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TITOLO: CORPORATE GOVERNANCE AND ESG PERFORMANCE: A LITERATURE REVIEW

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Abstract

This thesis provides a comprehensive literature review on the intersection of corporate governance features and Environmental, Social, and Governance (ESG) performance. The work highlights the importance of integrating ESG considerations into corporate governance frameworks. Specifically, this work explores the influence of board composition, executive compensation, corporate policies, stakeholder influence, and corporate social responsibility on ESG outcomes. The extant literature suggests that robust corporate governance mechanisms, particularly those that prioritize ESG factors, can significantly enhance long-term financial performance, operational efficiency, and corporate reputation. Additionally, the work identifies gaps in the current literature and suggests avenues for future research, emphasizing the need for more empirical studies to better understand the dynamics between governance practices and ESG performance. This work contributes to the growing body of knowledge on sustainable business practices, providing valuable insights for academics, practitioners, and policymakers aiming to foster more responsible corporate behavior

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Chapter 1: Introduction

1.1 Overview of Corporate Governance and ESG Performance

The term corporate governance pertains to the systems, procedures, and connections through which businesses are managed and guided. The primary purpose of corporate governance is to safeguard stakeholders' interests, including those of shareholders, employees, customers, and the community at large, ensuring accountability and transparency in a company's dealings.

Effective corporate governance is essential for the stability and sustainability of organizations. Key components include the board of directors, executive compensation, shareholder rights, and transparency in disclosures. According to Ferrell et al., 2016 the board of directors has a significant role in corporate governance, overseeing management, and making crucial strategic decisions. Robust governance practices ensure that the board acts independently and in the best interests of the stakeholders.

Ringe, 2023 also emphasizes that effective corporate governance structures are necessary to support sustainability initiatives. The inclusion of Environmental, Social, and Governance (ESG) standards in corporate governance frameworks has become increasingly important as stakeholders demand greater accountability and ethical business practices. Effective corporate governance ensures that companies operate with integrity and accountability, fostering trust among investors and other stakeholders.

Assessing a company's Environmental, Social, and Governance (ESG) performance measures its commitment to sustainable and ethical practices. ESG criteria have become increasingly important as stakeholders demand greater accountability from corporations regarding their environmental and social impacts.

ESG performance is typically measured through three main aspects:

Environmental: This dimension evaluates how a business affects the environment by taking into account things like resource conservation, waste management, energy efficiency, and carbon emissions. (Arvidsson & Dumay, 2022). Companies are expected to adopt practices that minimize their environmental footprint and contribute positively to ecological sustainability. This includes implementing energy-efficient processes, reducing greenhouse gas emissions, and responsibly managing natural resources.

Social: This component assesses how an organization handles its interactions with workers, suppliers, customers, and the communities in which it conducts business. It includes labor practices, human rights, diversity and inclusion, and community engagement (Heubeck, 2024). Companies should ensure fair labor standards, support diversity and inclusion, uphold human rights, and take part in community development projects in order to promote a positive social influence.

Governance: The frameworks and procedures for accountability, transparency, and decision-making are the focus of governance criteria. This includes the composition of the board, executive compensation, shareholder rights, and internal controls. Effective governance practices ensure that companies are managed in a manner that is ethical and transparent, with mechanisms in place to prevent corruption and unethical behavior (Ferrell et al., 2016).

Integrating corporate governance and ESG performance has become critical in modern business practices. Businesses are realizing more and more that sustainable and moral business practices are essential to their long-term success. Effective corporate governance frameworks now incorporate ESG considerations, reflecting a holistic approach to business management. Arvidsson & Dumay, 2022 highlight that companies with high-quality ESG reporting tend to have better overall performance, as transparency in ESG practices builds trust and supports long-term success. Transparency in ESG reporting provides stakeholders with a clear understanding of a company's sustainability performance and practices, enabling informed decision-making.

Furthermore, Ringe, 2023 argues that investor-led sustainability initiatives, driven by robust corporate governance, are key to achieving a more sustainable future. Investors are increasingly demanding that companies demonstrate their commitment to ESG principles, and those that fail to do so may face financial and reputational risks. Heubeck, 2024 also discusses the strategic importance of board composition and CEO capabilities in enhancing ESG performance. Diverse and capable boards are better equipped to address complex ESG issues and drive sustainable business practices. The dynamic capabilities of CEOs, including their ability to navigate stakeholder expectations and implement sustainable strategies, are crucial for achieving strong ESG performance.

1.2 Importance of ESG in Contemporary Business Practices

Several key factors contribute to the widespread adoption of ESG practices. Governments and regulatory bodies worldwide are implementing regulations to ensure companies adhere to ESG standards. For example, the European Union's Sustainable Finance Disclosure Regulation (SFDR) is pushing for greater transparency in ESG reporting (Ringe, 2023). Regulatory frameworks are progressively mandating that companies disclose their ESG practices and performance, thereby enhancing accountability and transparency.

Investors are placing more emphasis on ESG criteria when making investment decisions, recognizing that companies with robust ESG performance often show more resilience and deliver better long-term returns. This trend is supported by findings from Ringe (2023), who notes the growing influence of ESG considerations in capital markets. Investors are seeking to allocate capital to companies that demonstrate a commitment to ethical and sustainability practices.

Today's consumers are more conscious of environmental and social issues, preferring to support companies committed to sustainability and ethical practices. The role of gender diversity in boards is a critical factor in meeting these expectations (Heubeck, 2024). Consumers are increasingly using their purchasing power to support companies that align with their values, driving demand for sustainable products and services.

ESG practices help companies manage various risks, including regulatory risks, reputational risks, and operational risks. Firms with higher environmental ratings are better positioned to handle regulatory pressures related to pollution control (Thomas et al., 2022). By proactively addressing ESG issues, companies can mitigate potential risks and enhance their resilience to external shocks.

Companies that excel in ESG can differentiate themselves from competitors, attracting investors, customers, and employees. This competitive edge is highlighted by Heubeck, 2024, who discusses the strategic importance of board composition and CEO capabilities in enhancing ESG performance. A company's reputation can be enhanced by strong ESG performance, leading to increased customer loyalty and the attraction of top talent, resulting in a notable competitive edge.

The overall success of a business is significantly impacted by the incorporation of ESG elements into business processes. Companies with exemplary ESG performance frequently enjoy increased profitability and enhanced stock performance. Arvidsson & Dumay, 2022 provide evidence that high-quality ESG reporting correlates with improved financial outcomes. Companies that proficiently handle ESG risks and opportunities can achieve superior financial performance, as they are better positioned to capitalize on emerging trends and avoid potential pitfalls.

ESG practices can lead to improved operational efficiency. For example, energy-efficient processes reduce costs, while sustainable supply chain practices ensure long-term resource availability (Ringe, 2023). Companies that prioritize sustainability can streamline their operations, reduce waste, and achieve cost savings, contributing to overall efficiency.

Strong ESG commitments benefit a company's reputation and increase brand loyalty. This is supported by the findings of Heubeck, 2024, who emphasizes the role of board diversity in fostering effective ESG strategies. Committing to ESG principles can improve a company's standing, establish trust with customers, and encourage brand loyalty, ultimately resulting in a larger market share and higher customer retention.

ESG prioritizing companies often attracts and keeps top talent. Workers are more and more looking to join firms that match their values and show dedication to sustainability and societal responsibility (Heubeck, 2024). Companies can enhance employee satisfaction, engagement, and retention by fostering a positive work environment and promoting ethical practices.

ESG practices can spur innovation by motivating businesses to create fresh, eco-friendly goods and services. This innovation can open new markets and create growth opportunities (Ringe, 2023). Companies that embrace sustainability can leverage their commitment to ESG principles to drive innovation, develop new business models, and capture emerging market opportunities.

Thomas et al., 2022 further highlight the potential negative impact of short-term financial pressures on ESG performance. Their research indicates that firms may compromise on environmental practices to meet short-term financial targets, underscoring the need for a long-term perspective in integrating ESG considerations into corporate governance.

The integration of corporate governance and ESG performance has become essential in today's business environment. Effective corporate governance frameworks that incorporate ESG considerations help companies achieve sustainable growth and protect stakeholder interests. The importance of ESG in contemporary business practices is underscored by regulatory pressures, investor demands, consumer expectations, risk management, and the pursuit of competitive advantage. Companies that excel in ESG can enhance their financial performance, operational efficiency, reputation, employee engagement, and innovation, thereby achieving long-term success.

1.3 Objectives of the Literature Review

1. To review existing literature on corporate governance mechanisms and their influence on ESG performance.
2. To identify gaps and inconsistencies in the literature and suggest ideas for future research in the field of corporate governance and ESG performance.

1.4 Structure of the Paper

This thesis is organized into five comprehensive chapters, each addressing critical aspects of corporate governance and ESG performance.

The first chapter introduces the topics of corporate governance and ESG, emphasizing their significance in contemporary business practices. It further outlines the objectives of the literature review and presents the overall structure of the paper.

In the second chapter, there are details of the methodology used for the literature review. It describes the literature selection process, including the criteria for inclusion and exclusion, the databases and sources consulted, and the search terms and keywords employed. Furthermore, it provides a statistical overview of the selected papers, covering publication years, journal distribution, and geographic distribution of the studies. It concludes with an explanation of the analytical methods and tools used for data extraction and synthesis, ensuring a robust and systematic approach.

In Chapter 3, the thesis presents an extensive review of the literature, organized into several key themes. These themes include Board Composition and ESG Performance, Executive Compensation and ESG Performance, Corporate Policies and Environmental Impact, Stakeholder Influence and ESG Performance, Corporate Social Responsibility and Financial

Performance, and Governance Mechanisms and ESG Reporting. Each theme explores various facets of how corporate governance and ESG factors interact and influence business outcomes.

Building on the literature review, Chapter 4 synthesizes the findings, discussing their implications for corporate governance and ESG practices. This provides a study of the body of knowledge on the topic, pointing out gaps in the current research and offering recommendations for future research directions.

The thesis is then ended in the last chapter, which summarizes the major discoveries and makes suggestions for practice and policy. It offers concluding remarks on the changing connection between corporate governance and ESG performance and highlights the significance of incorporating sustainable practices into corporate strategy for long-term success.

Chapter 2: Methodology

2.1 Literature Selection Process

2.1.1 Criteria for Inclusion and Exclusion of Papers

The literature selection process in this study was governed by stringent inclusion and exclusion criteria to ensure the relevance and quality of the articles reviewed. Inclusion criteria mandated that articles be published within the last 20 years in highly rated journals in the accounting and finance fields, specifically those rated 3, 4, or 4* in the latest Academic Journal Guide. The relevance of the papers to corporate governance and ESG performance was paramount, with an emphasis on empirical studies that provided robust data and insights. Conversely, exclusion criteria filtered out non-peer-reviewed sources, outdated studies, and papers that did not align with the structured keyword strategy or lacked empirical support. This careful selection ensured a focused and comprehensive analysis of the most pertinent and high-quality literature in the field.

2.1.2 Databases and Sources Used

The database and sources used for this literature review were selected based on their comprehensive coverage and scholarly reliability. The database used was Scopus. This database was chosen for its extensive archives of peer-reviewed journals and its ability to facilitate advanced search functions, ensuring that the search was both thorough and efficient. Additionally, specific journals known for their impact and relevance in the fields of business, management, accounting, and finance were prioritized. These sources provided a rich repository of articles that were meticulously screened for inclusion in the study.

2.1.3 Search Terms and Keywords

To capture a wide range of relevant literature, a combination of carefully chosen search terms and keywords was employed. These included:

- "Corporate Governance and ESG Performance"
- "Corporate Governance and CSR"
- "Corporate Governance and Environmental Performance"
- "Board of Directors and ESG Performance"
- "Executive Compensation and ESG Performance"

These keywords were designed to encompass the multifaceted aspects of corporate governance and its impact on ESG performance. The search strategy aimed to identify articles that addressed the various dimensions of the topic, including environmental, social, and governance aspects by using a combination of these terms. The search process was iterative and dynamic, allowing for adjustments based on initial findings and emerging trends within the literature. This approach ensured that the review captured both well-established studies and newer, innovative research that could provide fresh insights into the relationship between corporate governance and ESG performance. Through this methodical and rigorous process, the selected literature provided a solid foundation for analyzing and understanding the critical mechanisms by which corporate governance influences ESG outcomes.

2.2 Analytical Techniques

2.2.1 Techniques Used for the Synthesis

The synthesis of the selected literature involved a systematic approach to ensure a comprehensive understanding of the relationship between corporate governance and ESG performance. Techniques used for the synthesis included thematic analysis and content analysis. The purpose of thematic analysis was to find recurrent themes and patterns in the literature. Content analysis helped in quantifying the presence of specific terms and concepts, providing a clearer picture of the focus areas within the literature. The synthesis process also involved categorizing the papers based on their objectives, methodologies, key findings, strengths, weaknesses, gaps to explore, and geographical focus. This categorization allowed for a structured comparison of the different studies, highlighting both commonalities and divergences in the findings.

2.2.2 Tools and Software for Extracting Data from Papers

Microsoft Excel was the primary tool used for data extraction and organization. Excel's functionality facilitated the efficient handling of large volumes of data, enabling the systematic recording of key information from each paper. The data extraction process was meticulous, ensuring that all relevant details were captured accurately and consistently.

The data extraction template in Excel was structured around several key fields:

- **Objectives**: Capturing the primary aims and research questions of each study.
- **Methodology**: Describing in detail the methodologies utilized for data collecting, analysis, and research design.
- **Key Findings**: Summarizing the main results and conclusions drawn by the authors.

- **Strengths**: Noting the robust aspects of the study, such as strong empirical support or innovative approaches.
- **Weaknesses**: Identifying limitations or areas where the study could be improved.
- **Gaps to Explore**: Highlighting areas for future research as suggested by the authors.
- **Geographical Focus**: Recording the regional context of the study, which is crucial for understanding geographical variations in corporate governance and ESG performance.

The data extraction process involved a careful reading of each paper, with pertinent information being directly inputted into the Excel template. This method ensured that the extraction was both systematic and thorough, providing a solid foundation for subsequent analysis.

2.3 Data Extraction Process

The data extraction process was designed to be rigorous and systematic. Each paper was read in detail, and relevant information was highlighted and annotated. These annotations were then transferred to the Excel template, ensuring that each field was comprehensively filled out. To maintain consistency and accuracy, a set of predefined guidelines was followed for what constituted relevant information for each field.

For example, when extracting key findings, only those results that directly related to the objectives of the review (i.e., the impact of corporate governance on ESG performance) were included. Similarly, when noting strengths and weaknesses, a critical evaluation was performed to ensure that these assessments were based on objective criteria, such as the robustness of the methodology or the clarity of the findings. This structured approach ensured that the data extracted from each paper was reliable and could be easily compared across different studies. The use of Excel facilitated the sorting and filtering of data, allowing for the identification of trends and patterns that informed the overall synthesis of the literature.

2.4 Statistical Overview of Selected Papers

In the process of this literature review, a total of 68 papers were chosen based on the stringent inclusion criteria outlined earlier. These papers collectively provide a robust dataset for analyzing the intersection of corporate governance and ESG performance. The 68 papers selected have been cited in a total of 6,284 other published works, demonstrating their significant influence and relevance in the academic community. These statistics collectively

offer a comprehensive overview of the research landscape, providing a foundation for further analysis and discussion. Below are some clear statistics on the papers:

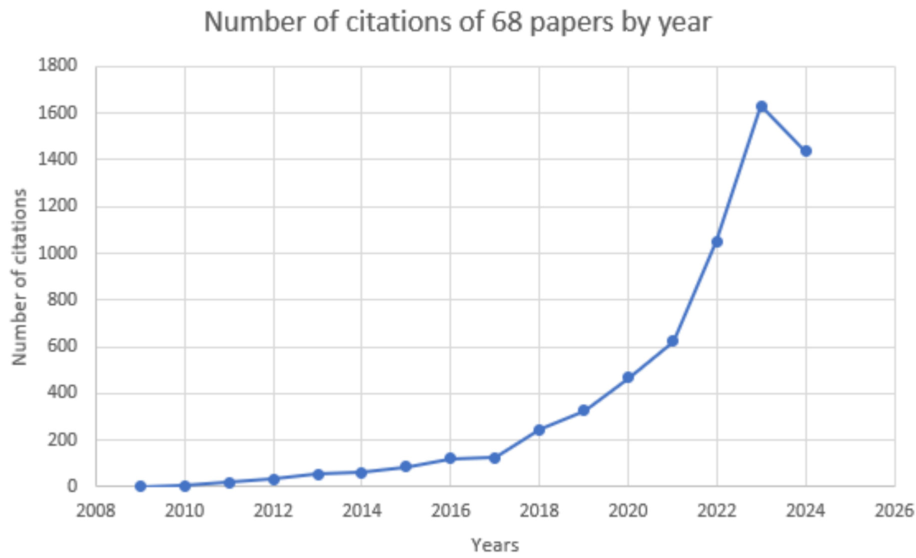

Fig 1: A graph representing the number of citations of 68 papers by year.

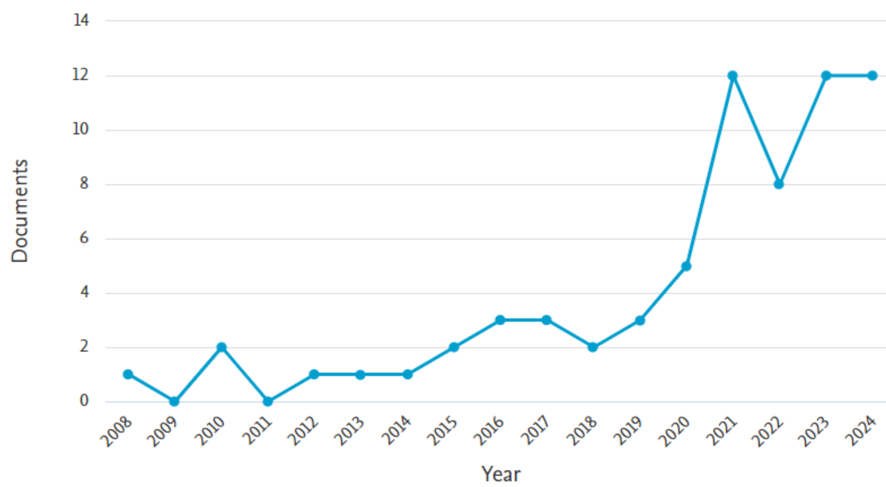

Fig 2: A line chart showing the number of documents by year.

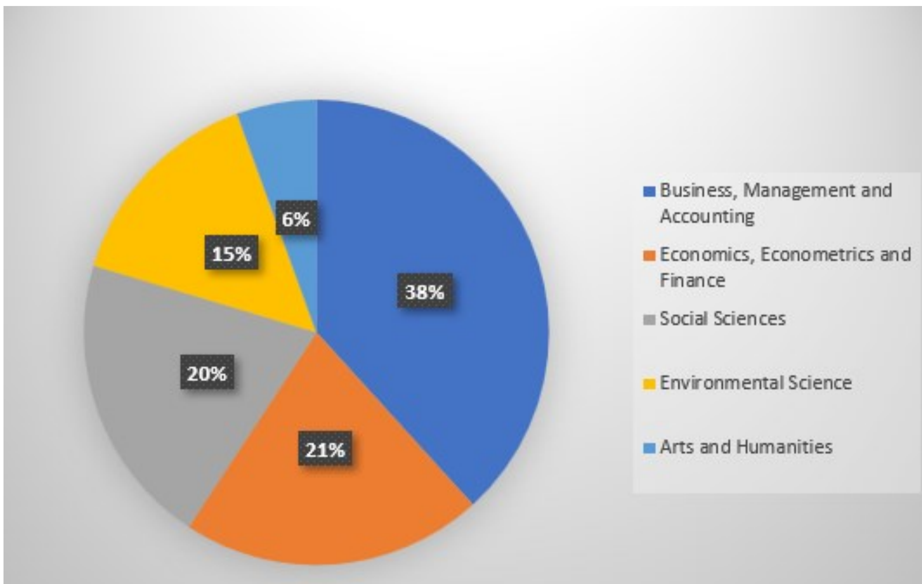

Fig 3: A pie chart representing the percentage of papers for each aspect of study.

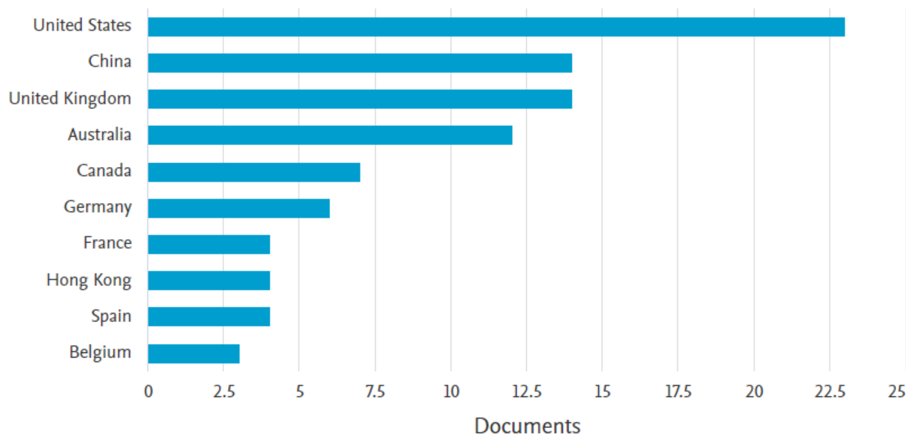

Fig 4: A bar chart representing the number of documents by country.

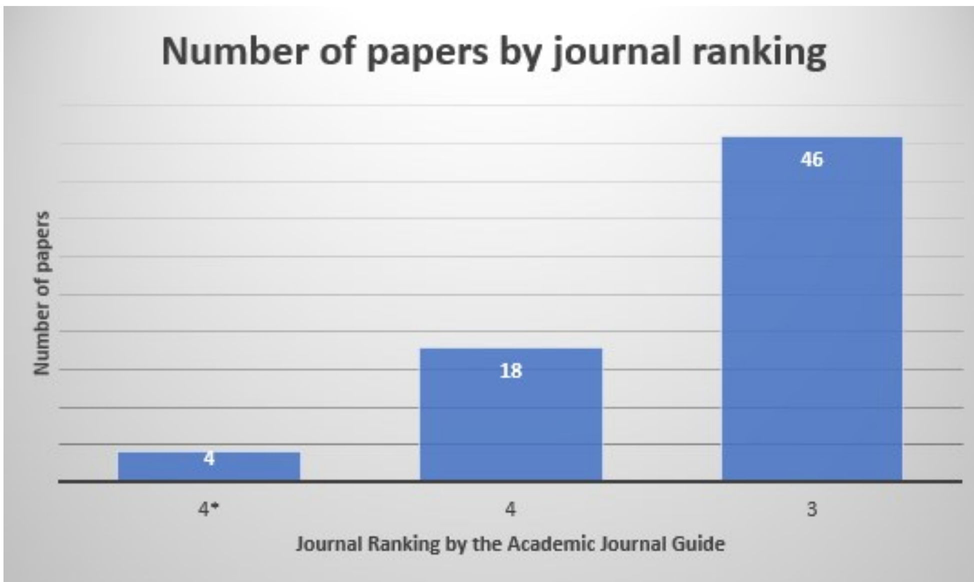

Fig 5: A bar graph representing the journal ranking by the Academic Journal Guide of the 68 papers.

Chapter 3: Literature Review

3.1 Theme 1: Board Composition and ESG Performance

Academic scholars and industry professionals have paid close attention to the connection between board composition and Environmental, Social, and Governance (ESG) performance. Firms are increasingly integrating ESG principles into their strategies, making it crucial to understand how board characteristics influence these outcomes. Key dimensions of board composition, such as gender diversity, board independence, and the roles of executive versus non-executive directors, have been identified as particularly significant in this context (Heubeck, 2024).

Research on gender diversity underscores the positive correlation between women's presence on corporate boards and enhanced ESG performance. A significant body of evidence suggests that female directors must reach a 'critical mass' to effect meaningful ESG outcomes, typically quantified as not less than three women on a board (Cambrea et al., 2023). This assertion aligns with studies indicating that women in substantial executive roles notably enhance ESG performance, given their involvement in strategic decision-making compared to their non-executive counterparts (Cambrea et al., 2023). Additionally, Liu (2023) highlights how executive female directors directly influence corporate sustainability and social responsibility policies. In a related empirical analysis, Ginglinger and Raskopf (2023) leverage France’s board gender quota law as a natural experiment, demonstrating that the imposition of gender quotas markedly improves E&S performance, validating the critical mass theory. Their findings confirm that gender diversity on boards is not just a metric of equality but a functional strategy to foster superior ESG performance, emphasizing the important roles that women play in steering corporate governance towards more sustainable and ethically responsible business practices (Ginglinger & Raskopf, 2023, Cambrea et al., 2023, Liu (2023).

Conversely, some research argues that independent female directors, often in monitoring roles, do not significantly impact ESG performance due to their limited involvement in day-to-day operations (Heubeck et al., 2023). This view is challenged by other studies emphasizing that the advisory role of female directors can be equally impactful if they are actively involved in shaping strategic decisions (Cambrea et al., 2023). Thus, the debate

continues whether the executive or advisory capacity of female directors plays a more crucial role in enhancing ESG outcomes.

Board independence, characterized by a higher proportion of non-executive directors, is another critical factor influencing ESG performance. Independent directors are seen as better monitors of corporate behavior, ensuring firms adhere to ethical standards and engage in socially responsible practices. Their diverse perspectives and inclination towards long-term sustainability goals often make them more effective in promoting ESG initiatives (Heubeck et al., 2023). However, the effectiveness of independent directors can be limited if they are not actively involved in advisory capacities, suggesting a need for a balance between monitoring and advisory roles to enhance ESG outcomes effectively (Liu, 2023).

The dynamic between the CEO and the board also significantly impacts ESG performance. CEOs with strong dynamic capabilities, such as the ability to recognize and respond to environmental and social issues proactively, often drive better ESG outcomes. The board's composition can either complement or hinder these efforts depending on how well it supports the CEO's strategic vision for sustainability (Heubeck et al., 2023). Additionally, CEOs with foreign experience tend to enhance a firm's ESG performance due to their broader perspectives and understanding of global sustainability practices. This global outlook often aligns with the strategic objectives of diverse boards, further amplifying positive ESG outcomes (Liu, 2023).

While gender diversity has been a focal point, other dimensions of board diversity, such as nationality, age, tenure, and educational background, also significantly influence ESG performance. A comprehensive review suggests that these diverse attributes contribute to a broader range of perspectives and innovative solutions essential for addressing complex ESG challenges (Khatib et al., 2020). For instance, age diversity can lead to both interpersonal friction and enhanced decision-making quality, depending on the context. During the financial crisis in Europe, age diversity improved bank performance (Cambrea et al., 2023).

The introduction of gender quotas in various countries has shown mixed results in improving ESG performance. While quotas ensure female representation, the impact on ESG outcomes depends significantly on the quality of this representation, whether in executive or advisory roles. Policymakers should consider regulations that mandate female presence and encourage their involvement in strategic roles (Cambrea et al., 2023). For firms aiming to enhance their ESG performance, it is crucial to strategically appoint female directors to executive positions where they can influence corporate policies and practices. Ensuring that women are not just

present but actively involved in decision-making processes is key to leveraging board diversity for better ESG outcomes (Liu, 2023).

The ongoing debate regarding the best methods for structuring board diversity to improve ESG performance continues. While some studies emphasize the importance of a critical mass of female directors, others highlight the roles these directors play, whether in executive, advisory, or monitoring capacities. The dynamic interplay between board independence, CEO characteristics, and other dimensions of diversity like age and nationality further complicates the picture. What remains clear is that a diverse board can bring various perspectives and innovative solutions essential for addressing ESG challenges, but the specific mechanisms and contexts in which this diversity is most effective require further exploration.

Recent studies have introduced additional nuances into the discussion of board composition and ESG performance. For instance, the influence of co-opted directors presents a significant dimension in understanding board dynamics. Companies that have more co-opted directors, that is, directors chosen after the current CEO takes office, generally perform related to environmental, social, and governance (ESG) issues, according to Maneenop et al. (2023). The managerial myopia theory, which holds that co-opted directors reflect inferior governance mechanisms, provides an explanation for this phenomenon. It implies that less effective oversight and fewer incentives for long-term ESG investments arise from co-opted directors. Maneenop et al. (2023) argue that the CEO and co-opted directors' aligned interests lead to decisions that put immediate profits ahead of long-term sustainability objectives.

In contrast, the stakeholder and good management hypothesis offers an opposing view. It suggests that co-opted directors might support the CEO in pursuing long-term value-enhancing projects, including those related to ESG. This hypothesis aligns with the findings of Kyaw et al. (2021), who report that companies with a higher level of board co-option are more likely to adopt supportive policies for diverse stakeholder groups, such as LGBT-friendly practices. However, the general trend observed in empirical studies leans towards the managerial myopia hypothesis, highlighting the negative impact of co-opted boards on overall ESG performance (Kyaw et al., 2021).

Additionally, Nuber (2021) investigates the curvilinear relationship between carbon emissions and gender diversity on boards. He demonstrates that there is a threshold that must be reached before gender diversity's beneficial effects on lowering carbon emissions become noticeable. This finding is crucial as it supports the critical mass theory discussed earlier, emphasizing

that merely having one or two female directors might not be sufficient to drive substantial improvements in ESG outcomes (Nuber, 2021).

The impact of racial diversity in boardrooms has also gained attention, particularly considering social movements such as the Black Lives Matter protests. Pajuste (2022) provides evidence that racial diversity on boards can enhance ESG performance by fostering inclusive and equitable corporate cultures. This is consistent with broader research findings indicating that diverse boards bring a variety of perspectives and experiences, resulting in more innovative and effective ESG strategies. However, we see the challenges in achieving meaningful representation and the need for sustained efforts to integrate diversity into corporate governance (Pajuste, 2022).

Muktadir-Al-Mukit et al. (2023) explore the corporate governance diversity's effect on carbon emissions in further detail, finding that diverse boards are better at reducing environmental impacts. There is clear support for the argument that board diversity, encompassing gender, race, and experience, contributes positively to ESG performance. The authors highlight that diverse boards are more likely to adopt comprehensive and forward-looking environmental policies, thereby reducing carbon footprints and enhancing sustainability (Muktadir-Al-Mukit et al., 2023).

Another interesting perspective is offered by Rees (2014), who examines how family ownership influences corporate social responsibility (CSR). The study suggests that family-owned firms often exhibit higher CSR performance due to their long-term orientation and commitment to legacy and reputation. This finding contrasts with the managerial myopia observed in firms with co-opted directors, indicating that the ownership structure can significantly influence ESG outcomes. Family-owned firms are more likely to invest in sustainable practices, driven by the desire to preserve family legacy and ensure intergenerational success (Rees, 2014). In a complementary analysis, Oh et al. (2019) explore how the involvement of family in management affects CSR outcomes differently based on board characteristics. Their findings underscore that while certain board configurations can enhance CSR activities in family-influenced firms, the same characteristics could have adverse effects in others, suggesting a complex interplay between family involvement and board effectiveness (Oh, Chang, & Jung, 2019). This view aligns with Rees's findings by further elaborating on the mechanisms through which family ownership could shape CSR practices.

Dyck et al. (2022) extend this discussion by investigating renewable governance and its environmental benefits. They find that firms with robust governance structures, including diverse and independent boards, are more likely to engage in renewable energy initiatives and achieve better environmental performance. They reinforce the importance of board independence and diversity in driving sustainable corporate practices. Further, they argue that effective governance mechanisms, characterized by independence and diversity, provide the necessary oversight and strategic direction to support long-term ESG goals (Dyck et al., 2022).

ESG performance is significantly improved by board diversity, especially when it comes to gender diversity. Studies have consistently shown that the presence of women on boards enhances a firm's commitment to sustainability. For example, Beji et al. (2020) demonstrated that gender-diverse boards are associated with higher CSR performance. The study, which analyzed French companies listed on the SBF 120 index, found that firms with a higher percentage of women directors showed better social and environmental outcomes. This is attributed to women directors being more attuned to stakeholder concerns and more likely to advocate for sustainability initiatives.

The expertise of board members, particularly in sustainability, is another crucial factor influencing ESG performance. Cronqvist and Yu (2017) highlighted that boards with directors possessing substantial sustainability expertise significantly improve firms' ESG scores. This expertise allows board members to better understand and integrate ESG considerations into corporate strategy, leading to enhanced environmental and social performance. Moreover, directors with sustainability expertise often push for more rigorous ESG reporting and performance monitoring, further driving improvements in ESG outcomes. Iliev and Roth (2023) support this perspective, indicating that directors' exposure to sustainability reforms in foreign jurisdictions enhances their ability to influence corporate sustainability policies effectively, leading to an average increase in sustainability performance by 7.1%. These insights highlight the transformative impact that knowledgeable board members can have on a firm's sustainability agenda. Building on the discussion about the impact of board members' sustainability expertise, the findings from Bu et al. (2021) provide further insight into the nuanced roles of talented inside directors (TIDs) in corporate governance and corporate social responsibility (CSR). Their study highlights how TIDs can mitigate excessive CSR, which often results from CEOs pursuing personal gains at the expense of shareholders. TIDs leverage their extensive networks and experience to enhance board effectiveness in

monitoring and advising CEOs, thus ensuring that CSR activities align more closely with shareholder interests rather than CEO self-interest.

This relationship emphasizes the dual roles TIDs can play. On one hand, they act as monitors who ensure that executive actions align with shareholder value, particularly by curbing excessive CSR that does not contribute to long-term value creation. On the other hand, they serve as advisors who can offer valuable insights based on their experiences across various firms, which can be crucial in strategizing effective CSR activities that genuinely enhance corporate reputation and stakeholder engagement. This dynamic could potentially reshape the traditional perceptions of the value of inside directors in enhancing corporate governance and CSR outcomes.

Board independence also plays a vital role in ESG performance. Independent directors are more likely to hold the company accountable for its ESG performance because they are not influenced by management and can offer objective scrutiny. Beji et al. (2020) found a positive correlation between board independence and CSR performance. Independent directors were better at ensuring that the company's operations aligned with broader social and environmental goals, enhancing overall ESG performance.

Board size and its impact on ESG performance is a more complex issue. Larger boards bring a diversity of skills and perspectives, which can be beneficial for ESG oversight. However, larger boards can also face coordination challenges that might impede decision-making. The study by Beji et al. (2020) suggests that while larger boards have the potential to improve ESG performance through a broader range of expertise and viewpoints, the benefits can be mitigated if the board becomes too unwieldy.

The duality of the CEO and board chair roles can have a negative impact on ESG performance. When the CEO also serves as the board chair, it consolidates power in one individual, potentially reducing the board's effectiveness in providing independent oversight. Beji et al. (2020) noted that board duality was associated with lower CSR performance, likely due to the reduced capacity for independent oversight and accountability.

Multiple directorships, where board members serve on several boards simultaneously, can have both positive and negative effects on ESG performance. On the positive side, directors with multiple board appointments can bring best practices from other organizations, enriching the firm's approach to ESG. However, if directors are over-committed, their effectiveness can

be diluted, potentially hindering their ability to focus on the firm's ESG issues. The net impact of multiple directorships on ESG performance depends on the balance between these factors.

The educational background and specific expertise of directors are crucial for ESG performance. Directors with advanced degrees and those educated in business or sustainability are better equipped to integrate ESG considerations into strategic decision-making. Beji et al. (2020) found that the percentage of highly educated directors on the board positively correlates with CSR performance. This suggests that directors with a strong educational background can more effectively champion sustainability initiatives and ensure that ESG considerations are embedded in the company's strategic framework.

Moreover, the composition of the board in terms of educational diversity can significantly impact the board's overall effectiveness in dealing with ESG issues. Directors with diverse educational backgrounds bring varied perspectives and problem-solving approaches, which can be particularly beneficial in addressing the multifaceted challenges of ESG performance. For instance, a board that includes members with expertise in environmental science, social policy, and corporate governance is more likely to develop comprehensive strategies that balance environmental stewardship, social responsibility, and economic performance (Khatib et al., 2020).

The presence of directors with legal expertise can also enhance ESG performance by ensuring compliance with evolving regulations and anticipating legal risks related to environmental and social issues. Legal experts on the board can guide the company in navigating complex regulatory landscapes, reducing the risk of legal penalties, and improving the company's reputation among stakeholders (Heubeck et al., 2023). This legal perspective is crucial for companies operating in multiple jurisdictions with varying ESG regulations.

In addition to formal education, the continuous professional development of board members is essential. Ongoing education programs focusing on the latest trends and best practices in ESG can help directors stay informed and make better strategic decisions. For example, training programs on climate risk management, human rights, and corporate governance can enhance directors' ability to oversee and implement effective ESG strategies. Companies that invest in the professional development of their boards are more likely to see improvements in ESG performance (Liu, 2023).

The influence of board interlocks, where directors serve on multiple boards, also plays a role in shaping ESG outcomes. Directors who serve on multiple boards can transfer best practices

from one company to another, facilitating the diffusion of innovative ESG strategies. However, the effectiveness of such interlocks depends on the directors' ability to manage their time and commitments effectively. Overextended directors may struggle to contribute meaningfully to each board, potentially diluting their impact on ESG performance (Beji et al., 2020).

Board culture and the dynamics of board interactions are additional factors that can influence ESG performance. A board culture that encourages open dialogue, critical thinking, and collaborative decision-making is more likely to address ESG issues effectively. Boards that foster a culture of trust and respect can leverage the diverse skills and perspectives of their members, leading to more robust and innovative ESG strategies. In contrast, boards with a hierarchical or siloed culture may struggle to integrate ESG considerations into their decision-making processes (Maneenop et al., 2023).

The leadership style of the board chair is another critical determinant of ESG performance. A chair who is committed to ESG principles and adept at facilitating inclusive and strategic discussions can significantly enhance the board's effectiveness in this area. The chair's ability to mediate conflicts, build consensus, and drive the board's agenda toward long-term sustainability goals is crucial for improving ESG outcomes (Cambrea et al., 2023).

Additionally, the relationship between the board and external stakeholders, such as investors, customers, and non-governmental organizations (NGOs), can influence ESG performance. Engaging with stakeholders provides the board with valuable insights into emerging ESG trends, stakeholder expectations, and potential risks and opportunities. Effective stakeholder engagement requires the board to actively listen, respond to concerns, and integrate stakeholder feedback into corporate strategies. Boards that excel in stakeholder engagement are better positioned to anticipate and address ESG challenges proactively (Pajuste, 2022).

The role of institutional investors in shaping board composition and ESG performance has also gained prominence. Institutional investors, such as pension funds and asset managers, are increasingly advocating for better ESG practices and using their voting power to influence board appointments. They often push for greater diversity, independence, and ESG expertise on boards. The growing influence of institutional investors underscores the need for boards to align their composition and strategies with the evolving expectations of these key stakeholders (Muktadir-Al-Mukit et al., 2023).

Furthermore, the integration of ESG metrics into corporate reporting and performance evaluation is essential for enhancing board accountability and transparency. Boards that prioritize comprehensive and accurate ESG reporting can better monitor their progress, identify areas for improvement, and communicate their ESG commitments to stakeholders. Transparent reporting also builds trust with investors, customers, and other stakeholders, reinforcing the company's commitment to sustainability (Rees, 2014).

The use of technology and data analytics in ESG governance is an emerging trend that boards need to embrace. Advanced analytics can provide boards with real-time insights into ESG performance, enabling more informed decision-making. Tools such as environmental impact assessments, social performance dashboards, and governance risk indicators can help boards track and manage their ESG initiatives more effectively. By leveraging technology, boards can enhance their oversight capabilities and drive continuous improvement in ESG performance (Dyck et al., 2022).

Another dimension that has recently come to light is the relationship between board gender diversity and renewable energy consumption. According to Atif et al. (2021), there is a positive relationship between board gender diversity and renewable energy consumption. The study indicates that having women on the board can significantly influence a firm's decision to adopt renewable energy sources. The critical mass theory applies here as well, where the impact is noticeable only when there are at least two female directors on the board. This relationship is stronger for female independent directors than for female executive directors, highlighting the advisory and monitoring roles that independent directors play in influencing corporate policies towards sustainability (Atif et al., 2021).

In conclusion, board composition significantly influences ESG performance. Factors such as gender diversity, board independence, directors' sustainability expertise, board size, and the separation of CEO and chair roles play crucial roles in shaping a company's ESG outcomes. Companies aiming to enhance their ESG performance should focus on optimizing their board composition to include diverse, independent, and expert members who can provide effective oversight and drive sustainability initiatives. These findings underscore the importance of thoughtful board composition in achieving robust ESG performance and highlight the need for companies to prioritize these factors in their governance structures. It suggests a clear consensus on the positive impact of well-composed boards on ESG performance, providing valuable insights for both corporate governance scholars and practitioners.

3.2 Theme 2: Executive Compensation and ESG Performance

Executive compensation and its impact on ESG (Environmental, Social, and Governance) performance have become critical areas of investigation in corporate governance (Cohen, et. al 2023). The alignment of executive incentives with sustainability goals is considered an important mechanism to drive corporate behavior towards more responsible and sustainable practices. Several studies have explored this relationship, providing diverse insights into how executive compensation structures influence ESG outcomes.

Du and Ren (2023) examine the effect of a CEO's early-life poverty experiences on firms' environmental violations. They argue that such poverty imprints cause CEOs to prioritize economic goals over environmental responsibilities. Integrating upper echelon theory and imprinting theory, Du and Ren suggest that these early experiences lead CEOs to channel their managerial attention towards achieving economic performance, often at the cost of environmental considerations. Their analysis of publicly listed Chinese firms from 2008 to 2020 supports this hypothesis, showing that CEOs with poverty backgrounds are more likely to engage in environmental violations. However, this effect is moderated by the CEOs' higher education backgrounds, which can attenuate the negative impact, and by the firm's horizontal performance gaps, which can exacerbate it.

Upper echelon theory asserts that an organization's outcomes are partially predicted by the characteristics of its top executives. The theory suggests that executives' experiences, values, and personalities heavily influence their interpretations of the situations they face and, consequently, their choices and actions. This means that the personal backgrounds of CEOs, such as experiences of poverty, can shape their managerial priorities and decisions. CEOs who have faced economic hardships may develop a focus on economic stability and growth, often prioritizing this over environmental sustainability.

Imprinting theory, on the other hand, deals with the enduring influence of past experiences on individuals' behaviors and decision-making processes. According to this theory, certain critical periods in life leave lasting imprints on individuals that shape their future behaviors and attitudes. For CEOs who have experienced poverty, these early-life hardships can create a lasting focus on financial performance as a means of security, potentially at the expense of environmental and social considerations. These theoretical frameworks help explain why executives with poverty backgrounds might prioritize economic goals over ESG goals.

In contrast, Adu (2022) explores the relationship between executive compensation and environmental performance within the banking sector. Adu highlights how compensation structures can either incentivize or disincentivize sustainable practices. The study finds that performance-based compensation, tied to long-term environmental goals, significantly enhances a bank's commitment to environmental sustainability. Furthermore, regulatory frameworks play a moderating role in aligning executive incentives with environmental performance. Adu’s findings suggest that banks with robust compensation policies that include ESG metrics outperform their peers in environmental stewardship.

Ikram, Li, and Minor (2023) provide further insights into CSR-contingent executive compensation contracts. Their study explores why firms offer CSR-contingent compensation and under what conditions such compensation improves corporate social performance. They find that firms with better corporate governance are more likely to offer CSR-contingent compensation and that such compensation leads to higher corporate social standing. The study also distinguishes between formula-based (objective) and non-formulaic (subjective) CSR-contingent compensation, finding that both types can improve social performance, particularly in well-governed firms. This suggests that CSR-contingent compensation is not merely a manifestation of managerial power but a strategic tool to enhance ESG performance.

These studies collectively underscore the complex interplay between executive compensation and ESG performance. Du and Ren (2023) emphasize the role of personal history and cognitive imprints in shaping executive behavior, suggesting that early-life experiences can significantly influence corporate governance decisions. They show that CEOs who have experienced poverty tend to prioritize economic goals, often at the expense of environmental considerations. This insight is crucial as it highlights the long-term impact of personal experiences on professional decision-making.

In contrast, Adu (2022) provides a sector-specific analysis that emphasizes the positive impact of well-structured compensation packages that include ESG criteria. This study bridges a gap by showing how tailored executive compensation can lead to improved environmental performance. Adu argues that aligning financial incentives with sustainability goals is crucial for enhancing a firm's commitment to environmental stewardship. This perspective is particularly relevant in the banking sector, where the alignment of executive compensation with long-term environmental goals can drive significant improvements in sustainability practices.

Ikram, Li, and Minor (2023) extend this conversation by examining the specific elements of compensation packages that may lead to adverse environmental outcomes. They highlight the dangers of overly variable pay structures, which can encourage executives to engage in risky behaviors detrimental to environmental sustainability. This study provides empirical evidence that high levels of variable compensation correlate with increased environmental violations, underscoring the need for regulatory oversight and the inclusion of ESG criteria in executive pay.

A comparative analysis of these studies reveals that both personal and structural factors are crucial in understanding how executive compensation affects ESG performance. Personal histories, such as experiences of poverty, can lead to a focus on short-term economic gains at the expense of environmental goals. Du and Ren (2023) argue that CEOs with poverty backgrounds are more likely to prioritize economic performance due to their life experiences, which reinforce a focus on immediate survival and success. This finding is complemented by their observation that higher education can moderate this effect by broadening CEOs' perspectives and encouraging a more balanced approach to decision-making.

On the structural side, the design of compensation packages plays a critical role in either reinforcing or mitigating these tendencies. Adu (2022) and Ikram, Li, and Minor (2023) both emphasize the importance of incorporating ESG criteria into executive compensation to promote long-term sustainability. Adu's sector-specific study in banking illustrates how performance-based compensation tied to environmental goals can enhance a firm's commitment to sustainability. Meanwhile, Ikram, Li, and Minor (2023) caution against high levels of variable compensation, linking them to increased environmental violations.

The synthesis of these studies suggests that effective corporate governance requires a dual approach: considering the personal backgrounds of executives and carefully structuring their compensation to promote long-term sustainability. Personal histories, such as experiences of poverty, can significantly influence CEOs' decision-making priorities, often leading to a focus on short-term economic gains. However, these tendencies can be mitigated by higher education, which broadens executives' perspectives and encourages a more balanced approach to governance.

Structurally, the design of executive compensation packages is crucial in aligning incentives with sustainability goals. Performance-based compensation that includes ESG criteria can significantly enhance a firm's commitment to environmental stewardship, as demonstrated by

Adu (2022). Conversely, high levels of variable compensation can encourage risky behaviors detrimental to environmental sustainability, highlighting the need for regulatory oversight and careful structuring of executive pay.

To add to the discussion, Liu (2023) emphasizes the role of CEOs' international experience in enhancing corporate ESG performance. Liu argues that exposure to diverse regulatory environments and stakeholder expectations abroad equips CEOs with a broader perspective on sustainability issues. This perspective can influence their decision-making processes, making them more likely to integrate ESG considerations into their strategic goals. Liu’s findings suggest that firms led by CEOs with substantial foreign experience tend to perform better on ESG metrics, as these leaders are often more adept at navigating the complexities of global sustainability standards.

Radu and Smaili (2022) also explore the combined impact of CSR committees and CSR-linked executive compensation on CSR performance. They argue that while CSR committees play a monitoring role, CSR-linked compensation aligns executives' interests with CSR goals. Their research, based on a sample of Canadian firms, indicates that the presence of both governance mechanisms significantly enhances CSR performance. They also note that CSR-linked compensation mediates the relationship between CSR committees and CSR performance, particularly in environmental aspects, highlighting the importance of integrated governance strategies in promoting sustainable practices.

Jensen et al. (2023) provide a nuanced view by examining the potential downsides of CSR-linked executive compensation. They argue that while aligning compensation with ESG targets can drive sustainability, it can also lead to unintended consequences such as short-termism or manipulation of ESG metrics to meet targets. Their study suggests that without proper oversight and robust ESG metrics, CSR-linked compensation can sometimes incentivize behaviors that undermine genuine sustainability efforts.

These studies reveal several critical themes. First, the personal experiences and backgrounds of CEOs, such as international exposure, play a significant role in shaping their approach to ESG issues. Liu (2023) demonstrates that CEOs with international experience are more likely to prioritize ESG goals, suggesting that personal attributes and professional experiences are crucial in influencing corporate sustainability strategies. This aligns with the findings of Du and Ren (2023), who highlight the impact of CEOs' poverty experiences on their

environmental decision-making. Both studies underscore the importance of considering individual executive backgrounds in understanding their commitment to ESG performance.

Second, the structural design of executive compensation packages significantly influences ESG outcomes. Radu and Smaili (2022) provide robust evidence that CSR-linked executive compensation, when combined with CSR committees, enhances CSR performance. This suggests that aligning financial incentives with sustainability goals can effectively promote responsible corporate behavior. However, Jensen et al. (2023) caution against potential pitfalls, highlighting the need for careful design and implementation of such compensation packages to avoid counterproductive outcomes.

The role of CSR committees, as explored by Radu and Smaili (2022), further underscores the importance of governance structures in promoting ESG performance. Their study reveals that CSR committees not only directly influence CSR outcomes but also enhance the effectiveness of CSR-linked compensation. This dual role highlights the need for integrated governance mechanisms that combine monitoring and alignment strategies to achieve sustainable corporate performance.

Comparing these findings with those of Adu (2022) and Du and Ren (2024), a consistent theme emerges: the need to align executive incentives with long-term sustainability goals. Adu's (2022) study on the banking sector and Du and Ren's (2024) analysis of executive compensation structures both emphasize that performance-based compensation tied to ESG metrics can drive significant improvements in corporate sustainability. These studies collectively suggest that well-structured executive compensation packages that incorporate ESG criteria are crucial for enhancing a firm's commitment to environmental and social goals.

Moreover, the interaction between different governance mechanisms plays a vital role in shaping ESG performance. Radu and Smaili (2022) highlight the synergistic effect of CSR committees and CSR-linked compensation, suggesting that these mechanisms should not be viewed in isolation but as part of a broader governance strategy. This integrated approach is essential for addressing the complex challenges of corporate sustainability and aligning executive actions with stakeholder expectations.

Jensen et al. (2023) add a critical perspective by pointing out potential drawbacks of CSR-linked compensation, such as the risk of metric manipulation or short-term focus. Their findings suggest that while aligning compensation with ESG targets is beneficial, it must be

accompanied by rigorous oversight and transparent metrics to ensure genuine sustainability outcomes. This highlights the need for a balanced approach that combines incentive alignment with robust governance and accountability mechanisms.

In conclusion, the relationship between executive compensation and ESG performance is multifaceted, involving both the personal attributes of executives and structural elements of governance. Studies by Liu (2023), Radu and Smaili (2022), and Jensen et al. (2023) provide valuable insights into how these factors interact to influence corporate sustainability. The personal experiences of CEOs, such as international exposure or early-life poverty, significantly impact their approach to ESG issues. At the same time, the design of executive compensation packages plays a critical role in aligning incentives with long-term sustainability goals. Furthermore, the interplay between different governance mechanisms, such as CSR committees and CSR-linked compensation, underscores the importance of an integrated approach to corporate governance.

3.3 Theme 3: Corporate Policies and Environmental Impact

Corporate governance and environmental, social, and governance (ESG) performance have increasingly become focal points for businesses, scholars, and policymakers. The integration of advanced technologies, strategic business practices, and robust governance structures has garnered significant attention as a pathway to achieving sustainability. In this extensive literature review, the intersection of corporate policies and their environmental impact is scrutinized, drawing from a diverse array of studies and empirical evidence to provide a comprehensive and nuanced understanding of the theme.

Alkaraan et al. (2024) delve into the integration of Industry 4.0 with green business strategies, highlighting the role of advanced technologies in reinforcing sustainable practices within corporate governance frameworks. This study emphasizes the dynamic capabilities required for sustainability, suggesting that flexible and responsive governance structures are essential for achieving long-term environmental goals. The importance of aligning technological advancements with robust governance mechanisms cannot be overstated. These findings align with Haque and Ntim (2018), who assert that robust governance mechanisms are pivotal in enhancing environmental performance. They argue that sustainable development can only be achieved when governance structures are intricately aligned with environmental objectives. Both studies underscore the necessity of integrating technological and managerial innovations within the governance framework to foster a culture of sustainability.

The role of governance in shaping environmental outcomes is further examined by Endo (2020), who investigates the environmental performance of Japanese corporations. Endo's study suggests that governance models that transcend the traditional shareholder-stakeholder dichotomy can lead to superior environmental outcomes. This perspective challenges the conventional governance frameworks that predominantly prioritize shareholder interests, advocating for a more inclusive approach that considers the broader stakeholder community. Contrastingly, Zhou, Liu, and Luo (2022) identify a mediating effect of financial performance on the relationship between ESG initiatives and market value. They argue that while strong governance can drive ESG performance, the financial implications of these initiatives are crucial for their sustainability. This highlights a complex interplay between governance, financial health, and environmental impact, suggesting that companies must carefully balance their sustainability efforts with financial performance to achieve long-term success. The comparison of these studies highlights the diverse nature of governance and its influence on environmental performance. This suggests that there is no universal approach to achieving sustainability. The financial implications of environmental performance are further explored by Bose, Minnick, and Shams (2021), who provide an intriguing examination of the influence of carbon risk on corporate acquisition decisions. Their research indicates that companies with higher carbon risks are less attractive as acquisition targets, emphasizing the financial and reputational importance of environmental performance. This corresponds with the findings of Chen et al. (2021) who investigate how banks assess the environmental track records of borrowers. Their study reveals that better environmental performance can lead to more favorable financial terms, illustrating the tangible financial benefits of strong environmental policies. Together, these studies highlight the financial incentives for corporations to adopt environmentally friendly policies, driven by both market pressures and governance structures. This financial perspective complements the governance-focused insights of Haque and Ntim (2018), suggesting that effective corporate governance must not only align with environmental goals but also consider the financial implications of these initiatives to ensure their viability.

He, Ding, Yue, and Liu (2023) provide compelling evidence from China on the relationship between ESG performance and corporate risk-taking. Their findings suggest that companies with better ESG performance are less likely to engage in risky behaviors, indicating that strong governance and a focus on sustainability can mitigate corporate risks. This is complemented by the work of He, Du, and Yu (2022), who investigate the link between ESG performance and managerial misconduct. They reveal that good ESG practices can reduce the

likelihood of unethical behavior, further underscoring the role of corporate governance in fostering an ethical corporate culture. These findings suggest that ESG performance is not only beneficial for environmental outcomes but also for reducing corporate risks and promoting ethical behavior. The studies collectively emphasize the importance of robust governance structures in driving ESG performance and mitigating risks, highlighting the multifaceted benefits of integrating sustainability into corporate governance.

The impact of media coverage on ESG performance is another critical area explored by He, Guo, and Yue (2024). They find that increased media attention can drive companies to improve their ESG practices, suggesting that external scrutiny can act as a governance mechanism, holding companies accountable for their environmental impact. This aligns with the findings of Kanashiro (2020), who demonstrates that environmental governance can significantly reduce toxic emissions in high-polluting industries. These studies highlight the importance of regulatory frameworks and public accountability in driving environmental improvements, suggesting that governance structures must incorporate mechanisms for external scrutiny and accountability to achieve sustainable outcomes. Kanashiro and Rivera (2019) further explore the role of Chief Sustainability Officers (CSOs) in enhancing corporate environmental performance, finding that the presence of CSOs can lead to greener corporate practices, especially under strong regulatory pressures. These findings underscore the importance of dedicated sustainability leadership and external accountability mechanisms in driving corporate environmental performance.

The relationship between digitalization and ESG performance is explored by Lu et al. (2024), who find that digital transformation can enhance ESG outcomes by improving data management and decision-making processes. This study emphasizes the role of technology in supporting governance mechanisms aimed at environmental sustainability, suggesting that digital tools can facilitate more effective implementation and monitoring of environmental policies. This perspective is supported by the findings of Alkaraan et al. (2024), who highlight the importance of leveraging advanced technologies to reinforce sustainable practices within corporate frameworks. Together, these studies suggest that digital transformation can be a powerful tool for enhancing ESG performance, provided that it is supported by robust governance mechanisms.

Meng, Li, and Yang (2023) investigate the role of state-business interactions in air pollution control, finding that strong corporate governance and social responsibility can bridge the gap between regulatory requirements and corporate practices. This study underscores the

importance of collaborative governance models that involve multiple stakeholders in environmental management. This aligns with the findings of Thomas et al. (2022), who examine the negative environmental impact of corporate efforts to meet or beat financial targets. They argue that aggressive financial performance targets can lead to environmental neglect, suggesting that governance structures need to balance financial and environmental goals to avoid adverse outcomes. These studies collectively highlight the importance of collaborative governance and balanced performance targets in achieving sustainable environmental outcomes.

Moskovics et al. (2024) analyze the relationship between market structure, ESG performance, and corporate efficiency in Brazilian companies, finding that competitive market environments can drive better ESG performance. This study highlights the role of market dynamics in shaping corporate environmental practices, suggesting that governance structures should consider market pressures when designing environmental policies. This perspective is supported by the findings of He, Guo, and Yue (2024), who emphasize the role of external scrutiny in driving ESG performance. Together, these studies suggest that market dynamics and external accountability mechanisms can complement governance structures in enhancing corporate environmental performance.

Tanthanongsakkun, Treepongkaruna, and Jiraporn (2023) examine the impact of corporate governance on carbon emissions, finding that staggered boards can lead to higher emissions. This study challenges the notion that all governance mechanisms are beneficial for environmental performance, suggesting that the design of governance structures needs careful consideration to avoid unintended consequences. This perspective is supported by the findings of Zhou (2022), who explores the effects of lone-insider boards on corporate social responsibility (CSR). Zhou finds that such boards can lead to excessive CSR activities that may not align with shareholder interests, suggesting that governance structures must balance corporate sustainability and financial performance to avoid adverse outcomes. Together, these studies highlight the importance of carefully designing governance structures to balance environmental and financial goals.

The importance of governance structures is further highlighted by Kotzian (2024), who examines firms' sustainability engagement and the occurrence of sustainability-related controversies. The study suggests that while strong governance can drive sustainability efforts, it can also lead to controversies if not properly managed. This underscores the complexity of governance in achieving environmental goals, suggesting that companies need

to navigate potential pitfalls carefully to maintain a positive sustainability record. The findings of Kanashiro (2020) and Kanashiro and Rivera (2019) support this perspective, indicating that regulatory pressures and dedicated sustainability leadership can help mitigate these risks.

Orazalin and Mahmood (2021) provide additional insights into the influence of board characteristics and country governance quality on environmental performance. Their study concludes that diverse and well-governed boards are more likely to implement effective environmental policies, highlighting the importance of governance diversity and quality. This aligns with the findings of Haque and Ntim (2018), who emphasize the role of governance mechanisms in enhancing environmental performance. Together, these studies suggest that the composition and quality of governance structures are crucial for achieving sustainable environmental outcomes.

The financial implications of environmental performance are further explored by Zhou, Liu, and Luo (2022), who identify a mediating effect of financial performance on the relationship between ESG initiatives and market value. They argue that while strong governance can drive ESG performance, the financial implications of these initiatives are crucial for their sustainability. This highlights a complex interplay between governance, financial health, and environmental impact, suggesting that companies must carefully balance their sustainability efforts with financial performance to achieve long-term success. The juxtaposition of these studies underscores the multifaceted nature of governance and its impact on environmental performance, suggesting that there is no one-size-fits-all approach to achieving sustainability.

The role of digitalization in supporting ESG performance is further emphasized by Lu et al. (2024), who find that digital transformation can enhance ESG outcomes by improving data management and decision-making processes. This study highlights the importance of leveraging digital tools to support governance mechanisms aimed at environmental sustainability. The findings of Alkaraan et al. (2024) support this perspective, suggesting that advanced technologies can reinforce sustainable practices within corporate frameworks. Together, these studies indicate that digital transformation can be a powerful tool for enhancing ESG performance, provided that it is supported by robust governance mechanisms.

The impact of media coverage on ESG performance is another critical area explored by He, Guo, and Yue (2024). They find that increased media attention can drive companies to improve their ESG practices, suggesting that external scrutiny can act as a governance mechanism, holding companies accountable for their environmental impact. This aligns with

the findings of Kanashiro (2020), who demonstrates that environmental governance can significantly reduce toxic emissions in high-polluting industries. These studies highlight the importance of regulatory frameworks and public accountability in driving environmental improvements, suggesting that governance structures must incorporate mechanisms for external scrutiny and accountability to achieve sustainable outcomes.

In conclusion, the literature on corporate policies and environmental impact reveals a complex interplay between governance structures, technological advancements, market dynamics, and regulatory frameworks. Effective governance mechanisms, supported by dedicated sustainability leadership, media scrutiny, and technological tools, are crucial for enhancing corporate environmental performance. However, the design and implementation of these mechanisms must balance financial and environmental goals to ensure long-term sustainability. The diverse perspectives and empirical findings discussed in this review provide a comprehensive understanding of how corporate governance influences environmental outcomes, offering valuable insights for scholars, practitioners, and policymakers. As businesses continue to navigate the challenges and opportunities associated with sustainability, the insights provided by these studies will be instrumental in shaping future governance frameworks and environmental policies.

3.4 Theme 4: Stakeholder Influence and ESG Performance

Stakeholders play a very important role in shaping the Environmental, Social, and Governance (ESG) performance of corporations. The relationship between stakeholders and corporate governance is complex, involving various forms of engagement and intervention aimed at enhancing sustainability outcomes. This theme is thoroughly explored in academic literature, providing insights into how different stakeholders impact corporate ESG performance.

Proxy voting, a common tool for shareholder engagement, has been scrutinized for its effectiveness in promoting corporate sustainability. Bernard et al. (2023) investigate whether proxy voting truly fosters sustainability within corporations. Their study reveals that while proxy voting holds potential, its impact is contingent on several factors, including the alignment of shareholder interests with ESG goals and the robustness of the voting process itself. In addition, they emphasize that proxy voting has the potential to promote sustainability, especially when shareholders are dedicated to achieving long-term environmental, social, and governance (ESG) goals and when there is openness and clarity in

the results of the voting process. However, Bernard et al. (2023) also note that the impact of proxy voting can be limited by several factors. One significant limitation is the often-short-term focus of many investors, who may prioritize immediate financial returns over long-term sustainability goals. Furthermore, the effectiveness of proxy voting is influenced by the level of shareholder engagement and the degree to which investors are informed about the issues at hand. They suggest that for proxy voting to be an effective tool for promoting corporate sustainability, there needs to be a concerted effort to educate and engage shareholders on ESG issues, as well as to ensure that the voting process is transparent and accountable. The research thoroughly emphasizes the thorough examination of the circumstances in which proxy voting can impact ESG (Environmental, Social, and Governance) performance. However, it overlooks the fact that relying solely on proxy voting records may not fully reflect all aspects of shareholder engagement.

The financial strategies of investors also significantly influence corporate ESG policies. Gantchev, Giannetti, and Li (2022) examine the role of divestitures in shaping corporate environmental and social policies. Their study suggests that divestitures, driven by financial performance concerns, can lead to improved ESG performance. When companies divest non-core or underperforming assets, they often redirect resources toward enhancing their ESG initiatives. This strategic realignment underscores the impact of financial decisions on corporate sustainability efforts. Furthermore, they reveal that divestitures can act as a catalyst for companies to streamline their operations and focus more on their core competencies, including their ESG commitments. Through divesting non-essential assets, organizations can allocate additional resources to projects and efforts aimed at improving their environmental and social impact. This, in turn, contributes to an overall enhancement of their Environmental, Social, and Governance (ESG) scores. They emphasized some of the potential drawbacks of pursuing divestitures as a means of improving environmental, social, and governance (ESG) outcomes. It points out that divestitures may not always result in favorable ESG outcomes, especially if they are driven primarily by financial distress or the immediate need to meet short-term financial targets. In such situations, companies may prioritize cost-cutting measures over long-term investments in sustainability initiatives. Additionally, the effectiveness of divestitures in enhancing ESG performance is heavily dependent on the presence of ESG-conscious investors who can apply pressure on companies to prioritize sustainability efforts. This research is strong in that it provides empirical evidence linking divestitures to enhanced ESG outcomes, but it also acknowledges the potential variation in how different companies execute divestiture strategies as a notable limitation.

Responsible investing is a critical area where stakeholder influence is evident, as explored by Gibson Brandon et al. (2022) in their study. They examine whether institutional investors who sign the Principles for Responsible Investment (PRI) exhibit better portfolio-level environmental, social, and governance (ESG) scores. They reveal significant geographical disparities in the effectiveness of responsible investing commitments. Specifically, signatories outside the United States demonstrate superior ESG scores compared to non-signatories, whereas U.S. signatories exhibit, at best, similar ESG ratings and often worse scores if they have underperformed recently, cater to retail clients, or joined the PRI late. They further highlight that U.S. signatories do not significantly improve the ESG scores of their portfolio companies' post-investment. Factors such as commercial motives, uncertainty about fiduciary duties, and lower ESG market maturity are cited as reasons for this discrepancy. Their research underscores the importance of rigorous due diligence and active management in responsible investing. Investors must move beyond superficial ESG ratings and conduct thorough assessments of companies' sustainability practices. Moreover, Gibson Brandon et al. call for greater accountability and transparency in the reporting of ESG investments. They emphasize the need for investors to provide clear evidence of how their investment decisions align with their ESG commitments. This transparency would not only enhance the credibility of responsible investing but also drive more companies to adopt genuinely sustainable practices in response to investor demands. They also address several challenges faced by responsible investors, including the absence of standardized ESG metrics and the potential for greenwashing, where companies falsely portray themselves as more sustainable than they are. They effectively assess the discrepancy between the stated ESG commitments of responsible investors and their real investment practices. It rightly acknowledges the challenge of accurately measuring the tangible effects of responsible investing on corporate sustainability, thus highlighting the complexities of this area of research. Additionally, their study sheds light on a concerning pattern observed among U.S. PRI signatories, revealing a lack of effective integration of ESG issues into their investment processes, thereby exposing the prevalence of greenwashing within this particular cohort.

Shareholder engagement extends beyond voting and financial decisions. Gifford (2010) explores the factors contributing to effective shareholder engagement. The research identifies key elements that enhance shareholder salience, including the credibility of the shareholder, the relevance of the issues raised, and the quality of communication between shareholders and corporate management. Effective engagement requires shareholders to be knowledgeable, persistent, and capable of articulating the importance of ESG issues to the company's long-

term success. They emphasize that effective shareholder engagement is a dynamic process that involves continuous dialogue and collaboration between shareholders and corporate leaders. It highlights the need for shareholders to build strong relationships with company management and board members, as well as to stay informed about industry trends and emerging ESG issues. Additionally, the research suggests that collaborative engagement, where multiple shareholders work together to address common ESG concerns, can enhance the impact of their efforts and increase the likelihood of positive outcomes. However, Gifford also points out that not all shareholder engagements are successful. The effectiveness of engagement can be hindered by factors such as managerial resistance, lack of shareholder coordination, and insufficient resources devoted to engagement activities. The study calls for greater support from institutional frameworks to facilitate more effective shareholder engagement. It details the identification of factors that contribute to successful shareholder engagement. However, it also acknowledges that the success of these strategies may vary significantly depending on the specific company and its contextual factors.

The empowerment of investors is essential for fostering corporate sustainability. Ringe (2023) discusses this concept, emphasizing the need for regulatory frameworks that enhance investor influence over corporate ESG practices. He argues that empowering investors through regulatory changes can lead to more significant and sustained improvements in corporate sustainability. This empowerment includes providing investors with the tools and information necessary to make informed decisions about ESG issues. The research highlights the importance of creating a regulatory environment that supports investor activism and encourages companies to prioritize ESG issues. This could involve implementing mandatory ESG disclosure requirements, promoting shareholder resolutions on sustainability topics, and facilitating investor access to independent ESG ratings and analyses. Empowering investors with greater influence and better information makes it possible to drive more meaningful and lasting improvements in corporate ESG performance. However, Ringe also acknowledges the potential challenges and limitations of regulatory approaches. For instance, the effectiveness of regulatory measures depends on the willingness and ability of investors to use their enhanced powers to push for meaningful changes. Additionally, there is a risk that regulatory interventions could lead to unintended consequences, such as increased compliance costs for companies or regulatory capture by special interest groups. There is a clear focus on the comprehensive approach to investor empowerment through regulation, while its limitation is the potential for varied implementation and effectiveness across different jurisdictions.

Private engagement by institutional investors also plays a crucial role in addressing ESG risks. Semenova and Hassel (2019) investigate the practices of Nordic institutional investors in engaging with global companies on ESG risks. They highlight that private engagement, characterized by direct and often confidential dialogues between investors and companies, can effectively address ESG concerns. This approach allows investors to influence corporate behavior without the adversarial nature of public campaigns or proxy battles. The study reveals that private engagement can be a highly effective tool for institutional investors to address ESG risks and drive corporate sustainability. Engaging directly with company management and board members helps investors gain deeper insights into the companies' ESG practices and challenges and work collaboratively to identify solutions. The research also suggests that private engagement is particularly effective when it is ongoing and focused on specific, actionable issues, rather than being limited to one-off interactions. However, Semenova and Hassel also highlight the potential limitations of private engagement. The effectiveness of this approach depends on the willingness of corporate management to engage constructively with investors and the ability of investors to sustain long-term engagement efforts. Additionally, private engagement may lack transparency, making it difficult for other stakeholders to assess its impact. The strength of this study is its detailed examination of private engagement practices and their effectiveness, while its limitation is the potential variability in corporate responses and the lack of transparency.

In addition to these specific forms of stakeholder influence, the literature also highlights the broader impact of stakeholder pressure on corporate ESG performance. Stakeholders, including customers, employees, regulators, and non-governmental organizations, can exert significant pressure on companies to improve their sustainability practices. This pressure can come in the form of public campaigns, regulatory scrutiny, consumer boycotts, and employee activism, among others. Companies that are responsive to stakeholder pressure are more likely to enhance their ESG performance and gain a competitive advantage in the market.

The role of institutional investors in promoting corporate sustainability is particularly noteworthy. As major shareholders, institutional investors have the power to influence corporate behavior through various means, including voting, engagement, and divestment. Their growing focus on ESG issues reflects a broader shift in the investment community towards sustainable and responsible investing. This shift is driven by the recognition that companies with strong ESG performance are better positioned to manage risks, capitalize on opportunities, and deliver long-term value to shareholders.

The literature also highlights the importance of transparency and accountability in corporate governance. Companies that are transparent about their ESG practices and performance are more likely to gain the trust and support of stakeholders. This transparency includes providing comprehensive and accurate disclosures on ESG issues, setting clear and measurable sustainability goals, and regularly reporting on progress towards these goals. Accountability mechanisms, such as independent audits and third-party assessments, can further enhance the credibility of corporate ESG claims and build stakeholder confidence.

The integration of ESG considerations into corporate strategy and decision-making is another critical theme in the literature. Companies that integrate ESG factors into their core business strategy are better able to align their operations with stakeholder expectations and drive sustainable performance. This integration requires a holistic approach that considers the environmental, social, and governance impacts of business decisions and seeks to create value for all stakeholders. By embedding ESG considerations into their strategic planning and execution, companies can enhance their resilience, innovation, and competitiveness in the market.

Furthermore, the literature emphasizes the role of corporate leadership in driving ESG performance. Effective leadership is crucial for setting the tone at the top and fostering a culture of sustainability within the organization. Corporate leaders who are committed to ESG principles can inspire and mobilize their teams to pursue sustainability goals, allocate resources towards ESG initiatives, and engage with stakeholders on relevant issues. The leadership's commitment to ESG is also reflected in their willingness to be held accountable for the company's sustainability performance and to make necessary changes to achieve long-term success.

Overall, the literature underscores the importance of stakeholder influence in shaping corporate ESG performance. Whether through proxy voting, financial strategies, responsible investing, shareholder engagement, investor empowerment, or private engagement, stakeholders have multiple avenues to impact corporate sustainability. The effectiveness of these interventions depends on the commitment of stakeholders to ESG principles, the alignment of their actions with these principles, and the regulatory and institutional frameworks that support their efforts. As corporations increasingly recognize the importance of ESG factors, the role of stakeholders in promoting sustainable business practices will continue to be a critical area of focus in corporate governance.

In conclusion, the relationship between stakeholders and corporate governance is complex and multifaceted, involving various forms of engagement and intervention aimed at enhancing sustainability outcomes. The literature provides valuable insights into how different stakeholders impact corporate ESG performance and highlights the importance of stakeholder influence in driving sustainable business practices. By leveraging the power of proxy voting, financial strategies, responsible investing, shareholder engagement, investor empowerment, and private engagement, stakeholders can play a crucial role in shaping the future of corporate sustainability. As the importance of ESG factors continues to grow, the role of stakeholders in promoting sustainable business practices will remain a critical area of focus in corporate governance. The continued evolution of stakeholder influence and its impact on corporate ESG performance will be an important topic for future research and practice, as companies and investors alike strive to achieve long-term sustainability and create value for all stakeholders.

3.5 Theme 5: Corporate Social Responsibility and Financial Performance

Corporate Social Responsibility (CSR) and financial performance are deeply intertwined, forming a significant theme on corporate governance and environmental, social, and governance (ESG) performance. The relationship between CSR activities and financial outcomes is intricate, influenced by various factors such as shareholder interests, firm characteristics, and external pressures (Deng et. al., 2013, Galema et al., 2008).

Recent discussions on CSR and financial performance show a complex picture, where both the advantages and challenges of CSR efforts are carefully looked at. Researchers have increasingly focused on understanding how CSR influences shareholder decisions, governance structures, and overall financial health. The complex dynamics between CSR and financial performance have been explored through various lenses, including the differences between family and non-family firms, the role of employee board representation, and the impact of mergers and acquisitions.

For instance, Barnett et al. (2024) highlight the significant role CSR plays in shareholder activism, showing that firms with extreme CSR performances are more likely to receive governance proposals. This trend suggests that CSR is becoming a focal point for shareholders, particularly activists who target firms at both ends of the CSR performance spectrum. Similarly, studies by Abeysekera and Fernando (2020) and Oh et al. (2019) emphasize the distinct approaches to CSR between family and non-family firms. These

studies suggest that family firms, driven by their unique governance structures, may prioritize financial returns over broader societal benefits, a theme that underscores the complexity of aligning CSR with financial performance.

Also, the positive financial outcomes associated with high CSR performance in the context of mergers and acquisitions are highlighted by Deng et al. (2013) who suggest that firms with robust CSR activities experience higher merger announcement returns and better long-term performance, supporting the stakeholder value maximization view. In contrast, Barnea and Rubin (2010) explore potential conflicts arising from CSR activities, particularly the possibility of over-investment in CSR by insiders for personal gains. This highlights the potential for divergent motivations behind CSR initiatives and the need for careful governance to balance these interests.

The role of employee board representation in enhancing ESG performance is another critical area of study. Nekhili et al. (2021) find that firms with employee shareholder board representation achieve higher ESG performance overall, particularly in environmental and corporate governance aspects. This suggests that involving employees in governance can positively impact a firm's CSR outcomes. Additionally, Galema et al. (2008) and Humphrey et al. (2012) challenge the assumption that socially responsible investment (SRI) and corporate social performance (CSP) ratings directly lead to superior financial performance, emphasizing the need for a nuanced understanding of these relationships.

Ferrell et al. (2016) and Ng and Rezaee (2020) further emphasize the importance of good governance and transparency in maximizing the financial benefits of CSR activities. Their studies highlight that well-governed firms are more likely to engage in CSR and that robust sustainability disclosure enhances stock price informativeness. This aligns with the broader consensus that CSR can foster positive financial and societal outcomes when integrated with sound governance practices.

In their in-depth analysis, Barnett et al. (2024) explore the influence of CSR on shareholder decisions to submit and vote on proxy proposals at annual shareholder meetings. They state emphatically that firms with either high CSR strengths or concerns are more likely to receive governance proposals, indicating shareholders target extremes in CSR performance. This suggests that CSR performance can significantly impact shareholder activism, particularly regarding governance proposals. However, they also found no significant association between CSR performance and the percentage of votes received in favor, showing that CSR is mainly a concern for activists, not for most shareholders. This underscores a potential disconnect

between CSR initiatives and broader shareholder engagement, highlighting that while CSR may attract attention, it does not necessarily influence the voting behavior of the majority of shareholders.

Abeysekera and Fernando (2020) use environmental performance as a stand-in for CSR in their investigation of the variations in CSR policies between family-run businesses and non-family businesses. According to their research, family businesses have greater shareholder responsibility than non-family businesses. Family businesses prioritize shareholder interests over larger societal concerns, as seen by their propensity to underinvest in environmental initiatives that benefit society but not shareholders. This argument is further supported by Oh et al. (2019), who also find that family firms are less likely to make environmental investments that benefit society but do not benefit shareholders, especially during financial crises. These studies highlight the distinct approaches to CSR between different types of firms, influenced by their governance structures and financial priorities, suggesting that family firms, driven by a close alignment with shareholder interests, may prioritize immediate financial returns over long-term societal benefits.

Deng et al. (2013) examine whether CSR activities create value for acquiring firms' shareholders, particularly in mergers. They argue that high CSR acquirers experience higher merger announcement returns compared to low CSR acquirers. Additionally, high CSR acquirers show better post-merger long-term operating performance and stock returns. This finding supports the stakeholder value maximization view over the shareholder expense view, suggesting that CSR activities can enhance shareholder value by fostering a positive reputation and improving stakeholder relationships. However, the study also acknowledges potential limitations in generalizability due to its focus on US firms and the measurement limitations of CSR performance and merger outcomes. Despite these limitations, the study provides robust evidence supporting the positive impact of CSR on financial performance in the context of mergers.

Barnea and Rubin (2010) explore whether CSR activities can lead to conflicts between different types of shareholders, particularly insiders (managers and large block holders) and other shareholders. They argue that insiders may over-invest in CSR for personal benefits, such as enhanced reputation and the "warm glow" effect. Their study finds that insider ownership and leverage are negatively related to CSR ratings, suggesting that insiders are likely to over-invest in CSR when they bear little cost. This supports the hypothesis that insiders may gain personal benefits from CSR activities, potentially at the expense of other

shareholders. This argument raises important considerations about the motivations behind CSR initiatives and the potential for conflicts of interest within firms, emphasizing the need for transparency and accountability in CSR investments.

Nekhili et al. (2021) investigate the effects of two types of employee board participation on environmental, social, and corporate governance (ESG) performance (labor board representation and employee shareholder board representation). They contend that companies with employee shareholders on their boards do better overall in terms of environmental and corporate governance. Labor board representatives, on the other hand, concentrate on improving social performance while lowering corporate governance and environmental performance. This distinction draws attention to the effects of employee involvement on ESG performance and emphasizes how crucial it is to comprehend the distinct functions and driving forces of the various kinds of employee representatives. The study provides a comprehensive analysis of how employee board representation can influence a firm's ESG outcomes, contributing to the broader understanding of governance structures and their impact on CSR.

Furthermore, Galema et al. (2008) investigate the impact of socially responsible investment (SRI) on stock returns and risk. They argue that SRI impacts stock returns by lowering the book-to-market ratio rather than generating positive alphas. Their study finds no significant outperformance in risk-adjusted returns for SRI portfolios, suggesting that SRI does not necessarily lead to superior financial performance. Additionally, they find that diversity and environmental strengths have a negative relationship with book-to-market ratios, while governance has a positive relationship. This argument challenges the notion that SRI inherently leads to better financial outcomes and highlights the need for a nuanced understanding of the specific dimensions of SRI. The study underscores the complexity of evaluating SRI's impact on financial performance, emphasizing the importance of considering various factors and metrics.

Humphrey et al. (2012) investigate whether firms' corporate social performance (CSP) ratings impact their financial performance, cost of capital, and risk. They argue that there is no significant difference in the risk-adjusted performance between high and low CSP-rated firms, and CSP ratings do not impact idiosyncratic risk. This finding suggests that adopting CSP strategies does not incur significant financial costs or benefits, challenging the assumption that CSR activities directly influence financial performance. Their study provides important insights into the potential limitations of CSP ratings as indicators of financial outcomes,

highlighting the need for a comprehensive approach to evaluating CSR's impact on financial performance.

Gillan et al. (2021) investigate the impact of employee board representation on ESG performance and market value. They argue that firms with employee shareholder board representation exhibit higher overall ESG performance and positively moderate the relationship between ESG performance and market value. In contrast, labor board representation improves social performance but negatively moderates the relationship between ESG performance and market value. This argument underscores the complex dynamics between different types of employee representation and their impacts on both ESG performance and financial outcomes. The study provides valuable insights into the role of governance structures in shaping CSR outcomes and their implications for financial performance.

Additionally, Ferrell et al. (2016) assess whether CSR activities are driven by agency problems or are consistent with good governance practices. They argue that well-governed firms (characterized by lower cash hoarding, higher payout and leverage ratios, and stronger pay-for-performance) are more likely to be socially responsible. According to their research, CSR is more prevalent in nations where shareholder rights are better protected by law and in companies where controlling shareholders have less excess voting power. This argument supports the view that CSR activities can align with good governance practices rather than being driven by agency problems. The study highlights the importance of governance structures and legal frameworks in influencing CSR activities and their financial implications.

Ng and Rezaee (2020) investigate if and how disclosure criteria and business sustainability performance impact stock price informativeness (SPI). They contend that when sustainability disclosure is higher, there is a positive correlation between ESG sustainability performance parameters and SPI. This finding suggests that firms with strong sustainability performance and disclosure practices provide more informative stock prices, enhancing market efficiency. Their study highlights the importance of transparency and disclosure in amplifying the financial benefits of sustainability performance. The study underscores the role of accurate and comprehensive reporting in linking CSR activities to financial performance, emphasizing the need for firms to adopt robust disclosure practices.

There is a general agreement in the literature that CSR activities can influence shareholder engagement and activism, although the extent and nature of this influence vary. Barnett et al.

(2024) and Barnea and Rubin (2010) both highlight the role of CSR in shaping shareholder decisions and potential conflicts of interest among different shareholder groups. While Barnett et al. (2024) emphasize the targeting of extreme CSR performance by shareholders, Barnea and Rubin (2010) focus on the potential over-investment in CSR by insiders. Despite these differences, both studies agree on the significant impact of CSR on shareholder dynamics, underscoring the need for a balanced approach to CSR that considers the interests of various stakeholders.

Abeysekera and Fernando (2020) and Oh et al. (2019) both investigate the differences in CSR policies between family and non-family firms, with a particular focus on environmental performance. According to both research, family businesses are less likely to make environmental investments that benefit society but not shareholders and are more in line with shareholder objectives. This consensus underscores the influence of governance structures on CSR policies and the prioritization of shareholder interests in family firms. The studies highlight the need for a nuanced understanding of how different types of firms approach CSR, reflecting their unique governance dynamics and financial priorities.

Deng et al. (2013) and Ferrell et al. (2016) both find evidence supporting the positive impact of CSR on financial performance. Deng et al. (2013) highlight the higher merger announcement returns and better post-merger long-term performance for high CSR acquirers, while Ferrell et al. (2016) argue that well-governed firms are more likely to be socially responsible, aligning CSR with good governance practices. Both studies support the view that CSR can enhance shareholder value and contribute to positive financial outcomes. This agreement underscores the potential financial benefits of CSR activities, particularly when integrated with sound governance practices.

Nekhili et al. (2021) and Gillan et al. (2021) investigate how market value and ESG performance are affected by employee board presence. According to both research, there is a positive moderating effect on the relationship between market value and ESG performance and higher ESG performance when employee shareholder board representation is included. This consensus highlights the importance of employee representation in driving ESG performance and enhancing firm value. The studies provide valuable insights into how different types of employee representation can influence CSR outcomes, contributing to the broader understanding of governance structures and their impact on financial performance.

Moreover, Ng and Rezaee (2020) and Ferrell et al. (2016) both emphasize the role of transparency and disclosure in amplifying the financial benefits of sustainability performance.

Ng and Rezaee (2020) find that higher sustainability disclosure enhances stock price informativeness, while Ferrell et al. (2016) argue that well-governed firms with better legal protection of shareholder rights are more likely to engage in CSR. Both studies underscore the importance of transparency and good governance in maximizing the financial benefits of CSR activities. The agreement highlights the need for firms to adopt robust disclosure practices and governance structures that support CSR activities, enhancing their financial and societal impact.

The literature on Corporate Social Responsibility (CSR) and financial performance presents a rich tapestry of arguments and agreements, reflecting the multifaceted nature of this relationship. Key studies highlight the significant impact of CSR on shareholder decisions, the distinct approaches to CSR between family and non-family firms, and the positive financial outcomes associated with CSR activities. Additionally, the role of employee representation and transparency in driving ESG performance and enhancing firm value is emphasized. Despite the complexities and potential limitations, the consensus in the literature underscores the importance of CSR in fostering positive financial and societal outcomes. As firms continue to navigate the evolving landscape of corporate governance and sustainability, the insights from these studies provide valuable guidance for aligning CSR initiatives with broader financial and stakeholder goals.

In conclusion, the theme of Corporate Social Responsibility (CSR) and financial performance encompasses various dimensions, each contributing to a deeper understanding of how CSR activities influence financial outcomes. The studies reviewed provide robust evidence and thoughtful arguments about the impacts of CSR on shareholder engagement, governance structures, and financial performance. By examining the intersections of CSR with shareholder interests, family firm dynamics, mergers, employee representation, and transparency, the literature offers a comprehensive perspective on the financial implications of CSR activities. As firms strive to balance their financial objectives with societal responsibilities, these insights highlight the potential benefits of integrating CSR into their strategic frameworks, fostering sustainable and value-driven growth.

3.6 Theme 6: Governance Mechanisms and ESG Reporting

Governance mechanisms, including board composition, audit committees, and executive compensation structures, significantly impact the quality of ESG (Environmental, Social, and Governance) reporting. Companies with robust governance frameworks tend to produce

higher-quality ESG reports, as the presence of independent directors on the board is linked to better oversight and improved disclosure practices (Jain, 2015). Independent directors provide unbiased supervision of management, ensuring ESG reports accurately reflect the company's performance and commitments.

Audit committees also play a critical role in overseeing financial reporting processes, including ESG disclosures, thereby enhancing the reliability and credibility of these reports (Oh et al., 2016). Furthermore, linking executive compensation to ESG performance can motivate top management to prioritize sustainability issues, leading to more thorough and accurate ESG reporting (Oh et al., 2016).

The regulatory environment significantly influences ESG reporting practices. In regions where ESG reporting is mandated by law, companies often exhibit higher levels of transparency and accountability. For instance, the EU Directive on Non-Financial Reporting has led to increased quantity and quality of ESG disclosures among European companies. This regulation mandates large companies disclose information on environmental, social, and governance factors, fostering a culture of transparency and accountability. However, the effectiveness of these regulations often depends on the governance mechanisms within companies. Firms with strong governance structures are better equipped to comply with regulatory requirements and produce high-quality ESG reports, whereas companies with weak governance may struggle to meet these standards, resulting in subpar disclosures (Arvidsson & Dumay, 2022).

In the absence of mandatory requirements, voluntary ESG reporting becomes a key focus. Companies that voluntarily disclose ESG information often do so to enhance their reputation, attract socially responsible investors, and differentiate themselves from competitors. Effective governance mechanisms are crucial in this context as well. Environmental committees within the board can drive proactive sustainability initiatives and ensure ESG reporting reflects the company’s actual performance and commitments (Cohen et al., 2011). Additionally, implementing integrated reporting frameworks, which combine financial and non-financial information, provides a holistic view of the company’s performance, improving the quality of ESG disclosures and aligning them with the company’s overall strategy and objectives (Mervelskemper & Streit, 2016).

Despite the positive impact of governance mechanisms on ESG reporting, several challenges remain. One significant issue is the potential for greenwashing, where companies may

exaggerate their ESG performance to appear more sustainable. Strong governance mechanisms can mitigate this risk by ensuring disclosures are accurate and reflect actual performance (Arvidsson & Dumay, 2022). Another challenge is the variability in ESG reporting standards and frameworks. The lack of a unified reporting standard can lead to inconsistencies, making it difficult for stakeholders to compare ESG performance across companies. Adopting recognized frameworks such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) standards can help address this issue (Kumar et al., 2021).

Research shows that companies with better governance structures tend to have higher ESG ratings, indicating that robust governance frameworks not only improve the quality of ESG disclosures but also enhance overall corporate sustainability. For instance, Ho and Harjoto (2011) found that firms with stronger governance structures are more likely to engage in CSR activities, resulting in higher firm value. Their study highlights the importance of governance in driving sustainable business practices.

Cohen et al. (2015) explored how corporate governance influences the effectiveness of CSR disclosures on investment decisions, finding that strong governance mechanisms, such as independent boards and audit committees, enhance the credibility of CSR disclosures, positively affecting investor decisions. This underscores the critical role of governance in ensuring ESG reports are trustworthy and valuable to stakeholders.

The integration of ESG factors into corporate governance frameworks can also lead to better risk management. Businesses that integrate ESG concerns into their governance processes are better able to recognize and manage environmental and social risks, shielding the business from possible negative effects on its finances, reputation, and legal standing. Cheng et al. (2015) demonstrated that companies with integrated ESG governance mechanisms are more resilient to external shocks and exhibit more stable financial performance.

Voluntary disclosure of ESG information is significantly influenced by governance mechanisms. Goss and Roberts (2011) found that firms with robust governance structures are more likely to provide high-quality voluntary ESG disclosures, improving their market valuation. This finding highlights the importance of governance in voluntary ESG reporting practices.

Another area where governance structures are essential is in integrated reporting, which integrates financial and non-financial data. Mervelskemper and Streit (2016) showed that companies adopting integrated reporting frameworks experience better market valuation and investor confidence, emphasizing the value of governance in supporting integrated reporting practices.

Despite advancements in ESG reporting and governance, challenges persist. A major challenge is the lack of standardization in ESG reporting frameworks, leading to inconsistencies in disclosures. Governance mechanisms can help address this issue by adopting recognized reporting standards such as GRI or SASB, enhancing the overall quality of disclosures (Kumar et al., 2021).

Another challenge is the potential for greenwashing, where companies exaggerate their ESG performance. Strong governance mechanisms can mitigate this risk by ensuring ESG disclosures are accurate and reflect the company's actual performance. Arvidsson and Dumay (2022) emphasized the need for rigorous oversight and verification of ESG information to prevent greenwashing.

Furthermore, the changing nature of ESG reporting underscores the importance of robust governance practices in ensuring the accuracy and reliability of ESG disclosures. Companies must prioritize these practices to meet the growing demand for ESG information from investors, regulators, and other stakeholders. Effective governance mechanisms enhance the credibility of ESG reporting, contributing to the overall sustainability and long-term success of the company. Governance mechanisms are integral to the successful implementation and reporting of ESG initiatives by fostering a culture of transparency and ethical behavior.

Cohen et al. (2017) highlight that robust governance mechanisms significantly enhance the credibility and impact of ESG reporting. Strong governance is characterized by a majority of independent, non-employee directors on the board, a separate chairperson from the CEO, and active participation by institutional investors in governance. These attributes ensure rigorous oversight of management's ESG strategies and practices, leading to more transparent and reliable ESG disclosures. Consequently, firms with strong governance frameworks are better positioned to align their ESG initiatives with broader corporate objectives, thereby improving overall ESG performance. The research underscores that transparent ESG reporting driven by strong governance can attract long-term investors who prioritize sustainable business practices, ultimately leading to improved financial performance and corporate reputation.

In contrast, weak governance mechanisms undermine the efficacy of ESG reporting. Companies with boards dominated by insiders or directors with close ties to management often lack the independent oversight necessary for rigorous ESG evaluation and reporting. These governance frameworks may result in weak ESG disclosures that misrepresent the real ESG performance of the business. The study illustrates that in environments where the CEO additionally acts as the board chair, and where shareholder influence is dispersed and minimal, ESG reporting tends to be less credible and impactful. This scenario results in a disconnect between reported ESG metrics and actual performance, potentially misleading investors and other stakeholders. The findings suggest that without strong governance frameworks, ESG reporting may serve more as a symbolic gesture rather than a substantive indicator of corporate sustainability efforts.

Cambrea et al. (2023) investigate whether integrated reporting enhances the market valuation of ESG performance, examining the relationship between ESG disclosure practices and corporate financial outcomes. Their study shows that integrated reporting significantly amplifies the positive market valuation of a firm's ESG performance. By combining financial and non-financial information into a cohesive report, integrated reporting provides a comprehensive view of a company's sustainability efforts and their economic implications. This transparency helps investors better understand the financial benefits of ESG activities, leading to higher market valuations. Firms engaging in integrated reporting experience a stronger positive correlation between their ESG scores, and market value compared to those that do not. The findings indicate that integrated reporting can effectively communicate the long-term value of sustainability initiatives, enhancing investor confidence and potentially lowering the cost of capital. Conversely, firms that do not integrate their ESG disclosures into their financial reports often fail to convey the economic significance of their sustainability efforts. This lack of integration can result in lower market valuations, as investors may perceive the ESG activities as non-strategic or disconnected from the core business objectives. The study suggests that standalone ESG reports, while informative, do not provide the same level of insight into how sustainability initiatives drive financial performance. Consequently, firms that neglect integrated reporting may miss out on the potential market valuation benefits of their ESG efforts, underscoring the importance of adopting comprehensive reporting practices to fully capture the value of sustainability initiatives.

While the quantity and quality of ESG reporting have improved over time, actual ESG performance has plateaued (Arvidsson & Dumay, 2022). Swedish companies, driven by

regulatory requirements and market pressures, have become more diligent in disclosing comprehensive ESG information. The adoption of frameworks like the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC) has contributed to more standardized and detailed ESG reports. However, there remains a significant gap between reporting quality and actual performance improvements. Despite enhanced transparency and adherence to reporting standards, tangible outcomes in terms of environmental and social performance metrics have not seen corresponding progress since 2015. This disconnect suggests that increased reporting alone is insufficient to drive substantial ESG performance improvements. Future policy efforts should shift focus from merely enhancing reporting standards to fostering genuine performance improvements. Regulators and industry bodies should prioritize the development of mechanisms that incentivize actual ESG outcomes rather than just compliance with reporting norms. For instance, integrating ESG performance metrics into executive compensation and corporate strategy could create stronger incentives for achieving sustainability goals. The findings underscore the need for a more holistic approach to ESG governance, where the emphasis is on measurable impact rather than just reporting accuracy. By aligning corporate incentives with sustainability outcomes, companies can move beyond symbolic compliance to achieve meaningful progress in their ESG performance.

Strong corporate governance mechanisms are associated with higher quality and quantity of voluntary ESG disclosures (Ng & Rezaee, 2015). Companies with independent boards, robust audit committees, and significant institutional ownership tend to provide more detailed and reliable ESG information. These governance structures ensure management is held accountable for their ESG commitments, leading to more comprehensive and credible reporting. In countries with stringent governance regulations, companies are more likely to exceed minimum disclosure requirements and provide insights beyond regulatory mandates. In the end, this proactive approach to ESG reporting improves market performance and corporate reputation by increasing openness and fostering trust with investors and other stakeholders. Conversely, weak governance structures often result in lower quality and quantity of ESG disclosures. In countries with lax governance standards, companies may engage in minimal ESG reporting, primarily to comply with basic regulatory requirements. The lack of independent oversight and weak shareholder influence can lead to superficial ESG reports that do not accurately reflect the company’s sustainability efforts. In such environments, ESG disclosures are often used as a tool for window-dressing rather than a genuine reflection of corporate sustainability practices, potentially misleading investors and

hindering efforts to promote long-term sustainability. Improving governance standards globally could enhance the overall quality of ESG reporting and drive more meaningful corporate contributions to sustainable development.

Jain and Jamali (2016) reveal that robust corporate governance significantly enhances the credibility and impact of CSR activities. Companies with strong governance frameworks, characterized by independent boards, effective audit committees, and active shareholder engagement, tend to have more effective CSR programs. These governance mechanisms ensure that CSR initiatives are integrated into the company's strategic objectives and operational practices, aligning CSR activities with stakeholder expectations, and leading to improved social and environmental performance. Conversely, weak governance structures can undermine CSR initiatives. Companies with boards dominated by insiders or with close ties to management often face challenges in implementing effective CSR programs. The lack of independent oversight and accountability can result in CSR activities that are more about image management than genuine social responsibility. In these environments, CSR efforts may lack depth and fail to address core sustainability issues, leading to skepticism among stakeholders. Enhancing governance mechanisms is crucial for the successful implementation of CSR initiatives, as it ensures these efforts are genuinely aimed at achieving social and environmental goals rather than merely enhancing corporate image.

Kock and Min (2016) explore how voluntary adoption of corporate governance mechanisms impacts the quality and transparency of ESG reporting, particularly in the context of greenhouse gas (GHG) emissions disclosures. Voluntary governance mechanisms, such as the establishment of environmental committees, play a crucial role in enhancing ESG reporting quality. These committees monitor management activities, ensuring that the firm's environmental practices align with stakeholder expectations. The presence of dedicated environmental committees on corporate boards significantly improves the transparency and accuracy of GHG emissions reporting. Firms with robust voluntary governance structures are better positioned to provide credible and comprehensive ESG disclosures, enhancing their environmental legitimacy and stakeholder trust. Conversely, in the absence of strong voluntary governance mechanisms, ESG reporting tends to be less transparent and comprehensive. Firms without dedicated environmental committees or similar governance structures often engage in symbolic reporting practices, primarily to meet minimal regulatory standards rather than provide genuine transparency. Enhancing voluntary governance

mechanisms is crucial for improving the overall quality of ESG reporting and ensuring that disclosures are meaningful and reflective of actual corporate practices.

Kock and Min (2016) also discuss the relationship between the legal origins of corporate governance frameworks and the quality of ESG reporting across different countries. They find that countries with common law legal systems tend to have more robust corporate governance mechanisms, leading to higher quality ESG reporting. Common law systems, characterized by strong investor protection and rigorous enforcement of corporate governance standards, encourage companies to adopt comprehensive and transparent ESG reporting practices. In these jurisdictions, firms are more likely to disclose detailed ESG information, including specific metrics on environmental performance and social impact. Conversely, civil law countries, with their less stringent corporate governance frameworks, often see lower-quality ESG reporting. In these legal systems, where investor protection is weaker and corporate governance standards are less rigorously enforced, companies may not feel compelled to provide detailed ESG disclosures. Improving corporate governance standards in civil law countries is essential for enhancing the quality and transparency of ESG reporting.

Again, Ng and Rezaee (2015) highlight the crucial role of governance mechanisms in enhancing the credibility and effectiveness of ESG reporting. Strong governance structures, such as independent boards, active audit committees, and significant institutional ownership, ensure rigorous oversight of ESG practices, facilitating accurate and transparent reporting of sustainability activities. This transparency builds investor confidence and reduces the perceived risk associated with the firm. Effective governance not only supports better ESG reporting but also translates into lower cost of equity capital, as it mitigates information asymmetry and aligns corporate actions with stakeholder interests. Environmental and governance sustainability performance significantly lowers the cost of equity, emphasizing the importance of environmental stewardship and robust governance practices. Effective governance mechanisms are integral to high-quality ESG reporting, playing a critical role in lowering the cost of equity capital. Robust governance frameworks facilitate improved risk management and opportunity recognition for enterprises involved in environmental, social, and governance (ESG) efforts by promoting responsibility, transparency, and strategic alignment with sustainability objectives. Policymakers and corporate leaders should prioritize strengthening governance structures to support robust ESG reporting, ultimately driving better corporate performance and contributing to sustainable development.

Oh et al. (2018) find that multiple governance mechanisms typically act as substitutes rather than complements in promoting effective ESG reporting. The presence of one robust governance mechanism can reduce the necessity for others, leading to efficient yet comprehensive ESG disclosures. For instance, when block holder ownership is high, the need for additional independent directors to monitor and ensure accurate ESG reporting diminishes. Blockholders provide sufficient oversight, ensuring that ESG reports are credible and aligned with long-term sustainability goals. Similarly, when top management teams (TMT) have substantial equity ownership, the effectiveness of additional long-term incentive plans in enhancing ESG reporting is marginal. The existing equity ownership sufficiently aligns executives' interests with sustainable performance, ensuring reliable ESG disclosures. Conversely, the combination of independent boards and long-term incentives for executives creates a synergistic effect that significantly enhances the quality of ESG disclosures. This complementarity ensures that independent directors provide strategic oversight and uphold reporting integrity, while long-term incentives motivate executives to prioritize sustainability in their strategic decisions, leading to more transparent, accurate, and comprehensive ESG reports, thereby building greater investor confidence and stakeholder trust.

Strong governance practices support the company's long-term performance and overall sustainability while also enhancing the credibility of ESG reporting. These mechanisms ensure companies are held accountable for their environmental and social impacts, fostering a culture of transparency and ethical behavior. As such, governance mechanisms are integral to the successful implementation and reporting of ESG initiatives.

Chapter 4: Discussion

The key findings from the literature review are thoroughly examined in this chapter, along with their implications for corporate governance and ESG (environmental, social, and governance) policies. The goal of synthesizing the literature is to draw attention to the important points where governance frameworks and ESG results intersect. In addition to highlighting the importance of these connections, this discussion points out gaps in the current body of knowledge. Furthermore, future research directions are suggested to close these gaps and help create governance and ESG policies that are more influential and successful.

4.1 Synthesis of Findings from the Literature Review

The correlation between corporate governance and ESG performance has attracted considerable academic interest, highlighting the complex connections between board structure, executive pay, company protocols, stakeholder impact, CSR, and ESG disclosure. This compilation relies on a wide range of research to thoroughly grasp how these elements interrelate and promote enduring business methodologies.

Board composition is very important in shaping ESG outcomes in recent discussions. Research highlights the positive relationship between board gender diversity and enhanced ESG performance. Studies by Cambrea et al. (2023) suggest that a critical mass of directors who are females, typically quantified as at least three, is necessary to effect meaningful ESG outcomes. This finding is supported by empirical analyses showing that female directors in executive roles significantly enhance corporate sustainability policies due to their involvement in strategic decision-making (Liu, 2023). The imposition of gender quotas, as demonstrated by Ginglinger and Raskopf (2023) in France, markedly improves ESG performance, validating the critical mass theory. However, Heubeck et al. (2023) argue that independent female directors, often in monitoring roles, may not significantly impact ESG performance due to their limited involvement in day-to-day operations.

Board independence, characterized by a higher proportion of non-executive directors, also plays a crucial role in promoting ESG initiatives. Independent directors are effective monitors of corporate behavior, ensuring adherence to ethical standards and socially responsible practices (Heubeck et al., 2023). The effectiveness of independent directors can be enhanced when they are actively involved in advisory capacities, suggesting a need for a balance between monitoring and advisory roles to improve ESG outcomes (Liu, 2023). Additionally,

CEOs with international experience tend to enhance a firm's ESG performance, as their broader perspectives align with the strategic objectives of diverse boards, further amplifying positive ESG outcomes (Liu, 2023).

Executive compensation is another significant factor influencing ESG performance. Studies by Radu and Smaili (2022) provide robust evidence that CSR-linked executive compensation, when combined with CSR committees, enhances CSR performance. This alignment of financial incentives with sustainability goals effectively promotes responsible corporate behavior. However, Jensen et al. (2023) caution against potential pitfalls, highlighting the need for careful design and implementation of such compensation packages to avoid counterproductive outcomes like metric manipulation or short-term focus.

Corporate policies and their environmental impact are critical areas of focus in the literature. Alkaraan et al. (2024) emphasize the role of advanced technologies in reinforcing sustainable practices within corporate governance frameworks. This study suggests that flexible and responsive governance structures are essential for achieving long-term environmental goals. Similarly, Haque and Ntim (2018) assert that robust governance mechanisms are pivotal in enhancing environmental performance. Endo (2020) and Zhou, Liu, and Luo (2022) highlight the importance of aligning governance models with broader stakeholder interests and financial performance to ensure the sustainability of ESG initiatives.

Stakeholder influence significantly shapes corporate ESG performance. Proxy voting, as examined by Bernard et al. (2023), can promote corporate sustainability, especially when shareholders are dedicated to achieving long-term ESG goals. Financial strategies like divestitures, studied by Gantchev, Giannetti, and Li (2022), can lead to improved ESG performance by redirecting resources toward sustainability initiatives. This emphasizes how financial choices affect business sustainability initiatives.

Corporate Social Responsibility (CSR) and financial performance are deeply intertwined. Studies like those by Barnett et al. (2024) show that governance proposals are more likely to be made to companies that exhibit exceptional CSR performance., highlighting CSR as a focal point for shareholder activism. The role of employee representation in driving ESG performance is emphasized by Nekhili et al. (2021) and Gillan et al. (2021), who find that the presence of employees on the board positively impacts the relationship between market value and ESG performance.

Effective governance mechanisms significantly impact the quality of ESG reporting. Companies with robust governance frameworks, including independent directors and audit committees, tend to produce higher-quality ESG reports (Jain, 2015; Oh et al., 2016). The regulatory environment also plays a crucial role in shaping ESG reporting practices. Mandatory ESG reporting, as seen in the EU Directive on Non-Financial Reporting, leads to higher levels of transparency and accountability. Voluntary ESG reporting, driven by reputation enhancement and investor attraction, requires effective governance mechanisms to ensure accurate and reflective disclosures (Cohen et al., 2011; Mervelskemper & Streit, 2016).

Despite the positive impact of governance mechanisms on ESG reporting, several challenges remain. Effective governance must balance financial and environmental goals to ensure long-term sustainability. Digital transformation, as highlighted by Lu et al. (2024), can enhance ESG outcomes by improving data management and decision-making processes. The integration of digital tools into governance frameworks supports the implementation and monitoring of environmental policies, reinforcing sustainable practices within corporate structures.

The literature also explores the financial implications of environmental performance. Studies by Bose, Minnick, and Shams (2021) indicate that companies with higher carbon risks are less attractive as acquisition targets, emphasizing the financial and reputational importance of environmental performance. This is complemented by research from Chen et al. (2021), which shows that better environmental performance leads to more favorable financial terms from banks. These findings highlight the financial incentives for corporations to adopt environmentally friendly policies driven by both market pressures and governance structures.

In conclusion, Effective board composition, well-structured executive compensation, robust corporate policies, stakeholder influence, and comprehensive CSR initiatives are crucial for promoting sustainable business practices. The importance of including ESG factors in company plans is further highlighted by the relevance of excellent environmental performance and the role that governance processes play in improving ESG reporting. These observations offer insightful advice for coordinating governance frameworks with long-term environmental and social objectives as companies continue to negotiate the challenges of sustainability.

4.2 Implications for Corporate Governance and ESG Practices

A convincing roadmap for the future of sustainable business is provided by the combination of ESG practices and corporate governance. As the world's business environment changes, corporate governance must include ESG considerations, not just because of regulations but also as a strategic necessity. Forward-thinking companies recognize that robust governance frameworks infused with ESG principles can drive innovation, enhance reputation, and deliver long-term value. The transformative implications of corporate governance on ESG practices, highlight how diversity, transparency, stakeholder engagement, and technology can converge to create resilient and ethical business models.

Effective corporate governance is fundamental in fostering a culture of transparency, ethical behavior, and accountability, which are crucial for sustainable business practices. A critical role is played by the board of directors in overseeing management and making strategic decisions that impact ESG performance. According to Ferrell et al. (2016), independent and diverse boards are better positioned to provide unbiased oversight, ensuring that corporate practices align with ESG goals. The inclusion of ESG considerations in governance frameworks has become increasingly important as stakeholders demand greater accountability and ethical business conduct.

Board composition significantly impacts ESG performance. Diverse boards, particularly those with a significant representation of women, are associated with better ESG outcomes. Studies by Heubeck (2024) and Cambrea et al. (2023) highlight that gender diversity fosters diverse perspectives, leading to more effective decision-making on complex ESG issues. This diversity not only enhances ESG performance but also builds trust among stakeholders by demonstrating a commitment to inclusive and ethical governance practices.

Executive compensation linked to ESG performance is another critical governance mechanism. Aligning executive incentives with sustainability goals ensures that top management prioritizes long-term ESG objectives over short-term financial gains. Radu and Smaili (2022) emphasize the synergistic effect of CSR committees and CSR-linked compensation, suggesting that these mechanisms should be integrated into a broader governance strategy to address the complexities of corporate sustainability. However, Jensen

et al. (2023) caution against potential pitfalls such as metric manipulation, highlighting the need for transparent and rigorous oversight.

Corporate policies and governance structures must adapt to incorporate advanced technologies and innovative practices to achieve sustainability goals. Alkaraan et al. (2024) emphasize the role of Industry 4.0 technologies in reinforcing sustainable practices within corporate governance frameworks. These technologies enhance data management and decision-making processes, supporting the implementation and monitoring of ESG initiatives. The integration of digital tools into governance structures is essential for achieving long-term environmental objectives and improving overall ESG performance.

The role of stakeholders, including investors, customers, and non-governmental organizations (NGOs), is crucial in shaping corporate governance and ESG practices. Bernard et al. (2023) discuss how stakeholder engagement can drive corporate sustainability, with proactive engagement leading to better ESG outcomes. Investors, particularly institutional investors, are increasingly using their influence to advocate for better ESG practices and governance structures. The growing emphasis on stakeholder engagement underscores the need for boards to actively listen, respond to concerns, and integrate stakeholder feedback into corporate strategies.

The regulatory environment plays a significant role in shaping ESG reporting and governance practices. Mandatory ESG reporting, such as the EU Directive on Non-Financial Reporting, has led to higher levels of transparency and accountability among European companies. Firms with robust governance frameworks are better equipped to comply with regulatory requirements, producing higher-quality ESG reports. In contrast, companies with weak governance structures often struggle to meet these standards, resulting in subpar disclosures and potential greenwashing risks.

Governance mechanisms are integral to the quality and credibility of ESG reporting. Studies by Jain (2015) and Oh et al. (2016) highlight that companies with strong governance structures, including independent boards and active audit committees, tend to produce more reliable ESG disclosures. These governance attributes ensure rigorous oversight of management’s ESG strategies, leading to more transparent and accurate reporting. Effective ESG reporting builds investor confidence and supports long-term sustainability by providing stakeholders with a clear understanding of the company's commitments and performance.

The financial implications of ESG performance are also significant. Companies with strong ESG practices often enjoy better financial outcomes, including improved profitability, enhanced stock performance, and lower cost of equity. Arvidsson and Dumay (2022) provide evidence that high-quality ESG reporting correlates with improved financial performance, as transparency in ESG practices builds trust and supports long-term success. This financial perspective underscores the importance of integrating ESG considerations into corporate governance to achieve sustainable growth and competitive advantage.

In a nutshell, the integration of ESG considerations into corporate governance frameworks has profound implications for sustainable business practices. Effective governance structures that prioritize diversity, transparency, and stakeholder engagement are essential for achieving long-term ESG objectives. The harmonization of executive rewards with sustainability objectives, the implementation of cutting-edge technologies, and the proactive involvement of stakeholders are essential elements of a strong governance structure. As companies maneuver through the intricacies of sustainability, these governance methods will be vital in promoting moral, responsible, and enduring corporate conduct.

4.3 Identified Gaps and Directions for Future Research

The field of corporate governance and ESG (Environmental, Social, and Governance) performance is constantly evolving and presents numerous opportunities for deeper exploration. While significant progress has been made, there are still several areas that require further attention. Addressing these areas allows us to better understand the complex relationship between governance frameworks and ESG outcomes, leading to the creation of more effective policies and strategies.

First, there is a noticeable gap in understanding the long-term impacts of diverse board compositions on ESG performance. While studies like those by Cambrea et al. (2023) and Heubeck (2024) highlight the benefits of gender diversity, the effects of other forms of diversity, such as racial, age, and educational diversity, require further exploration. Pajuste (2022) provides preliminary evidence on the positive impact of racial diversity, but comprehensive, longitudinal studies are needed to validate these findings and understand the mechanisms at play. Additionally, the role of independent directors in ESG performance

remains underexplored. Although it is widely accepted that independent directors enhance governance quality, their specific contributions to ESG outcomes, particularly in different cultural and regulatory contexts, need further investigation. Comparative studies across different jurisdictions could provide valuable insights into how the roles and effectiveness of independent directors vary globally.

Second, the interplay between executive compensation and ESG performance presents another critical area for future research. While Radu and Smaili (2022) and Jensen et al. (2023) have shed light on the positive effects of CSR-linked compensation, the potential negative consequences, such as metric manipulation and short-termism, need to be more thoroughly examined. Research could explore how different types of executive incentives (e.g., bonuses, stock options) impact various dimensions of ESG performance differently. Additionally, the influence of advanced technologies on corporate governance and ESG practices is an emerging area that warrants more attention. Despite the wealth of studies, significant gaps remain, particularly in assessing causality and understanding how digital transformation influences corporate governance and subsequent ESG performance. Comprehensive research is needed to explore how technological advancements could be leveraged to enhance governance structures and promote better ESG outcomes. Alkaraan et al. (2024) discuss the integration of Industry 4.0 technologies with green business strategies, but empirical studies are needed to assess the real-world impact of these technologies on governance and sustainability.

In addition, stakeholder engagement strategies require deeper investigation. While studies by Bernard et al. (2023) and Gantchev, Giannetti, and Li (2022) emphasize the importance of stakeholder influence on corporate sustainability, the effectiveness of different engagement strategies (e.g., proxy voting, private negotiations, public campaigns) in various industries and cultural settings remains underexplored. Future research could focus on developing frameworks to evaluate the impact of stakeholder engagement on specific ESG outcomes. The role of regulatory frameworks in shaping ESG practices presents another significant gap. While mandatory ESG reporting, as discussed by Cohen et al. (2011) and Mervelskemper & Streit (2016), has been shown to enhance transparency, the effectiveness of different regulatory approaches across countries and industries needs further exploration. Comparative studies could help identify best practices and potential pitfalls, informing policymakers on how to design more effective regulations.

Furthermore, research on the financial implications of ESG performance needs to be expanded. Although studies like those by Chen et al. (2021) and Arvidsson and Dumay (2022) provide evidence of the financial benefits of strong ESG performance, more research is needed to understand how these benefits vary across different types of companies and market conditions. For example, how do ESG practices impact the cost of capital for small versus large firms? What are the long-term financial impacts of ESG investments in emerging markets? The impact of personal attributes and backgrounds of CEOs on ESG performance is an intriguing area for further study. Liu (2023) and Du and Ren (2023) highlight how CEOs' international experience and early-life poverty experiences influence their approach to ESG issues. Future research could expand on these findings by examining other personal factors, such as educational background, professional networks, and personal values, to understand how they shape corporate sustainability strategies.

Fifth, the role of family-owned businesses in ESG performance is another area that requires more detailed exploration. Studies by Abeysekera and Fernando (2020) and Oh et al. (2019) suggest that family firms may prioritize financial returns over societal benefits, particularly during financial crises. Research could further investigate how the unique governance structures of family firms impact their approach to ESG and identify strategies to align their business practices with broader sustainability goals. Despite the extensive literature on environmental sustainability, there is a relatively scant focus on the impact of governance on social sustainability compared to environmental aspects. Future studies should aim to balance this disparity by exploring how governance practices can be optimized to improve social outcomes, such as employee rights, community development, and inclusivity. Understanding how specific governance mechanisms can enhance social sustainability is crucial for creating comprehensive and balanced ESG strategies.

Finally, the effectiveness of different governance mechanisms in enhancing the quality of ESG reporting needs more attention. While Jain (2015) and Oh et al. (2016) emphasize the role of independent directors and audit committees, the specific attributes that make these mechanisms effective in different contexts need to be clarified. Additionally, the potential for innovative governance practices, such as integrating ESG metrics into board evaluations, to improve reporting quality should be explored. Addressing these identified gaps can significantly advance our understanding of the complex relationship between corporate governance and ESG performance. Future research should focus on these areas to develop more robust and comprehensive governance frameworks that effectively integrate ESG

considerations. By doing so, researchers can provide valuable insights that inform both corporate practices and policymaking, ultimately contributing to more sustainable and responsible business practices globally.

Chapter 5: Conclusion

This section summarizes the main findings from the investigation, makes recommendations for practice and policy, and concludes with some thoughts.

The relationship between corporate governance and ESG performance is multifaceted and critical for the sustainable development of companies. This research emphasizes the critical role that strong corporate governance frameworks with diverse and independent boards play in improving ESG results. Board diversity, particularly gender diversity, and board independence are crucial in bringing varied perspectives essential for addressing complex ESG challenges. The presence of female directors, especially when they reach a critical mass, significantly improves ESG performance. Independent directors ensure that decision-making processes are transparent and aligned with long-term sustainability goals.

Executive compensation aligned with ESG goals is another vital aspect. Companies that incorporate ESG metrics into executive compensation packages incentivize leaders to pursue sustainable practices. However, careful design is needed to avoid short-termism and manipulation of ESG metrics. Performance-based compensation that includes long-term environmental, social, and governance goals can drive meaningful improvements in corporate sustainability.

Corporate policies and their environmental impact are greatly influenced by the integration of advanced technologies and strategic business practices. Firms with robust governance structures that leverage technological advancements tend to perform better in ESG metrics. Financial implications of environmental performance, such as in acquisition decisions and terms offered by financial institutions, underscore the importance of aligning technological and managerial innovations with environmental objectives.

Stakeholder influence is a significant driver of ESG performance. Effective stakeholder engagement through proxy voting, responsible investing, and private engagement by institutional investors holds companies accountable for their ESG impacts. Stakeholders, including investors, customers, and regulators, play a crucial role in shaping corporate

sustainability practices. Transparent and accountable engagement ensures that companies align their operations with stakeholder expectations.

Financial performance and corporate social responsibility (CSR) have a complicated relationship that has advantages and disadvantages. High CSR performance can enhance shareholder value, particularly in mergers and acquisitions, by fostering a positive reputation and improving stakeholder relationships. However, there is a risk of over-investment in CSR for personal gains by insiders. Good governance practices, transparency, and robust sustainability disclosures are essential to maximize the financial benefits of CSR activities.

Several recommendations emerge from the findings to enhance corporate governance and ESG performance. First, promoting board diversity is crucial. Policymakers and corporate leaders should prioritize the inclusion of diverse perspectives within boardrooms through gender quotas, targeted recruitment, and policies encouraging diversity in age, nationality, and professional expertise. Second, aligning executive compensation with ESG goals is vital. Companies should design compensation packages incorporating ESG performance metrics, and regulatory frameworks should guide the inclusion of these criteria in executive pay structures. Third, leveraging technological advancements can significantly enhance ESG performance. Integrating advanced technologies such as data analytics and digital tools provides real-time insights into environmental and social impacts, enabling informed decision-making.

Enhancing stakeholder engagement is also essential. Companies should actively engage stakeholders to understand their expectations and incorporate their feedback into corporate strategies. Regulatory bodies can facilitate this by mandating greater transparency and accountability in ESG reporting. Furthermore, fostering a culture of sustainability across all levels of the organization is critical. This involves setting clear ESG goals, integrating sustainability into the core business strategy, and ensuring commitment from all employees.

Regulatory support and frameworks are indispensable. Governments and regulatory agencies should develop and enforce frameworks supporting sustainable corporate practices, including mandatory ESG disclosures, incentives for sustainable business practices, and penalties for non-compliance with environmental regulations.

The intersection of corporate governance and ESG performance reflects broader societal shifts towards sustainability and ethical business practices. Effective corporate governance ensures

companies are managed in alignment with stakeholders' interests, fostering accountability and ethical behavior. Strong governance frameworks help businesses reduce risks, take advantage of growth and innovation opportunities, and manage the complexity of today's business environment.

A holistic approach to corporate governance, including diverse perspectives within the boardroom, alignment of executive incentives with ESG goals, strategic use of technology, and active stakeholder engagement, is crucial. Businesses that use these strategies can improve their ESG performance, cultivate stakeholder trust, and help ensure a fair and sustainable future.

The integration of ESG considerations into corporate governance is a fundamental shift in business operations. Policymakers and corporate leaders must continue to push for improvements in governance structures and ESG practices. This dual focus on financial performance and sustainability is essential for achieving long-term success in the 21st century.

The need for robust corporate governance has never been more pressing. With increasing scrutiny from stakeholders and regulatory bodies, companies are compelled to adopt practices that are not only compliant but also proactive in addressing ESG issues. The strategic importance of integrating ESG considerations into corporate governance frameworks cannot be overstated. It provides a comprehensive approach to managing risks, capitalizing on opportunities, and ensuring long-term resilience.

The findings of this thesis emphasize the critical role of board composition in achieving high ESG performance. Diverse and independent boards bring a wealth of experience and perspectives that are essential for navigating the complexities of modern business environments. Gender diversity, in particular, has been shown to have a transformative impact on board dynamics and decision-making processes. Female directors, when present in sufficient numbers, can influence the strategic direction of the company, ensuring that ESG considerations are prioritized.

Independent directors are equally important. Their role in providing unbiased oversight and holding management accountable is crucial for maintaining transparency and integrity in corporate governance. Independent directors can champion ESG initiatives, ensuring that the

company's strategies align with long-term sustainability goals. Their presence mitigates the risk of managerial entrenchment and fosters a culture of ethical decision-making.

A powerful instrument for balancing the interests of stakeholders and corporate executives is executive compensation. Companies can incentivize executives to prioritize sustainability by incorporating ESG metrics into compensation packages. However, this must be done thoughtfully to avoid unintended consequences such as short-termism or manipulation of ESG data. Performance-based compensation tied to long-term ESG goals ensures that executives are committed to sustainable practices that deliver value over time.

Technological advancements offer significant opportunities for enhancing ESG performance. The use of data analytics, artificial intelligence, and other digital tools can provide deeper insights into environmental and social impacts. These technologies enable companies to monitor their ESG performance in real time, identify areas for improvement, and implement more effective strategies. Companies can enhance their governance practices and achieve better ESG outcomes by leveraging technology.

Stakeholder engagement is crucial for driving ESG performance. Effective engagement involves understanding stakeholders' expectations and incorporating their feedback into corporate strategies. This requires transparency and accountability in ESG reporting. Regulatory bodies can play an important role by mandating comprehensive disclosures that provide stakeholders with the information they need to make informed decisions. Companies that excel in stakeholder engagement build trust and foster long-term relationships that are beneficial for all parties involved.

Creating a culture of sustainability within organizations is essential for achieving long-term ESG goals. This involves setting clear objectives, integrating sustainability into the core business strategy, and ensuring that all employees are aligned with these goals. Corporate leaders must lead by example, demonstrating a commitment to sustainability that permeates the entire organization. Employee education and development initiatives can assist staff members in realizing the significance of ESG and their part in accomplishing the organization's sustainability goals.

Regulatory frameworks are critical for supporting sustainable corporate practices. Governments and regulatory agencies must develop and enforce policies that encourage companies to adopt ESG principles. This includes mandatory ESG disclosures, incentives for

sustainable practices, and penalties for non-compliance. Strong regulations guarantee that businesses are responsible for their ESG performance and promote ongoing development.

The inclusion of ESG considerations into corporate governance is not merely a compliance requirement but a strategic imperative. Companies with strong performance in this area are better positioned to control risks, seize opportunities, and succeed over a long period. The shift towards sustainable business practices reflects a broader societal demand for ethical and responsible corporate behavior. Companies that embrace this shift can build stronger relationships with stakeholders, enhance their reputation, and drive financial performance.

To sum up, there is a complicated and intricate relationship between corporate governance and ESG performance. Effective governance structures that prioritize diversity, independence, and accountability are essential for achieving high ESG performance. Executive compensation, technological advancements, stakeholder engagement, and regulatory frameworks all play critical roles in this process. Businesses may improve their ESG performance, gain the trust of stakeholders, and contribute to a sustainable and just future by embracing a holistic approach to corporate governance. The results of this thesis highlight how crucial it is to integrate ESG factors into corporate governance frameworks and offer insightful information to stakeholders, corporate executives, and legislators alike.

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