Research on the Enhancement Path of Enterprise Value through ESG Performance in the Context of Green Development

Wen Li

School of Finance, Harbin University of Commerce, Harbin, 150028, Heilongjiang, China

liwen@s.hrbcu.edu.cn

Keywords: ESG, enterprise value, green development

Abstract: Under the dual carbon goals, green development and low-carbon transformation have become key trends and objectives for enterprises. Consequently, companies are increasingly emphasizing their ESG (Environmental, Social, and Governance) performance. How this performance impacts corporate value is a topic of widespread concern. Based on existing research, this article explores the mechanisms through which ESG performance influences enterprise value, aiming to provide direction and insights for corporate development and to promote sustainable societal progress.

1. Introduction

Against the backdrop of a rapidly reshaping global economy and the deepening concept of sustainable development, ESG has become central to corporate strategic decision-making and value creation. With the advancement of China’s 14th Five-Year Plan and the introduction of the “carbon peak and carbon neutrality” targets, ESG issues have gained unprecedented attention. Regulatory bodies have issued multiple guidelines and standards to promote standardized ESG practices among enterprises. In 2024, a pivotal year for ESG development in China, the Shanghai, Shenzhen, and Beijing stock exchanges jointly released the Guidelines for Sustainable Development Reports of Listed Companies, and multiple ministries, including the Ministry of Finance, issued the Basic Guidelines for Sustainable Disclosure. These policy initiatives have driven the ESG report disclosure rate of A-share listed companies to over 40%, reflecting China’s commitment to encouraging ESG practices and sustainable development. As a result, more companies are integrating ESG into their strategic planning and daily operations, transforming ESG from an optional initiative into a essential component of high-quality development.

Academic research on ESG has accumulated substantially, focusing primarily on how ESG disclosure enhances corporate performance, enterprise value, and risk mitigation. Studies by Tao Yanlin confirm that ESG performance positively improves corporate financial performance; GILLAN’s empirical analysis shows a significant positive correlation between ESG and business performance and value; Zhou Sha et al. indicate that strong ESG performance can reduce creditor risk premiums, thereby lowering corporate debt capital costs.

However, the relationship between ESG performance and enterprise value remains debated. While many studies suggest that high ESG performance leads to greater recognition from investors, higher market value, and stronger resilience to external risks[1], others argue that ESG practices may increase short-term operational costs in certain industries or regions, resulting in heterogeneous effects on enterprise value[2]. This paper systematically reviews existing literature, synthesizes findings on the ESG–enterprise value relationship, and analyzes the underlying mechanisms to provide constructive references for future research.

2. The Impact of ESG Performance on Enterprise Value and Theoretical Basis

2.1 Evolution and Debate on Impact Relationships

Research on the impact of ESG performance on enterprise value has evolved from single-

  DOI: 10.25236/icemeet.2025.025

dimensional analysis to multi-dimensional evaluation. While there is broad consensus that sound corporate governance (G) enhances enterprise value[3], studies on environmental (E) and social (S) responsibilities have yielded mixed results, including positive, negative, and insignificant correlations.

Proponents of a positive relationship often base their arguments on stakeholder theory and resource dependence theory, suggesting that fulfilling environmental and social responsibilities helps companies gain stakeholder trust and access key resources, thereby building competitive advantages. In contrast, trade-off theory and agency theory raise doubts: trade-off theory posits that limited resources mean ESG activities may divert funds from core operations, weakening competitiveness; agency theory suggests managers may overinvest in ESG for personal gain, such as reputation building or concealing negative information, without adequate shareholder oversight, leading to value erosion.

Additionally, some studies highlight temporal and contextual effects. Wang Linlin found that environmental and social responsibilities have long-term value-enhancing characteristics, which may not be fully captured in short-term studies. Li(2020) noted that corporate social responsibility may reduce value in the short term but enhance it in the long term. Li(2023) observed that peer effects and public scrutiny can weaken the role of ESG disclosure in enhancing enterprise value, particularly in the environmental (E) dimension.

2.2 Core Theoretical Support

Sustainable development theory provides a foundational basis for the positive ESG–value relationship, advocating that resource-intensive development is unsustainable and that ESG disclosure can curb short-sighted corporate behavior and promote long-term value creation.

Stakeholder theory explains the transmission logic: by addressing the demands of shareholders, employees, customers, government, and community, ESG disclosure builds trust and secures resource support, creating multiple values and enhancing corporate value.

Agency theory focuses on governance effects: information asymmetry exacerbates principal–agent issues. Transparent ESG disclosure narrows information gaps, reduces agency costs, mitigates adverse selection risks, and strengthens shareholder trust in management, ultimately boosting enterprise value.

3. Mechanisms Through Which ESG Performance Affects Enterprise Value

ESG influences enterprise value through multiple pathways, including financing constraint relief, risk control, efficiency improvement, technological innovation, market attention, and corporate reputation.

3.1 Financing Constraint Mitigation Mechanism

Strong ESG performance reduces financing costs and alleviates constraints, thereby enhancing enterprise value. Improved ESG disclosure increases transparency, lowers information asymmetry with creditors, and reduces risk premiums[4]. Companies with high ESG performance are viewed as lower-risk, sustainable investments, attracting favorable financing terms. Xue(2022) confirmed that better ESG performance reduces financial expense ratios, especially in low-energy-consuming enterprises. Yi(2023) found this effect is context-specific in China, with political connections potentially weakening the benefit.

3.2 Risk Control Mechanisms

ESG performance supports risk control through two pathways: first, companies with strong ESG typically have robust risk management and compliance systems, reducing legal and regulatory risks; second, high ESG creates an “insurance effect,” enhancing resilience during economic downturns and helping maintain customer, financing, and stock price stability. A positive ESG image also helps mitigate the impact of negative events. Shi Yongdong et al. observed a unique ESG risk premium in China’s A-share market, with a negative correlation between ESG scores and future returns, possibly due to investor risk compensation expectations.

3.3 Efficiency Improvement Mechanism

ESG enhances operational efficiency through human capital optimization and management capability upgrades. By improving working conditions and employee benefits, companies can reduce turnover and stimulate motivation and innovation. A strong ESG reputation also attracts talent. Effective stakeholder coordination requires advanced management and execution, and stakeholder feedback helps identify and address governance gaps, improving overall efficiency and value.

3.4 Technological Innovation Mechanisms

ESG encourages technological innovation by pushing companies to adopt advanced, low-carbon technologies. Wu Di(2020) noted that high-ESG firms prioritize long-term gains, increasing R&D investment despite short-term costs. Strong ESG also supports innovation by expanding market demand, easing financing, and optimizing human capital. Liu(2023) confirmed technology innovation's mediating role, though the high-risk, long-cycle nature of R&D means value enhancement may be delayed.

3.5 Market Attention Mechanism

Media and analyst attention mediate the ESG–value relationship. Tong(2023) found that good ESG performance attracts media coverage, reducing information asymmetry and allowing intrinsic value to be reflected in stock prices. However, Yi Lingxue (2022) cautioned that in China's unique capital market, excessive external pressure from media may suppress the positive ESG–value correlation.

3.6 Corporate Reputation Mechanism

Corporate reputation acts as a vehicle for ESG value transformation. Optimizing ESG performance plays a positive role in enhancing corporate reputation[5]. Li (2025), studying fossil fuel firms, found that strong green ESG practices enhance reputation, increase positive media coverage, and accelerate digital transformation, forming a value chain: "ESG practices → reputation accumulation → transformation empowerment → value enhancement."

4. Conclusion

Based on the above analysis of the impact path, Improved ESG performance reduces compliance risks, such as environmental penalties and labor disputes, and mitigates the impact of sudden risks. Under green finance policies, high-ESG firms access green loans and bonds at lower rates and attract long-term institutional investors. ESG goals drive investment in green technology, creating new profit sources. ESG also promotes business model transformation, such as circular and sharing economies, diversifying income and reducing resource reliance.

Corporate ESG improvements contribute to energy transition and pollution reduction, supporting carbon goals. Green innovation and circular practices can drive industry-wide emission reductions. Research on ESG–value mechanisms provides evidence for green finance and regulatory policies, fostering a virtuous cycle of corporate and social benefits. Globally, enhanced ESG helps Chinese firms overcome green trade barriers and boosts export competitiveness, while participation in global ESG standard-setting elevates China's role in green development.

In order to better promote the sustainable development of enterprises, the following suggestions are provided. Integrate ESG into strategic planning and performance evaluation, setting clear targets and linking them to board decisions and executive assessments. Establish dedicated ESG management to improve cross-department coordination. Enhance ESG disclosure and stakeholder communication by following international and domestic standards, issuing regular high-quality reports, and engaging with investors, customers, employees, and communities through briefings and forums. Increase green technology and digital investment, creating ESG innovation funds for low-carbon and circular economy projects. Strengthen collaboration with academic institutions to accelerate technology transfer. Promote ESG in the supply chain, requiring suppliers to meet environmental and labor standards, and establish ESG ratings to eliminate high-risk partners.

Improve ESG supervision and disclosure systems by introducing unified standards, third-party verification, and stricter penalties for non-compliance. Incorporate ESG into green finance support, expanding green loan and bond coverage, and offer tax incentives and subsidies to high-ESG firms. Develop a scientific ESG rating system and incentives tailored to China's context, avoiding blind adoption of international models. Encourage financial institutions to use ESG ratings in investment and credit decisions, creating a "rating–financing–incentive" cycle. Establish a national ESG award to recognize top performers and include ESG in local government evaluations to encourage support for corporate ESG transformation.

References

[1] Liou, J.J.H., P.Y.L. Liu, and S.-W. Huang, *Exploring the key barriers to ESG adoption in enterprises.* Systems and Soft Computing, 2023. 5: p. 200066.

[2] Liu, Y., et al., *Do disclosure of ESG information policies inhibit the value of heavily polluting Enterprises?—Evidence from China.* Heliyon, 2023. 9(12): p. e22750.

[3] Aydoğmuş, M., G. Gülay, and K. Ergun, *Impact of ESG performance on firm value and profitability.* Borsa Istanbul Review, 2022. 22: p. S119-S127.

[4] Qian, S., *The effect of ESG on enterprise value under the dual carbon goals: From the perspectives of financing constraints and green innovation.* International Review of Economics & Finance, 2024. 93: p. 318-331.

[5] Maaloul, A., et al., *The Effect of Environmental, Social, and Governance (ESG) Performance and Disclosure on Cost of Debt: The Mediating Effect of Corporate Reputation.* Corporate Reputation Review, 2023. 26(1): p. 1-18.