

APPEARANCES CAN BE DECEIVING IS UNEQUAL SUSTAINABILITY A TELL-TALE SIGN OF OPPORTUNISTIC MANAGERS

Gabriel de La Fuente – Universidad de Valladolid

Pilar Velasco – Universidad de Valladolid

Some literature casts doubt on the legitimacy of companies' sustainable initiatives, which are sometimes more symbolic (Bae et al., 2021). Despite prior evidence on 'good' and 'not so good' sustainability, few studies have delved into the characteristics and performance consequences of such a difference. Our paper seeks a more fine-grained portrayal of the sustainability strategy across companies to make sense of prior contradictory evidence. Building on Harrison and Klein (2007), we investigate a novel dimension of sustainability, namely the degree of inequality in the distribution of overall ESG (environmental, social, and governance) performance across pillars (ESG disparity). Our core research question is: Does ESG disparity affect the relationship between sustainability and firm value? Surprisingly, this dimension still remains overlooked, yet it might prove helpful in discerning the degree of genuineness/self-interest in managers' sustainable awareness. Firms do not necessarily commit to all pillars in a balanced way. Drawing on the agency theory, we argue an unequal distribution of ESG investment efforts might be the result of managerial preferences, and of their being more prone to allocate resources and devote more attention to areas that better serve their personal interests (Cheng et al., 2019). Hence, the concentration of ESG efforts in certain individual pillars might reflect a discretionary adoption of sustainable principles and a lack of genuine commitment to sustainability in its primary sense, and thus be a symptom of agency problems. Conversely, if a firm's overall ESG is equally distributed across pillars, this could be a sign of managers' genuine engagement to sustainability. Using a sample of U.S. listed companies from 2010 to 2018, we find that disparity in ESG scores between pillars detracts value from sustainability. Such a negative moderating effect worsens in companies that are more subject to agency problems (i.e. higher cash holdings), those lacking managerial alignment incentives (i.e. ESG-based compensation) and those with weaker informational and monitoring mechanisms (i.e. lower leverage and lower analyst coverage). Overall, our findings suggest the importance of accounting for managerial motivations to engage in sustainability and support the idea that a lower perceived authenticity of these programmes results in lower value outcomes.