Corporate Governance Practices, Ethical Compliance, and Strategic Sustainability in Asian Enterprises

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Abstract
Corporate governance has become a critical pillar of sustainability and ethical accountability in contemporary business environments, particularly within emerging Asian economies. Despite the widespread adoption of environmental, social and governance (ESG) frameworks and sustainability reporting practices, issues of ethical controversies and failures of the governance system in fostering ethical compliance still exist, and questions emerge as to whether the governance practices are effective in encouraging ethical compliance. This paper examines the connection between corporate governance practices and ethical compliance in Asian companies and governance-related risk-based and controversy-based indicators. A cross-sectional quantitative study design is adopted based on firm-level ESG risk data on large listed companies in Asia. Governance risk scores are used to indicate the corporate governance practices, and the controversy scores and ESG risk classes are used to determine the ethical compliance. The analysis uses descriptive statistics, correlation analysis and regression to analyze relationship between governance risk and ethical compliance risk and the overall exposure to ESG risk. The results reported show that governance risk is positively correlated to the ethical compliance risk, and thus it could be argued that firms that have weak governance structures are more prone to ethical scandals. These results demonstrate that sustainability disclosures and formal ESG commitments alone are insufficient to ensure ethical behavior when governance oversight is inadequate. The findings offer practical insights for corporate leaders and policymakers seeking to strengthen governance frameworks and enhance ethical resilience, supporting more effective and credible pathways toward long-term corporate sustainability.

Keywords: Corporate governance; Ethical compliance; ESG risk; Sustainability; Asian enterprises

Introduction

Sustainability is an element of the contemporary corporate administration and management decision making since the requirements regarding the successful functioning of the company and its economic viability are growing in the long run. Sustainability in the business environment extends beyond the question of the environment to encompass ethical behavior, social responsibility and good governance systems that determine the behavior of the organization (Sharma, 2022). The frameworks of sustainability reporting and other regulations have intensified the existence of ethical accountability and governance control in the corporate systems since sustainability is a multidimensional and governance-enabling notion.

Corporate governance plays an important role in defining the manner in which sustainability promises will be executed. Good systems of governance lead to transparency, accountability and ethical management and therefore reduces the possibilities of opportunism and malpractices of management. The quality of governance acquires some relevance in the achievement of the ethical compliance outcome in the diversified institutional contexts of the Asian economies in which regulation is not applied evenly (Dinh and Calabrò, 2019). Asian companies are prone to operate within very dynamic market where formal sustainability interactions co-exist alongside multifaceted long term governance problems which means that the problem of governance risk is a

critical factor that influences ethical behavior.

The growing application of the environmental, social and governance (ESG) conceptualizations are a pointer to an effort to bring systematic scrutiny of the non-financial risks of sustainability and ethical performance. The empirical research points out that ESG-focused practices are increasingly directly related to long-term business outcomes, but the strengths of the mentioned associations are less pronounced under different circumstances and time periods (Whelan et al., 2021). ESG risk indicators particularly governance risk and controversy give valuable data on how firms are susceptible to ethical and compliance related problems and cannot be adequately measured by financial measures.

Despite ESGs and sustainability reporting disclosure, ethical scandals in industries remain high. It is demonstrated that even comparatively robust ESG firms may be characterized by extreme instances of ethical malpractice, which is a sign of the potential inefficiencies in disclosure and effective governance (Dorfleitner et al., 2020). Such scandals can compromise the confidence of the stakeholders, damage the reputation of the corporation and reveal the overall risk factors to higher level, that is why it is necessary to address the problem of governance-related risks in more detail.

Previous studies have revealed that any ethical controversy is associated with negative corporate performance and thus happens when governance mechanisms do not work well to prevent or manage such an incident. ESG controversies have been established to affect performance of firms negatively, and governance practices are capable of mitigating the adverse effects (Nirino et al., 2021). Additional up-to-date data supports the fact that the role of the administration devices in mitigating the impact of the ESG scandals on the corporate performance is crucial, which reinforces the premise that governance is the center of the ethical conformance (Elamer and Boulhaga, 2024).

The Asian and the Indian environment have also started to practice ESG practices as firms are starting to deal with the needs of investors and regulatory reforms. Judging by the empirical evidence, one can notice that the increase of ESG performance can be helpful in the financial performance in the emerging markets, which entails the idea that the sustainability-related governance can be strategically applicable beyond compliance (Rao et al., 2023). However, the differences between the governing risk and ethical practices across companies can be observed, which evidences that the performance of the governance practices is highly differentiated, even in large and established firms.

The fact that institutional and sectoral attributes affect the correlation between the governance and ethical compliance and the ESG risk is also supported by cross-industry and cross-country data. Studies indicate the concept that governance system directs the experiences and responses of the firms on ESG-related risks and scandals, particularly in the context where the ethical malpractices are addressed through regulatory or market measures (Juca et al., 2024; Treepongkaruna et al., 2024). These lessons suggest that it is important to analyse governance-ethics nexuses in specific geographical locations i.e. Asia region where governance reforms and sustainability programs are still underway.

Although the topic of corporate governance risk and ethical compliance risk relationship has been extensively studied in the literature on ESG performance, sustainability disclosure, and financial results, there is insufficient empirical research done on the subject in the Asian firms. Most of the above-mentioned literature is devoted to disclosure-related measures, or the performance-related measures, yet very little is devoted to the measures of governance risks, and the measures of controversies, which are direct proxies of ethical compliance (Alsayegh et al., 2020; Minev et al., 2025). It is important to fill this gap to increase the understanding of the role of quality of governance in ethical behaviors and a broader range of ESG risk exposures in new markets in Asia. The goals of the research are:

- To assess the level and distribution of corporate governance risk, ethical compliance risk, and overall ESG risk among Asian enterprises
- To examine the association between corporate governance risk and ethical compliance risk using governance and controversy-based indicators
- To analyze how governance risk and ethical compliance risk relate to firms' overall ESG risk exposure

2. Methodology

2.1 Research Design

In this research, the quantitative, cross sectional research design was adopted because the research seeks to explore the relationship between corporate governance practices and ethical compliance in the Asian corporate entities. The cross-sectional methodology allows for analyzing the level of quality of firm-level governance and exposure to the ethical risks at a specific time by using the standardized ESG risks indicators.

2.2 Data Source and Sample

This research was founded on data of ESG risk rating of firms listed on the NIFTY 50 index, which was a group of the most successful publicly traded firms in India, taking into account multi-diversity of industries, such as financial services, energy, healthcare, manufacturing, technology, and consumer goods, among others. The data gives firm-specific indicators of governance risk, ethical scandals, and total ESG risk exposure (Dugar, 2024). The last sample consisted of 50 big Indian listed companies, where the complete data regarding the governance and adherence to ethical standards are available. The reason behind choosing these enterprises is because of the economic importance of

the industry and the impact it has on the corporate governance norms of the Asian business environment.

2.3 Variable Measurement

Corporate governance practices were measured using a governance risk score which shows the susceptibility of a firm to risks that are related to the governance practices such as board performance, disclosure, shareholders and internal controls. A low score in governance risk depicts improved corporate governance. The ethics compliance was measured by the extent of controversy in terms of indication of the seriousness of ethical or regulatory incidences and the score of controversy which denotes the frequency and severity of ethical or regulatory incidences. An escalation of these measures would be an indication of a high ethical compliance risk. The analysis has the control variables that include environmental risk, social risk, and the industry classification to incorporate the variations of the firms. The size of the firms is another factor under the scope of which in areas where the data is there the number of full-time employees is employed as an approximation.

2.4 Data Analysis Techniques

The systematic, multi-stage manner of conducting the empirical analysis has been done. To summarize the main features of the sample, such as the level of governance risks, signs of ethical compliance, distribution of ESG risks, and the sectoral representation were used as the first stage descriptive statistical analysis. The step gives the summary of the governance and ethical risk trends of the Asian businesses that are part of the research.

Second, the bivariate relationships between the corporate governance risk measurement and ethical compliance measurements were analyzed by correlation. Correlation coefficients will give initial indicators on whether there are positive or negative relationships between governance practices and ethical risk exposure and the magnitude.

Third, regression analysis was used to determine the relationship between corporate governance practices and ethical compliance when adjusting on the environmental risk, social risk, effects on the industry, and the size of firms. Regression analysis enables the calculation of the independent effect of governance risk on the result of ethical compliance and the separation of the effect of governance among other effects of the firm. The level of statistical significance was used as standard levels and the results were interpreted according to the existing knowledge of governance and business ethics.

3. Results

3.1 Descriptive Results

The descriptive statistics of the key variables that were used in the analysis are presented in Table 1. Because of the unavailability of ESG data to a certain number of firms, the effective sample size of variables related to governance and controversies is 38 businesses. The findings show that the governance risk among Asian businesses is moderately varied, showing that there is a difference in the quality of governance between companies. The average score of ethical compliance risk in relation to the scores on ethical controversy is not very high; nevertheless, the high scale of values indicates that a specific group of companies have significant ethical or compliance-related issues. The broad range of scores on the total ESG risk also displays the dispersion of sustainability risk profile across the sample.

Table 1: Descriptive Statistics of Key Variables

Variable	N	Mean	Std. Dev.	Min	Median	Max
Governance Risk Score	38	8.57	2.99	5.20	7.25	15.80
Controversy Score	38	2.26	0.86	1.00	2.00	5.00
Total ESG Risk Score	38	26.37	10.39	11.40	26.80	52.20

3.2 Association between Corporate Governance and Ethical Compliance

Table 2 summarises the bivariate relationships between the governance risk and ethical compliance risk and total ESG risk. Based on the results of the correlation analysis, a positive relationship between the governance risk and the ethical compliance risk can be observed, indicating that the more a company is affected by the risk associated with its governance, the more likely it is to be involved in an ethical scandal. There is also a moderate positive correlation between governance risk and total ESG risk which highlights the significance of the practice of governance in the development of the overall sustainability risk exposure. Also, the ethical compliance risk has a positive correlation with total ESG risk, which means that ethical concerns play a significant role in overall outcomes of ESG risks.

Table 2: Pearson Correlation Matrix

Variable	Governance Risk Score	Controversy Score	Total ESG Risk Score
Governance Risk Score	1.000	0.232	0.450
Controversy Score	0.232	1.000	0.393
Total ESG Risk Score	0.450	0.393	1.000

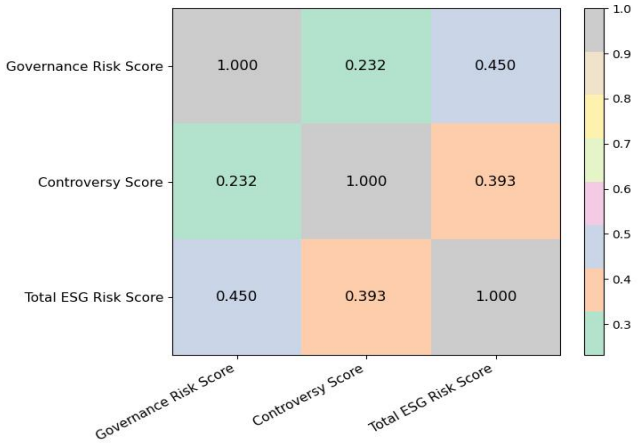

Figure 1: Correlation Heatmap of Governance Risk, Ethical Compliance Risk, and ESG Risk

The correlation structure that summarizes the relationship between the governance risk, ethical compliance risk and total ESG risk is represented in a heatmap in Figure 1. The graphical display shows that the governance risk has positive correlations with ethical compliance risk and overall ESG risk. There is also positive correlation between ethical compliance risk and total ESG risk which illustrates the interrelationship between ethics, governance and sustainability risk.

3.3 Regression Results

A regression model is run to analyze the correlation between the practices of corporate governance and the ethical compliance further by using the score of controversies as a dependent variable and the score of governance risk as an independent variable. Table 3 provides the regression estimates. The regression findings suggest that there is a positive correlation between the governance risk and the ethical compliance risk. The coefficient obtained indicates that the greater the governance risk, the greater the exposure to ethical controversy. The effect is relatively small, and due to the cross-sectional nature of the study and small sample size, the findings can only be viewed as pointing to the association, but not causality.

Table 3. Regression Results

Variable	Coefficient
Governance Risk Score	0.067
Constant	1.690
Observations	38

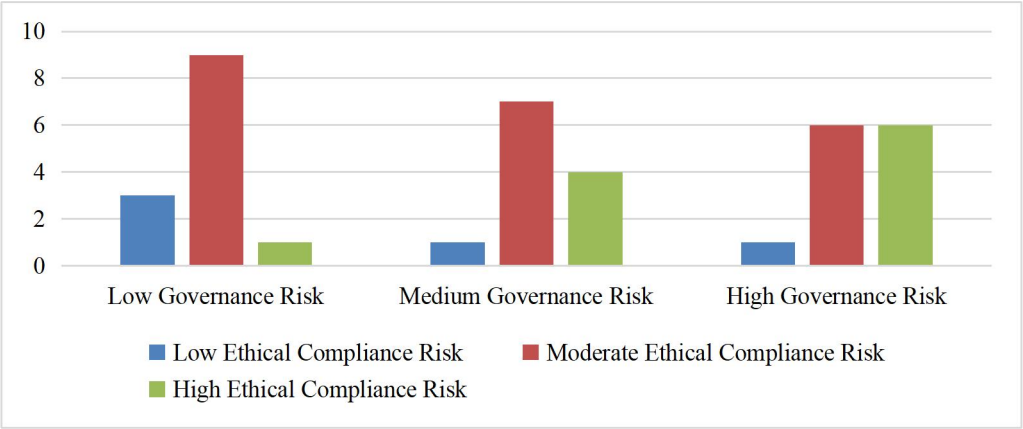

Figure 2: Relationship between Governance Risk and Ethical Compliance Risk in Asian Enterprises

Figure 2 presents the correlation between the governance risk and the ethical compliance risk among Asian enterprises. It has been distributed such that companies that have greater governance risk scores have more exposure to ethical compliance risk as indicated by the higher scores in controversy. Although there is variability among the firms, the trend is in line with the positive relationship that is presented in the statistical analysis.

3.4 ESG Risk Profile of Sample Firms

The distribution of firms in ESG risks categories and all the 50 enterprises in the dataset is presented in Table 4. The distribution indicates that the majority of the firms will be in low and medium ESG risk, with the smaller share having either high or severe exposure to ESG risk. The existence of firms that lack

ESG risk classifications is indicative of limitations in the data and not the performance of a firm and demonstrates the necessity of careful interpretation of aggregate ESG risk trends.

Table 4. Distribution of Firms by ESG Risk Level

ESG Risk Level	Number of Firms	Percentage (%)
Low	12	24.0
Medium	13	26.0
High	9	18.0
Severe	4	8.0
Data Not Available	12	24.0

Discussion

The phenomenon of corporate governance has become prominent enough, as a crucial system of ethical performance and corporate behaviour that is sustainable enough. The role of governance in the Asian business is also accorded a higher weight due to the presence of heterogeneous institutional environment, evolving regulatory environment, and varying enforcement. The empirical tendencies used in this paper indicate that the quality of governance is highly linked to the result of ethical compliance in companies and the overall exposure to ESG risks, which brings to the fore the element of governance as a pre-condition of responsible and sustainable business practice in the Asian environment.

The correlation between the enhanced governance risk and enhanced ethical compliance risk outlined is a pointer that governance failures may lead to companies becoming susceptible to ethical scandals and collapses in compliance. Weak governance in the boards, absence of transparency or proper internal control system can lead to the withering of an organization on the basis of its ability to avert or respond effectively to unethical actions. This definition is in line with the findings that have emphasized that the determinant of firm response towards social responsibility and ethical issues is the effectiveness of governance rather than the ownership structure. The studies of corporate social responsibility in the framework of family firms have demonstrated that governance systems do have a significant impact on the extent under which the ethical and social requirements are incorporated into the field of practice of an organization and decision making (Stock et al., 2024). Although the specified nature of ownership is not a clear aspect of the study under this paper, the results suggest a broader applicability of the quality of governance to the process of diminishing the ethical risk in different types of organizations.

The fact that the risk of the governance is linked to the general ESG risk also highlights the integrative aspect of the notion of governance in the context of sustainability. Governance weaknesses appear to be spillover effects of the manner in which firms could efficiently handle the environmental and social risks, and by implication, the concept of governance could be perceived as an enabling or discouraging factor in the achievement of sustainability. It has been shown that governance practice influences the quality and credibility of sustainability reporting, and this is particularly true when it is a high commitment company to the sustainability goals, as part of the ASEAN countries (Chairina and Tjahjadi, 2023). With this in consideration, this paper will hypothesize that the risk performance used to reflect the governance risk is not only correlated with the governance risk exposure underlying the sustainability but also as such, the quality of governance affects not only the symbolic but also the substantive aspect of sustainability.

The threat of ethical compliance difference amid the firms also indicates that it might not be as guaranteeing as the official undertakings by sustainability commitments. The majority of companies are ready to support the principles of sustainability and corporate social responsibility publicly, but the ethical behavior is not always supported by the statements. The preceding research points out that the CSR disclosure can be quite symbolic in nature as opposed to the action of genuine ethical behavior especially where there exist no strong controlling authorities. The systematic examination of the factors that determine disclosure of the CSR shows that there are governance-related areas as the key ones in distinguishing between the symbolic compliance and the actual engagement of the ethical activity (Seow, 2024). The existing findings support this argument since they indicate that ethical scandals tend to affect companies with a higher governance risk, which implies that disclosure is not sufficient to ensure ethical compliance.

The findings can be used particularly on a regional scale in light of the ongoing governance reforms across the entire of Asia. The quality and the capacity to enforce regulations are also varied and affect the corporate governance practices in the Asian economies which are very diversified in terms of their institutional setting. The institutional characteristics, the enforcement of the regulations and the market influences influence the manner in which the companies adopt and pass the governance and sustainability projects. According to the experience of Asian and emerging economies, the effectiveness of governance is commonly spread throughout the firms even in similar regulatory frameworks (Asia, 2022). The results of this study indicate that the governance risk is now a primary indicator of the results of ethical compliance of the leading Asian companies and consequently the

necessity to increase governance mechanisms beyond the regulatory compliance.

The role of governance and its impact on corporate accountability can also be mentioned by the research realized on the subject of board structure and ownership alignment of Asian corporations. A research paper carried out in Indonesia demonstrates that the board alignment and monitoring procedures affect the corporate behaviour and lead to accountability (Setiawati et al., 2022). Although the current study does not put into consideration specifically the ownership structure or board composition, the identified correlations suggest that the success of a governance is at the heart of minimizing the risks related to ethics and sustainability issues regardless of the nature of ownership.

These findings have a number of implications on different stakeholders. The results up until the corporate leaders are involved portray the need to invest in sound governance structures that would guarantee ethical accountability and effective risk management. The findings suggest to the regulators and the policymakers the importance of governance-based reforms to enhance enforcement, transparency, and board performance.

Conclusion

The issue of corporate governance has been found to be a hall mark of how far the enterprises can manage the ethical matters and risks related to sustainability. The evidence that could be given indicates that the quality of governance is not a mere formulation of the phenomenon but an active process that would influence the setting of ethical behaviour and ESG risk exposure among the Asian businesses. The biggest aspect that arises in such an analysis is that sustainability reporting and ESG commitments do not attain ethical outcomes. The lack of transparency, accountability, or effective monitoring in the governance system may facilitate the appearance of hypocritical gaps that may trigger the growth of reputational and compliance-related risks. This implies that there is need to reinforce the governance mechanisms so that the sustainability initiatives could be translated to responsible corporate behavior. The findings also have an extended implication on the regulatory and policy frameworks in Asia. With the expansion of the ESG disclosure needs and the sustainability reporting standards, there is greater need on the governance efficacy, rather than the disclosure compliance-based. Board accountability, enforcement, and quality of governance are bound to give birth to ethical resilience as compared to reporting requirements, which are regulatory techniques that focus more on board accountability. The results through highlighting the interplay of the governance risk, the ethical compliance, and the ESG risk, stipulates the use of governance as a long-term source of corporate sustainability and trust.

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