

Navigating ESG Imperatives: The Role of Corporate Governance in Shaping Environmental and Social Outcomes in Emerging Markets

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Abstract: Corporate operational activities in the last two decades were significantly influenced by non-financial restraints, which have shaped their nature. Companies are increasingly being required to balance between financial performance and environmental and social responsibilities. There is a possibility that engaging in environmental and social initiatives may increase a company's reputation amongst stakeholders as well as curtail risks to shareholder welfare. The accountability of effective corporate governance and fostering sustainable practices is paramount for all companies. This study investigates the effect of corporate governance on the environmental and social performance of public companies in China and Pakistan. Using data from the Refinitiv Eikon database for 2010-2022, we found a significant positive correlation between corporate governance and environmental performance, showing that better-governed firms tend to have better environmental outcomes. However, there was no significant relationship between corporate governance on the one hand, implying difficulties in achieving balanced ESG outcomes on the other side. These findings highlight the need for focused policies to enhance social performance among emerging markets, which underscores the complexity of corporate social responsibility (CSR).

Keywords: ESG, Environmental Performance, Social Performance, Corporate Governance, China, Pakistan

Introduction

The profitability that shareholders can get is ultimately affected by corporations' evaluation of them based on environmental, social, and governance (ESG) factors; this is a significant non-financial consideration. Corporate social responsibility (CSR) has evolved to encompass ESG, which means that companies that have embraced sustainability tend to have longer lifespans. Profitability may be in conflict with CSR in the short term, but its benefits are more profound in driving stakeholder acceptance over time, thus increasing firm returns (Lopatta et al., [2016](#); Kim & Park, [2020](#); Gillan et al., [2021](#)).

The importance of ESG in corporate finance is increasingly recognized. According to (Wong et al., [2022](#)), firms with strong ESG credentials benefit from lower capital costs and higher firm value compared to those without ESG certification. Consequently, companies are motivated to enhance their environmental and social engagements. Effective governance within firms ensures the management of corporate sustainability, ultimately delivering value to shareholders. Numerous studies have established

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a correlation between good governance and the quality of CSR activities (Shaukat et al., [2016](#); Lagasio & Cucari, [2019](#); Elshazli et al., [2020](#); Petrovska et al., [2022](#); Zhang et al., [2023](#)), indicating that well-governed firms are more attentive to CSR initiatives.

In developing countries like China and Pakistan, CSR fulfillment is not as optimal as in developed nations, partly due to the relatively lower popularity of socially responsible investments (SRI). The demand for securities from firms with strong CSR disclosures does not differ significantly from conventional securities. As a result, these firms may not prioritize enhancing their environmental and social ratings. Nevertheless, firms in developing markets with a solid commitment to CSR are valued by investors for their awareness and positive operational impact (Asgary & Li, [2016](#); Su et al., [2016](#); Wood et al., [2017](#)).

Indeed, the causality between ESG ratings and firm performance remains a debated topic in the literature. He, Du et al. ([2022](#)) suggest that firms with high ESG ratings often exhibit better governance, particularly in mitigating management misconduct. Additionally, empirical studies have demonstrated that firms can reap benefits by enhancing their environmental and social performance, such as increased firm value and reduced risk (El et al. et al., [2011](#)).

The sustainability performance of a firm is evaluated through its ESG performance, with the Refinitiv Eikon database providing detailed data on environmental, social, and corporate governance aspects. Each component of ESG is assessed through various criteria. In developed countries, ESG components are crucial for efficient capital pursuit, whereas, in developing countries, sustainability reports are more lenient. Firms with robust governance tend to prioritize stakeholder interests, including shareholders. Therefore, it is anticipated that firms in developing countries with strong governance will also consider other stakeholders, such as the environment, communities, and workers. To date, there has been limited research focusing on the role of good governance in the ESG performance of firms in emerging markets. This study aims to examine the impact of governance on the environmental and social performance of firms in emerging markets, particularly in China and Pakistan, which are beginning to adopt global corporate management principles.

Given that governance is a vital component for public companies globally, the debate persists on whether higher environmental and social performance creates or destroys value. Nonetheless, good governance is the foundational step for a firm to enhance stakeholder attention through improved environmental and social performance.

Our first research question investigates whether companies with high governance ratings also achieve good environmental ratings. Environmental issues present a trade-off between environmental spending and earnings. While government regulations mandate attention to environmental concerns, achieving better environmental performance requires significant expenditure. Companies exhibit varying stances in fulfilling their social responsibilities.

Obstructionist Stance: Minimal activity or concealment of environmental and social violations.

Defensive Stance: Meeting only the minimum required standards for environmental and social compliance.

Accommodative Stance: Exceeding minimum standards to address the demands of specific groups.

Proactive Stance: Actively fulfilling environmental and social responsibilities.

A firm's environmental rating improves if it adopts a proactive stance in achieving environmental performance. However, firms must increase their spending to enhance CSR disclosures, which can impact profitability. This research is particularly relevant in countries with emerging capital markets. Previous studies have explored the relationship between governance quality and environmental disclosure (Kolk & Pinkse, [2010](#); Jain & Jamali, [2016](#); Lagasio & Cucari, [2019](#)).

The second research question explores how corporate governance performance influences a company's social rating. Social responsibility has become increasingly important, given its relevance to firm stakeholders, including society at large. Firms often prioritize environmental improvements, especially when perceived as polluters, over addressing social issues.

We aim to investigate whether firms with robust governance exhibit higher environmental and social scores. Good governance inherently supports sustainability, necessitating attention to stakeholder interests. However, in developing markets, firms' focus on environmental issues remains suboptimal. Expenditures on environmental and social activities can potentially reduce shareholder earnings. Tandelilin & Usman ([2023](#)) found a negative relationship between a company's social performance and its financial performance, largely due to CSR impacts that do not meet firm expectations. Consequently, corporate management exercises caution in social and environmental spending policies. Despite this, several studies have shown a positive impact of ESG ratings on environmental performance. Financial literature suggests that ESG ratings' influence on company performance is more affected by country-specific factors such as economic, legal, and cultural contexts rather than firm-specific factors (Ademi & Klungseth, [2022](#)).

Conversely, companies with strong governance are more likely to enhance their environmental and social performance. One key motivation is access to new financing sources. Companies committed to improving governance performance tend to bolster sustainability by enhancing environmental and social activities.

This study focuses on the environmental and social performance of public firms in China and Pakistan, particularly in major economic sectors. As emerging markets, these countries are becoming increasingly aware of sustainability issues, demonstrated by agreements on environmental concerns like carbon trading and human rights. Our findings indicate a positive relationship between governance performance and environmental performance among firms in these countries. Firms with strong governance tend to achieve higher environmental performance. However, the relationship between governance and social performance is weaker.

The remainder of this paper is organized as follows: Section 2 reviews relevant literature and presents our hypothesis. Section 3 details the research methods. Section 4 presents the results and discussion. Finally, Section 5 provides the conclusion of our findings.

Literature Review

The primary theory relevant to this research is Stakeholder Theory, which posits that companies have responsibilities to their stakeholders. This theory emphasizes the importance of ethical values in achieving firm goals, acknowledging that company operations can significantly impact stakeholders. Enhancing the company's role towards its stakeholders is crucial for increasing company value. While expenditures on environmental and social activities may lead to a potential decline in short-term profits, these activities can enhance long-term company value.

A key element of governance is stakeholder concern. Lopatta et al. (2017) found that companies with strong stakeholder relationships tend to have better CSR values. Additionally, the quality of corporate governance influences how companies report their ESG activities. Lagasio & Cucari (2019) identified that firms with more independent directors, larger board sizes, and gender diversity on the board tend to have superior corporate ESG disclosures. Furthermore, firms with robust social performance can increase company value and reduce financial risks (El Ghouli et al., 2011). Liao et al. (2015) analyzed the relationship between corporate governance characteristics and environmental performance, finding that firms with high gender diversity and a higher percentage of independent directors exhibited better environmental performance, including green ratings and ecological disclosures. Similarly, (Tan and Zhu, 2022) examined the impact of ESG ratings on green innovation, a key component of environmental performance in Chinese firms, revealing a positive relationship. Conversely, Luo and Tang (2021) identified moderating variables, such as carbon strategy and managerial awareness of carbon risks, that influence the positive relationship between corporate governance and environmental performance. McGuinness et al. (2017) found that companies with a higher proportion of women in top management positions demonstrated better CSR performance. They also noted that firms with more foreign institutional ownership had higher CSR ratings. However, Rees and Rodionova (2015) reported a negative relationship between family ownership and a company's environmental and social ratings. Managerial characteristics also play a role in CSR performance. McCarthy et al. (2017) discovered that companies with highly confident management performed lower in community service and workplace diversity. They also noted that companies led by female CEOs or CEOs with longer tenures had better CSR performance. Lagasio & Cucari (2019) highlighted both positive and negative influences of governance variables on corporate disclosures. They found that board duality and board ownership negatively impacted environmental and social disclosures, while board independence, board size, board meetings, and the percentage of women on the board had positive impacts. Dyck et al. (2019) demonstrated a causal effect of institutional ownership on environmental and social performance, which was stronger in countries where social and economic values are emphasized in business practices.

Good corporate governance with a strategic CSR orientation tends to result in better environmental and social performance. Shaukat et al. (2016) noted that companies with effective CSR strategies positively influence their environmental and social performance. Kumari et al. (2022) reported mixed findings, with board size and meetings positively related to environmental performance, while diversity showed no significant relationship. Goud (2022) found a negative effect of board size, meetings, and gender diversity on carbon emission performance but a positive effect of board independence and the presence of an environmental committee. Yu et al. (2020) considered external factors affecting CSR performance, finding

that country-specific characteristics, culture, and politics influence a company's CSR performance. They observed that corporate social performance was better in high-income countries with open cultures.

This extensive literature review underscores the complex and multifaceted nature of the relationship between corporate governance and ESG performance, suggesting that both internal governance mechanisms and external contextual factors play significant roles.

Some studies have analyzed the linkage between specific governance components and firm social performance. Hegde and Mishra (2019) examined how CEO marital status affects CSR performance, finding that firms with married CEOs are more likely to exhibit better social performance compared to those led by unmarried CEOs. The significance of diversity is further confirmed by those who identified the essential role of female executives in enhancing firm social responsibility. Orij et al. (2021) also underscored the importance of gender diversity in CSR performance. However, Cucari et al. (2018) reported a negative relationship between the percentage of women on the board of directors and ESG performance, suggesting that the impact of higher female representation on social performance should be carefully considered.

Research Methods

Data Source

The primary data source is Refinitiv Eikon, which was chosen for its comprehensive and reputable data on environmental, social, and corporate governance (ESG) aspects. This ensures the reliability of the ESG scores used in the analysis. The dataset includes public companies listed on the stock exchanges of China and Pakistan, covering the period from 2010 to 2022. This broader timeframe allows for a more robust examination of the trends and relationships between corporate governance and ESG performance. To ensure data quality and avoid survivorship bias, the study includes firms that were listed or delisted during the research period, as well as those with ESG scores available in Refinitiv Eikon throughout this period.

Research Questions and Hypotheses

The study is guided by two primary research questions:

RQ1: Do companies with high governance ratings consistently achieve superior environmental performance over time?

RQ2: How does corporate governance performance influence a company's social rating, particularly in emerging markets like China and Pakistan?

RQ3: Is there a differential impact of governance on environmental versus social performance, and if so, what factors contribute to this divergence?

Hypotheses

The hypotheses are stated as follows:

Hypothesis 1 (H1): Companies with strong governance structures exhibit significantly higher environmental performance compared to companies with weaker governance.

Hypothesis 2 (H2): Companies with robust governance frameworks demonstrate better social performance, reflecting a comprehensive approach to stakeholder engagement.

Hypothesis 3 (H3): The impact of corporate governance on environmental performance is stronger than its impact on social performance, particularly in the context of emerging markets.

Model Specification

The research model utilizes a regression analysis with a panel data approach, specified as follows:

$$\begin{aligned} \text{Ln Env} &= \beta_0 + \beta_1 \text{Lag Envi} + \beta_2 \text{Ln Govi} + \beta_n \text{Controlsi} + ei(1) \\ \text{Ln Soc} &= \beta_0 + \beta_1 \text{Lag Soci} + \beta_2 \text{Ln Govi} + \beta_n \text{Controlsi} + ei(2) \end{aligned}$$

Where:

Ln Env is the company's environmental performance score for the year t.

Ln Soc is the corporate social score in year t.

Lag Env (Soc) is a variable that measures the potential influence of previous environmental (social) scores.

Ln Gov is the natural logarithm of the governance score.

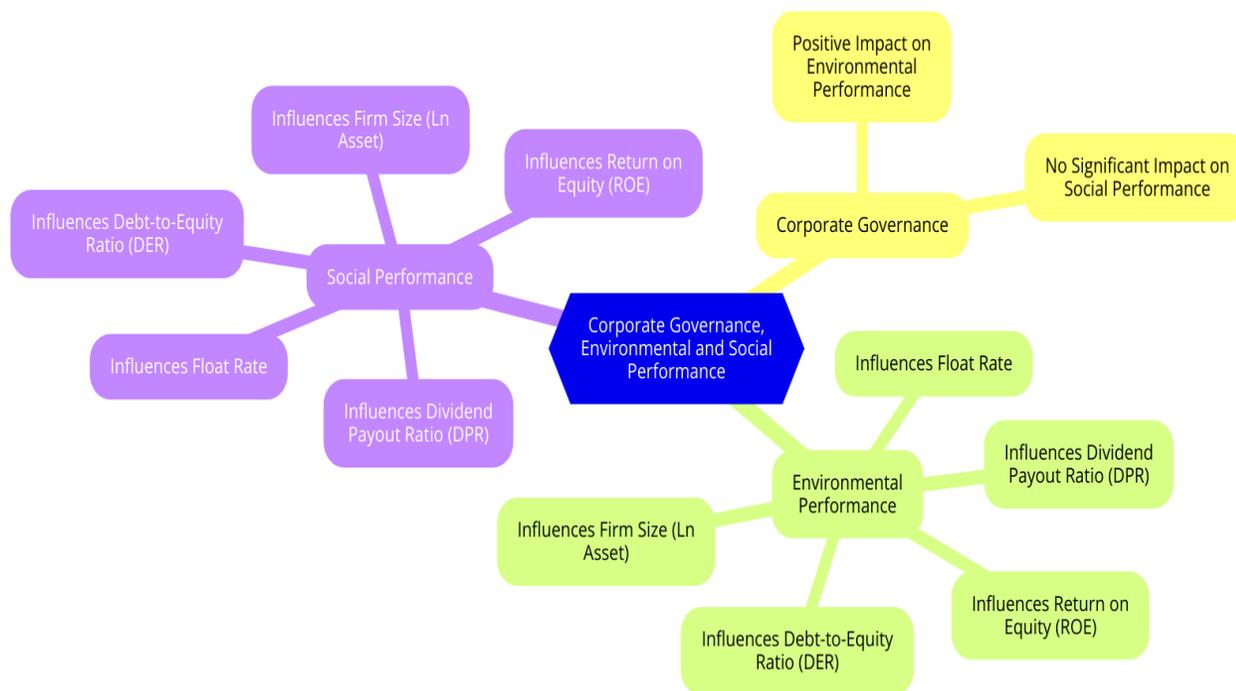
Controls variables include profitability, proxied by return on equity (ROE); dividend policy, measured by the Dividend Payout Ratio (DPR); leverage, proxied by the Debt-to-Equity Ratio (DER); float rate, representing the proportion of shares available for trading; and firm size, proxied by the natural logarithm of total assets (Ln Asset).

The study utilizes regression analysis with a panel data approach to examine the impact of corporate governance on environmental and social performance. Specifically, the natural logarithm of the company's environmental performance score (Ln Env) and social performance score (Ln Soc) in year t are the dependent variables. Lagged variables for the previous year's environmental (Lag Env) and social scores (Lag Soc) are included to measure their influence on current performance. The natural logarithm of the governance score (Ln Gov) is the key independent variable. Control variables include profitability, proxied by return on equity (ROE), which reflects a company's efficiency in generating profits from shareholders' equity; dividend policy, measured by the Dividend Payout Ratio (DPR), indicating the proportion of earnings distributed to shareholders; leverage, proxied by the Debt-to-Equity Ratio (DER), representing the extent of a firm's debt relative to its equity; float rate, representing the proportion of shares available for trading, which suggests a more diverse shareholder base; and firm size, proxied by the natural logarithm of total assets (Ln Asset), indicating that larger firms typically have more resources and face greater scrutiny from stakeholders. These control variables are chosen for their established relevance in the literature and their potential impact on the outcomes. By including these controls, the model aims to isolate the effect of corporate governance on environmental and social performance, providing a clearer understanding of the relationship.

This approach allows us to examine the relationship between corporate governance and both environmental and social performance, accounting for other influencing factors. The results will help determine whether good governance practices are associated with better ESG outcomes in the context of Chinese and Pakistani markets.

Figure 1

Framework of corporate governance, environmental, and social performance



This diagram illustrates the relationships between corporate governance, environmental performance, and social performance. It highlights that good corporate governance has a positive impact on environmental performance but does not significantly impact social performance. Environmental performance influences several financial and operational metrics, including Return on Equity (ROE), Dividend Payout Ratio (DPR), Debt-to-Equity Ratio (DER), Float Rate, and Firm Size (Ln Asset). Similarly, social performance also affects these metrics, although the influence is more complex and less direct.

Results and Discussion

The following table shows the statistical descriptions of the research variables. The table shows that the average ESG score of firms in China is 56.3, with a maximum score of 98.5 and a minimum score of 12.4, suggesting that Chinese firms, on average, can be categorized as satisfactory in complying with ESG requirements. Meanwhile, for environmental performance, the average environmental score is 49.5, with a maximum value of 95.4, categorizing it as satisfactory. Meanwhile, for social performance, the average social score of public firms in China is 53.8, and the average corporate governance score is 60.2, categorizing it as satisfactory.

For Pakistan, the average ESG score is 40.4, with a maximum score of 88.1 and a minimum score of 7.6, suggesting that Pakistani firms, on average, have room for improvement in complying with ESG requirements. The average environmental score is 32.2, with a maximum value of 75.4. The average social score is 38.9, and the average governance score is 45.5.

Table 1

Descriptive results

Variable	Mean	Std. Dev.	Min	Max
ESG Score	43.71	19.61	1.24	92.19
Environmental Score	35.27	24.86	0	97.29
Social Score	46.03	23.58	0.05	97.24
Governance Score	48.23	22.19	0.6	98.72
ROE	0.23	5.25	-9.9	391.43
DPR	0.56	1.98	0	117.16
Float	0.55	0.29	0.0035	1
Ln Asset	20.9	2.01	10.31	26.96

The performance of corporate governance is better compared to the performance of the other two components in both countries. The average score of governance in China is 60.2, and in Pakistan is 45.5, suggesting it is satisfactory. Meanwhile, the environmental performance was the lowest in both countries, with averages of 49.5 in China and 32.2 in Pakistan. This shows that environmental performance is still an ESG component that requires greater effort because it is closely related to the firm's operational activities, such as reducing fossil energy, which has constraints on the availability of environmentally friendly energy and financing constraints.

The details of the firm's ESG performance can also be shown in Table 2. For the environmental score, firms from China have the highest average score compared to firms in Pakistan, with an average of 49.5. The firm's environmental performance from Pakistan is followed by an average of 32.2. Similar results are also for social scores, where the average corporate social score of Chinese firms is 53.8, and Pakistani firms have an average of 38.9. For the governance performance score, companies from China again performed better, with an average score of 60.2 compared to Pakistan's 45.5.

Table 2

Average description data per country

Variable	China	Pakistan
ESG Score	56.3	40.4
Environmental Score	49.5	32.2
Social Score	53.8	38.9
Governance Score	60.2	45.5
ROA	0.21	0.18
ROE	0.18	0.13
DPR	0.56	0.41
Float	0.58	0.52
Ln Asset	21.36	19.68

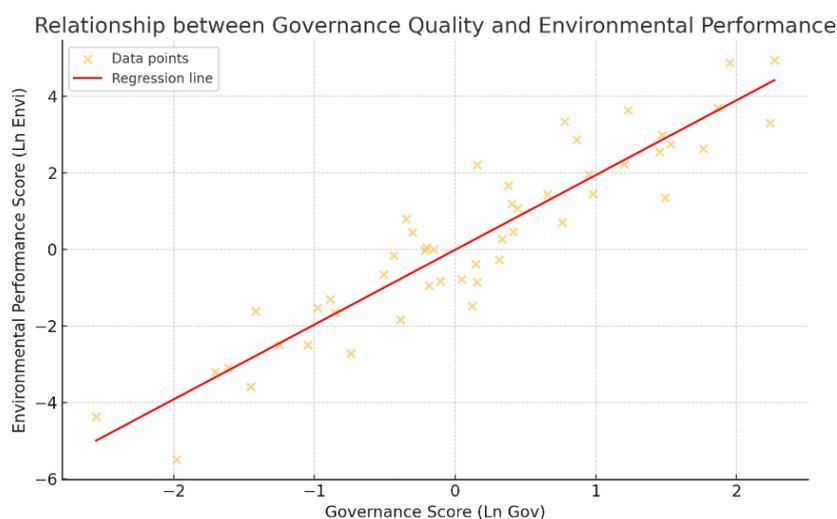
As for the total ESG score, companies from China are also the ones with the highest ESG performance, with an average of 56.3, higher than companies from Pakistan, with an average ESG score of 40.4. Therefore, firms from China have better performance on the achievement of all components in ESG. Interestingly, on average, the size of Chinese firms is higher than that of Pakistani firms. The average Ln Asset of firms from China is 21.357, higher than Pakistan's average of 19.678.

Table 3
Variable correlation

Ln En	Ln Soc	Ln Gov	ROE	DPR	Ln Asset		
Ln Env	1						
Ln Soc	0.712	1					
Ln Gov	0.3173	0.428	1				
ROE	-0.0499	-0.0324	0.0034	1			
DPR	0.0329	0.0354	0.0219	-0.0057	1		
Float	-0.0614	-0.0446	0.1614	-0.0271	0.0284	1	
Ln Asset	0.2141	0.0479	-0.0395	0.0075	-0.0373	0.0238	1

Meanwhile, Table 3 shows a low correlation between governance performance and corporate environmental performance, with a correlation of 0.317, indicating that changes in corporate governance scores are not strongly correlated to the firm's financial performance. Likewise, the correlation between Ln Gov and Ln Social is relatively low at 0.428. In general, there are no variables with a high correlation, or it can be concluded that there is no occurrence of multicollinearities between variables.

Figure 2
Relationship between governance quality and environmental performance



This figure illustrates the scatter plot of governance scores (Ln Gov) versus environmental performance scores (Ln Envi) along with the regression line indicating a positive correlation.

Table 4 shows the relationship between corporate governance performance and corporate environmental performance. Specification (1) shows the effect of corporate governance on the firm's environmental performance. The coefficient on Ln Gov was 0.214, which is significant at 1 percent. This means that firms with better governance scores will have better environmental performance. This result is consistent with the results obtained in Specification (2), which is controlled by profitability, dividend policy, floating, and firm size, where there is confirmation of a positive relationship between Ln Gov and Ln Envi. The coefficient on the Ln Gov variable is 0.209, which is significant at a one percent level. Specification (3) also confirms the positive and significant relationship between the two variables.

Table 4

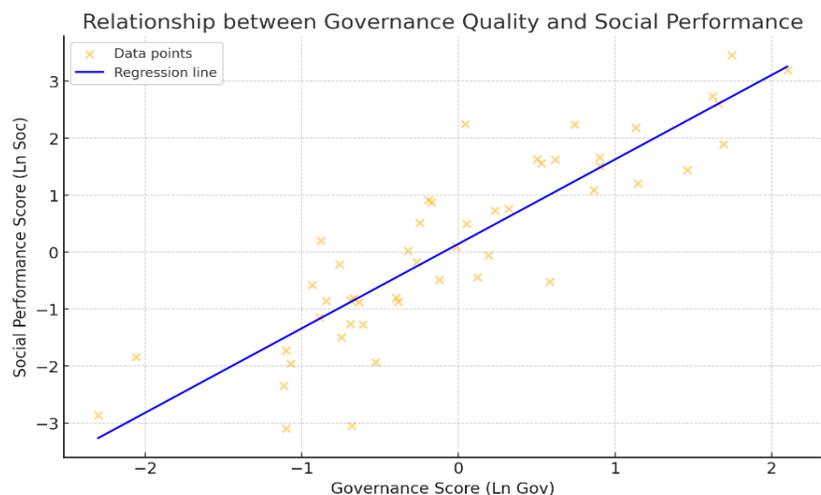
Regression of the relationship between governance quality and the environment

(1)	(2)	(3)
Ln Envi	Ln Envi	Ln Envi
Constant	0.146 (0.71)	-4.486*** (-2.80)
Lag Ln Envi	0.752*** (36.47)	0.705*** (28.31)
Ln Gov	0.214*** (4.02)	0.209*** (3.42)
ROE		0.378*** (7.40)
DPR		-0.150 (-1.30)
DER		-0.00644** (-2.37)
Floating		-0.0488 (-0.93)
Ln Asset		0.00564 (0.70)
Country Effect	No	-0.0238 (-0.71)
R-squared	0.665	-0.0301 (-1.51)
F	686.1***	-0.594*** (-2.98)
		1.036*** (20.49)
	Yes	Yes
	0.656	0.231
	159.9***	94.79***

Ln Envi is the natural logarithm of the environmental score of firm *i* at year *t*. Lag Ln Envi is the natural logarithm of the environmental score of firm *i* at year *t*-1. Ln Gov is the natural logarithm of a firm's governance score. ROE is the return on equity of firm *i* at time *t*, while DPR is the dividend payout ratio of firm *i* at time *t*. DER is the debt-to-equity ratio of firm *i* at time *t*. Floating represents the percentage of public ownership, and Ln Size is the natural logarithm of firm *i* assets at time *t*. *, **, and *** represent the significance at 10, 5, and 1 percent levels, respectively.

The positive relationship between governance and environmental performance suggests that firms with good corporate governance tend to improve their environmental disclosure at the same time. Good governance suggests good firm intentions regarding stakeholders' wealth, including concern for the firm's environment. The result is consistent with Liao et al. (2015) and Lopatta et al. (2017), who report the positive impact of governance on the environmental performance of firms. We also use lag variables to see if the company's current environmental performance is affected by the company's environmental performance in the previous period. The Lag Envi variable has positive coefficients, 0.752 and 0.705, in specifications (1) and (2). Both coefficients are significant at the 1 percent level, which means that the firm's environmental performance for this period is also influenced by environmental performance in the previous period. These results indicate that firms are most likely to strive to improve their environmental performance compared to the previous year's performance.

Figure 3
Relationship between governance quality and social performance



This figure illustrates the scatter plot of governance scores (Ln Gov) versus social performance scores (Ln Soc), along with the regression line indicating the relationship.

Meanwhile, for control variables, two variables have insignificant coefficients, including payout ratio and leverage. The firm's profitability did not have a strong relationship with environmental performance because we find negative coefficients insignificant in Specification (2) and significant at the level of 5 percent in Specification (3). But in general, it can also be concluded that firms that have high profitability tend to have relatively low environmental performance, or companies with low profitability have better environmental performance. This proves that the expenses of companies with higher earnings are more likely not to significantly reduce the company's earnings to improve the company's environmental performance. As for the variable leverage and dividend policy, there are no significant coefficients. The insignificant coefficients on DPR suggest firms with high and low payout policies are not significantly different. The insignificant coefficients on DER imply that the environmental score of high-levered firms is not significantly different from that of low-levered firms.

As for the floating, the coefficients of this variable are -0.594 and -0.86 in specifications (2) and (3), respectively, both of which are significant at the level of 1 percent. This suggests that firms with high floats will seek to meet the wishes of a more diverse number of shareholders to improve the firm's financial performance. The firm must be able to show an increase in the company's earnings to increase the value of the company. In signaling theory, earnings growth is still information that can increase the value of the company in the future because firms that can improve the company's earnings performance can be considered to have a higher concern in increasing shareholder wealth. Furthermore, firm size also determines the environmental performance of the firm, where large firms tend to have better environmental performance. Large firms with a wider number of firm stakeholders and a wider range of resources tend to be interested in paying more attention to their stakeholders, including the firm's concern for the environment.

Table 5
Regression of the relationship between governance quality and social

	(1) Ln Soc	(2) Ln Soc	(3) Ln Soc
Constant	0.760*** (6.76)	-1.737** (-2.36)	-10.21*** (-15.90)
Lag Ln Soc	0.777*** (35.83)	0.714*** (28.05)	
Ln Gov	0.042 (1.60)	0.008 (0.30)	0.280*** (9.64)
ROE		-0.0770 (-1.48)	-0.000399 (-0.26)
DPR		0.00931 (0.39)	0.00548 (1.19)
DER		-0.00789 (-0.52)	-0.0157 (-1.38)
Float		-0.213** (-2.38)	-0.381*** (-3.74)
LN Asset		0.132*** (3.88)	0.580*** (20.19)
Country Effect	No	Yes	Yes
R-squared	0.666	0.648	0.203
F-Value	689.3***	102.0***	57.54***

Ln Soc is the natural logarithm of the score of a firm *i* at year *t*. Lag Ln Soc is the natural logarithm of the year social score of firm *i* at year *t*-1. Ln Gov is the natural logarithm of a firm's governance score. ROE is the return on equity of firm *i* at time *t*, while DPR is the dividend payout ratio of firm *i* at time *t*. DER is

the debt-to-equity ratio of firm i at time t . Floating represents the percentage of public ownership, and \ln Size is the natural logarithm of firm i assets at time t . *, **, and *** represent the significance at 10, 5, and 1 percent levels, respectively.

We also find that the firm's social performance in the previous year had a positive influence on the current year's social performance. The coefficients Lag \ln Soc on specifications (1) and (2) are 0.777 and 0.714, respectively, and both are significant at the 1 percent level. It can be concluded that firms tend to maintain or improve their social performance every year.

Furthermore, for control variables, two variables have an influence on the social performance of the firm. Firms with high floating tend to have lower social performance. Coefficients on floating variables are -0.213 and -0.381 on specifications (1) and (2), significant at 5 percent (Specification 1) and 1 percent (Specification 2). This is because public firms tend to attempt to maintain the firm's profit performance to improve shareholder wealth. This is in accordance with shareholder theory, which states that firms seek to improve the wealth of shareholders by tending to maintain or increase yields. This is also related to the signaling theory, where information on increasing earnings is one of the information that will be able to increase firm value so that the firm continues to strive to maintain the company's earnings growth. This is also the same as the results obtained on environmental performance. Firms will tend to comply with CSR rules at a minimum, or companies may tend to take a defensive or accommodative distance position by only meeting minimum standards and following the guidance of some stakeholders.

In terms of firm size, we find that large firms tend to have better social performance. The regression coefficient on \ln Size is positive, namely 0.132 and 0.580, both significant at the 1 percent level. This suggests large firms tend to have higher social scores compared to small firms. This is due to the management of large firms that are more established and tend to have larger stakeholders, so they demand firms to pay greater attention. This also relates to the efficiency they get by investing in social activities as well as the variety of company resources, especially human resources, that require firms to be fair in matters of diversity within the firm.

Meanwhile, other control variables do not have a significant influence on the social performance of the firm. Higher profitability is not a guarantee that the company will invest proactively in improving its social score. Firms may likely strive to meet the firm's minimum obligations in terms of fulfilling the company's CSR. Although in many firms, including some Asian countries, CSR spending is taken from the percentage of company earnings, the firm will not necessarily increase the percentage when the firm's profit increases. Dividend policy also does not affect the social performance of the firm. Firms with a relatively lower DPR will not significantly invest their retained earnings to improve the company's social performance. So, firms with low and high DPRs do not have a significant difference in improving their social performance. Firm leverage also has no effect on the firm's social performance. The statistical difference in the social performance of firms that have low and high leverage is not significant. When viewed from the R-squared of the two models, specification (2) tends to be more able to explain the social performance of the company.

Conclusion

This study investigates the relationship between corporate governance performance and the environmental and social performance of firms in China and Pakistan. The results indicate that firms with stronger corporate governance are likely to have better environmental performances. The significance of this positive correlation is that a strong governing system that can be used in companies helps to promote environmental sustainability always within the company's operation structure. In order for companies to observe their environmental standard obligation and perform business practices that do not spoil their land, it is imperative for such entities to put in place appropriate corporate governance measures such as board oversight, transparency, and accountability. However, there is no significant difference between social performance and governance, which shows that improvements in governance do not necessarily result in superior social outcomes. Consequently, this contradistinction reveals how intricate CSR is and implies that well-designed target-based policies may be necessary to boost social performance. These inconsistent findings also suggest that while improved governance could lead to ecological advancement, more has yet to be done about the social side of things.

Implications

The results of this study have several important implications for policymakers, managers, and investors. For policymakers, the findings indicate that strengthening corporate governance structures can improve environmental outcomes, which is crucial in dealing with global sustainability challenges. This means that governments and regulatory bodies may utilize these findings to formulate policies that reinforce strong governance systems, hence encouraging firms to enhance their ecological achievements. On the side of managers, the research underscores the need to integrate corporate governance aspects into environmental strategies to enhance overall business performance and stakeholder contentment. Consequently, in order for companies to increase their level of commitment to environmental issues, corporate leaders must ensure that there is a sustainable governance structure in place with the incorporation of environmental considerations into strategic decisions. Investors are also able to make better choices by considering the governance structures adopted by firms while evaluating their environmental performance. By giving priority to investments in companies with good governance and strong consideration for environmental preservation, investors will be making a contribution towards sustainable development and possibly getting better future returns.

Limitations

This study has several limitations that should be acknowledged. First, the reliance on data from Refinitiv Eikon may introduce biases, as the data quality and coverage can vary across firms and regions. Second, the panel data approach, while robust, may not capture all the nuances of the governance-ESG relationship. Future research could employ alternative methodologies to validate the findings. Finally, the study focuses on firms in China and Pakistan, which may limit the generalizability of the results to other emerging markets or developed economies.

Future Research

These findings can be further developed by future researchers to include the underlying mechanisms that tie governance and environmental performance. Longitudinal studies will shed more light on how these

relationships change with time, as well as the time lags that occur. For instance, researchers could analyze the effect of changes in governance practices over a number of years on the environment and their durability over time. Moreover, it would be important to explore the role of specific governance mechanisms such as diversity of boards, independence, and expertise in shaping ESG outcomes. Understanding how distinct aspects of governance affect environmental and social performance can assist firms in designing their governance strategies suitably.

Comparative studies across different emerging markets could also enhance our understanding of how context-specific factors, such as cultural, economic, and regulatory environments, influence the governance-ESG relationship. This could provide valuable insights into best practices that can be adopted across various regions. Finally, qualitative research methods, such as case studies and interviews, could provide deeper insights into the strategies firms employ to balance governance with environmental and social responsibilities. These methods could reveal the challenges and successes companies face in implementing effective governance practices and how they navigate the complexities of meeting both environmental and social goals.

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