

# ESG and Firm Performance: A Literature Review

Yating Shen

School of Economics & Management, Nanjing University of Science and Technology, Nanjing,  
China

\*Corresponding author: syt331hh@163.com

**Abstract.** With the slowdown of global economy and the transformation of China economy, the application of ESG is becoming more and more important for the future development of enterprises all around the world. How enterprises influence short-term and long-term performance through ESG has become the focus of academic attention. ESG refers to Environmental, Social, and Governance. It is an investment concept and enterprise evaluation standard that focuses on corporate environmental, social and corporate governance performance. This paper summarizes the relationship between ESG and enterprise performance. Secondly, it analyzes the studies on ESG disclosure and its quality and performance. Finally, it summarizes some literatures related to ESG performance and enterprise comprehensive performance and makes comments.

**Keywords:** ESG; ESG information disclosure; firm performance.

## 1. Introduction

With the slowdown of global economy and the transformation of China economy, the ability of innovation and sustainable development is becoming more and more important for the future development of enterprises all around the world. Climate and energy issues have become the focus of common concern of all countries in the world. From the Paris Agreement to the "double carbon" and "low carbon" goals proposed by China, environmental issues have gradually become an important development issue. In addition, the fulfillment of corporate social responsibility has also become an increasing concern of corporate stakeholders and institutional investors. In general, the new development situation requires enterprises to pay more attention to their innovation ability, sustainable development ability, environmental protection and other social responsibilities.

In general, the energy conservation, emission reduction and sustainable development of enterprises are increasingly valued by the international community. Enterprise performance can reflect its development ability to some extent. At present, there have been many studies on the relationship between corporate performance and ESG disclosure. Understanding these studies can clarify how ESG plays a role in corporate performance and help enterprises use ESG to improve short-term and long-term performance.

## 2. Concepts and Applications of ESG and Firm Performance

### 2.1 The Concept and Application of ESG

#### 2.1.1 The concept of ESG

ESG refers to Environmental, Social, and Governance. It is an investment concept and enterprise evaluation standard that focuses on corporate environmental, social and corporate governance performance rather than traditional financial performance. The ESG framework aims to assess the sustainability of enterprises [1]. In recent years, ESG performance has gradually become the focus of attention of governments, regulators and investors. The international ESG concept and evaluation system mainly includes three aspects: the regulations of international organizations and exchanges on ESG disclosure and reporting, the rating of corporate ESG issued by rating agencies, and the ESG investment guidance issued by investment institutions.

### **2.1.2 The application of ESG**

ESG is a value concept, investment strategy and evaluation tool that focuses on environmental, social and corporate governance performance rather than only financial performance, and is an important indicator used to evaluate the financial value of sustainable development of enterprises [2]. ESG has been widely used in information disclosure, rating, investment and other fields of listed companies, and is gradually regarded as a basic component of sustainable performance.

Corporate ESG information disclosure has gradually developed from a spontaneous movement to government promotion, and has gradually been recognized by investors. Many international organizations have issued ESG information disclosure standards or guidelines, and some countries and regions have issued ESG information disclosure systems. At present, relatively complete ESG performance evaluation and information disclosure systems have been formed in the world. Although the concept of sustainable development has been developing in China for many years, its ESG disclosure and rating started relatively late.

ESG are also widely used in corporate ratings, but there is significant disagreement among rating agencies about the ratings given to individual companies [3]. New energy investment is also the key word in the current market. The implementation of new energy strategy and the implementation of ESG investment theory are both important means to promote the realization of "Double Carbon" goal.

## **2.2 The Concept and Application of Firm Performance**

Firm performance evaluation refers to the objective, fair and accurate comprehensive evaluation of the operating benefits and operator performance of an enterprise during a certain period of operation by using mathematical statistics and operational research principles, a specific index system, a unified standard and a quantitative and qualitative comparative analysis in accordance with certain procedures.

At present, BSC is still one of the widely used performance evaluation methods. It is a performance evaluation system and strategic management system based on financial information, which comprehensively weighs short-term and long-term, financial and non-financial, cause and result, internal and external, and combines enterprise strategic objectives with enterprise performance drivers. It mainly includes four evaluation dimensions: learning and growth, internal process, customer and finance.

## **3. The Relationship between ESG and Firm Performance**

### **3.1 E and Firm Performance**

In recent years, there have been frequent cases of environmental violations by listed companies, which has attracted public attention. Empirical studies have shown that corporate cost profit margin and public attention can positively regulate the relationship between corporate environmental information disclosure and corporate performance, and help listed companies improve corporate performance after disclosing environmental information [4]. The investment of enterprises in environmental management and other aspects not only does not increase the total cost of enterprises, but also improves the operation efficiency of enterprises and reduces the investment risk of investors, thus improving the performance of enterprises [5].

As major consumers of natural resources and sources of pollutant discharge, heavy polluting industries bear the main responsibility for pollution control and environmental protection, and actively disclose environmental information. Heavy polluting enterprises can make reasonable use of ESG information disclosure to help them reduce the cost of environmental pollution, improve the operation efficiency of the company, reduce risks and improve corporate performance by using public concern and supervision [6].

### 3.2 S and Firm Performance

Theoretically, there is a positive correlation between social responsibility and corporate performance [7]. Reasonable CSR indicators and disclosure make it more likely that a company will have a better reputation and performance [8]. At the same time, empirical studies have found that there is a positive correlation between corporate social responsibility and corporate value on the whole, and the degree of influence depends on each stage of the enterprise life cycle [9]. Empirical research based on social exchange theory and stakeholder theory finds that CSR can significantly improve corporate performance, technological innovation plays a partial mediating role, and market competition positively moderates the mediating effect of CSR on corporate performance through technological innovation [10].

At the same time, the social responsibilities that enterprises fulfill to shareholders, creditors, consumers and the government have a significant positive impact on the competitiveness of enterprises in the current period. Enterprises should actively fulfill their social responsibilities and reasonably allocate resources among stakeholders according to their own industry characteristics, so as to achieve the coordinated development of enterprises and society [11]. Corporate social responsibility can also promote the speed of capital structure adjustment, improve corporate performance and have a net positive impact on corporate performance [12].

### 3.3 G and Firm Performance

At present, many scholars have explored the relationship between corporate governance and corporate performance and its influencing mechanism through empirical research. According to the analyst investment survey report of ESG rating agency, corporate governance has a positive impact on the long-term value increase of enterprises [13]. Empirical studies hold that the improvement of corporate governance is conducive to the improvement of corporate performance, and the intermediary variable is corporate innovation [14]. There is a positive correlation between ownership concentration and corporate performance in private enterprises, and capital structure plays a partial mediating effect between ownership concentration and corporate performance [15]. Too low ownership concentration will lead to a supervision vacuum between owners and managers. In addition, when ownership is relatively dispersed, all parties take their own interests as the starting point, there is a multi-party game, and major decisions cannot be made in time. The higher the performance effectiveness of independent directors, the more beneficial it is to improve the performance of listed companies [16]. The improvement of market competitiveness and the improvement of market laws and regulations can promote the improvement of corporate performance, while the excessive concentration of corporate equity will reduce the business performance of the enterprise, and the reduction of the shareholding ratio of the enterprise management has little effect on the incentive of the enterprise management. The board of directors can effectively resolve the conflict of interest between the management and shareholders and thus improve the enterprise performance [17].

In general, corporate governance can play a positive role in corporate performance by improving enterprise investment efficiency, promoting enterprise innovation, adjusting capital structure, and optimizing ownership concentration.

### 3.4 ESG Information Disclosure and Firm Performance

ESG disclosure enhances transparency, reduces information asymmetry and improves investment efficiency [18]. Especially for companies that provide products rather than services, their ESG disclosure reflects their social innovation. Therefore, ESG disclosure of such companies has a more significant impact on performance [19]. At the same time, the positive impact of ESG disclosure on corporate performance indicators lies in ROA and ROE. The higher the level of disclosure, the higher the ROA and ROE [20].

ESG information disclosure can have a positive impact on the net interest rate of assets and equity of enterprises. Effective ESG disclosure and high ESG score can help improve the operation efficiency and enhance the technological innovation ability of enterprises. Secondly, ESG

information disclosure can improve transparency, reduce information asymmetry, strengthen the supervision role of media and professionals, improve investor confidence and social recognition, and reduce the cost of capital.

Some scholars examined the quality of disclosure when studying the impact of ESG disclosure on corporate performance. Some studies believe that ESG report has different threshold influences on different indicators of corporate performance, and the company's business performance will be positively affected only when the report quality crosses a certain threshold [21]. High-quality ESGs can better promote green innovation, improve enterprise performance and enterprise value [22]. However, at present, ESG information disclosure in our country lacks a unified framework, is difficult to obtain the data and is low reliability [23]. Moreover, the phenomenon of "greenwashing" has spread to ESG reports or sustainable development reports, where enterprises and financial institutions exaggerate their efforts and achievements in environmental protection issues and make exaggerated promises and disclosures on environmental protection and resource utilization in ESG reports or sustainable development reports [24].

This suggests that if the performance evaluation of enterprises is based on ESG disclosure reports, higher requirements are put forward for the quality level of ESG information disclosure. It is necessary to establish a unified and perfect ESG information disclosure system, build an ESG information comprehensive management platform, strengthen social supervision, and carry out independent verification of ESG reports.

### 3.5 ESG Performance and Firm Performance

It is a hot issue how the ESG performance of enterprises influence the performance of enterprises. ESG plays a significant moderating role in increasing the influence of ERM on company value, and ESG performance has a significant positive impact on enterprise performance in ESG-sensitive industries [25]. Companies with high ESG scores tend to show better performance, while companies with high media attention tend to show better performance. Media attention plays a moderating role in the influence of ESG on corporate performance [26]. A company's efforts to achieve ESG performance can convey its efforts in complying with norms related to sustainable development and help it gain and maintain social recognition. ESG performance and disclosure can help a company build reputation capital with investors after listing [27].

Generally speaking, ESG performance has a positive effect on firm performance, and has no direct effect on enterprise financial performance. Especially, the effect is more pronounced in ESG-sensitive industries like companies that provide actual products than for those that provide services.

## 4. Summary

ESG has been widely used in information disclosure, rating, investment and other fields of listed companies, and is gradually regarded as a basic component of sustainable performance. Although the content and application of ESG framework in China mainly draw lessons from the international market and started relatively late compared with foreign countries, ESG information disclosure mainly implements voluntary disclosure system without unified disclosure standards. Continuous learning and exploration in ESG information disclosure standards also promote them to gradually integrate with the international market. ESG disclosures will enable investors to play a leading role in guiding companies to improve transparency and the quality of their disclosures, thereby improving reporting standards. This will ultimately improve the short-term performance and sustainability of the business. The positive market response brought about by ESG disclosure can motivate companies to continuously improve their ESG performance and further improve their comprehensive performance. ESG information disclosure can be regarded as a kind of value investment, which can help enterprises avoid only focusing on short-term goals such as costs and benefits. The sustainable development concept that takes into account economic, social and environmental impacts will be

more profoundly reflected in the value creation of enterprises, and help enterprises improve short-term and long-term performance.

## References

- [1] Linnenluecke M K. Environmental, social and governance (ESG) performance in the context of multinational business research. *Multinational Business Review*, 2022, 30(1): 1-16.
- [2] Wang Kai, Zhang Zhiwei. Status, comparison and outlook of ESG rating at home and abroad. *Finance and Accounting Monthly*, 2022(02):137-143.
- [3] Christensen D M, Serafeim G, Sikochi A. Why is corporate virtue in the eye of the beholder? The case of ESG ratings. *Accounting Review*, 2022, 97(1):147-175.
- [4] Tao Ketao, Guo Xinyu, Sun Na. Research on the relationship between corporate environmental information disclosure and corporate performance from the perspective of green governance——evidence from 67 heavily polluted listed companies in China. *China Soft Science*, 2020(02): 108-119.
- [5] Li Jinglin, Yang Zhen, Chen Jin, Cui Wenqing. Study on the mechanism of ESG promoting corporate performance: based on the perspective of corporate innovation. *Science of Science and Management of S & T*, 2021, 42(09): 71-89.
- [6] Andrew P, Curtis R. Integrating sustainability into capital markets: bloomberg LP and ESG's quantitative legitimacy. *Journal of Applied Corporate Finance*, 2013, 25(3): 62-67.
- [7] Wu Bin, Song Baoli. Direct correlation: social responsibility and enterprise income. *Journal of Graduate University Chinese Academy of Social Sciences*, 2005(04): 24-28.
- [8] Lee D. Corporate Social Responsibility and Management Forecast Accuracy. *Bus Ethics*, 2017, 140(3): 353-367.
- [9] Hendratama T D, Huang Y. Corporate social responsibility, firm value and life cycle: evidence from Southeast Asian countries. *Journal of Applied Accounting Research*, 2021, 22(4): 577-597.
- [10] Zhang Xue, Wei Hong. Corporate social responsibility, technological innovation and business performance. *Statistics & Decision*, 2021, 37(05): 157-161.
- [11] Xu Tianshu. Managerial competence and enterprise innovation: empirical study of listed companies. *Statistics & Decision*, 2020, 36(09): 164-168.
- [12] Aboud A, Diab A. The impact of social, environmental and corporate governance disclosures on firm value. *Journal of Accounting in Emerging Economies*, 2018, 8(4): 442-458
- [13] Van Duuren E, Plantinga A, Scholtens B. ESG integration and the investment management process: fundamental investing reinvented. 2016, 138(6): 525-533.
- [14] Wu Jingtai, Liu Qiuming. Research on the relationship between corporate governance and corporate performance from the perspective of investment efficiency. *Friends of Accounting*, 2019(01): 84-89.
- [15] Zhang Fengna, Liu Jinbo. Ownership concentration and corporate performance of private listed companies: the mediating effect of capital structure. *Financial Theory and Teaching*, 2022(02): 79-85.
- [16] Xuan Jie, Wang Yelin. Research on the influence of corporate governance structure on the quality of internal control information disclosure. *Journal of Finance and Accounting*, 2014(27): 64-66.
- [17] Yang Peiyue, Tang Lijun. The relationship between corporate governance and corporate performance: a case study of consumer listed companies. *Business Economics Research*, 2020(07): 119-122.
- [18] Ellili N O D. Impact of ESG disclosure and financial reporting quality on investment efficiency. *Corporate Governance: The International Journal of Business in Society*, 2022, 22(5): 1094-1111.
- [19] Aksoy L, Buoye A J, Fors M, et al. Environmental, Social and Governance (ESG) metrics do not serve services customers: a missing link between sustainability metrics and customer perceptions of social innovation. *Journal of Service Management*, 2022, 33(4/5): 565-577.
- [20] Alareeni B A, Hamdan A. ESG impact on performance of US S&P 500-listed firms. *Corporate Governance: The International Journal of Business in Society*, 2020, 20(7): 1409-1428.
- [21] Bansal M, Samad T A, Bashir H A. The sustainability reporting-firm performance nexus: evidence from a threshold model. *Journal of Global Responsibility*, 2021, 12(4): 491-512.

- [22] Chouaibi S, Chouaibi J, Rossi M. ESG and corporate financial performance: the mediating role of green innovation: UK common law versus Germany civil law. *EuroMed Journal of Business*, 2022, 17(1): 46-71.
- [23] Shen Hongtao. Research on carbon information disclosure under the "Double Carbon" target. *Friends of Accounting*, 2022(09): 2-9.
- [24] Huang Shizhong. Greenwashing and anti-greenwashing in ESG report. *Finance and Accounting Monthly*, 2022, (01): 3-11.
- [25] Chairani C, Siregar S V. The effect of enterprise risk management on financial performance and firm value: the role of environmental, social and governance performance. *Meditari Accountancy Research*, 2021, 29(3): 647-670.
- [26] Yuan Yehu, Xiong Xiaohan. Research on the relationship between ESG performance and corporate performance of listed companies: the moderating effect of media attention. *Jiangxi Social Sciences*, 2021, 41(10): 68-77.
- [27] Reber B, Gold A, Gold S. ESG disclosure and idiosyncratic risk in initial public offerings. *Journal of Business Ethics*, 2022, 179(3): 867-886.