

# **Beyond the Glass Ceiling: How Board Diversity Shapes ESG Disclosures in Chinese Listed Companies --- A Comprehensive Literature Review**

## **Author Information**

Linruiyuan Tan   University of Reading   [linruiyuan.tan@pgr.reading.ac.uk](mailto:linruiyuan.tan@pgr.reading.ac.uk)

Nada Kakabadse   University of Reading   [n.kakabadse@henley.ac.uk](mailto:n.kakabadse@henley.ac.uk)

Nadeem Khan   University of Reading   [nadeem.khan@henley.ac.uk](mailto:nadeem.khan@henley.ac.uk)

# **Beyond the Glass Ceiling: How Board Diversity Shapes ESG Disclosures in Chinese Listed Companies --- A Comprehensive Literature Review**

## ***Abstract***

This paper examines the existing literature on the relationship between board diversity and environmental, social and governance (ESG) disclosure practices, with a particular focus on Chinese listed companies. It consolidates research on how different dimensions of board composition - such as gender, age, nationality, ethnicity, educational background, expertise, tenure and independence - influence ESG disclosure and practices.

While the relationship between board diversity and ESG practices has been extensively studied in Western markets, this review identifies key gaps in understanding these dynamics in the Chinese context. Notable challenges include the impact of cultural and regulatory frameworks on board composition and the incorporation of diversity perspectives into corporate governance decision-making.

By highlighting the need for more targeted research in emerging markets, particularly China, this paper provides a comprehensive summary of current knowledge, identifies key research gaps, and lays the groundwork for future research. This paper aims to contribute to the academic discourse at the intersection of governance and sustainability in China.

## **Keywords:**

Board Diversity; ESG Disclosure; Corporate Governance

**Word Counts:** 5816 words

## 1 INTRODUCTION

The evolving corporate landscape places growing emphasis on the composition of boards, with increased attention on whether companies are fostering diverse and inclusive governance structures. Such diversity enhances decision-making and leads to more balanced and effective governance. Meanwhile, the regulatory and public scrutiny of companies' engagement in ESG practices has intensified. ESG is no longer viewed as voluntary or an afterthought of corporate strategy. It is now a critical dimension of business operations, deeply tied to long-term sustainability and corporate reputation. This shift signals that ESG performance goes beyond the voluntary actions of corporate leaders, reflecting the changing expectations of stakeholders, including regulators, investors, and the broader public.

While ESG and board diversity have been widely studied in Western areas, their examination in emerging markets, such as China, remains a growing field. As Chinese companies become more integrated into the global market, understanding how board diversity influences ESG outcomes within the unique context of China becomes increasingly important. Therefore, the paper reviews existing literature on corporate governance, board diversity, and ESG, highlighting the developed and emerging market perspectives. By identifying gaps in the existing research, particularly in terms of the qualitative impact of board diversity on ESG practices in Chinese firms, this study aims to bridge these gaps and provide a foundation for understanding how diverse boards shape the governance and ESG practices of companies in China. Ultimately, this literature review will support the broader research into how corporate governance and board diversity contribute to ESG in China's rapidly evolving corporate landscape. The Venn diagram in Figure 1 below illustrates the interaction between board diversity, corporate governance, and ESG, focusing on the Chinese context. The overlapping areas highlight the intersections of these elements, suggesting that the research focuses on how governance structures and diverse board composition affect ESG practices. As explored in the literature review, these intersections provide a detailed understanding of board diversity's role in shaping ESG outcomes, particularly in Chinese-listed companies.

**Figure 1 Venn diagram of the relationship between board diversity, ESG and corporate governance**



Abbreviations: ESG = Environmental, social and governance; CG = Corporate governance

This literature review is organised into six sections. The first section provides an introduction, setting the stage for the subsequent analysis. The following three sections correspond to the primary categories depicted in the Venn Diagram (Figure 1): board diversity, ESG, and corporate governance. Based on existing literature, the research gaps concerning the impact of board diversity on ESG are identified. The article concludes with a summary of critical insights.

## **2 BOARD DIVERSITY**

The board of directors is the most influential body in an organisation; they oversee management operations and corporate governance and make consistent and effective decisions (Archie and Carroll, 2014). The traditional bias against women, such as that leadership roles and positions in which men engage in relevant participation are not suitable for women, is a stereotype that influences the proportion of women on boards and preferences for decision-making (Hora, 2014). Historically and empirically, corporate boards of directors have been predominantly male. Female board members enter almost exclusively male organisations (Konrad et al., 2008). However, recent trends indicate a significant shift towards greater gender diversity. For instance, studies show an increasing presence of women on boards, driven by regulatory changes and a growing recognition of the benefits of diversity in governance (Terjesen, 2009).

Different board compositions provide different ways and means of communicating information with the external environment (e.g. suppliers, consumers, investors, competitors, government agencies and the media) (Hillman and Dalziel, 2003; Westphal and Milton, 2000). Different experiences, skills and qualities of board members may impact directors' competence and motivation to monitor and advise management (Baker and Anderson, 2010). Therefore, in recent years, listed companies in more and more countries and regions worldwide have increasingly paid attention to board diversity issues and trends. In developed countries like the United States and the countries within the European Union region, companies are required to improve their board composition towards diversity and make reasonable and timely disclosure of these practices (Rao and Tilt, 2016). For example, the Securities Exchange Commission (SEC) issued new regulations in 2009 (SEC Release 33-9089) requiring listed companies to disclose board diversity, particular attention is paid to gender and ethnic diversity (Reguera-Alvarado and Bravo-Urquiza, 2020). Among the Nordic countries, Norway has mandated gender diversity on boards since 2003, requiring 40 per cent of the total number of board members to be women (Rao and Tilt, 2016). Finland and Iceland also enacted laws requiring 40% of women on boards in 2005 and 2010 (Virtanen, 2012). Germany enacted a law in 2016 requiring 30% of women on the listed companies' supervisory boards (Ciavarella, 2017). These regulatory and legal requirements have led to a sustained increase in interest in the issue of board diversity and have generated intense academic debate.

Gender diversity in the boardroom has become a global focal point of ESG discussions, with significant differences observed between China, the U.K., and the U.S. In China, gender diversity in corporate boards is gradually improving, driven by regulatory initiatives and growing awareness of the benefits of diverse leadership. However, progress is slower than Western

counterparts, with cultural and societal norms still posing significant barriers (De Jonge, 2015). In contrast, the U.K. has made significant progress in advancing gender diversity on corporate boards, emphasising the positive impact of diverse leadership on board performance. Studies highlight the valuable contributions of women to board dynamics and decision-making processes, underscoring the importance of targeted initiatives like the Davies Report (2011) and the Hampton-Alexander Review (Leaders, 2018) in promoting female representation (Kakabadse et al., 2015). These efforts have resulted in notable increases in gender diversity, with women now holding a significant percentage of board seats in FTSE 100 companies (Gregory-Smith and Main, 2024). The U.S., similarly, has seen considerable progress, influenced by regulatory frameworks like the SEC's disclosure requirements on board diversity and initiatives by institutional investors pushing for more excellent female representation (Nili, 2019). Despite these advancements, the pace of change varies, with the U.S. exhibiting a more market-driven approach than the U.K.'s policy-driven model (Bear et al., 2010). While China is making strides, the U.K. and U.S. lead in gender diversity due to stronger regulatory support and proactive industry practices.

Research has shown that board diversity is significantly associated with firms' financial performance, corporate social responsibility, protection of shareholders' interests, and board effectiveness (Khatib et al., 2023). By incorporating new views and perspectives, diversity can help boards improve organisations' financial and social performance (Carter et al., 2003). Therefore, a comprehensive review of board diversity research has become a hot topic in academia, as it is used to summarise the existing knowledge structure and literature and make valuable recommendations and guidance for future research.

This section will discuss different definitions and classifications of board diversity, comparisons of homogeneity and heterogeneity, and perceived diversity. In addition, this section will discuss the advantages and disadvantages of board diversity and the developmental characteristics and influencing factors of board diversity in China.

## **2.1 Definitions of Board Diversity**

Diversity refers to the differences in any attributes that individuals have with others in an organisation, which may result in individuals thinking, perceiving and behaving differently from them (van Knippenberg et al., 2004). Many studies have relied on different definitions of board diversity. Thus, diversity refers to differences that exist on infinite dimensions, from gender to nationality, religious beliefs to occupational background, task skills to relational skills, and political preferences to sexual preferences (van Knippenberg et al., 2004). Researchers have defined board diversity based on different attributes and elements in various ways and combinations of forms (Kagzi and Guha, 2018).

The most common way of defining and categorising board diversity is the classification of diversity into observable or easily detectable diversity and diversity of less obvious or latent attributes proposed by Milliken and Martins (1996). Observable diversity generally includes gender, age, racial or ethnic background, and nationality, and less obvious diversity is educational background, occupational and professional background, board tenure, socio-economic background, personality traits or values, and organisational membership. Kang et al. (2007) also categorise board diversity into observable (e.g. nationality, age, gender) and less observable (e.g.,

educational, occupational, and professional background) diversity. In a similar way of definition, Ararat et al. (2015) collectively categorise these elements based on demographic background, i.e. nationality, gender, age, education, functional and professional background, as demographic diversity in the boardroom. Whereas Banerjee et al. (2020) focuses on structural diversity in the boardroom, i.e. the board's size, organisational structure, CEO-Chair duality, identity of the founder, presence of international boards, and number of personnel are all attributes that influence structural diversity in boards. In addition, the definitional approach proposed by Adams et al. (2015) categorises elements related to educational or occupational background as task-related diversity, while elements related to gender, age, ethnicity and nationality are categorised as non-task-related diversity. In a recent study, Khatib et al. (2023) classified board diversity based on two different aspects, namely cognitive and demographic. Cognitive diversity includes experience, knowledge, thinking, mindset and education, while demographic diversity includes age, gender, race, and nationality.

## **2.2 Dimensions of Board Diversity**

Van Knippenberg et al. (2004) categorise diversity into social category diversity (observable characteristics) and informational/functional diversity (work-related, less visible). Though often distinguished, these diversity types are interconnected, such as racial diversity impacting educational opportunities and social mobility (Milliken and Martins, 1996). This section reviews the literature on gender, age, nationality, ethnicity, educational background, and occupational diversity of boards, as well as board tenure and independence, according to observable and unobservable classification criteria.

### **2.2.1 Gender Diversity**

Gender diversity is among the most widely studied dimensions, with evidence indicating that female board members positively impact governance and decision-making (Carter et al., 2003). In developed countries, regulatory measures mandate female representation on boards, such as Norway's requirement of 40% female directorship (Bøhren and Strøm, 2010), while other regions like the U.S. and Canada are pushing for diverse board compositions through SEC and CBCA regulations (Burke, 2001). Female directors often contribute to enhanced oversight, stakeholder consideration, and adherence to CSR (Nadeem et al., 2020), although some research suggests they may exhibit risk-averse behaviour, potentially impacting innovation (Adams and Funk, 2012). Studies highlight that a critical mass of women on boards is necessary to effect significant change in governance frameworks (Bazel-Shoham et al., 2024).

### **2.2.2 Age Diversity**

Age diversity provides a range of perspectives and expertise but can also introduce communication barriers (Talavera et al., 2018). Younger board members bring innovative insights, while older members offer valuable experience and influence (Mahadeo et al., 2012). In China, studies like Komal et al. (2023) find that age-diverse audit committees contribute to effective governance, with older members' extensive networks balancing younger members' technological insights. Research further indicates that age diversity can positively influence corporate governance by reducing groupthink and enhancing risk management (Post and Byron,

2015). However, generational differences may also hinder decision-making efficiency due to conflicts arising from contrasting perspectives (Komal et al., 2023).

### **2.2.3 Nationality Diversity**

Nationality diversity enhances strategic decision-making and global market navigation. Foreign directors provide international perspectives that improve CSR and ESG performance (Harjoto et al., 2018), as seen in studies where nationality diversity positively correlates with innovation and governance quality (Makkonen, 2022). However, foreign directors may face adaptation challenges due to cultural and language barriers, which can impact board cohesion (Masulis et al., 2012). In China, including foreign directors in firms has been linked to increased green innovation and stronger CSR, reinforcing the value of multinational perspectives in promoting sustainable practices (Quan et al., 2021).

### **2.2.4 Ethnic Diversity**

Ethnic diversity in boards can enhance a company's reputation and decision-making quality, especially in regions with historical social inequities, such as South Africa (Gyapong et al., 2016). Studies show that ethnically diverse boards prioritise CSR and ethical governance, contributing to better ESG practices (Bear et al., 2010). In China, where ethnic minorities constitute a small but significant part of the population, research suggests there may be bias against minorities in board appointments (Maurer-Fazio, 2012), highlighting the need for more inclusive policies to leverage the benefits of ethnic diversity.

### **2.2.5 Educational Background Diversity**

Educational diversity on boards contributes to varied cognitive approaches, enhancing governance and innovation (Hillman, 2005). Directors with advanced educational backgrounds are associated with improved CSR practices and strategic adaptability (Bantel and Jackson, 1989). In emerging markets like China, higher educational diversity on boards correlates with better financial performance, reflecting the strategic advantages of diverse academic expertise (Boadi and Osarfo, 2019). However, some studies indicate that educational diversity can lead to conflicts due to differing cognitive frameworks, potentially impacting governance efficiency (Tacheva and Huse, 2006).

### **2.2.6 Professional Background Diversity**

Directors with diverse professional backgrounds bring a wealth of expertise and resources essential for effective governance and innovation. Professional diversity gives boards access to a wider range of ideas and perspectives, contributing to informed decision-making and strategic flexibility (Van der Walt and Ingley, 2003). Studies show that boards with varied occupational backgrounds are better equipped to address complex challenges, particularly in dynamic markets like Asia (Katmon et al., 2019). A heterogeneous mix of professions can also prevent groupthink, fostering a culture of critical evaluation and continuous improvement (Coles et al., 2008).

### **2.2.7 Board Tenure**

Board tenure diversity (a mix of long-term and short-term board members) balances board continuity and ensures a fresh perspective on the board. (Li and Wahid, 2018). While long-serving members provide historical insights and stability, new members bring novel viewpoints, enhancing decision-making and innovation (Rao and Tilt, 2016). However, board

tenure diversity can also introduce conflicts due to varying attachment levels to traditional practices, which may impact board cohesion and efficiency (Li and Wahid, 2018).

### **2.2.8 Board Independence**

Board independence, characterised by non-executive directors, is critical for effective governance and CSR disclosure. Independent directors check executive influence, enhancing accountability (Fama and Jensen, 1983). Studies support that board independence correlates with improved firm performance and ESG practices, as independent directors contribute objectivity and external perspectives (Bhagat and Black, 2001). However, limitations include independent directors' potential lack of company-specific knowledge, which may impact their ability to oversee accurately (Naciti, 2019).

### **2.3 Homogeneity vs. Heterogeneity**

Board diversity, representing heterogeneity, is a debated topic in governance. Some studies advocate for homogeneous boards, suggesting that similarity among members, particularly in demographic traits, fosters trust and cohesion, reducing conflicts (Jehn et al., 1999; van Knippenberg and Schippers, 2007). CEOs tend to select board members who resemble them demographically, often resulting in higher cohesion but potentially higher CEO pay due to reduced oversight (Westphal and Zajac, 1995). Conversely, the information/decision-making perspective supports heterogeneity, arguing that diverse boards bring varied perspectives that enhance problem-solving and decision-making quality (van Knippenberg et al., 2004). Although diversity may introduce misunderstandings, the benefits, such as increased creativity and critical thinking, often outweigh these drawbacks (Hambrick et al., 1996).

Diversity challenges like the "glass ceiling" prevent women and minorities from reaching top corporate positions. This invisible barrier often requires more diversity in senior roles (Wright and Baxter, 2000). The "glass cliff" phenomenon suggests that women and minorities are appointed to leadership positions in times of crisis, setting them up for failure (Ryan and Haslam, 2005). Another explanation for board homogeneity is the "capability gap," which posits a lack of qualified women and minority candidates for these positions, limiting diversity (Terjesen et al., 2009).

### **2.4 Cognitive Diversity**

Cognitive diversity encompasses different perspectives, ideologies, and beliefs within a board. Table 1 summarises the scope of different cognitive diversities and compares their differences (see table 1). Diversity ideologies reflect societal views on diversity, while diversity beliefs focus on organisational attitudes toward group composition and its impact on performance (Leslie and Flynn, 2024; van Knippenberg et al., 2007). For example, positive beliefs in gender diversity's benefits may conflict with organisational practices that do not prioritise inclusivity, creating cognitive dissonance (Nakui et al., 2011).

**Table 1 Review of three different perceptions of diversity**

| <b>Cognition</b>            | <b>Level</b> | <b>Referent category</b> | <b>Theoretical Framework</b> |
|-----------------------------|--------------|--------------------------|------------------------------|
| <b>Diversity Ideologies</b> | Personal     | Diversity in society     | Social categorisation        |
| <b>Diversity Beliefs</b>    | Personal     | Diversity in the         | Social categorisation;       |

|                           |                |                                       |                                            |
|---------------------------|----------------|---------------------------------------|--------------------------------------------|
|                           |                | organisation of work                  | Information/decision-making                |
| <b>Diversity Climates</b> | Organisational | Diversity in the organisation of work | Social categorisation.<br>Social exchange. |

Source: (Leslie and Flynn, 2024)

A positive organisational diversity climate enhances board functionality, where all groups feel valued and included. Such climates promote cooperation, commitment, and engagement, fostering better governance (Dwertmann et al., 2016; Holmes et al., 2021). Cognitive diversity in the boardroom can drive innovation and mitigate groupthink, thus enhancing strategic decision-making, especially in complex industries (Maharaj, 2008).

## 2.5 Benefits and Challenges of Board Diversity

Board diversity offers several benefits, including broader expertise, improved decision-making, and enhanced corporate reputation. Diverse perspectives can foster innovation and provide insights into various market needs, positively impacting performance (Post and Byron, 2015; Bernile et al., 2018). However, diversity also poses challenges, such as communication barriers and potential conflicts arising from demographic differences, which can impede board cohesion and decision efficiency (Lau and Murnighan, 1998).

**Table 2 Benefits and challenges of board diversity**

| <b>Benefits</b>                                                                                                                                                                                                                                                                                              | <b>Challenges</b>                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Diverse boards have more profound and broader expertise in analysing and processing information (Dong et al., 2023). For example, Beasley (1996) argues that having board members with specialised financial knowledge reduces the likelihood of financial statement whitewashing and misstatement.          | When companies ignore the professional background, experience, and educational background of their boards in order to fulfil their demographic diversity requirements (e.g., gender, ethnic, and age diversity), it is likely to result in boards that are too young and inexperienced (Dong et al., 2023).                                          |
| Diversity can improve the quality and efficiency of board decision-making. The board's overall effectiveness can be improved by gathering and integrating different perspectives, information, knowledge, and experiences to help the board make more rational and workable decisions (Khatib et al., 2023). | Adams and Ferreira (2007) point out that there are information communication barriers between outside minority board members and corporate executives and that executives are reluctant to share information with minority directors due to the different values and perspectives that may be present among them, thus reducing board effectiveness. |
| As different board members have different networks of contacts and sources of information, this helps to understand the corresponding markets and stakeholders better                                                                                                                                        | During a recession, heterogeneous boards of directors need help to quickly reach consensus on decisions, which ultimately affects the firm's ultimate goals and economic interests (Dalton et                                                                                                                                                        |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| and provide timely feedback and response to market information and changes, thus guiding the firm to expand its business to gain a larger market share (Carter et al., 2003; Dong et al., 2023). For example, directors with experience or knowledge of the financial industry can bring in specific investors. Directors with government connections or social status can communicate with appropriate regulatory or government agencies or win opportunities to work with the government (Baker and Anderson, 2010).                                                | al., 1999).                                                                                                                                                                                                                                                                                                                                             |
| Groups of people with different backgrounds and life experiences can foster organisational creativity through the clash of ideas (Baker and Anderson, 2010). Bernile et al. (2018) also noted that board diversity positively impacts firms in increasing innovation and that adopting innovative strategies can improve firm performance. It also suggests that board diversity can play a role in aligning strategic control and settings (Cormier et al., 2024).                                                                                                   | Lau and Murnighan (1998) argue that observable demographic characteristics (e.g., gender, age, race, and nationality) may automatically divide a group into smaller subgroups. Lack of consensus and commonality among these subgroups may create conflicts of interest and ambivalence, reduce communication effectiveness, and weaken group cohesion. |
| Board diversity is a way of signalling to the outside world and within the company. For example, ethnically diverse boards signal to rank-and-file employees that minority employees have the same opportunities for advancement (Baker and Anderson, 2010). In addition, diverse boards sometimes demonstrate social inclusion and acceptance. Sending positive signals to society to address gender disparities in employment favours the company's image and improves the company's social performance and commitment to following ESG objectives (Alawadi, 2023). | If a board pursues diversity in only a few dimensions, it may be ineffective because board members need other key dimensions. It makes other experienced board members too busy (Baker and Anderson, 2010).                                                                                                                                             |
| Board diversity creates value in fostering more effective global relationships and                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Rindova (1999) found that the greater the board diversity, the longer the problem-solving cycle.                                                                                                                                                                                                                                                        |

|                                                                                                                                                                                                                                                                                                                                   |                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| enhancing board independence due to the integration and consistency of board members' cultures and backgrounds (Arfken et al., 2004). Members from diverse backgrounds may present different perspectives and issues based on their own experiences compared to board members from traditional backgrounds (Carter et al., 2003). | It can have a detrimental effect on continued problem-solving or unity of purpose within the organisation. |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|

Table 2 summarises these benefits and challenges, illustrating how diversity can simultaneously enhance strategic capabilities and introduce management complexities.

## 2.6 Board Diversity in China

Research on board diversity in China is limited compared to studies in Western contexts, though interest is growing as China's corporate landscape evolves. China's traditional Confucian culture emphasises seniority and harmony, influences board composition and may hinder diversity (Redding and Witt, 2009). However, increased global integration forces Chinese companies to adopt more inclusive governance practices. For example, gender diversity gradually increases but remains below global averages (MSCI, 2023).

**Table 3 Factors Affecting Board Diversity in China**

| <b>Factor</b>               | <b>Explanation</b>                                                                                                                            | <b>Citation</b>                                                                                                                                                                                                                       |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Regulatory framework</b> | The China Securities Regulatory Commission (CSRC) and other regulators have introduced guidelines that promote greater diversity.             | Efforts in regulating state institutions aim to align Chinese companies with global governance standards and promote transparency and accountability (Tam and Tan, 2007).                                                             |
| <b>Cultural norms</b>       | Traditional cultural norms rooted in Confucian principles continue to significantly impact corporate practices, including board appointments. | China's ethno-cultural context emphasises harmony, seniority and internal relationships, which can sometimes act as a barrier to gender, age and ethnic diversity in the composition of boards of directors (Redding and Witt, 2009). |
| <b>Market pressures</b>     | The globalisation of markets and the internationalisation of Chinese companies require more diverse board structures.                         | As Chinese companies expand globally, there is a growing need for directors who can navigate different business environments, understand international markets and bring a global perspective to the board (Liao et al., 2015).       |

Several factors impact board diversity in China, as shown in Table 3. Regulatory frameworks encourage transparency, while market pressures from internationalisation promote diverse board structures to navigate global markets. However, cultural norms still pose barriers to gender and ethnic diversity, underscoring the complex landscape Chinese firms face in adopting diverse governance practices.

### **3 BOARDS AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE**

The integration of ESG into corporate strategies has become essential, with academic research consistently linking ESG performance to long-term financial success. ESG frameworks, introduced by the United Nations in 2006, have pushed firms to recognise the value of sustainable practices, and investors increasingly consider ESG outcomes in their evaluations. Studies highlight that factors influencing ESG disclosure include board diversity, structure, and external risks, aligning with Information Asymmetry Theory and Stakeholder Theory, which support ESG's role in bridging information gaps and meeting broader stakeholder expectations (Friede et al., 2015; Freeman, 1984).

#### **3.1 Environmental Pillar**

The environmental component of ESG assesses a company's impact on natural resources and its commitment to sustainable development. Effective management of environmental risks and resources (including climate change, carbon emissions and pollution control) by companies makes them resilient in an increasingly regulated and resource-conscious market.

##### **3.1.1 Climate Change and Carbon Emissions**

Climate change represents a critical risk to firms, with physical risks from extreme weather and transitional risks associated with a low-carbon economy becoming prominent concerns. Board oversight in carbon reduction and climate strategies aligns firms with international agreements like the Paris Agreement, enhancing long-term stability (IPCC, 2018; UNFCCC, 2015). Companies with climate-experienced directors and sustainable oversight structures are more likely to adopt effective carbon reduction strategies (Task Force on Climate-related Financial Disclosures, 2021). Transparent reporting on climate initiatives further strengthens a company's reputation and investor trust (Flammer et al., 2023).

##### **3.1.2 Resource Management**

Resource management encompasses energy efficiency, water conservation, and sustainable sourcing practices. Boards are crucial in overseeing resource policies, promoting cost efficiency, and encouraging alignment with corporate sustainability goals (Eccles et al., 2020). For instance, firms that adopt sustainable sourcing and energy-saving measures see operational improvements and heightened brand loyalty (Mena et al., 2022).

##### **3.1.3 Pollution Control and Environmental Compliance**

Managing pollution and ensuring compliance with environmental regulations helps firms avoid legal and reputational risks. Boards with dedicated environmental committees guide firms in adhering to pollution control standards and investing in advanced pollution-reducing technologies (He et al., 2023). Compliance frameworks, such as the Global Reporting Initiative (GRI), support

transparent environmental disclosures, hold firms accountable to stakeholders and enhance market credibility (OECD, 2023).

### **3.2 Social Pillar**

The social dimension of ESG reflects a company's relationship with its workforce, communities, and other stakeholders, emphasising labour practices, community engagement, and diversity. This component is critical in strengthening corporate reputation and building resilience.

#### **3.2.1 Labor Practices and Employee Well-being**

Fair labour practices and employee well-being contribute to a positive corporate reputation and increased productivity. Companies with robust health and safety initiatives, mental health support, and work-life balance policies report lower turnover and enhanced workforce engagement (Zheng et al., 2015). As labour expectations evolve, companies increasingly adopt mental health programs, reflecting the growing importance of holistic employee support (Latapí Agudelo et al., 2019).

#### **3.2.2 Diversity and Inclusion**

Diversity and inclusion (D&I) efforts create a more innovative, inclusive corporate environment, with diverse boards contributing to better decision-making and governance (Rhode and Packel, 2014). Initiatives like recruitment strategies for underrepresented groups and bias training are increasingly prioritised at the board level as diverse leadership strengthens corporate governance and stakeholder appeal. Studies link diverse boards to improved financial performance, showcasing the strategic advantage of inclusive practices (Rhode and Packel, 2014).

#### **3.2.3 Community Engagement**

CSR initiatives, including community engagement and philanthropy, strengthen a firm's social license and enhance stakeholder trust. Boards are responsible for guiding CSR activities, supporting local partnerships, and investing in social causes that align with corporate values, thus reinforcing corporate reputation (Jamali et al., 2008). Firms with strong board-driven community engagement practices experience higher loyalty and operational stability within local communities (Brammer and Millington, 2004).

#### **3.2.4 Human Freedoms and Rights**

Upholding human rights within the supply chain is essential for mitigating risks and ensuring ethical operations. Boards are vital in overseeing compliance with human rights standards and conducting due diligence, ensuring supplier practices align with international labour regulations (McCorquodale et al., 2017). Effective oversight helps prevent reputational damage and promotes stakeholder confidence as companies adhere to fair labour practices across their operations (Ruggie, 2023).

### **3.3 Governance Pillar**

The governance pillar of ESG emphasises structures that promote accountability, transparency, and ethical business conduct. Effective governance frameworks enable firms to manage risks and align corporate strategies with societal goals.

#### **3.3.1 Board Structure and Composition**

A diverse board composition encompassing gender, age, and professional background strengthens corporate governance by bringing varied perspectives to strategic discussions.

Independent directors, free from conflicts of interest, play a pivotal role in challenging executive decisions, promoting unbiased oversight, and enhancing sustainability practices (Walls and Berrone, 2017). Regulatory frameworks, like the U.K. Corporate Governance Code, mandate committee structures for audit, risk, and sustainability, further enhancing board effectiveness in tackling complex governance issues (FRC, 2018).

### **3.3.2 Corporate Ethics and Integrity**

Boards ensure that companies operate with integrity by enforcing codes of conduct, ethics training, and whistleblower protections (Schwartz et al., 2005). These measures foster a culture of transparency and accountability, reinforcing stakeholder trust. Research shows that ethical leadership, guided by the board, significantly reduces the likelihood of unethical behaviour, benefiting corporate reputation and long-term sustainability (Saha et al., 2020; Nguyen et al., 2021).

### **3.3.3 Risk Evaluation**

Effective risk management frameworks, led by the board, allow companies to navigate uncertainties and protect stakeholder interests. Boards oversee risk assessments, ensuring companies' risk appetites align with strategic goals and emerging ESG risks. Integrating ESG considerations into risk management enhances firms' ability to anticipate and mitigate ESG risks (Landi et al., 2022). Technological advancements in data analytics and artificial intelligence further enhance risk management capabilities.

### **3.3.4 Shareholder Rights**

Protecting shareholder rights through voting rights and proxy access fosters transparency and accountability. Shareholder activism, particularly in ESG issues, has become a powerful influence on corporate governance, compelling firms to adopt more sustainable practices (Gillan and Starks, 2007). Activist shareholders often advocate for changes in board composition, executive compensation, and risk management, pushing companies toward sustainable performance (Dimson et al., 2015).

### **3.3.5 Executive Compensation**

Well-structured compensation packages that align executive incentives with long-term value creation are essential for effective governance. Increasingly, companies are tying compensation to ESG performance metrics, such as carbon reduction and diversity goals, aligning management behaviour with broader corporate values (Cohen et al., 2023). Transparent disclosure of compensation structures strengthens stakeholder trust and ensures accountability (Efunniyi et al., 2024).

### **3.3.6 Role of the Chair**

The board chair's role in governance extends beyond procedural oversight. Chairs facilitate discussions, promote board independence, and ensure focus on long-term strategy. They play a crucial role in fostering inclusive and sustainability-driven governance practices and shaping a culture of accountability and transparency (Banerjee et al., 2020). By embedding ESG principles into board discussions, chairs contribute to a holistic corporate vision aligned with organisational and societal objectives (Hoang, 2018).

### **3.3.7 Succession Planning**

Succession planning is vital for leadership continuity and minimising risks related to executive transitions. Boards ensure transparent processes for leadership development, aligning succession plans with strategic goals and incorporating diversity to enhance resilience (Hawkins-Saleemi, 2023). Effective succession planning supports stability and allows companies to adapt swiftly to changes in leadership dynamics (Rothwell, 2015).

### **3.4 ESG Practices and Disclosure in China**

China's ESG practices are influenced by its regional economic diversity and state-led sustainable development programmes. Chinese companies face unique challenges and opportunities in ESG disclosure due to significant differences in environmental regulations and industrialisation levels across regions (Lin et al., 2024). Cities along China's southeastern coast are more industrialized, with more stringent environmental reviews and greater regulatory pressure. As a result, the Southeast coastal economic development zone is relatively advanced in ESG practice and disclosure compared to the central and western regions.

#### **ESG disclosure regulations in China**

The China Securities Investment Funds Association's Green Investment Guidelines and other regulatory measures have promoted the adoption of ESG disclosure by listed companies, increasing transparency and aligning with global responsible investment trends (Xiao et al., 2023). China's commitment to achieve carbon neutrality by 2060 emphasises its focus on environmental sustainability, with significant investment in renewable energy and pollution control measures. These policies align with the government's focus on reducing emissions and promoting green development (Chen et al., 2023).

#### **Social and governance initiatives**

Chinese companies are increasingly incorporating the social aspects of ESG, such as fair labour practices, employee welfare and community engagement. Corporate governance reforms have also focused on increasing board diversity and independence and supporting more ethical and transparent governance practices (Solomon, 2020). However, these governance improvements are challenging to align with global standards. This is partly due to the fact that China's ESG approach is state-driven, as opposed to the market-driven frameworks that are common in Western countries.

#### **Comparison with other countries and regions**

Table 4 compares China's ESG practices with those of other regions. Western countries such as the U.S. and the U.K. demonstrate more standardised, investor-driven ESG frameworks focusing on market innovation and regulatory compliance. In contrast, China's approach is more compliance-oriented, driven by national policies and ambitious national goals. Emerging markets like India and Brazil have progressed in ESG but face the standardisation challenge. In China, the focus has been on aligning corporate strategy with nationally mandated SDGs, emphasising the unique role of government influence on corporate ESG behaviour (Qi et al., 2019).

**Table 4 Comparison of ESG in China and Other Regions or Countries**

| <b>Region/Country</b> | <b>Key ESG Practice</b> | <b>Differences Compared to China</b> | <b>Citations</b> |
|-----------------------|-------------------------|--------------------------------------|------------------|
|                       |                         |                                      |                  |

|                       |                                                                        |                                                                        |                                                   |
|-----------------------|------------------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------|
| <b>China</b>          | Carbon neutrality, pollution control, CSR, labour practices            | Strong state influence, focus on compliance, rapid implementation      | Qi et al. (2019)                                  |
| <b>United Kingdom</b> | Comprehensive ESG integration, strong governance practices             | Higher standardisation, advanced disclosure frameworks                 | Eccles et al. (2023)<br>Freeman and Auster (2022) |
| <b>United States</b>  | Advanced ESG reporting, investor-driven practices, innovation          | Higher emphasis on market-driven initiatives, regulatory variability   | Flammer et al. (2023)                             |
| <b>Germany</b>        | Strong focus on environmental sustainability, advanced compliance      | High regulatory compliance, strong industry standards                  | Velte (2017)                                      |
| <b>Japan</b>          | Emphasis on long-term sustainability, corporate ethics                 | Cultural emphasis on consensus and long-term planning                  | Liu and Nemoto (2021)                             |
| <b>India</b>          | Focus on social equity, community development, and resource management | Varied practices, evolving regulatory framework                        | Raj et al. (2022)                                 |
| <b>Brazil</b>         | Biodiversity conservation, social inclusion, and community engagement  | Strong focus on social and environmental challenges, less standardised | Possebon et al. (2024)                            |
| <b>South Africa</b>   | Governance reforms, social responsibility, environmental protection    | Emphasis on social equity and governance reforms                       | Johnson et al., (2019)                            |

#### 4 CORPORATE GOVERNANCE

Corporate governance establishes a framework for effective management, accountability and sustainability within companies. Originally designed to protect shareholder interests, corporate

governance now addresses broader stakeholder issues, including emerging ESG risks. This section explores corporate governance in different contexts, emphasising the unique dynamics in China arising from state ownership, market mechanisms and regulatory oversight. It also examines governance practices in developed and emerging markets and the relationship between ESG and corporate governance.

#### **4.1 Corporate Governance in Developed Markets**

In developed markets, corporate governance is characterised by strict regulatory frameworks that enforce transparency, accountability and fairness in corporate operations. Key regulations include the Sarbanes-Oxley Act in the U.S. and the U.K. Corporate Governance Code, which require high standards of board independence, shareholder protection and disclosure (Aguilera and Cuervo-Cazurra, 2009; Gillan and Starks, 2007). Boards are often required to include independent directors to mitigate conflicts of interest and enhance oversight (Bhagat and Bolton, 2008). Developed markets also place a premium on shareholder rights, empowering shareholders with proxy voting and say-on-pay mechanisms. A high degree of transparency in financial reporting coupled with rigorous auditing standards is fundamental, linking executive compensation to performance metrics to reconcile the interests of executives and shareholders.

Governance structures vary from country to country: the U.S. emphasises shareholder value and institutional investor activism, while the U.K. adopts a 'comply or explain' approach, balancing flexibility with high board independence and risk management (Cadbury, 2000). Germany's two-tier board system separates management and oversight with shared decision-making by employee representatives (Block and Gerstner, 2016). In developed markets, recent trends include incorporating ESG considerations into governance and increased board diversity, driven by regulatory and investor pressure (Eccles et al., 2014).

#### **4.2 Corporate Governance in Emerging Markets**

Emerging markets are rapidly industrialising economies that face unique governance challenges. Corporate governance frameworks in these markets often need more rigour of enforcement than those in developed economies, leading to differences in practice. Ownership structures tend to be concentrated, and companies are often controlled by family, state, or business groups, creating potential conflicts of interest and protecting minority shareholders (Claessens and Yurtoglu, 2013; La Porta et al., 1999).

Transparency and disclosure quality are typically weaker in emerging markets due to inconsistent regulatory enforcement, and the broader institutional environment (including the legal system and financial markets) can affect governance effectiveness (Khanna and Yafeh, 2007). For example, governance practices vary significantly across regions, as shown in Table 6 summarises governance structures and challenges in Asia, Latin America, Eastern Europe, and Africa.

**Table 6 Comparison of Corporate Governance Practices in Emerging Markets**

| <b>Region</b> | <b>Countries</b> | <b>Key Governance Practices</b> | <b>Challenges</b>       | <b>Citations</b> |
|---------------|------------------|---------------------------------|-------------------------|------------------|
| <b>Asia</b>   | China,           | China's governance is           | Strong state influence, | Kim and Lu       |

|                       |                                          |                                                                                             |                                                                          |                                   |
|-----------------------|------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------------------------------|
|                       | India,<br>South<br>Korea                 | influenced by state control and evolving regulatory frameworks.                             | evolving regulations in China.                                           | (2013)                            |
|                       |                                          | India has implemented significant reforms to enhance transparency and protect investors.    | Implementation and enforcement of reforms in India.                      |                                   |
|                       |                                          | South Korea's governance is shaped by the dominance of chaebols.                            | Chaebols' influence poses unique governance challenges in South Korea.   |                                   |
| <b>Latin America</b>  | Brazil,<br>Mexico                        | Brazil's Novo Mercado initiative sets higher standards for transparency and accountability. | Addressing corruption and improving enforcement.                         | Chong and López-de-Silanes (2007) |
|                       |                                          | Mexico has made strides in improving governance practices.                                  | Consistent application of governance standards.                          |                                   |
| <b>Eastern Europe</b> | Russia,<br>Poland                        | Transition from centrally planned to market economies.                                      | Legacy of state ownership, transparency, and enforcement issues.         | Filatotchev et al. (2013)         |
|                       |                                          | Efforts to build robust market institutions.                                                | Inconsistent enforcement and regulatory frameworks.                      |                                   |
| <b>Africa</b>         | South Africa,<br>other African countries | South Africa's King Code of Governance sets high standards.                                 | Political instability, weak institutions, limited regulatory frameworks. | Ntim and Soobaroyen (2013)        |
|                       |                                          | Implementation difficulties challenge efforts in other African countries.                   | Effective implementation of governance practices in other regions.       |                                   |

Efforts to improve corporate governance in emerging markets include regulatory reforms focusing on disclosure, shareholder protection and board independence. Many emerging markets are adopting international governance standards, such as the OECD Principles, to enhance alignment with global practices. In addition, there is a growing focus on incorporating ESG factors into governance to attract foreign investment and support sustainable growth (IFC, 2020).

#### **4.3 Corporate Governance in China**

Corporate governance in China reflects the country's transition from a centrally planned to a market economy. Beginning with the economic reforms of the late 1970s, China's State Owned Enterprises (SOEs) began to transform into more autonomous and efficient structures. The 1990s saw the introduction of significant governance reforms in China, such as the 1993 Company Law, which emphasised the separation of ownership and management (Li and Naughton, 2007). Listing SOEs on domestic and international stock exchanges has led to stricter governance standards.

Under the supervision of the China Securities Regulatory Commission (CSRC), China's regulatory framework has evolved to improve transparency and protect investors. Key regulations such as the Code of Governance for Listed Companies provide guidelines on board roles, independence, internal controls and risk management. Recent reforms, including the 2020 Securities Law, have strengthened investor protection and corporate governance enforcement, with an increasing focus on ESG disclosure (Jiang and Kim, 2020).

Chinese corporate governance combines state control and market mechanisms. The governance structure typically includes a board of directors responsible for strategy, a supervisory board overseeing compliance, and a management team. Although the China Securities Regulatory Commission (CSRC) requires independent directors, the effectiveness of independent directors has been controversial due to the potential influence of controlling shareholders (Peng, 2004). Ownership patterns vary, with SOEs usually under state control, while private firms may have more diversified ownership but are still heavily influenced by founders or families (Xu and Wang, 1999).

Challenges to corporate governance in China include the dominance of state ownership in SOEs and the influence of controlling shareholders, which can limit board independence. Despite China's comprehensive regulatory framework, inconsistent enforcement hinders effective governance. However, China's commitment to aligning with international standards and promoting ESG practices reflects opportunities for further improvement, particularly as technological advances such as big data enhance transparency and oversight (Fan et al., 2011).

#### **4.4 The Relationship Between ESG and Corporate Governance**

Effective corporate governance is critical to integrating ESG practices into corporate strategy. Diverse boards are more likely to address ESG issues holistically, thereby improving sustainability outcomes. Research shows that companies with diverse boards report higher ESG scores and provide more transparent sustainability disclosures (Adams and Ferreira, 2009; Rao and Tilt, 2023).

Governance mechanisms such as independent directors, sustainability committees and ESG-linked executive compensation are essential for effective ESG integration. For example,

companies adopting ESG-linked remuneration practices have shown significant improvements in ESG performance, with independent directors ensuring that ESG initiatives are aligned with corporate goals (Flammer et al., 2023; Matuszak et al., 2019).

Transparency and accountability are essential for credible ESG reporting. Companies with strong governance frameworks are more likely to provide accurate and comprehensive ESG disclosures critical to investors and stakeholders. Research shows that sound governance practices are associated with greater transparency in sustainability reporting (Eccles et al., 2014).

In addition, there is evidence that strong ESG performance positively impacts financial outcomes, such as lower cost of capital, higher market valuations and improved operational performance. Companies that effectively manage ESG risks are more resilient and attract more investment because ESG practices support long-term financial health (Friede et al., 2015).

Active governance of ESG-related risks, particularly environmental and social risks, contributes to corporate stability. Research suggests that firms with strong governance can better anticipate and mitigate ESG risks, enhancing their competitive advantage and resilience (Wang et al., 2024). Effective governance of ESG practices also enhances corporate reputation and stakeholder trust, as responsible and ethical firms attract more customers, employees and investors (Jo and Harjoto, 2011; Orlitzky et al., 2003).

## **5 RESEARCH GAP**

Despite a large body of literature examining the impact of corporate governance on ESG practices, significant gaps remain, especially in the context of listed companies in China. Most notably, while studies have increasingly focused on the impact of board diversity on corporate decision-making and performance, more research needs to specifically address how various dimensions of board diversity directly influence ESG information disclosure practices in China.

Firstly, existing research predominantly explores board diversity in terms of gender and occasionally ethnicity, with less attention given to other critical dimensions such as educational background, industry experience, and international exposure, which are especially pertinent in the context of evolving global ESG standards (Xie et al., 2023). China's unique regulatory, cultural, and economic backdrop necessitates a broader examination of these factors to understand their specific impacts on ESG disclosure practices. Secondly, the literature reveals a consensus on the positive role of board diversity in enhancing ESG practices; however, empirical studies explicitly linking board diversity to the quality and extent of ESG disclosures in the Chinese context are limited (Zhao and Zhou, 2021). This oversight presents a significant research opportunity, as understanding this linkage is vital for policymakers, corporate leaders, and investors aiming to improve ESG practices and transparency.

## **6 SUMMARY**

This literature review aims to explain and compare current theories on board diversity and ESG. An analysis of the existing literature found a clear relationship between various types of board diversity and ESG practice and disclosure. The summary and integration of existing literature helped identify gaps under this research theme. A large amount of quantitative literature has

proved the correlation between board diversity and ESG, but it cannot prove the causal relationship between them. Therefore, qualitative research methods can be used to confirm further and prove the correlation found in the quantitative literature and further confirm the separate relationship between various types of diversity and ESG.

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