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An Overview of Factors Influencing Corporate ESG Performance

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Abstract: With the advancement of the global sustainability agenda, the environmental, social and governance (ESG) performance of corporations has become a focus of attention for both academics and businesses. However, existing studies have focused on the exploration of single factors affecting ESG performance, with relatively few comprehensive analyses. The purpose of this paper is to complement and expand existing research by systematically sorting out and analysing multiple factors affecting corporate ESG performance. This paper systematically collates the external and internal factors of corporate ESG performance. By comprehensively analysing the existing studies, it reveals the specific role mechanisms and influence paths of these factors on corporate ESG performance. The findings show that external factors such as policy and regulation, the digital economy, and investor attention, as well as internal factors such as heterogeneous majority shareholder governance, executive characteristics, and green bond issuance, significantly affect corporate ESG performance. These factors work together to drive better corporate ESG performance.

Keywords: Corporate ESG Performance, Investment, Enterprise Value, Digital Economy.

1. Introduction

The ESG concept is a framework for assessing the sustainability and social impacts of firms across the three dimensions of environmental, social and corporate governance. Currently, ESG performance has become one of the hot issues in academic research. The elements that specifically impact corporate ESG performance have been extensively studied in literature, however most of the research that have been done thus have only looked at one aspect or perspective. Taking the executive team as an example, previous research has examined the influence of the executive team on company ESG performance from the viewpoints of the executive team's stability, academic background, and political background[1][2][3]. The content of these studies is highly relevant but also, therefore, lacks comprehensive analyses to a certain extent. However, with the constant changes in the external environment and internal governance structure, a comprehensive understanding of the impact of other factors on corporate ESG performance is still an urgent topic for discussion. This study systematically collects, collates and analyses the literature on influencing corporate ESG performance in the past five years to sort out the main factors affecting corporate ESG performance. Specifically, the study sifts through academic papers, research reports and relevant case studies, classifies and compares the mechanisms of different factors on corporate ESG performance, and finally selects a few representative and forward-looking views as the content of the article, which analyses the inherent

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logical relationship between these factors and their overall impact on corporate sustainable development. It is of great theoretical and practical significance to study the influencing factors of corporate ESG performance. The ESG concept is the development concept of most of the current enterprises, and the research results of this paper will enrich the existing ESG theoretical system and promote the further development of academic research in this field.

2. Corporate ESG Performance

ESG evaluates companies in three dimensions: environmental, social and corporate governance, not just economic performance as the sole criterion.

In terms of environmental aspects (E), a company's ESG performance is mainly reflected in its reduction of carbon emissions, energy efficiency, pollution reduction and sustainable resource utilisation. This includes the consumption of energy resources, the disposal of industrial waste, and other aspects of a company's operations that impact the environment. Environmental performance may increase or decrease absolute profits, but overall better environmental behaviour usually increases profits and profitability, and the better the compliance, the greater the profitability[4].

With regard to CSR (S), enterprises should balance the relationship between the enterprise itself and internal and external stakeholders. Enterprises should not only seek to maximise the interests of shareholders, but should also allocate part of their benefits to internal and external stakeholders such as employees, suppliers, consumers, creditors, society and the environment. This approach builds trust, reduces agency and transaction costs, improves operational efficiency, and promotes the enterprise's focus on long-term value enhancement. The sustainable development of an enterprise relies on continuously absorbing and integrating resources from internal and external environments in order to gain an advantage over the competition[5].

Corporate governance (G) focusses primarily on the governance of the firm. Corporate governance focuses on decision-making mechanisms and checks and balances, and how these mechanisms affect the sustainability of the firm[6]. This mainly includes corporate staff structure, composition, protection of shareholders' rights and interests, risk management, and information disclosure. Effective corporate governance helps to improve the operations of the firm, which in turn enhances the overall performance of the firm.

The ESG performance of a firm is not formed independently, but is subject to the combined effect of a variety of external and internal factors. Therefore, this paper will analyse both internal and external factors to explore the impact and internal mechanisms of different factors on corporate ESG performance. This will not only help to better understand corporate ESG performance, but also provide a theoretical basis for subsequent practice and research.

3. External Influences on Corporate ESG Performance

3.1. Policy and Regulation

Firms' ESG performance is significantly affected by the policy and regulatory environment, mainly in terms of laws and regulations and government subsidies. Research has shown that firms are motivated to improve their ESG performance in order to maintain legitimacy and enhance competitiveness. Environmental scanning theory suggests that firms use "environmental scanning" to identify changes in the external economic, social, legal, and political environments and adjust their strategies accordingly to actively promote green transformation. In addition, laws and regulations not only raise companies' attention to environmental issues, but also strengthen their investment in employee welfare, product quality and community social responsibility[7]. Shen Hongtao and Zhou Yankun's research shows that the government's institutionalised law enforcement supervision effectively promotes emission reduction in environmental governance, and environmental interviews improve the environmental performance of enterprises in the interviewed areas, thus positively affecting the ESG performance of enterprises. The rule of law environment has a significant impact on the authenticity and effectiveness of corporate ESG performance, and the better the regulations and policies, and the more severe the penalties for bad corporate behaviour, the more positive the ESG performance of the enterprise[8].

China has introduced many policies in recent years that have significantly contributed to corporate ESG performance. For example, in 2018, the China Securities Regulatory Commission (CSRC) released the revised Code of Governance for Listed Companies, which added a new "Chapter 8: Stakeholders, Environmental Protection, and Social Responsibility," clarifying the task of corporate ESG disclosure. Thus, the China Securities Investment Funds Association (CSIFA) has initially established an ESG core in line with China's national conditions and market idiosyncrasies evaluation indicators[9]. In 2020, the Shanghai Stock Exchange proposed to disclose the fulfilment of social responsibility in the annual report in the listing rules for companies listed on the Science and Technology Creation Board (STB) [10]. In 2023, the General Office of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council of China issued a "Notice on the Transmission of the Study on Preparation of Special Reports on the ESG of Listed Companies Controlled by Central Enterprises," aiming to further regulate the environmental , social and corporate governance (ESG) disclosure. These laws and regulations also help enterprises to build and improve their ESG governance systems and incorporate ESG performance into their performance appraisals.

On the other hand, government subsidies are also a key factor influencing firms to improve their ESG performance. Research shows that government subsidies can induce enterprises to voluntarily improve their ESG performance, especially in non-state-owned enterprises. This indicates that government subsidies are an effective policy tool for the government to guide or influence the ESG performance of enterprises[11]. Fu Shu Yun also clearly pointed out in his article that government subsidies have a positive impact on the ESG performance of enterprises. Specifically, government subsidies promote enterprises to improve green technological innovation, inhibit managers' shortsightedness, and reduce non-compliance through the mechanisms of incentive effect, resource effect, and signalling effect, thus enhancing enterprises' ESG performance as a whole. Government subsidies play a key role in alleviating the financial pressure on firms and increasing their trust and supervision of the external environment, all of which further contribute to the overall performance of firms in terms of environmental protection, social responsibility, and corporate governance[12].

3.2. The Digital Economy

The digital economy has had a significant impact on corporate ESG performance. The study found that by driving digital transformation, companies can utilise digital technologies to improve production and operational efficiency, thereby reducing resource wastage and lowering production costs. This reduces the environmental burden. Second, digital transformation increases the transparency of corporate operations and enhances stakeholder trust, while facilitating the implementation of social responsibility programmes, such as community development and employee welfare. In addition, digital transformation improves the corporate governance structure, enhances decision-making efficiency and internal controls, and makes it easier for companies to comply with regulations and standards. This suggests that digital transformation not only optimises firms' financial performance, but also has a positive impact in terms of environmental protection and social responsibility fulfilment, thus enhancing firms' ESG performance in general[13].

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3.3. Investor Concerns

Investor focus is one of the most important external factors influencing corporate ESG performance. In modern capital markets, investor focus on corporate sustainability and social responsibility is increasingly significant, a trend that is growing globally. Research has shown that investors' focus on corporate ESG performance motivates companies to continuously improve their environmental, social and governance performance in order to meet investors' expectations and achieve long-term financial returns and market competitiveness. Institutional investors, in particular, are significantly more concerned about corporate ESG performance. This concern is not only reflected in the requirements for environmental and social responsibility but also includes a comprehensive consideration of corporate governance[14]. For example, globally renowned organisations such as the Blackstone Group have explicitly stated that ESG is an important investment consideration. Good ESG performance can significantly increase the market value and book value of a company, thus attracting more institutional investors to hold shares. Researchers Chen Xiaoshan and Liu Hongduo study the effect of investor attention on firms' ESG performance using a sample of A-share main board listed companies in Shanghai and Shenzhen between 2011 and 2021. They find that investor attention helps to enhance firms' ESG performance, especially through alleviating financing difficulties and enhancing information transparency. More emphasis is being paid by investors to improve ESG performance, especially in state-controlled, high-tech, and major industrial enterprises. Additionally, a variety of investor attention factors, including holdings, research, investor mood, and interaction, all help to improve a company's ESG performance[15].

4. Internal Influences on Corporate ESG Performance

4.1. Heterogeneous Majority Shareholder Governance

In the study of executive team heterogeneity on firms' ESG performance, heterogeneity refers to differences in demographic characteristics and perceptions of team members. These characteristics include age, gender, education level, and occupational background. Heterogeneous shareholders refer to a group of shareholders with significant differences in background, experience and values. The diverse backgrounds and different interests of heterogeneous shareholders positively affect the environmental, social and governance performance of firms by optimising resource allocation and improving governance efficiency during the digital transformation process[16].

Wang Yan points out that heterogeneous shareholders have an important impact on corporate ESG performance from the perspective of mixed ownership and digital transformation. Firstly, under mixed ownership, shareholders from different backgrounds have different roles and interests in corporate governance, leading to differences in corporate decisions and behaviours. Businesses are compelled to balance and maximise their environmental, social, and governance (ESG) practices because state-owned shareholders often prioritise social responsibility and long-term development, while private shareholders are more concerned with short-term financial rewards. Digital transformation also improves information transparency and management effectiveness, which helps businesses respond more effectively to external demands and regulatory obligations and ultimately improves ESG performance.

4.2. Executive Characteristics

The executive team plays a crucial role in a company's ESG performance. The personal attributes and team composition of executives have a direct impact on the quality of decision-making and the effectiveness of implementation, which in turn have a profound effect on ESG performance. The authors argue that the impact of executives on firms' ESG performance is mainly through their gender

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diversity and decision-making styles. The study shows that firms with a higher proportion of female executives have significantly higher quality of accounting robustness and corporate social responsibility (CSR) disclosure, thus contributing to firms' ESG performance. In addition, female executives' focus on CSR helps firms take more proactive measures in the areas of environmental protection, social welfare, and corporate governance, thus enhancing the overall sustainability of the firms. Therefore, increasing the proportion of women in the executive team can significantly improve the ESG performance of enterprises and enhance their competitiveness in the market[17].

Secondly, Gao Yang et al. analysed the impact of executives' educational backgrounds on CSR fulfilment between 2010 and 2020 using some listed companies in China, and explored the mechanism of the impact and the differences in heterogeneous sample effects. The study found that executives' education level improves executives' decision-making ability. Gao Yang et al. argue that executives' education level improves their decision-making ability through several ways. First, educational background enhances executives' information processing ability, enabling them to make more effective judgements and decisions when facing complex environments. Highly educated executives usually have a broader perspective and are better able to understand and anticipate the needs of stakeholders, and thus make decisions with a greater focus on corporate social responsibility. In addition, education can also influence executives' risk appetite; the more educated executives are, the more risk-averse they tend to be, which makes them more inclined to choose strategies favourable to long-term development in their decision-making, thus better fulfilling their corporate social responsibility. Further mechanism studies show that executives' educational background changes their level of risk preference and affects CSR performance through the mediating variable of risk preference[18]. Meanwhile, the degree of marketisation has a positive moderating effect on the influence of executives' educational background on CSR performance, and the positive influence of executives' educational background on CSR performance is more obvious in regions with a higher degree of marketisation[19].

4.3. Green Bond Issuance

Green bonds have also been identified as a factor that significantly influences corporate ESG performance, with authors suggesting that green bonds have a significant positive impact on corporate ESG performance[20][21]. Specifically, the issuance of green bonds can effectively enhance the level of green technological innovation in enterprises, which in turn improves environmental performance and corporate value. The issuance of these bonds has attracted a high level of investor attention, increased the proportion of shares held by green institutional investors, and brought about significant positive market reactions, such as raising the company's share price. With the funds raised through green bonds, companies are better able to support environmental and sustainability projects, such as reducing carbon emissions, conserving energy and improving the environmental effectiveness of production facilities. In addition, the issuance of green bonds promotes corporate disclosure and transparency, and boosts corporate performance in terms of social responsibility and corporate governance.

5. Discussion

As the digitisation of society continues to accelerate with changes in the global economic environment and technological advances, academics are increasingly concerned about the potential impact of the digital economy on corporate ESG performance. The digital economy not only optimises the allocation of corporate resources, but also enhances sustainability and enables green and inclusive growth. In the context of the country's vigorous development of the digital economy, exploring the impact of the digital economy on corporate ESG performance and its mechanism of

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action has become a new trend in research, further enriching the study of influencing factors. Therefore, the specific impact of the digital economy on corporate ESG performance still needs further in-depth research, which is one of the important directions for future academic research. Second, corporate culture and values also have a profound impact on a company's ESG performance. Significant advancements in environmental protection, community development, employee welfare, and transparent governance are encouraged by a corporate culture that prioritises social responsibility, environmental protection, and good governance. A culture like this fosters innovation and risk-taking, raises market competitiveness, fosters long-term sustainable development, and improves employee happiness and business image. For example, companies with strong environmental awareness are more inclined to implement green production techniques and reduce carbon and waste emissions. Such a corporate culture encourages employees and management to actively participate in environmental protection measures, thereby enhancing the environmental performance of the organisation. Overall, positive corporate culture and values are key drivers of corporate ESG success, and exploring their impact on corporate ESG performance is an indispensable direction for future research.

6. Conclusion

This paper discusses the impact of external factors (policy and regulation, the digital economy, and investor attention) and internal factors (heterogeneous large shareholder governance, executive characteristics, and green bond issuance) on corporate ESG performance. The study shows that policy and regulation promote firms' ESG performance through laws and regulations and government subsidies; the digital economy promotes firms' sustainable development through technological innovation and information transparency; and investor concerns motivate firms to improve their ESG practices through a market feedback mechanism; furthermore, heterogeneous majority shareholder governance, executive characteristics, and green bond issuance, which are among the internal factors, also significantly affect firms' ESG performance. Although this paper provides a systematic overview of the factors influencing corporate ESG performance, there are still some shortcomings. Firstly, the scope of the study is relatively broad, but the exploration of specific mechanisms is relatively superficial, failing to reveal the interactions and influence paths between factors in depth. Secondly, this paper focusses on macro-level influencing factors and analyses fewer individual cases and special industries at the micro level, leading to possible limitations on the generality of the conclusions. Future research can be categorised for different industries and regions to analyse the impact of industry characteristics and regional differences on ESG performance, and cross-country comparative research can be conducted to analyse the impact of policies, market environments and cultural contexts in different countries and regions on corporate ESG performance, drawing on international experience to promote ESG practices among domestic enterprises.

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