Proceedings of the 4th International Conference on Business and Policy Studies
DOI: 10.54254/2754-1169/166/2025.21142

Board Career Diversity and ESG Performance: Evidence from China

Zehui Jiang[1,a,*]
[1]WLSA Shanghai Academy, Tongji Road, Shanghai, China
a. jeff_jiang2008@hotmail.com
**corresponding author*

Abstract: This study analyzes the relationship between boards of directors' career background diversity and firms' ESG performances. Based on a sample of listed Chinese firms between 2018 and 2023, I find a positive and significant association between board career diversity and overall corporate ESG ratings. Environmental and social performances are both positively related to board career diversity while there isn't significant association between governance performance and board career diversity. Boards with diversified career backgrounds offer varying expertise and broader vision that enhance ESG ratings of corporations. The paper complements the existing studies on the relationship between diverse board composition and ESG performance by noting the importance of board career background diversity. This work also offers practical suggestions to corporate executives and policy makers for promoting diverse board composition and improving ESG performance. This study also suggests avenues for future research to explore the underlying mechanisms driving the relationship between board diversity and corporate ESG ratings.

Keywords: corporate ESG performance, board composition diversity, career background diversity, sustainable business practices

1. Introduction

"In diversity there is beauty and there is strength [1]." – Maya Angelou

Corporate ESG has been trending into public discussion in recent years. ESG is a term used to assess firms' non-financial performance related to environmental, social, and governance areas [2]. The exploration of ESG advocates corporations to choose long-term value over short-term benefits and achieve harmonious long-term shareholder relationships. It enables companies to more effective decision-making process and sustainable business.

Nowadays, investors are becoming aware of the ESG and corporate finance relationship as well. In a recent survey conducted by RBC Global Asset Management, 90 percent of the respondents believe that ESG-integrated portfolios are likely to outperform the market than non-ESG-integrated ones.

In addition, more and more countries are paying attention to the influence of ESG on financial performance. For instance, China aims to establish a national standard for corporate sustainability disclosure by 2030 as part of efforts to improve economic sustainability, tackle climate change and catch up with its global peers when it comes to environmental, social and governance (ESG) reporting [3].

Previous literature examines the relation between various firms' attributes (e.g. ownership characteristics, executives and CEOs). As society attaches greater emphasis on diversity and inclusion, one prominent influencing factor is board diversity. In terms of board attributes, researchers have shed light on the effects of age, gender, independence, education diversity. Although the results and conclusions may vary due to centering on different time periods, countries and industries, the analysis on these variables have already achieved fruitful and mature outcomes.

Nonetheless, past papers have never introduced board career diversity into consideration. This study aims to investigate the relationship between board career background diversity and firms' ESG performance while connecting to the effects of board attributes commonly discussed in previous research. It uses a sample of listed Chinese firms between 2018 and 2023. ESG performance is evaluated by a global score for each firm and the subsection ratings for accuracy and depth.

The findings show a positive and significant association between board career diversity and overall corporate ESG performance along with environmental and social subsection ratings. There isn't a significant association between board career diversity and governance performance. The paper surmises that the variety of knowledge and expertise along with a broader vision may contribute to the phenomenon. In regard to investors and financial institutions, this research hopes to inspire them to identify companies with better ESG performances, thus making wiser investment choices. Policy makers can issue related policies that encourage diverse board compositions for companies. ESG NGOs and advocacy groups can also use the findings to raise awareness about the benefits of diversity in career backgrounds for driving ESG performance, further promoting the idea of sustainable business practices in a wider range. As a result, this research fosters public awareness and engagement regarding ESG incorporation, encouraging individuals and communities to support companies that prioritize diversity, sustainability, and create positive social impact.

2. Literature Review

The diversity of boards has been reported as a vital factor for the effectiveness of ESG corporation performance of firms. Ismail posited that 97.1% of the variation in firms' sustainability disclosure is explained by board diversity [4]. In previous literature, the variables that are widely used to evaluate the impact of board characteristics on ESG dimensions are: the board gender diversity, board size and independence (share of independent directors).

Gender diversity has become one of the critical components for enhanced performance in the sector of ESG. Due to differences in psychological traits, educational backgrounds and professional experience of males and females, the latter care more about other people's well-being and have increased sensitivity toward sustainability initiatives [5]. The positive correlation between women board members and significantly higher ESG scores has been proved true in different countries over a long period of time, with the sample from a panel of US companies listed in Business Ethics 100 Best Corporate Citizens for three consecutive years [6] to companies in Europe [7]. Naveed even showcased that board gender diversity advantage can be transpired with the inclusion of even one female director based on the data of Chinese A-share firms from 2009 to 2015 [8]. These researches highlight the great positive impact of female board composition on the improvement of ESG performances.

Another board characteristic that prior research has delved deep into is board size. Much empirical evidence has shown that it's positively related to ESG disclosure by analyzing companies from various countries and time periods. Large boards are more likely to include directors who are experts in the field ESG and have great interest in sustainability culture. Furthermore, large boards can inspire a broader vision of strategic goals and encourage management to develop sustainability performance [5]. Consequently, board size will be incorporated as a control variable in this research to reach more accurate conclusions.

DOI: 10.54254/2754-1169/166/2025.21142

Board diversity also lies in the independent director proportion of different boards. Although the results in current literature are diverged due to focus on different industries, the most relevant study utilizes a sample of all A-share listed Chinese companies during the years 2011–2019 and found a significant positive effect of board independence on the CSR disclosure of the Chinese technology industry [9]. As a result, this research considers its contribution to better ESG ratings.

Although different studies have investigated the relationship between board diversity in the above aspects and ESG performances, none of the existing research has dealt with how board career background diversity might affect the ESG performances of the companies. Research of Masulis, Wang, and Xie reveals that having a board director with diverse industry experience induces better acquisitions [10]. At the same time, Carter [11] indicates that different perspectives in the board may result in marginalizations and conflicts. Board career background diversity has both the potential to support better ESG performance as well as negatively affect the shareholder connections. Given this double-edged impact, the analysis of the relationship between board career background diversity and ESG performance is of crucial academic value. Gillan et al. [12] points out that a broader focus on the demographics of corporate leaders and how they relate to the characteristics currently used in the literature can be informative for better understanding of how leadership influences firms' ESG profiles. Therefore, my research combines dimensions of gender, age and size in terms of board diversity, contributing to a more comprehensive analysis of the topic. On top of current studies, my research fills in the research gap on the effect of board occupational background diversity and firms' ESG performances and the sampling gap from Chinese firms.

Thus, based on the above studies, the hypothesis is:

The board career background diversity is positively associated with firms' ESG performances.

3. Methodology

3.1. Sample and Data Collection

This research gathers all the data from China Stock Market & Accounting Research Database (CSMAR). It uses the ESG scores assessed by Wind as well as data regarding firms' board characteristics and financial performances on listed Chinese firms from 2018 to 2023.

Table 1: Summary Statistics.

VARIABLES	N	mean	sd	min	max
Dependent Variables					
esg_score	18,803	6.002	0.798	3.290	9.610
E_score	18,803	1.641	1.996	0	10
S_score	18,803	4.002	1.851	0	10
G_score	18,803	6.442	0.993	0.150	10
Independent Variables					
career_diversity	18,803	5.735	1.260	2	10
Control Variables					
Total_Asset	18,803	22.34	1.349	17.95	28.64
ROA	18,332	0.0492	0.0927	-1.838	1.407
Cashflow	18,803	0.0509	0.0737	-0.744	0.839
Board_Size	18,803	2.099	0.198	1.386	2.890
Indep	18,803	37.90	5.649	14.29	80
Female	18,803	21.41	11.95	0	80
SOE	18,803	0.2966	0.4567	0	1

DOI: 10.54254/2754-1169/166/2025.21142

Table 1 provides summary statistics. The average ESG score of the sample is 6.002 with a maximum score of 9.610. In both environmental and social aspects, there are firms that score 0. This implies that firms' ESG performance vary significantly in China. The mean value of *E_score* is only 1.641 out of 10, which indicates that Chinese firms need to make greater progress in promoting sustainable development and environmental protection.

When it comes to board career diversity, the differences among firms concerning board gender diversity are relatively large with a maximum of 80% and a minimum of 0%. A lot more companies can engage in creating diverse board composition in the future.

3.2. Dependent Variable

To measure the firms' ESG performance, the study uses a global ESG score for each firm and sub-scores of environmental, social and governance dimensions assessed by Wind.

3.3. Main Variables

The independent variable of the research is board career background diversity, which is the total number of different jobs that board members used to or currently work as. Occupations are classified into the following categories: manufacturing, R & D, human resources, management, marketing, finance, accounting and law.

The control variables are divided into four dimensions. The first dimension is board attributes: board size, gender diversity and independence. Board size is represented by the natural logarithm of total number of board directors. This research chooses the above three factors since previous literatures shows their great influence on firms' ESG performance. The total number of board members is calculated by the natural logarithm of the total number of board directors. Board gender diversity is represented by the proportion of female directors in the board. The ratio of independent directors to the total number of board members evaluates board independence. Since better financial performance leads to improved ESG engagement, the second aspect is financial performance, including firms' size (the natural logarithm of firms' total asset), ROA and cash flow. In addition, the third dimension is industry and time fixed effects. Given that all the variables mentioned above vary among industries, this study control the industry variable. It helps eliminates unobserved heterogeneity across industries and ensures that the results are not biased by industry-level factors. Variations in macroeconomic conditions and policy changes are hard to measure and control. So the study absorb the variable id when running the regression. Lastly, given the context of Chinese firms, SOE is controlled in the regression by using a dummy variable.

3.4. The Model

To test my hypothesis, I consider the following model:

$$ESG\ Scorei,t = \beta_1 Careerdiversity + \beta_2 BoardSize + \beta_3 Female + \beta_4 Indep + \beta_5 ROA + \beta_6 \text{TotalAsset} + \beta_7 CashFlow + \beta_8 SOE + \alpha + \varepsilon \quad (1)$$

The above model estimates a linear regression with multiple levels of fixed effects including industry fixed effect and time fixed effect using the Ordinary Least Squares (OLS) method.

4. Results

There is a positive and significant association between board career background diversity and firms' overall ESG performance as well as environmental and social ratings. The rating criteria of Wind ESG suggests that companies with well-developed anti-discrimination and diversity management

DOI: 10.54254/2754-1169/166/2025.21142

systems, higher employee morale and measures to ensure information security and privacy protection outperform others in the social sector. Therefore, one reason behind the result could be that directors with diverse career experience can offer expertise and knowledge that other managers do not possess. Such diversity may create a boardroom synergy, inducing innovative and constructive managerial advice [13]. Moreover, board directors who have richer occupational experience can have more holistic understanding of the firm's business structure, position, and come up with considerate strategies for the company to stand out in the market. Board career diversity is also associated with better R&D activity [13], leading to business ethics development and attention on environmental preservation and firms' social responsibility. Even though there isn't a significant association between board career diversity and governance ratings, board career diversity is positively correlated with firms' ESG performance overall. Thus, the hypothesis of the research is proved correct.

Table 2: Regression Analysis on global ESG scores.

	(1)	(2)	(3)	(4)
VARIABLES	esg_score	esg_score	esg_score	esg_score
career_diversity	0.053***	0.037***	0.053***	0.032***
Indep			0.008***	0.008***
Female			0.001*	0.002***
Board_Size			0.129***	0.147***
ROA			0.822***	0.767***
Total_Asset			0.063***	0.126***
Cashflow			0.452***	0.256***
SOE			-0.102***	-0.009
Constant	5.698***	5.792***	3.659***	2.334***
Industry FE		Yes		Yes
Time FE		Yes		Yes
Observations	18,803	18,803	18,332	18,332
R-squared	0.007	0.125	0.039	0.182

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 3: Regression Analysis on environmental scores.

	(1)	(2)	(3)	(4)
VARIABLES	E_score	E_score	E_score	E_score
career_diversity	0.12***	0.094***	0.11***	0.061***
Indep			0.001	0.002
Female			-0.005***	-0.003**
Board_Size			0.124	0.249***
ROA			0.029	-0.470***
Total_Asset			0.391***	0.487***
Cashflow			1.613***	0.951***
SOE			-0.013	0.169***
Constant	0.900***	1.099***	-7.982***	-10.199***
Industry FE		Yes		Yes
Time FE		Yes		Yes
R-squared	0.007	0.082	0.089	0.183

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 4: Regression Analysis on social scores.

VARIABLES	(1) S_score	(2) S_score	(3) S_score	(4) S_score
career_diversity	0.179***	0.090***	0.174***	0.084***
Indep			0.011***	0.010***
Female			-0.008***	0.001
Board_Size			0.206**	0.221***
ROA			1.830***	1.333***
Total_Asset			0.008	0.145***
Cashflow			0.572***	-0.127
SOE			-0.414***	-0.192***
Constant	2.973***	3.488***	2.144***	-0.621**
Industry FE		Yes		Yes
Time FE		Yes		Yes
R-squared	0.015	0.174	0.037	0.186

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 5: Regression Analysis on governance scores.

VARIABLES	(1) G_score	(2) G_score	(3) G_score	(4) G_score
career_diversity	-0.010*	-0.009	0.005	0.002
Indep			0.017***	0.018***
Female			0.008***	0.007***
Board_Size			0.137***	0.180***
ROA			0.722***	0.663***
Total_Asset			0.131***	0.138***
Cashflow			0.194*	0.292***
SOE			-0.008	-0.003
Constant	6.500***	6.491***	2.354***	2.127***
Industry FE		Yes		Yes
Time FE		Yes		Yes
R-squared	0.000	0.086	0.058	0.155

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

5. Discussion

The result of the study offers valuable insights in terms of corporation management and policy making. As for corporate executives, my research motivates them to attract and retain diverse talents. In a practical sense, companies should make an effort to promote diversity programs, such as using diverse recruiting platforms and inclusive hiring practices. Additionally, diversity initiatives in firms' communication (such as websites and social media channels) can have a positive impact on firms' attractiveness as employers [14]. Consequently, the idea of diversity can be incorporated in firms' communication activities, implemented in annual reports, websites, career magazines and job fairs to highlight the attention that firms pay to diversity, contributing to prominent ESG performances.

Policy makers can also assist in establishing diversity board representation. My research offers support for diversity-based regulations and encourages guidelines that promote diverse board compositions for companies. For instance, governments can issue board diversity requirements in terms of career backgrounds. They can set quotas for different characteristics including career diversity on corporate boards. These policies ensure a minimum level of diverse board composition and facilitate progress towards more inclusive boards. Furthermore, governments can provide incentives, such as tax breaks and public recognition, to companies that demonstrate a commitment to board diversity. These policies encourage corporations to actively pursue diversity initiatives.

6. Conclusion

This study analyzes the link between board career background diversity and firms' ESG performances. It is based on a sample of listed Chinese firms between 2018 and 2023. This work amplifies the landscape of empirical knowledge on the relationship between board diversity and ESG by considering widely used board attributes, including board size, gender diversity, independence; firms' financial performance; and Chinese economic context to analyze how board career background diversity could be associated with overall and specific dimensions of ESG performance.

The empirical analysis proves a positive and significant association between board career diversity and overall corporate ESG performance along with environmental and social subsection ratings. The paper attributes this relationship to the diverse expertise together with the holistic and broad vision that a career-diversified board can bring to the corporation. It puts forward rich implications for corporate executives to enhance governance performance and suggestions to policy makers to encourage firms' diverse board composition and cultivate sustainable social atmosphere.

The paper found no significant association between board career diversity and corporate governance performance. The reasons behind this result can be analyzed in the future for more comprehensive understanding of the topic. The study fails to control individual firm effects due to collinearity with board career background diversity when running the regression. Future research can think of solutions to avoid this technical problem so as to achieve more accurate results.

References

[1] *Angelou, M. (2014). Rainbow in the Cloud, Random House.*
[2] *Park, J., Choi, W., & Jung, S. U. (2022). Exploring Trends in Environmental, Social, and Governance Themes and Their Sentimental Value Over Time. Frontiers in psychology, 13, 890435.*
[3] *Xue, Yujue. (2024). Climate change: China aims to introduce nationwide corporate ESG disclosure standards by 2030. South China Morning Post. https://www.scmp.com/business/china-business/article/3264437/climate-change-china-aims-introduce-nationwide-corporate-esg-disclosure-standards-2030.*
[4] *Ismail, A. M., & Latiff, I. H. M. (2019). Board diversity and corporate sustainability practices: Evidence on environmental, social and governance (ESG) reporting. International Journal of Financial Research, 10(3), 31-50.*
[5] *Menicucci, E., & Paolucci, G. (2022). Board diversity and ESG performance: Evidence from the Italian banking sector. Sustainability, 14(20), 13447.*
[6] *Mallin, C. A., & Michelon, G. (2011). Board reputation attributes and corporate social performance: An empirical investigation of the US best corporate citizens. Accounting and Business Research, 41(2), 119-144.*
[7] *Chebbi, K., & Ammer, M. A. (2022). Board composition and ESG disclosure in Saudi Arabia: The moderating role of corporate governance reforms. Sustainability, 14(19), 12173.*
[8] *Naveed, K., Voinea, C. L., Ali, Z., Rauf, F., & Fratostiteanu, C. (2021). Board gender diversity and corporate social performance in different industry groups: Evidence from China. Sustainability, 13(6), 3142.*
[9] *Beji, R., Yousifs, O., Loukil, N., & Omri, A. (2021). Board diversity and corporate social responsibility: Empirical evidence from France. Journal of Business Ethics, 173, 133-155.*
[10] *Masulis, R. W., Wang, C., & Xie, F. (2007). Corporate governance and acquirer returns. the Journal of Finance, 62(4), 1851-1889.*
[11] *Carter, D. A., Simkins, B. J., & Simpson, W. G. (2003). Corporate governance, board diversity, and firm value. Financial review, 38(1), 33-53.*
[12] *Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. Journal of Corporate Finance, 66, 101889.*
[13] *Sivertzen, A. M., Nilsen, E. R., & Olafsen, A. H. (2013). Employer branding: employer attractiveness and the use of social media. Journal of Product & Brand Management, 22(7), 473-483.*
[14] *Kim, D. S., & Sul, H. K. (2021). Diversity Matters: A Study on the Relationship between Board Career Diversity and Firm Performance. Sustainability, 13(17), 9674.*