédibilité des rapports RSE volontaires. Deuxièmement, nous soutenons que l'utilisation de variables modératrices est susceptible de fournir une analyse plus approfondie. Troisièmement, nous mettons en évidence un conflit d'intérêts entre les salariés et les actionnaires concernant le reporting RSE et ses différentes catégories à savoir sociale, environnementale et de développement durable.

## **I.1 Revue de la littérature et développement des hypothèses**

La participation des salariés au processus décisionnel est susceptible d'améliorer la qualité des informations sociales et environnementales communiquées aux parties prenantes. Premièrement, les employés disposent d'informations plus précieuses, réelles et précises sur les conditions de travail de l'entreprise et les besoins des travailleurs. Par conséquent, ils peuvent améliorer l'efficacité des investissements sociaux liés aux salariés. Dans un tel cas,

les parties prenantes peuvent traiter avec confiance les informations RSE et en particulier les informations divulguées sur le capital humain. Deuxièmement, les salariés dépendent de la survie et la continuité de leur organisation. Par conséquent, ils vont être plus concernés par la réputation de leur entreprise et ils peuvent encourager un reporting RSE de meilleure qualité afin de sensibiliser les parties prenantes, essentielles pour la survie de leur entreprise. Troisièmement, les administrateurs salariés améliorent l'efficacité du conseil d'administration (Huse et al., 2009), qui est responsable de la qualité des informations RSE divulguées (Cormier, Aerts, Ledoux, & Magnan, 2009). Finalement, les salariés en tant qu'internes à l'entreprise sont témoins des actions et de politiques sociales et environnementales ce qui les différencient des autres administrateurs. Néanmoins, des études antérieures montrent un comportement opportuniste des salariés dans le conseil d'administration. En d'autres termes, les administrateurs salariés peuvent utiliser leur pouvoir pour maximiser leurs propres intérêts plutôt que ceux des actionnaires (Bøhren & Strøm, 2010; Faleye, Mehrotra & Morck, 2006). En ce sens, un niveau élevé de reporting RSE peut signaler une position puissante des salariés dans le conseil d'administration qui menacerait la suprématie des actionnaires et / ou peut indiquer une éventuelle coalition entre les managers et les salariés. En conséquence nous proposons deux hypothèses :

**H1a :** Le reporting RSE est plus pertinent pour les entreprises ayant des administrateurs salariés que pour les entreprises sans administrateurs salariés.

**H1b :** Le reporting RSE est moins pertinent pour les entreprises ayant des administrateurs salariés que pour les entreprises sans administrateurs salariés.

## **I.2. Méthodologie**

Cette section décrit notre échantillon ainsi que les différentes variables utilisées dans la partie empirique de cette étude.

### ***1.2.1 Echantillon***

Pour examiner l'effet modérateur des administrateurs salariés sur la relation entre la divulgation RSE et la valeur de marché de l'entreprise, nous utilisons un échantillon de 91 sociétés françaises appartenant à l'indice SBF 120 (les sociétés financières, d'assurance et immobilières ayant été exclues), sur une période de 11 ans, allant de 2001 jusqu'à 2011. Nous avons collecté les données financières et comptables à partir de la base de données ThomsonOne. Les données concernant la gouvernance, l'actionnariat de l'entreprise et les données sur la RSE ont été collecté manuellement à partir des rapports annuels et rapports RSE (appelés aussi rapports de développement durable).

### ***1.2.2 Les variables de régression***

#### ***1.2.2.1 Variable dépendante : Q de Tobin***

Suivant Ginglinger, Megginson, et Waxin (2011), Cahan, De Villiers, Jeter, Naiker et Van Staden (2016) et Nekhili et al. (2017b), nous utilisons le Q de Tobin (Tobin's Q) comme mesure de la valeur de marché des entreprises. Cette mesure reflète l'évaluation par le marché de la valeur attendue d'une entreprise à long terme, comme l'expliquent Cahan et al. (2016).

#### ***1.2.2.2 Variable endogène : Reporting RSE***

A la suite de Nekhili, Nagati, Chtioui et Rebolledo (2017a) et Nekhili *et al.* (2017b), la méthode d'indice de divulgation non pondéré est utilisée pour mesurer le niveau de *reporting* RSE. Un indice d'analyse de contenu, fondé sur la grille de la loi Grenelle II, a été créé compte tenu de la conformité de ladite loi à la fois aux normes européennes et internationales et aux directives de la GRI (initiatives de reporting mondial). Cette grille contient 42 éléments subdivisés en trois catégories, à savoir le *reporting* social (19 éléments), le *reporting* environnemental (14 éléments), et le *reporting* sur le développement durable (9 éléments).

Le niveau de divulgation (CSR\_REP) est la somme des notes obtenues dans les trois catégories d'informations RSE (*reporting* social, environnemental et développement durable). L'indice proprement dit est le rapport entre la note globale attribuée au *reporting* RSE et la note maximale possible. Pour chaque item, nous attribuons la valeur 1 si l'item en question est explicitement divulgué dans les rapports annuels et/ou dans les rapports RSE, et 0 sinon. Le niveau de l'indice de divulgation de la RSE est alors considéré comme le rapport entre la note totale attribuée et la note maximale en référence aux 42 items précités.

#### *1.2.2.3 Variables modératrice : Administrateurs salariés*

Dans cette étude, on cherche à détecter l'effet modérateur de la présence des salariés dans le conseil d'administration. Pour ce faire, nous utilisons une variable muette (EMPL\_BOARD) qui prend la valeur 1 s'il y a au moins un salarié au conseil d'administration, et 0 sinon.

#### *1.2.2.4 Variables de contrôle*

Suivant les recherches antérieures (par exemple Nekhili et al., 2017a ; 2017b), nous utilisons un ensemble de variables de contrôles censées influencer le reporting RSE et la valeur de marché de l'entreprise. Nous contrôlons pour la vérification RSE (CSR\_ASS), la présence de comité RSE (CSR\_COM), la taille du conseil d'administration (BOAD\_SIZE), l'indépendance du conseil (BOARD\_IND), le nombre de réunion (BOARD\_MEET), la dualité des fonctions du CEO (DUAL), le mandat du CEO (TENURE), l'actionnariat familial (FAM\_OWN), l'actionnariat institutionnel (INST\_OWN), l'actionnariat salarié (EMPL\_OWN), l'effet de levier (LEV), le risque systématique (BETA), les actifs étrangers (FOR\_ASS), l'intensité des investissements R&D (R&D), la taille de l'entreprise (SIZE), la loi Grenelle I (GRE1), et finalement l'industrie (INDUSTRY).

#### *I.2.2.5 Modèle empirique*

$$\begin{aligned} \text{Tobin's } Q_{it} = & \beta_0 + \beta_1 \text{Lag Tobin's } Q_{it} + \beta_2 \text{CSR\_REP}_{it} + \beta_3 \text{EMP\_REP}_{it} + \beta_4 \\ & \text{CSR\_REP*EMPL\_BOARD} + \beta_5 \text{CSR\_ASS}_{it} + \beta_6 \text{CSR\_COM}_{it} + \beta_7 \text{BOARD\_SIZE}_{it} + \beta_8 \\ & \text{BAORD\_IND}_{it} + \beta_9 \text{BOARD\_MEET}_{it} + \beta_{10} \text{DUAL}_{it} + \beta_{11} \text{TENURE}_{it} + \beta_{12} \text{FAM\_OWN}_{it} + \beta_{13} \\ & \text{INST\_OWN}_{it} + \beta_{14} \text{EMPL\_OWN}_{it} + \beta_{15} \text{LEV}_{it} + \beta_{16} \text{BETA}_{it} + \beta_{17} \text{FOR\_ASS}_{it} + \beta_{18} \text{R\&D}_{it} + \\ & \beta_{19} \text{SIZE}_{it} + \beta_{20} \text{GRE1}_{it} + \beta_{21} \text{INDUSTRY}_{it} + \varepsilon_{it} \end{aligned}$$

### **I.3. Résultats**

L'objectif du tableau I.1 est de déterminer si le reporting RSE et la présence des salariés au sein du conseil d'administration influent conjointement sur la valeur de marché de l'entreprise (Q de Tobin). Pour cela, nous utilisons la technique du test conjoint. D'abord, nous créons une variable muette pour représenter un niveau élevé (H) de reporting RSE, en attribuant la valeur 1 pour les observations ayant un reporting RSE supérieur à la médiane (47,62 %), et 0 sinon. Nous mesurons ensuite l'effet marginal de la présence des salariés dans le conseil d'administration sur la pertinence d'un niveau plus élevé de reporting RSE en testant l'effet de la somme des coefficients (HCSR\_REP + HCSR\_REP \*EMPL\_BOARD) sur le Q de Tobin.

Le Modèle 1 du Tableau I.1 souligne un impact positif et significatif d'un niveau élevé de reporting RSE sur le Q de Tobin. Le Modèle 2 du Tableau I.1 cherche à comprendre comment un niveau élevé de reporting RSE et de la présence simultanée des salariés au sein du conseil d'administration affecte la valeur de marché de l'entreprise en incluant l'interaction entre la variable modératrice et la variable endogène spécifique (HCSR\_REP \*EMPL\_BOARD). Nous effectuons un test conjoint du coefficient pour HCSR\_REP et HCSR\_REP \*EMPL\_BOARD. Le Modèle 2 du Tableau I.1 montre un impact positif et significatif du terme d'interaction (HCSR\_REP \*EMPL\_BOARD) sur le Q de Tobin. L'effet marginal de la présence des salariés au sein du conseil d'administration sur l'existence d'une valeur plus élevée du niveau de reporting RSE est évalué par le test conjoint de la somme du coefficient sur le Q de Tobin. Modèle 2 du

tableau I.1 montre un coefficient positif (1,393) et significatif ( $z = 5,43$ ). Conformément à l'hypothèse de recherche H1a, nous constatons ainsi que les investisseurs réagissent positivement à un niveau plus élevé de reporting RSE fourni par les entreprises ayant des représentants salariés au sein de leur conseil d'administration. Nous rejetons par conséquent l'hypothèse de recherche H1b.

**Table I.1: Régression GMM du Q de Tobin sur un niveau élevé de reporting RSE et la présence des salariés au sein du conseil d'administration**

Variables	Model 1		Model 2	
	Coef.	t-test	Coef.	t-test
Lag Tobin's Q	0.128***	16.73	0.107***	10.12
HCSR_REP	0.141***	4.15	-0.213***	-3.03
EMPL_BOARD	-0.085	-0.81	-1.188***	-3.61
HCSR_REP * EMPL_BOARD			1.606***	5.64
CSR_VERIF	-0.006	-0.15	-0.047	-1.08
CSR_COM	-0.048*	-1.66	-0.089**	-2.86
BOARD_SIZE	-0.213***	-4.87	-0.185**	-2.37
BOARD_IND	-0.153*	-1.96	-0.211**	-2.31
BOARD_MEET	-0.061*	-1.40	-0.068	-1.56
DUAL	-0.201***	-5.67	-0.150***	-3.62
TENURE	0.025	0.76	-0.029	-0.75
FAM_OWN	0.496***	4.20	0.453***	4.01
INST_OWN	-0.134	-1.49	-0.225	-1.50
EMPL_OWN	-1.84***	-3.07	-1.375	-1.47
LEV	-0.521***	-5.50	-1.034***	-8.62
BETA	0.237***	5.30	0.121*	1.90
FOR_ASS	-0.281***	-4.00	-0.086	-1.05
R&D	1.113***	3.50	0.487	1.08
SIZE	0.001	0.05	0.014	0.62
Intercept	1.291***	5.04	1.622***	5.92
Year	Yes		Yes	
Industry	Yes		Yes	
Number of observations	790		790	
Fisher (Prob. > F)	12774 ( $p = 0.000$ )		5170.61 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.88 ( $p = 0.004$ )		-2.92 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	0.34 ( $p = 0.737$ )		0.39 ( $p = 0.698$ )	
Sargan test (Chi-square, $p$ -value):	736.84 ( $p = 0.000$ )		669.35 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	75.10 ( $p = 0.259$ )		67.11 ( $p = 0.473$ )	
Joint test: HCSR_REP + (HCSR_REP * EMPL_BOARD)			1.393***	5.43

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

#### **I.4 Analyses Supplémentaires**

Nous réalisons des analyses supplémentaires pour examiner l'effet de la présence des administrateurs salariés sur la pertinence des différentes catégories de reporting RSE (social, environnemental, et de développement durable). Pour le reporting sociale, le Modèle 1 du Tableau I.2 montre que le coefficient d'interaction (HSOCIAL\_REP \* EMPL\_BOARD) n'a pas d'impact significative sur le Q de Tobin, ce qui suggère qu'un reporting social élevé, reflète plus d'avantages pour les salariés. Les coefficients des Modèles 2 et 3 du tableau I.2 montrent une relation positive et significative entre les variables d'interaction (HENVI\_REP \* EMPL\_BOARD) et (HSUST\_REP \* EMPL\_BOARD) et le Q de Tobin. Ces résultats suggèrent que le marché évalue positivement un niveau élevé de reporting environnementaux et de développement durable lorsque les salariés sont représentés au sein du conseil d'administration. Les coefficients du test conjoints des Modèles 2 et 3 sont positifs et significatifs sur la valeur de marché, ce qui indique qu'un niveau plus élevé de reporting environnementale et de reporting en matière de développement durable, lorsqu'ils sont fournis par des entreprises avec au moins un salarié nommé au conseil d'administration, sont financièrement récompensés par les investisseurs.

**Table I.2: Régression GMM du Q de Tobin sur l'interaction entre un niveau élevé de reporting social, reporting environnemental et reporting en matière de développement durable et la présence des salariés au sein du conseil d'administration**

Variables	Model 1		Model 2		Model 3	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's Q	0.060***	5.78	0.097***	9.88	0.148***	10.65
HSOCIAL_REP	0.151***	2.56				
HENVIR_REP			-0.017	-0.30		
HSUST_REP					-0.670***	-8.45
EMPL_BOARD	-0.622***	-3.74	-0.709***	-3.54	-2.836***	-7.29
HSOCIAL_REP *EMPL_BOARD	-0.358	-1.39				
HENVIR_REP *EMPL_BOARD			0.725***	3.81		
HSUST_REP *EMPL_BOARD					3.277***	7.52
CSR_VERIF	0.087	1.77	-0.004	-0.10	-0.128***	-3.45
CSR_COM	-0.041	-1.08	-0.104***	-3.74	-0.027	-0.68
BOARD_SIZE	-0.025	-0.36	-0.138**	-2.53	-0.205***	-2.83
BOARD_IND	-0.214**	-2.47	-0.210***	-3.03	-0.334***	-3.07
BOARD_MEET	0.002	0.06	-0.059**	-2.07	-0.164***	-5.15
DUAL	-0.130***	-2.91	-0.190***	-4.95	-0.031	-0.73
TENURE	0.089***	3.02	0.036	1.44	0.025	0.82
FAM_OWN	0.175*	1.81	0.463***	4.76	0.524***	4.38
INST_OWN	-0.285***	-2.98	-0.077	-1.00	0.007	0.05
EMPL_OWN	0.668	0.79	-1.328**	-2.37	-2.685**	-2.42
LEV	-0.524***	-4.05	-0.681***	-7.63	-1.059***	-13.08
BETA	0.359***	5.59	0.319***	5.90	0.115	1.59
FOR_ASS	-0.449***	-4.89	-0.220***	-2.88	-0.181**	-2.02
R&D	2.001***	4.26	1.568***	3.71	0.811*	1.96
SIZE	0.040**	2.23	0.003	0.15	0.063***	3.60
Intercept	0.179	0.54	1.624***	5.02	1.823***	5.28
Year	Yes		Yes		Yes	
Industry	Yes		Yes		Yes	
Number of observations	790		790		790	
Fisher (Prob. > F)	32162.52 ( $p = 0.000$ )		3323.06 ( $p = 0.000$ )		13127.25 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-2.84 ( $p = 0.004$ )		-2.88 ( $p = 0.004$ )		-2.92 ( $p = 0.004$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	0.12 ( $p = 0.906$ )		0.35 ( $p = 0.725$ )		0.78 ( $p = 0.434$ )	
Sargan test (Chi-square, $p$ -value):	694.82 ( $p = 0.000$ )		740.11 ( $p = 0.000$ )		564.881 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	69.59 ( $p = 0.295$ )		73.99 ( $p = 0.184$ )		74.06 ( $p = 0.259$ )	
Joint test: HSOCIAL_REP	-0.207	-0.93				
+ (HSOCIAL_REP * EMPL_BOARD)						
Joint test: HENVIR_REP			0.708***	4.37		
+ (HENVIR_REP * EMPL_BOARD)						
Joint test: HSUST_REP					2.607***	5.50
+ (HSUST_REP * EMPL_BOARD)						

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.



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## **Chapitre II : La performance ESG et la valeur de marché de l'entreprise : Le rôle modérateur des administrateurs salariés**

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La performance ESG est un aspect important de la stratégie d'entreprise, qui reflète la capacité de cette dernière à maintenir de bonnes relations avec ses différentes parties prenantes (Friede, Bush & Bassen, 2015).

Pour une meilleure performance ESG, certains auteurs recommandent des conseils d'administration orientés vers les parties prenantes (Shaukat, Qiu & Trojanowski, 2016), dans la mesure où la participation des parties prenantes au processus décisionnel modifie la perception du marché vis à vis des performances ESG. Un changement majeur dans la gouvernance d'entreprise au cours des dernières années a été la présence des représentants des salariés au sein du conseil d'administration (Huse et al., 2009 ; Ginglinger et al., 2011).

Dans ce chapitre, nous s'intéressons à la perception des investisseurs envers la performance ESG et ses trois piliers (sociaux, environnementaux et de gouvernance), selon que les salariés sont ou non représentés au conseil d'administration. En utilisant un échantillon d'entreprise française appartenant à l'indice SBF 120 pour la période allant de 2007 jusqu'à 2017, nos résultats montrent que les investisseurs s'intéressent à l'information sur la performance ESG de l'entreprise. En revanche, ils réagissent négativement à la représentation des salariés dans le conseil d'administration. Nos analyses montrent aussi que la relation entre la performance ESG et la valeur de marché de l'entreprise est négativement modérée par la présence des salariés dans le conseil d'administration. Nous constatons que, lorsque les

salariés sont représentés au conseil d'administration, ni la performance sociale, ni la performance environnementale et de gouvernance ne sont pertinentes pour les investisseurs.

Ce chapitre confirme les résultats du premier chapitre et présente de nouvelles preuves du conflit d'intérêts entre les actionnaires et les salariés en matière de RSE. Ce chapitre souligne aussi le fait que la perception des investisseurs à l'égard des piliers de la performance ESG (environnement, social et de gouvernance) diffère selon que les salariés sont représentés ou non au conseil d'administration.

## **II.1 Revue de la littérature et développement des hypothèses**

Du point de vue des actionnaires, une bonne performance ESG lorsque les salariés sont représentés au sein du conseil d'administration peut conduire à deux situations. D'une part, les administrateurs salariés peuvent avoir un impact positif sur la performance ESG, car ils peuvent jouer un rôle important dans les décisions RSE (Preuss, Haunschild & Matten, 2009) et parce qu'ils se préoccupent davantage des activités socialement responsables de leurs entreprises que les autres membres du conseil d'administration (Huse et al., 2009). De l'autre côté, une bonne performance ESG peut refléter le pouvoir des salariés sur le conseil d'administration, car ils sont parmi les principaux bénéficiaires de l'investissement ESG (Barnea & Rubin, 2010). En conséquence, nous suggérons que :

**H1a** : La représentation des salariés au sein du conseil d'administration modère positivement la relation entre la performance ESG et la valeur de marché de l'entreprise.

**H1b** : La représentation des salariés au sein du conseil d'administration modère négativement la relation entre la performance ESG et la valeur de marché de l'entreprise.

## **II.2 Méthodologie**

Cette section décrit notre échantillon et les différentes variables utilisées dans notre étude empirique.

### ***II.2.1 Echantillon***

Pour examiner l'effet modérateur des administrateurs salariés sur la relation entre la performance ESG et la valeur de marché de l'entreprise, nous utilisons un échantillon de 91 sociétés françaises cotées au SBF 120 (les sociétés financières, d'assurance et immobilières ayant été exclues), sur une période de 11 ans, de 2007 à 2017. Les données sur la performance ESG et ses trois piliers (social, environnement et de gouvernance) sont collectées à partir du site web de Thomson Reuters/S-Network ESG Best Practice Ratings. Nous avons collecté les données financières et comptables à partir de la base de données ThomsonOne. Les données concernant la gouvernance et l'actionnariat de l'entreprise ont été collecté manuellement à partir des rapports annuels et des rapports RSE.

### **II.2.2 Les variables de régression**

#### ***II.2.2.1 Variable dépendante : Q de Tobin***

Suivant Ginglinger et al. (2011), Cahan et al. (2016) et Nekhili et al. (2017b), nous utilisons le Q de Tobin (Tobin's Q) comme mesure de la valeur de marché des entreprises. Cette mesure reflète l'évaluation par le marché de la valeur attendue d'une entreprise à long terme, comme l'expliquent Cahan et al. (2016).

#### ***II.2.2.2 Variable endogène : Performance ESG***

Pour mesurer la performance ESG, nous utilisons les notations ESG fournies par Thomson Reuters / S-Network. Cette mesure fournit des évaluations de la performance ESG et ses trois piliers (environnemental, social et gouvernance) de plus de 5000 entreprises dans le monde.

### *II.2.2.3 Variables modératrice : Administrateurs salariés*

Suivant Ginglinger et al., (2011) et Guedri et Hollandts (2008), nous mesurons la représentation des salariés au sein du conseil d'administration par le nombre d'administrateurs élus par les salariés en proportion du nombre total d'administrateurs au sein du conseil d'administration.

### *II.2.2.4 Variables de contrôle*

Suivant les recherches antérieures (par exemple Nekhili et al., 2017a ; 2017b), nous utilisons un ensemble de variables de contrôles censées influencer la performance ESG et la valeur de marché de l'entreprise. Nous contrôlons pour la vérification RSE (CSR\_ASS), la présence de comité RSE (CSR\_COM), la taille du conseil d'administration (BOARD\_SIZE), l'indépendance du conseil (BOARD\_IND), le nombre de réunion (BOARD\_MEET), la dualité des fonctions du CEO (DUAL), le mandat du CEO (TENURE), l'actionnariat familial (FAM\_OWN), l'actionnariat institutionnel (INST\_OWN), l'actionnariat salarié (EMPL\_OWN), l'effet de levier (LEV), l'intensité des investissements R&D (R&D), la taille de l'entreprise (SIZE), la loi de 2013 (LAW2013), et finalement l'industrie (INDUSTRY).

### *II.2.2.5 Modèle empirique*

$$\begin{aligned} \text{TOBIN}_{it} = & \beta_0 + \beta_1 \text{Lag TOBIN}_{it} + \beta_2 \text{ESG\_PER}_{it} + \beta_3 \text{EMPL\_BOARD}_{it} + \beta_4 \\ & (\text{ESG\_PER} * \text{EMPL\_BOARD})_{it} + \beta_5 \text{CSR\_ASS}_{it} + \beta_6 \text{CSR\_COM}_{it} + \beta_7 \text{BOARD\_SIZE}_{it} + \beta_8 \\ & \text{BOARD\_IND}_{it} + \beta_9 \text{BOARD\_MEET}_{it} + \beta_{10} \text{DUAL}_{it} + \beta_{11} \text{TENURE}_{it} + \beta_{12} \text{FAM\_OWN}_{it} + \beta_{13} \\ & \text{INST\_OWN}_{it} + \beta_{14} \text{EMPL\_OWN}_{it} + \beta_{15} \text{LEV}_{it} + \beta_{16} \text{R\&D}_{it} + \beta_{17} \text{SIZE}_{it} + \beta_{18} \text{LAW2013}_t + \beta_{19} \\ & \text{INDUSTRY}_i + \varepsilon_{it} \end{aligned}$$

## **II.3 Résultats**

Le Modèle 1 du tableau II.1 montre un impact positif et significatif de la performance ESG sur la valeur de marché de l'entreprise, mesurée par le Q de Tobin ( $\beta_2 = 0,185$ ,  $t = 5,33$ ). Pour le Modèle 2, l'impact de la performance ESG sur la valeur de marché est toujours stable et

positive et significative sur le Q de Tobin lorsque les administrateurs salariés sont introduits dans le modèle empirique.

Dans le Modèle 3 du Tableau II.1, nous mesurons l'effet marginal de la performance ESG sur la valeur de marché des entreprises avec des administrateurs salariés, en utilisant la technique de test conjoint. Le test clé est le test conjoint de la somme des coefficients de performance ESG (ESG\_PER) et du terme d'interaction (ESG\_PER \* EMPL\_BOARD). Conformément à notre hypothèse H1b et contrairement à notre hypothèse H1a, le coefficient (ESG\_PER + ESG\_PER \* EMPL\_BOARD) montre un impact négatif et significatif sur le Q de Tobin et suggère que la représentation des salariés au conseil d'administration modère négativement la relation entre la performance ESG et la valeur de marché de l'entreprise.

**Table II.1 : Régression GMM du Q de Tobin sur la performance ESG et la présence des salariés au sein du conseil d'administration**

Variables	Model 1		Model 2		Model 3: ESG_PER*EMPL_BOARD	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.833***	156.32	0.813***	179.73	0.807***	125.99
ESG_PER	0.185***	5.33	0.220***	5.39	0.752***	10.75
EMPL_BOARD			-1.852***	-11.35	8.864***	9.19
ESG_PER*EMPL_BOARD					-8.566***	-7.38
CSR_ASS	0.065***	5.10	0.051***	2.71	-0.033*	-1.72
CSR_COM	0.045***	5.32	0.044***	2.61	0.047**	2.16
BOARD_SIZE	0.107***	3.59	0.004	0.07	0.040	0.65
BOARD_IND	-0.026	-0.92	0.353***	7.79	0.381***	9.70
BOARD_MEET	0.010	0.79	0.010	0.40	-0.038	-1.43
DUAL	-0.119***	-8.73	-0.135***	-7.62	-0.140***	-7.05
TENURE	-0.032***	-4.49	-0.020**	-2.13	-0.026**	-2.41
FAM_OWN	0.220***	5.03	0.508***	9.32	0.478***	7.21
INST_OWN	-0.003	-0.10	-0.038	-1.11	-0.081**	-2.52
EMPL_OWN	0.340	1.38	0.403	1.12	0.093	0.29
LEV	0.299***	6.99	0.358***	5.82	0.374***	5.99
R&D	-0.241*	-1.75	0.001	0.01	0.493***	2.98
SIZE	-0.031***	-6.27	-0.064***	-4.98	-0.067***	-6.13
LAW2013	0.067***	8.92	0.004	0.38	0.028***	3.10
Intercept	-0.181***	-2.58	0.017	0.14	-0.293**	-1.99
Industry	Yes		Yes		Yes	
Number of observations	741		741		741	
Fisher (Prob. > F)	1965.33 ( <i>p</i> = 0.000)		6145.54 ( <i>p</i> = 0.000)		7333.52 ( <i>p</i> = 0.000)	
Arellano–Bond test AR(1) ( <i>z</i> , <i>p</i> -value):	-2.75 ( <i>p</i> = 0.003)		-2.75 ( <i>p</i> = 0.003)		-2.90 ( <i>p</i> = 0.004)	
Arellano–Bond test AR(2) ( <i>z</i> , <i>p</i> -value):	-0.43 ( <i>p</i> = 0.670)		-0.69 ( <i>p</i> = 0.887)		0.14 ( <i>p</i> = 0.887)	
Sargan test (Chi-square, <i>p</i> -value):	594.41 ( <i>p</i> = 0.000)		591.31 ( <i>p</i> = 0.000)		733.83 ( <i>p</i> = 0.000)	
Hansen test (Chi-square, <i>p</i> -value):	69.84 ( <i>p</i> = 0.382)		67.33 ( <i>p</i> = 0.431)		77.10 ( <i>p</i> = 0.211)	
Joint test: ESG_PER + (ESG_PER*EMPL_BOARD)					-7.814***	-6.71

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively.

## II.4 Analyses Supplémentaires

Dans le tableau II.2, nous examinons l'effet modérateur de la présence des salariés au sein du conseil d'administration sur la relation entre les trois piliers de la performance ESG, à savoir le social, l'environnemental et en matière de gouvernance et la valeur de marché de l'entreprise, mesurée par le Q de Tobin. Pour le pilier social, les résultats empiriques du Modèle 1 montrent que l'impact de la variable d'interaction ( $\text{SOCIAL\_PER} + \text{SOCIAL\_PER} * \text{EMPL\_BOARD}$ ) est négatif ( $\beta_4 = -14.258$ ) et fortement significatif ( $t = -8.52$ ) sur le Q de Tobin, suggérant que les investisseurs pénalisent financièrement une entreprise ayant une bonne performance sociale lorsque les salariés sont représentés au sein du conseil d'administration.

Les Modèles 2 et 3 du tableau II.2 montrent également une relation négative et significative entre la somme du coefficient ( $\text{ENVIR\_PER} + \text{ENVIR\_PER} * \text{EMPL\_BOARD}$ ) et le Q de Tobin, d'une part, et entre ( $\text{CG\_PER} + \text{CG\_PER} * \text{EMPL\_BOARD}$ ) et le q de Tobin, d'autre part. Ces résultats suggèrent que le marché évalue négativement les performances environnementales et les performances de gouvernance lorsque les salariés sont nommés au sein du conseil d'administration.

**Table II.2 : Régression GMM du Q de Tobin sur l'interaction entre la performance Sociale, Environnementale et en matière de Gouvernance et la présence des salariés au sein du conseil d'administration.**

Variables	Model 1: SOCIAL_PER*EMPL_BOARD		Model 2: ENVIR_PER*EMPL_BOARD		Model 3: CG_PER*EMPL_BOARD	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag TOBIN	0.819***	126.87	0.813***	94.42	0.811***	101.48
EMPL_BOARD	15.674***	10.37	8.666***	3.66	6.851***	11.92
SOCIAL_PER	0.844***	6.22				
SOCIAL_PER*EMPL_BOARD	-15.103***	-8.58				
ENVIR_PER			-0.258*	-1.67		
ENVIR_PER*EMPL_BOARD			-8.521***	-3.42		
CG_PER					0.933***	12.26
CG_PER*EMPL_BOARD					-8.767***	-9.30
CSR_ASS	-0.021	-1.00	0.059*	1.83	-0.003	-0.11
CSR_COM	0.050**	2.31	0.091***	3.07	0.031	1.60
BOARD_SIZE	0.027	0.49	0.019	0.29	0.047	0.76
BOARD_IND	0.445***	6.85	0.447***	4.80	0.579***	6.35
BOARD_MEET	-0.008	-0.32	0.003	0.11	-0.109***	-3.07
DUAL	-0.125***	-5.43	-0.109***	-4.64	-0.109***	-4.53
TENURE	-0.023*	-1.75	-0.056***	-3.06	-0.014	-1.11
FAM_OWN	0.447***	5.96	0.325***	3.76	0.650***	6.17
INST_OWN	-0.156***	-3.46	-0.037	-0.72	-0.056	-1.39
EMPL_OWN	-0.422	-1.41	0.534	1.17	0.278	0.71
LEV	0.252***	2.55	0.172**	2.40	0.434***	5.97
R&D	0.385**	2.07	0.808*	1.89	0.631***	2.90
SIZE	-0.077***	-6.73	-0.013	-0.99	-0.072***	-4.93
LAW2013	-0.012	-0.98	0.018	0.90	0.042***	3.85
Intercept	-0.361***	-2.61	0.114	0.63	-0.296**	-1.98
Industry	Yes		Yes		Yes	
Number of observations	741		741		741	
Fisher (Prob. > F)	1348.08 ( $p = 0.000$ )		1753.64 ( $p = 0.000$ )		1592.60 ( $p = 0.000$ )	
Arellano–Bond test AR(1) (z, $p$ -value):	-2.81 ( $p = 0.004$ )		-2.79 ( $p = 0.004$ )		-2.87 ( $p = 0.004$ )	
Arellano–Bond test AR(2) (z, $p$ -value):	-0.56 ( $p = 0.906$ )		-0.41 ( $p = 0.680$ )		-0.20 ( $p = 0.434$ )	
Sargan test (Chi-square, $p$ -value):	573.49 ( $p = 0.000$ )		177.46 ( $p = 0.000$ )		550.07 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	62.12 ( $p = 0.299$ )		58.90 ( $p = 0.333$ )		58.18 ( $p = 0.413$ )	
Joint test: SOCIAL_PER + (SOCIAL_PER*EMPL_BOARD)	-14.258***	-8.52				
Joint test: ENVIR_PER + (ENVIR_PER*EMPL_BOARD)			-8.780***	-3.64		
Joint test: CG_PER + (CG_PER*EMPL_BOARD)					-7.834***	-8.57

Note: \*, \*\*, \*\*\* Represent significance at the 0.10, 0.05 and 0.01 levels, respectively. All variables are as defined in Table II.1.



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## **Chapitre III : La relation entre la performance ESG et la performance financière : le type d'administrateur salarié est-il important ?**

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La représentation des salariés au sein du conseil d'administration est une politique ayant pour objectif d'équilibrer les forces entre le capital humain et le capital financier, et pour mieux prendre en considération les préoccupations des différentes parties prenantes plutôt que de se concentrer uniquement sur les actionnaires. En France, les conseils d'administration peuvent inclure deux types d'administrateurs salariés. Ces deux types d'administrateur ont, en effet, des intérêts différents ce qui peut impacter leur comportement au sein du conseil d'administration et, plus particulièrement, au sujet de la performance ESG.

Dans ce chapitre, nous essayons d'abord d'examiner l'impact de chaque type d'administrateur salarié sur les différents piliers de la performance ESG, et d'examiner par la suite si les investisseurs sont sensibles au type d'administrateur salarié nommé au sein du conseil d'administration lorsqu'ils évaluent la performance ESG de l'entreprise. En utilisant un échantillon apparié d'entreprises françaises cotées appartenant à l'indice SBF 120 pour la période 2007-2017, nous trouvons que les deux types d'administrateurs salariés ont des impacts différents sur la performance ESG de l'entreprise. Nos résultats montrent que la représentation des travailleurs au sein du conseil d'administration améliore exclusivement la performance sociale, alors que la représentation des salariés actionnaires améliore la performance ESG, la performance environnementale et la performance en matière de gouvernance d'entreprise. Nous constatons que si la présence des représentants des salariés actionnaires au conseil d'administration modère positivement la perception des investisseurs envers la performance ESG, la présence des représentants des travailleurs modère négativement cette perception.

### **III.1 Développement des hypothèses**

En examinant la littérature, nous trouvons que les représentants des travailleurs au sein du conseil d'administration cherchent à maximiser les intérêts des salariés alors que les représentants des salariés actionnaires se comportent comme des administrateurs traditionnels (Ginglinger et al., 2011). En conséquence, nous formulons les hypothèses suivantes :

**H1a** : La proportion des représentants des travailleurs au sein du conseil d'administration est positivement associée à la performance sociale de l'entreprise.

**H1b** : La proportion des représentants des salariés actionnaires au sein du conseil d'administration est négativement associée à la performance sociale de l'entreprise.

**H2a** : La proportion des représentants des travailleurs au sein du conseil d'administration est positivement associée à la performance environnementale de l'entreprise.

**H2b** : La proportion des représentants des salariés actionnaires au sein du conseil d'administration est positivement associée à la performance environnementale de l'entreprise.

**H3a** : La proportion des représentants des travailleurs au sein du conseil d'administration est négativement associée à la performance de l'entreprise en matière de gouvernance.

**H3b** : La proportion des représentants des salariés actionnaires au sein du conseil d'administration est positivement associée à la performance de l'entreprise en matière de gouvernance.

**H4a** : La proportion des représentants des travailleurs au sein du conseil d'administration modère négativement la relation entre la performance ESG et la valeur de marché de l'entreprise.

**H4b** : La proportion des représentants des salariés actionnaires au sein du conseil d'administration modère positivement la relation entre la performance ESG et la valeur de marché de l'entreprise.

## **III.2. Méthodologie**

Cette section décrit l'échantillon, les sources de données et les différentes variables utilisées dans notre étude empirique.

### **III.2.1 Echantillon**

Pour examiner nos hypothèses de recherche, nous utilisons un échantillon de sociétés françaises cotées au SBF 120 (les sociétés financières, d'assurance et immobilières ayant été exclues), sur une période de 11 ans, de 2007 à 2017. Notre échantillon final se compose de 817 observations. Les données sur la performance ESG et ses trois piliers (social, environnement et de gouvernance) sont collectées à partir du site web de Thomson Reuters/S-Network ESG Best Practice Ratings. Nous avons collecté les données financières et comptables à partir de la base de données ThomsonOne. Les données concernant la gouvernance et l'actionnariat de l'entreprise ont été collectées manuellement à partir des rapports annuels et des rapports RSE.

### **III.2.2 Les variables de régression**

#### *III.2.2.1 Variables dépendantes*

L'objectif de ce chapitre est double : (1) examiner l'impact des différents types de représentation des salariés (c'est-à-dire la représentation des travailleurs et la représentation des salariés actionnaires) sur la performance ESG et (2) déterminer si la perception de la performance ESG par les investisseurs est influencée par la manière dont les salariés sont représentés au sein du conseil d'administration. Deux variables dépendantes sont ainsi considérées dans notre étude : la performance ESG (ESG performance) et la valeur de marché (Tobin's q), mesurée par le q de Tobin.

#### *III.2.2.2 Variable endogène : Administrateurs salariés*

Suivant les études précédentes (Ginglinger et al., 2011; Guedri & Hollandts, 2008), nous mesurons la représentation des salariés au sein du conseil d'administration (Employee directorship) par le ratio du nombre d'administrateurs salariés (élus par les travailleurs et élus par les salariés actionnaires) divisé par

le nombre total d'administrateurs au sein du conseil d'administration. La présence de représentants travailleurs (Labour representation) est mesurée par la proportion d'administrateurs élus par les salariés par leur droit de travail par rapport au nombre total d'administrateurs au sein du conseil. La présence des représentants des salariés actionnaires au conseil (Employee-shareholders representation) est mesurée par la proportion d'administrateurs élus par les salariés actionnaires par rapport au nombre total d'administrateurs.

### *III.2.2.3 Variables de contrôle*

Nous utilisons un ensemble de variables de contrôles censées influencer la performance ESG et la valeur de marché de l'entreprise. Nous contrôlons pour la présence des rapports RSE (Standalone) la vérification RSE (CSR assurance), la présence de comité RSE (CSR committee), la taille du conseil d'administration (Board size), l'indépendance du conseil (Board independence), la présence des femmes au sein du conseil d'administration (Board gender diversity) le nombre de réunion (Board meeting), la dualité des fonctions du CEO (Duality), le mandat du CEO (CEO tenure), l'actionnariat familial (Family ownership), l'actionnariat institutionnel (Institutional ownership), l'effet de levier (Leverage), la rentabilité des actifs (ROA), l'intensité des investissements R&D (R&D), la taille de l'entreprise (Firm size), la loi de 2013 (Law 2013), et l'industrie (Industry).

### *III.2.2.5 Modèle empirique*

Dans ce chapitre on utilise deux modèles empiriques.

$$\begin{aligned} \text{ESG performance}_{i,t} = & \beta_0 + \beta_1 \text{Lag ESG performance}_{i,t} + \beta_2 \text{Employee directorship}_{i,t} + \beta_3 \\ & \text{Standalone}_{i,t} + \beta_4 \text{CSR assurance}_{i,t} + \beta_5 \text{CSR committee}_{i,t} + \beta_6 \text{Board size}_{i,t} + \beta_7 \text{Board} \\ & \text{independence}_{i,t} + \beta_8 \text{Board gender diversity}_{i,t} + \beta_9 \text{Board meeting}_{i,t} + \beta_{10} \text{Duality}_{i,t} + \beta_{11} \text{CEO} \\ & \text{tenure}_{i,t} + \beta_{12} \text{Family ownership}_{i,t} + \beta_{13} \text{Institutional ownership}_{i,t} + \beta_{14} \text{Leverage}_{i,t} + \beta_{15} \text{ROA}_{i,t} + \beta_{16} \\ & \text{R\&D}_{i,t} + \beta_{17} \text{Firm size}_{i,t} + \beta_{18} \text{Law 2013\_FE} + \beta_{19} \text{Industry\_FE} + \varepsilon_{i,t} \end{aligned}$$

$$\begin{aligned} \text{Tobin's } q_{i,t} = & \beta_0 + \beta_1 \text{Lag Tobin's } q_{i,t} + \beta_2 \text{ESG performance}_{i,t} + \beta_3 \text{Employee directorship}_{i,t} + \\ & \beta_4 (\text{ESG performance}_{i,t} * \text{Employee directorship}_{i,t}) + \beta_5 \text{Standalone}_{i,t} + \beta_6 \text{CSR assurance}_{i,t} + \beta_7 \text{CSR} \\ & \text{committee}_{i,t} + \beta_8 \text{Board size}_{i,t} + \beta_9 \text{Board independence}_{i,t} + \beta_{10} \text{Board gender diversity}_{i,t} + \beta_{11} \text{Board} \\ & \text{meeting}_{i,t} + \beta_{12} \text{Duality}_{i,t} + \beta_{13} \text{CEO tenure}_{i,t} + \beta_{14} \text{Family ownership}_{i,t} + \beta_{15} \text{Institutional ownership}_{i,t} \\ & + \beta_{16} \text{Leverage}_{i,t} + \beta_{17} \text{ROA}_{i,t} + \beta_{18} \text{R\&D}_{i,t} + \beta_{19} \text{Firm size}_{i,t} + \beta_{20} \text{Law 2013\_FE} + \beta_{21} \text{Industry\_FE} \\ & + \varepsilon_{i,t} \end{aligned}$$

### III.3 Résultats

Le Tableau III.1 présente les résultats de la régression du système GMM de la performance ESG sur la représentation des travailleurs au sein du conseil d'administration. Nos résultats montrent que la représentation des travailleurs réduit significativement la performance ESG de l'entreprise. En examinant les trois piliers de la performance ESG, nous constatons que la représentation des travailleurs améliore exclusivement le pilier social (Modèle 2) et a réduit la performance environnementale (Modèle 3) et la performance en matière de gouvernance d'entreprise (Modèle 4). Par conséquent, nous confirmons nos hypothèses H1a et H3a et rejetons l'hypothèse H2a.

Contrairement au Tableau III.1, le Tableau III.2 révèle une relation positive et significative entre la présence des représentants des salariés actionnaires et la performance ESG. Le Tableau III.2 montre également que les représentants des salariés actionnaires améliorent la performance environnementale et en matière de gouvernance et réduisent la performance sociale. Les relations prédites par les hypothèses H1b, H2b et H3b sont alors confirmées.

**Table III.1 : Régression du système GMM de la performance ESG sur la représentation des travailleurs au sein du conseil d'administration**

Variables	Model 1: ESG performance		Model 2: Social performance		Model 3: Environmental performance		Model 4: Corporate governance performance	
	Coef.	t-test	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> ESG performance	0.545***	58.11						
<i>Lag</i> Social performance			0.756***	37.29				
<i>Lag</i> Environmental performance					0.665***	55.14		
<i>Lag</i> Corporate governance performance							0.475***	49.73
Labour representation	-0.113***	-8.43	0.067**	2.51	-0.067***	-5.32	-0.196***	-12.79
Standalone	0.013***	5.25	0.002	0.69	0.013***	4.37	0.014***	3.45
CSR assurance	0.020***	6.80	-0.005	-0.82	0.014***	5.98	0.009*	1.96
CSR committee	0.005*	1.67	-0.001	-0.12	0.008***	2.78	-0.001	-0.17
Board size	-0.034***	-5.25	-0.011	-0.98	-0.021***	-2.62	-0.042***	-2.94
Board independence	0.064***	12.41	0.041***	2.87	0.061***	6.64	0.023**	2.21
Board gender diversity	0.084***	8.90	0.009	0.63	0.053***	7.23	0.029**	2.14
Board meetings	-0.006***	-4.62	-0.002	-0.71	-0.007**	-2.53	-0.001	-0.26
Duality	0.019***	10.73	0.009**	2.04	0.022***	6.24	-0.011**	-2.43
CEO tenure	-0.009***	-10.09	-0.005**	-2.29	-0.007***	-5.54	-0.013***	-6.60
Family ownership	0.002	0.25	-0.019*	-1.95	0.012	1.19	-0.050***	-6.46
Institutional ownership	0.028***	6.81	0.012*	1.69	0.025***	3.51	0.026***	3.07
Leverage	-0.017***	-3.01	-0.009	-0.81	-0.023***	-3.06	-0.041***	-6.60
ROA	0.022	0.75	-0.075	-1.60	-0.034	-0.76	0.114***	2.74
R&D	-0.025	-1.05	-0.198***	-3.42	0.032	0.59	0.106**	2.05
Firm size	0.012***	9.23	0.002	0.95	0.010***	5.64	0.013***	5.17
Law 2013	-0.020***	-13.14	-0.008***	-2.70	0.011***	6.95	-0.034***	-16.93
Intercept	0.132***	5.67	0.173***	4.84	0.078***	2.62	0.218***	7.47
Industry	Yes		Yes		Yes		Yes	
Number of obs.	313		313		313		313	
F (Prob > F)	3769.38 ( $p = 0.000$ )		839.24 ( $p = 0.000$ )		7950.47 ( $p = 0.000$ )		6676.49 ( $p = 0.000$ )	
Arellano–Bond test AR(1) ( $z$ , $p$ -value):	-3.95 ( $p = 0.000$ )		-3.77 ( $p = 0.000$ )		-4.80 ( $p = 0.000$ )		-3.42 ( $p = 0.001$ )	
Arellano–Bond test AR(2) ( $z$ , $p$ -value):	1.04 ( $p = 0.302$ )		1.44 ( $p = 0.150$ )		1.24 ( $p = 0.125$ )		-0.94 ( $p = 0.349$ )	
Sargan test (Chi-square, $p$ -value):	251.65 ( $p = 0.000$ )		65.42 ( $p = 0.001$ )		279.88 ( $p = 0.000$ )		289.78 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	58.82 ( $p = 0.211$ )		40.89 ( $p = 0.228$ )		60.50 ( $p = 0.223$ )		56.87 ( $p = 0.266$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

**Table III.2 : Régression du système GMM de la performance ESG sur la représentation des salariés actionnaires au sein du conseil d'administration**

Variables	Model 1: ESG performance		Model 2: Social performance		Model 3: Environmental performance		Model 4: Corporate governance performance	
	Coef.	t-test	Coef.	t-test	Coef.	t-test	Coef.	t-test
<i>Lag</i> ESG performance	0.441***	28.52						
<i>Lag</i> Social performance			0.496***	22.32				
<i>Lag</i> Environmental performance					0.721***	34.47		
<i>Lag</i> Corporate governance performance							0.376***	25.91
Employee-shareholders representation	0.449***	8.59	-0.606***	-6.39	0.414***	7.67	1.047***	10.01
Standalone	-0.008**	-2.23	0.002	0.48	-0.005	-1.63	0.003	0.69
CSR assurance	0.025***	5.95	0.003	0.39	0.005	1.03	0.022*	1.70
CSR committee	0.018***	5.39	-0.001	-0.17	0.018***	6.34	0.036***	4.71
Board size	-0.022	-1.61	0.021*	1.67	-0.011	-1.37	-0.039*	-1.71
Board independence	0.085***	7.03	0.019	1.04	0.049***	4.65	0.104***	5.86
Board gender diversity	0.051***	4.73	0.074***	4.49	-0.016	-1.12	-0.045*	-1.69
Board meetings	0.021***	3.96	0.006	0.47	0.007*	1.66	0.011	1.44
Duality	-0.004	-0.96	0.012**	2.04	0.013***	4.11	-0.049***	-9.73
CEO tenure	0.003	1.17	0.014***	4.91	-0.005**	-2.33	0.004	0.72
Family ownership	0.037	1.25	-0.083***	-2.96	0.057**	2.04	0.034	0.72
Institutional ownership	-0.022**	-2.36	-0.027***	-3.48	-0.009	-1.37	-0.018	-1.34
Leverage	-0.009	-0.54	0.027	1.57	-0.017	-1.12	-0.001	-0.06
ROA	0.027	0.62	0.245***	8.97	0.054	0.94	-0.168***	-3.15
R&D	0.015	0.11	0.110*	1.69	-0.026	-0.47	0.122	0.48
Firm size	0.009***	4.94	0.007**	2.53	0.006***	3.98	0.002	0.97
Law 2013	-0.004**	-2.19	-0.022***	-6.60	0.032***	10.56	-0.041***	-8.10
Intercept	0.146***	3.73	0.167***	3.04	0.062*	1.84	0.322***	6.22
Industry	Yes		Yes		Yes		Yes	
Number of obs.	288		288		288		288	
F (Prob > F)	1742.01 ( $p = 0.000$ )		2377.08 ( $p = 0.000$ )		7455.16 ( $p = 0.000$ )		8314.40 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z, p$ -value):	-3.48 ( $p = 0.000$ )		-3.46 ( $p = 0.000$ )		-3.25 ( $p = 0.001$ )		-3.47 ( $p = 0.001$ )	
Arellano-Bond test AR(2) ( $z, p$ -value):	-1.07 ( $p = 0.252$ )		0.06 ( $p = 0.956$ )		1.44 ( $p = 0.150$ )		-1.83 ( $p = 0.167$ )	
Sargan test (Chi-square, $p$ -value):	231.65 ( $p = 0.000$ )		248.87 ( $p = 0.000$ )		249.77 ( $p = 0.000$ )		254.85 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	42.88 ( $p = 0.169$ )		43.14 ( $p = 0.162$ )		41.97 ( $p = 0.194$ )		44.62 ( $p = 0.128$ )	

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

Le Tableau III.3 présente les résultats de la régression GMM du Q de Tobin sur la performance ESG et la présence de chaque type d'administrateur salarié. Conformément au résultat de notre deuxième chapitre, la présence des administrateurs salariés modère négativement la relation entre la performance ESG et la valeur de marché de l'entreprise. Les résultats des Modèles 2 et 3 montrent clairement que cet effet négatif provient principalement de la représentation des travailleurs au sein du conseil d'administration. Nos résultats suggèrent par conséquent que les investisseurs sont favorables à la représentation des salariés dans le conseil d'administration tandis qu'ils sont contre la représentation des travailleurs. Les hypothèses H4a and H4b sont, par conséquent, confirmées.

**Table III.3 : Régression du système GMM du q de Tobin sur l'interaction entre la performance ESG et la représentation des salariés au sein du conseil d'administration**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.497***	96.13	0.830***	51.34	0.956***	101.15
ESG performance	0.521***	4.77	1.885***	3.87	-0.763***	-4.25
Employee directorship	2.121***	3.88				
ESG performance * Employee directorship	-3.261***	-3.87				
Labour representation			11.859***	3.97		
ESG performance * Labour representation			-18.537***	-4.16		
Employee-shareholders representation					-13.538***	-4.08
ESG performance * Employee-shareholders representation					21.727***	4.70
Standalone	0.010	0.56	-0.029	-0.84	0.063***	5.47
CSR assurance	0.081***	3.76	-0.109**	-2.29	0.011	0.44
CSR committee	0.077***	3.61	-0.015	-0.47	0.026	1.52
Board size	-0.060	-1.04	0.161*	1.88	0.004	0.11
Board independence	-0.029	-0.68	0.005	0.05	0.127**	2.45
Board gender diversity	-0.031	-0.57	-0.026	-0.21	0.027	0.58
Board meetings	0.031	1.57	-0.056	-1.59	0.012	0.57
Duality	-0.116***	-5.32	-0.097**	-2.52	0.042***	2.77
CEO tenure	-0.022*	-1.64	-0.026	-1.58	-0.018**	-2.22
Family ownership	0.283***	3.85	0.335***	3.44	0.191**	2.23
Institutional ownership	-0.115***	-3.44	-0.062	-0.92	0.038*	1.70
Leverage	0.802***	16.27	0.118	1.28	0.145**	2.32
ROA	5.651***	34.40	2.675***	9.95	1.087***	5.62
R&D	2.391***	7.14	2.251***	3.78	0.576**	2.14
Firm size	-0.118***	-10.09	-0.028	-1.16	-0.025***	-3.31
Law 2013	0.073***	6.00	0.091***	3.79	0.058***	4.50
Intercept	1.743***	8.48	-0.943**	-2.05	0.599***	3.26
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	42872.70 ( $p = 0.000$ )		7356.76 ( $p = 0.000$ )		6051.65 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z$ , $p$ -value):	-2.37 ( $p = 0.006$ )		-3.09 ( $p = 0.001$ )		-2.64 ( $p = 0.003$ )	
Arellano-Bond test AR(2) ( $z$ , $p$ -value):	-1.09 ( $p = 0.279$ )		-0.93 ( $p = 0.272$ )		-0.76 ( $p = 0.446$ )	
Sargan test (Chi-square, $p$ -value):	367.43 ( $p = 0.000$ )		222.57 ( $p = 0.000$ )		227.75 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	50.72 ( $p = 0.367$ )		35.74 ( $p = 0.297$ )		37.50 ( $p = 0.231$ )	
Joint test: ESG performance + (ESG performance * Employee directorship)	-2.739***	-3.54				
Joint test: ESG performance + (ESG performance * Labour representation)			-16.652***	-4.06		
Joint test: ESG performance + (ESG performance * Employee-shareholders representation)					20.964***	4.65

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

### **III.4 Analyses Supplémentaires**

Pour mieux comprendre l'impact de chaque type d'administrateur salarié sur la relation entre la performance ESG et la valeur de marché de l'entreprise, nous avons procédé à des analyses supplémentaires. En effet, on a distingué entre les trois piliers de la performance ESG à savoir le pilier social, le pilier environnemental et le pilier de gouvernance et on a examiné leurs impacts sur la valeur de marché de l'entreprise en considérant le type d'administrateur salarié nommé au conseil d'administration. Les résultats des Tableaux III.4 et III.6, montrent que la présence des représentants des travailleurs au sein du conseil d'administration modère négativement la relation entre la performance sociale (en matière de gouvernance) et la valeur de marché de l'entreprise. Inversement, la présence des représentants des salariés actionnaires au sein du conseil d'administration modère positivement la relation entre la performance sociale (en matière de gouvernance) et la valeur de marché de l'entreprise. En ce qui concerne le pilier environnemental, les résultats du tableau III.5 montrent que la performance environnementale n'est pas valorisée par les investisseurs quelque soit le type d'administrateur salarié nommé au sein du conseil d'administration.

**Table III.4 : Régression du système GMM du q de Tobin sur l'interaction entre la performance sociale et la représentation des salariés au sein du conseil d'administration**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.831***	153.07	0.821***	56.76	0.934***	86.12
Social performance	-1.718***	-7.56	0.301	1.44	-0.619***	-2.57
Employee directorship	6.106***	4.10				
Social performance * Employee directorship	-9.827***	-4.80				
Labour representation			14.790***	7.56		
Social performance * Labour representation			-18.671***	-7.29		
Employee-shareholders representation					-8.624***	-2.90
Social performance * Employee-shareholders representation					15.553***	3.68
Standalone	0.117***	5.68	0.028	1.02	0.071***	3.36
CSR assurance	0.150***	8.49	-0.044	-1.25	0.009	0.38
CSR committee	0.099***	5.66	0.051	1.53	0.057**	2.19
Board size	0.070	1.03	-0.012	-0.11	0.027	0.43
Board independence	-0.067	-0.85	0.258***	2.85	0.177***	3.04
Board gender diversity	-0.049	-0.43	-0.069	-0.65	0.097	1.49
Board meetings	-0.024	-0.85	0.020	0.54	0.027	1.28
Duality	-0.068**	-2.17	-0.043	-1.09	0.011	0.64
CEO tenure	-0.026***	-3.00	-0.059***	-3.15	-0.028***	-3.42
Family ownership	-0.124*	-1.79	0.137*	1.77	0.215	1.62
Institutional ownership	-0.007	-0.15	-0.161***	-2.70	0.007	0.23
Leverage	0.174***	3.15	-0.108	-1.18	0.131*	1.95
ROA	1.547***	7.33	2.245***	8.39	1.208***	5.02
R&D	-0.016	-0.05	0.189	0.40	0.398	0.86
Firm size	0.030**	2.05	-0.043**	-2.38	-0.036***	-2.82
Law 2013	0.079***	3.05	0.067**	2.52	0.060***	4.02
Intercept	0.572**	2.30	0.552	1.39	0.577***	2.82
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	9734.58 ( $p = 0.000$ )		2576.80 ( $p = 0.000$ )		9855.65 ( $p = 0.000$ )	
Arellano-Bond test AR(1) ( $z$ , $p$ -value):	-2.50 ( $p = 0.005$ )		-3.06 ( $p = 0.001$ )		-2.55 ( $p = 0.005$ )	
Arellano-Bond test AR(2) ( $z$ , $p$ -value):	-0.29 ( $p = 0.773$ )		-1.04 ( $p = 0.297$ )		-0.95 ( $p = 0.340$ )	
Sargan test (Chi-square, $p$ -value):	125.32 ( $p = 0.000$ )		90.19 ( $p = 0.000$ )		226.78 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	45.53 ( $p = 0.453$ )		35.61 ( $p = 0.221$ )		36.54 ( $p = 0.266$ )	
Joint test: Social performance + (Social performance * Employee directorship)	-11.545***	-6.12				
Joint test: Social performance + (Social performance * Labour representation)			-18.370***	-7.48		
Joint test: Social performance + (Social performance * Employee-shareholders representation)					14.934***	3.69

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

**Table III.5 : Régression du système GMM du q de Tobin sur l'interaction entre la performance environnementale et la représentation des salariés au sein du conseil d'administration**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.798***	157.17	0.836***	81.54	0.908***	111.02
Environmental performance	2.229***	15.64	0.911***	2.96	0.638**	2.52
Employee directorship	18.445***	13.72				
Environmental performance * Employee directorship	-24.089***	-13.05				
Labour representation			11.600***	4.43		
Environmental performance * Labour representation			-17.274***	-4.82		
Employee-shareholders representation					11.833***	4.94
Environmental performance * Employee-shareholders representation					-14.131***	-4.49
Standalone	0.043**	2.50	0.056**	2.05	0.040	3.22
CSR assurance	-0.052*	-1.83	-0.103***	-3.04	-0.037	-1.49
CSR committee	0.041**	2.45	0.039	1.07	0.038***	2.58
Board size	0.068*	1.67	0.037	0.58	0.001	0.01
Board independence	-0.082	-1.63	0.083	0.95	0.087**	2.26
Board gender diversity	-0.067	-0.75	0.143	1.15	0.304***	5.89
Board meetings	-0.003	-0.14	-0.082**	-2.33	0.040***	2.84
Duality	-0.180***	-8.22	-0.113***	-2.97	-0.019	-1.52
CEO tenure	-0.018**	-2.26	-0.030*	-1.95	-0.012	-1.54
Family ownership	0.092*	1.96	0.400***	4.83	0.256***	3.43
Institutional ownership	-0.056	-1.62	0.152**	2.26	0.025	1.20
Leverage	0.437***	7.44	0.097	1.27	0.345***	6.19
ROA	2.363***	15.49	3.025***	13.58	0.908***	5.37
R&D	1.158**	2.42	2.854***	4.81	0.082	0.26
Firm size	-0.079***	-6.39	0.019	1.02	-0.025***	-2.91
Law 2013	0.076***	4.44	0.072***	2.88	0.042***	4.38
Intercept	-0.378	-1.39	-1.008***	-3.34	-0.400**	-2.33
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	20798.85 ( $p = 0.000$ )		5261.69 ( $p = 0.000$ )		31680.82 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.46 ( $p = 0.004$ )		-3.09 ( $p = 0.001$ )		-2.58 ( $p = 0.004$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-0.45 ( $p = 0.652$ )		-0.85 ( $p = 0.396$ )		-1.19 ( $p = 0.235$ )	
Sargan test (Chi-square, $p$ -value):	337.58 ( $p = 0.000$ )		226.36 ( $p = 0.000$ )		110.80 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	60.88 ( $p = 0.119$ )		42.50 ( $p = 0.102$ )		41.21 ( $p = 0.127$ )	
Joint test: Environmental performance + (Environmental performance * Employee directorship)	-21.860***	-12.36				
Joint test: Environmental performance + (Environmental performance * Labour representation)			-16.363***	-4.90		
Joint test: Environmental performance + (Environmental performance * Employee-shareholder board representation)					-13.493***	-4.63

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

**Table III.6 : Régression du système GMM du q de Tobin sur l'interaction entre la performance en matière de gouvernance et la représentation des salariés au sein du conseil d'administration**

Variables	Model 1: Employee directorship		Model 2: Labour representation		Model 3: Employee-shareholders representation	
	Coef.	t-test	Coef.	t-test	Coef.	t-test
Lag Tobin's q	0.486***	85.29	0.765***	50.92	0.919***	59.15
Corporate governance performance	1.819***	10.46	1.578***	8.18	-0.690**	-2.40
Employee directorship	11.322***	6.97				
Corporate governance performance * Employee directorship	-21.289***	-7.37				
Labour representation			2.118***	3.81		
Corporate governance performance * Labour representation			-3.020***	-4.23		
Employee-shareholders representation					-14.205***	-4.61
Corporate governance performance * Employee-shareholders representation					27.316***	5.25
Standalone	0.015	0.50	0.022	0.69	0.093***	5.68
CSR assurance	0.121***	3.62	-0.019	-0.56	-0.034	-1.18
CSR committee	0.064*	1.85	-0.004	-0.09	0.032*	1.79
Board size	0.162**	2.17	0.122	1.23	-0.071	-1.21
Board independence	0.034	0.43	0.107	1.14	0.004	0.07
Board gender diversity	-0.043	-0.32	0.023	0.20	0.123**	2.01
Board meetings	-0.049*	-1.97	0.025	0.82	-0.032	-1.15
Duality	-0.147***	-4.54	-0.041	-1.05	0.065***	3.24
CEO tenure	-0.036***	-2.73	-0.006	-0.39	-0.018*	-1.90
Family ownership	0.539***	5.58	0.380***	4.34	0.178**	2.35
Institutional ownership	-0.086*	-1.64	-0.173***	-2.68	0.053*	1.64
Leverage	1.076***	15.10	0.277**	2.49	0.266***	3.71
ROA	6.216***	25.84	2.742***	12.73	1.644***	7.77
R&D	3.495***	5.56	1.267*	1.80	1.292**	2.52
Firm size	-0.119***	-6.63	-0.076***	-4.72	-0.002	-0.14
Law 2013	0.125***	7.61	0.154***	4.50	0.113***	5.47
Intercept	0.490*	1.80	-0.063	-0.17	0.337*	1.76
Industry	Yes		Yes		Yes	
Number of obs.	444		313		288	
F (Prob > F)	3732.47 ( $p = 0.000$ )		5951.90 ( $p = 0.000$ )		8409.00 ( $p = 0.000$ )	
Arellano-Bond test AR(1) (z, $p$ -value):	-2.39 ( $p = 0.006$ )		-3.07 ( $p = 0.000$ )		-2.43 ( $p = 0.006$ )	
Arellano-Bond test AR(2) (z, $p$ -value):	-1.14 ( $p = 0.253$ )		-1.16 ( $p = 0.248$ )		-1.18 ( $p = 0.238$ )	
Sargan test (Chi-square, $p$ -value):	334.83 ( $p = 0.000$ )		97.44 ( $p = 0.000$ )		93.84 ( $p = 0.000$ )	
Hansen test (Chi-square, $p$ -value):	58.00 ( $p = 0.153$ )		32.81 ( $p = 0.285$ )		35.11 ( $p = 0.239$ )	
Joint test: Corporate governance performance + (Corporate governance performance * Employee directorship)	-19.469***	-7.03				
Joint test: Corporate governance performance + (Corporate governance performance * Labour representation)			-1.442***	-2.35		
Joint test: Corporate governance performance + (Corporate governance performance * Employee-shareholders representation)					26.625***	5.38

\*, \*\*, \*\*\* Represent significance at 0.10, 0.05 and 0.01 levels, respectively.

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**Titre : Impact de la représentation des salariés au sein du conseil d'administration sur**

**l'engagement RSE de l'entreprise : Etude du contexte français**

**Mots clés :** Administrateurs salariés, Reporting RSE, Performance ESG, Performance boursière

**Résumé :** Cette thèse propose d'examiner la relation entre la représentation des salariés dans le conseil d'administration et l'engagement RSE de l'entreprise. En particulier, nous étudions comment les investisseurs perçoivent-ils le reporting RSE et la performance ESG lorsque les salariés sont représentés au sein du conseil d'administration.

En utilisant un échantillon de sociétés françaises appartenant à l'indice SBF 120 sur deux périodes différentes de 2001 à 2011 et de 2007 à 2017, nos résultats montrent que la présence des administrateurs salariés modère positivement la perception du reporting RSE et négativement la perception de la performance ESG par les investisseurs. Un examen plus détaillé montre que les administrateurs élus par les salariés par leur droit de travail améliorent exclusivement la performance

sociale et modèrent négativement la perception des investisseurs vis-à-vis de la performance ESG. Au contraire, les administrateurs élus par les salariés actionnaires renforcent la performance ESG globale ainsi que les performances environnementale et de gouvernance et modèrent positivement la perception de la performance ESG par les investisseurs. Nos résultats mettent en évidence un conflit d'intérêts entre les actionnaires et les administrateurs salariés, notamment avec les représentants des travailleurs.

Cette thèse couvre plusieurs disciplines à savoir la comptabilité, la gouvernance d'entreprise et la gestion des ressources humaines. En conséquence, elle intéresse vivement les législateurs, les investisseurs, les managers et les actionnaires.

**Title : The Impact of Employee Board Representation on the Firm's CSR Engagement:**

**Evidence from the French Context**

**Keywords :** Employee board representation, CSR reporting, ESG performance, Firm market value

**Abstract :** This thesis proposes to examine the relationship between employee board representation and the CSR engagement of the firm. Particularly, we study how investors perceive CSR reporting and ESG performance when employees are represented on the board.

Using a sample of French firms belonging to the SBF 120 index over two different periods from 2001 to 2011 and from 2007 to 2017, our results show that the presence of employee directors on board moderates positively the perception of investors towards CSR reporting and negatively their perception towards ESG performance. More fine-grained examination shows that directors elected by employees by their right of employment enhance

exclusively the social performance and moderate negatively the way investors perceive information on ESG performance. In contrast, directors elected by employee shareholders enhance the overall ESG performance as well as the environmental and the governance performances and moderate positively the way investors perceive the ESG performance of the firm. Our findings highlight a conflict of interest between shareholders and employee directors, particularly with labour representatives.

This thesis covers several disciplines namely accounting, corporate governance and human resource management. As a result, it is with great interest for regulators, investors, managers and shareholders.