A Review of Research on ESG Performance and Corporate Performance of Listed Companies

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Abstract: The ideas of green development and sustainable development have slowly gained traction in recent years, and businesses' environmental, social, and corporate governance (ESG) performance has drawn a lot of attention from a wide range of sources. This paper combs through the research on the relationship between ESG performance and financial performance, innovation performance and enterprise value, and the impact of ESG ratings and ESG disclosure on corporate performance. It concludes that there are problems of immature ESG concept, imperfect ESG rating system, and lack of comparability of ESG ratings. Existing studies have the limitations of one-sided data and short time span. Current study reveals deficiencies in the depth and breadth of studies about ESG performance, the ESG grading system, and the mechanisms for ESG information dissemination. Future long-term, comprehensive multi-industry research should integrate multidimensional viewpoints, including digital transformation, to enhance the establishment of high-quality ESG and attain sustainable corporate development.

1 INTRODUCTION

1.1 Background to the Study

Increasingly, individuals are turning conscious of their obligation to safeguard the environment, although it can be traced back to ancient civilisations such as the Greeks and Romans. The Americans created Yellowstone National Park, the first nature reserve in history, as a result of growing concerns about environmental degradation in the late 18th century. They also engaged the public in the preservation of wilderness and the enjoyment of nature by encouraging the preservation of natural resources in uninhabited areas. It was only with the publication of Rachel Carson's Silent Spring in 1962 that the problems of air and water pollution and the widespread use of pesticides and other chemicals, which made it difficult to restore ecological status quo ante in the short term for hundreds of years, were brought to the forefront of the public consciousness. The achievements of our predecessors have inspired the modern environmental movement and contributed to significant progress in the field of environmental protection. People are more interested in preserving nature than in conquering it, and it has become a global consensus that sustainable development can be achieved by reducing pollution and carbon emissions and achieving a harmonious coexistence between human beings and nature.

In the past, there are a large number of enterprises manufacturing production caused by environmental pollution problems, in recent years, reflecting on the conclusion that enterprises should be in the ecological environment allows the conditions of protective development. Technological advances continue to develop, the search for cleaner and more environmentally friendly production methods that don't kill the goose that lays the golden eggs is a prerequisite for firms who want economic growth that is sustainable. Green sustainable development, which aims to achieve the harmonious coexistence of humans and nature, has become the rage due to pivotal ecological realm dilemmas, recurring phenomena of natural variability, and significant climatic threats. This is where the ESG values of sustainable development came from. Originally put forth in June 2004, the United Nations Global Compact (UNGC) concept of ESG was initially presented. It promotes the idea that businesses should focus on commercial operations while taking environmental, social, and governance performance into account. ESG elements encompass three different components. First, environmental factors include pollution

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prevention, biodiversity conservation, the circular ec onomy, and the mitigation and adaptation to climate change. In addition to the more pressing issues of mi tigating and adapting to climate change, it is imperati ve to address the wider facets of environmental prote ction, such as maintaining biodiversity, preventing p ollution, and advancing the circular economy. This c overs resource management, greenhouse gas contain ment, recycling programs, emissions control, and tra sh disposal. The social factor then enters the picture, highlighting the need of loyalty and trust among stak eholders while addressing inequalities, encouraging i nclusivity, and enhancing labor relations and commu nity initiatives. It also entails taking responsibility fo r the product, protecting human rights, and making s ure workers are treated fairly. Lastly, corporate gove rnance must be prioritized, with a focus on the effici ent management of private companies and organizati ons. This includes executive remuneration, managem ent structure, and employee relations–all of which ar e essential for incorporating social and environmenta l concerns into business decision-making and uphold ing the standards of excellent corporate governance.

1.2 Purpose and Significance of the Study

A non-financial metric that fully captures data on co mpany governance, social responsibility, and environ mental preservation is called ESG performance. The link between how well a business performs and its E SG milestones has only just gained broad approval. Business performance usually enhances for compani es that thrive in ESG. It is becoming more and more clear how ESG affects a company's operational healt h, capacity to prosper in its business environment, an d ability to chart its course for future expansion. The efficiency and effectiveness of an organization in co mpleting its goals and objectives within a certain tim e period is referred to as enterprise performance. The long-term competitiveness of a business is now seen as being significantly influenced by the emergence o f ESG as a key factor, which corresponds to the incre asing emphasis placed on ESG performance. Numer ous studies by prior investigators have explored the l inkage between ESG metrics and corporate success, aiming to assist firms in enhancing their economic ef ficiency. However, the results of these studies are mo re dispersed, so this paper will compile and analyze t he literature to establish a more intimate relationship between the two influences for the convenience of f uture researchers. Enhancing studies on how ESG pe rformance affects business performance. By incorpor ating variables that affect diverse aspects of ESG per formance and their influence on business performanc e, this research fills a void in the existing literature. E stablish a foundation of reference for the developme nt of corporate ESG. ESG considerations have a fina ncial influence on business profitability and competit iveness, offering helpful recommendations for busin esses looking to increase profitability. Participate in i nvestor and managerial decision-making. To assist bu siness managers better handle resource allocation chal lenges and enhance management, investigate and eval uate how corporate profitability and ESG performance are related.. Assist investors in predicting future trend s so they may make better investment choices.

2 ESG PERFORMANCE AND CORPORATE PERFORMANCE

2.1 Relationship Between ESG Performance and Financial Performance, Innovation Performance and Firm Value

2.1.1 ESG Performance and Financial Performance

In the developed market sectors, the ESG performan ce of firms that are particularly attuned to environme ntal issues tends to receive greater recognition and ex erts a more pronounced impact on the financial outco mes of these companies when compared to their cou nterparts in the developing world. A comprehensive empirical examination by Naeem et al. (2022) was ca rried out, utilizing a dataset comprising 305 environ mentally sensitive firms operating within developed economies, juxtaposed with a sample of 78 similar fi rms from developing nations, covering a decade-long period from 2009 to 2018. The researchers discover ed that firms demonstrating a high level of ESG perf ormance not only experience a favorable influence o n their profitability but also tend to see a boost in the ir financial success. Moreover, an empirical study ex ploring the intricate relationship between a company' s ESG performance and its capacity to innovate withi n the domain of green technologies has been carried out by Ming et al. (2022), as well as the moderating i nfluence of environmental uncertainty on this relatio nship, has revealed that a robust ESG performance is capable of effectively catalyzing corporate innovatio

n. This, in turn, helps to alleviate the financial constraints that these firms might face, ultimately leading to an enhancement in their performance related to green innovation initiatives.

2.1.2 ESG Performance and Innovation Performance

In their 2024 study, Cabaleiro-Cerviño & Mendi harnessed PITEC data in conjunction with a sophisticated matching methodology to assess the efficacy of businesses that believe that at least one ESG element is pertinent. Specifically, they examined how firms that integrate at least one ESG-related goal into their innovation strategies might experience enhanced performance when contrasted with their counterparts that do not engage with ESG criteria. Furthermore, they sought to determine if firms that merge their innovation strategies with ESG objectives demonstrate more advanced achievements than those that do not assign priority to ESG factors. The research revealed that businesses focusing on ESG objectives within their innovation strategies outperform similar, creative, but ESG-nonaligned businesses. Moreover, an empirical study exploring the intricate relationship between a company's ESG performance and its capacity to innovate within the domain of green technologies has been carried out by Ming et al. (2022) , as well as the moderating influence of environmental uncertainty on this relationship, has revealed that a robust ESG performance is capable of effectively catalyzing corporate innovation. This, in turn, helps to alleviate the financial constraints that these firms might face, ultimately leading to an enhancement in their performance related to green innovation initiatives.

2.1.3 ESG Performance and Corporate Value

Investing in high ESG performance, as investigated by Aydogmus et al. (2022) into its effects on firm value and profitability, can yield financial returns for businesses, with a significant positive correlation having been discovered between overall ESG composite scores and firm value. According to L. Wang et al. (2022), effective ESG performance may increase company value by lowering corporate financial risk, enhancing corporate investment efficiency, and easing corporate financing limitations.

2.2 Impact of ESG Ratings and ESG Disclosure on Firm Performance

2.2.1 ESG Ratings and ESG Disclosure

The ESG framework is constructed from three integral components: ESG performance, ESG rating, and the transparency of ESG disclosures. Within this system, a positive correlation can be observed between a company's ESG performance and its ESG rating score; in other words, superior ESG performance is typically rewarded with a higher rating. Additionally, a greater degree of ESG disclosure is associated with less stringent financing conditions, which in turn indirectly fosters the enhancement of corporate ESG ratings. Consequently, this process facilitates an improvement in the overall ESG performance of the corporation.

2.2.2 Impact of ESG Ratings on Firm Performance

In an exploration aimed at ascertaining the impact of a company's ESG ratings on its market valuation, Gawęda (2022) postulated a hypothesis suggesting a robust positive correlation between the high ESG ratings of companies within select EU market sectors and the subsequent influence on their market valuations. The study revealed that corporate controversies serve as a detrimental factor to the market value of companies across all industries, whereas the ESG ratings and the disclosure thereof are key determinants of market value for companies within particular sectors. Na (2023) employed an approach that involved an industry-by-industry comparison of ESG ratings. The results indicated that companies boasting high ESG ratings tend to experience comparatively higher earnings per share and stock returns over the same timeframe when contrasted with those having lower ratings. Furthermore, a significant positive correlation was identified between these two factors, with the effect being particularly pronounced within the manufacturing and financial real estate industries.

2.2.3 The Impact of ESG Disclosure on Firm Performance

Reber et al. (2022) have posited that the act of voluntarily disclosing ESG information by firms is associated with a reduction in downside tail risk and a decrease in idiosyncratic volatility. Observations indicate that companies which possess higher ESG ratings tend to exhibit lower levels of volatility that is specific to the firm, as well as a diminished risk of downside ta il events. This trend is particularly noticeable during the initial year of their trading activities in the afterm arket. Furthermore, the performance and disclosure o f ESG-related metrics are instrumental in helping fir ms build reputational capital with investors subseque nt to their listing. Xu et al. (2022) propose in a distin ct investigation that the disclosure of ESG informatio n, when done effectively, can lead to an increase in s tock returns, a decrease in information asymmetry, a nd a strengthening of a company's overall value, fina ncial performance, and innovative capabilities.

3 RECOMMENDATIONS

3.1 Improve ESG Rating System and ESG Information Disclosure Mechanism

Good ESG performance and a consensus ESG rating system will promote digital transformation of enterp rises; a unified standard of ESG disclosure can ease c orporate financing constraints and promote growth in corporate performance. The task of evaluating the E SG performance of companies is fraught with difficu lties, particularly due to the proliferation of ESG rati ng organizations in the market that employ differing rating criteria. This diversity in standards can lead to inconsistencies and conflicts, which in turn may cre ate challenges for businesses seeking financing. The presence of numerous rating systems, each with its o wn set of criteria, complicates the assessment proces s and has the potential to result in discrepancies that can impact a company's ability to secure funding. Fu rthermore, because of the impact of disputes between managers and policymakers, more problems arise fr om corporate decision-making, leading to difference s in the degree of ESG disclosure across enterprises, making it difficult to combine digital transformation with ESG concepts to achieve sustainable corporate development.

Standardize pertinent information and enhance th e ESG disclosure and grading systems. Businesses m ay attain strong ESG performance in part by using th e ESG grading system and information sharing meth od. Enhancing business information openness and lo wering funding challenges may be achieved via a sta ndardized ESG grading system and information discl osure method. The ESG system is not particularly so und at present. The design of many indicators does n ot match the specific corporate development situatio n , and the disclosure system is not perfect. For exam ple, some companies' disclosure is a complete ESG r eport, while some are sustainability reports or social responsibility reports. Although the contents are part ially similar to a certain extent, the format is not unif orm enough, and the indicators of disclosure are not uniform . It is imperative that specific disclosure indi cators be developed in alignment with the unique cha racteristics of various industries. Such an approach n ot only facilitates the process of information disclosu re for businesses but also enhances their ability to en gage in meaningful comparisons utilizing identical in dicators. The formulation of these tailored indicators ensures that companies within a particular sector ca n more readily disclose relevant information and, co ncurrently, enables them to undertake more effective comparisons of performance metrics across the indu stry. This makes information even more transparent and helps stakeholders better understand how busine sses are developing.

3.2 Improving Regulatory and Incentive Policies for Corporate ESG Disclosure

Government agencies should make it more difficult f or businesses to provide ESG information, create a fa ir system of rewards and penalties, and toughen pena lties for businesses that publish misleading ESG data . In order to encourage AI companies to voluntarily p ublish ESG-related information and increase their tra nsparency, it should simultaneously create a strong E SG disclosure system, integrate it into rules in collab oration with regulators, and create appropriate incent ive schemes. In order to improve corporate performa nce, boost investor confidence, keep investing in inn ovation, and realize the positive feedback loop of inn ovation-driven ESG for high-quality development of platform-based enterprises, businesses should increa se awareness of ESG concepts and encourage high-q uality development of businesses. Corporate investor s should focus on more than just short-term investme nt returns and the growth of corporate business size when it comes to high-quality and sustainable develo pment,but also actively promote and facilitate the ES G disclosure and institutional construction of platfor m enterprises, reasonably participate in corporate go vernance, integrate ESG and other non-financial indi cators into investment decisions, encourage and supp ort platform enterprises to continue to innovate, and pay attention to long-term returns, so as to reduce inv estment risks. The government ought to assist busine sses in raising the degree of green technological inno vation, provide more funding for business resources, recognize the critical role that green technology inno vation plays, improve the environment for businesse s that engage in green innovation, and encourage innovation. More resource support should be given to enterprises with voluntary ESG information disclosure to fully enhance their willingness to participate in environmental governance and promote sustainable development. Businesses should focus on ESG-related endeavors and provide more funds to enhance ESG transparency. To achieve sustainable development in its truest sense, the integration of ESG principles into the daily production and operational activities of businesses is essential, as it addresses the increasing demands of stringent environmental regulations. Governments are called upon to enact policies and to undertake studies that resonate with the practical application of ESG principles within their respective enterprises. To enhance the understanding of enterprise managers regarding the current operational and developmental status of their firms, future scholarly endeavors could amalgamate financial performance, innovation performance, and enterprise value into a comprehensive study. This study would aim to explore the multifaceted impact of digital transformation and ESG performance on enterprise outcomes, as well as to forecast the future trajectory of business development. Such research endeavors would be instrumental in aiding enterprises in their pursuit of sustainable growth and development.

4 CONCLUSIONS AND OUTLOOK

In conclusion, it is the influence of ESG performance on the financial, innovative, and value-related aspects of corporations, along with the consequences of ESG ratings and the disclosure of ESG information on business performance, that constitutes the principal focus of scholarly research both within national boundaries and on a global scale. This domain of study has captured the attention of academics across the world, who are dedicated to examining how ESG metrics and the transparency thereof impact various dimensions of corporate success and worth. Among these, businesses that do well in ESG have better financial, innovative, and enterprise value results; companies with sound ESG rating system have good social reputation; companies with more ESG information disclosure have higher information transparency and can attract more investors. Issues like knowledge asymmetry and financing challenges in the corporate market are likely to result from an inadequate corporate ESG grading system and uneven ESG information disclosure rules. Companies with strong corporate governance, social responsibility, and environmental protection also do well overall, and the active implementation of ESG governance supports long-term company success. This study identified important gaps in the literature by analyzing the results of other studies on the connection between listed corporations' corporate success and ESG performance. The data adopted in the empirical analysis of the cited literature are mostly based on a single industry as the case study object, which is somewhat one-sided, and the conclusions of the research can not represent the enterprises in other fields The development of the practice and disclosure of the fulfilment of ESG responsibility is a long term process, and the data used in the cited literature are less than ten years, which is a short time span. The data used in the empirical analysis of the cited literature is less than ten years, and the time span is short, which fails to form more convincing long-term research results, so the analysis conclusions and the actual situation also have limitations, and the research on the case study enterprises also needs more long-term observation and research. Existing research on corporate performance focuses on a single ESG performance, but should be combined with multi-dimensional thinking from the perspectives of digital transformation, artificial intelligence revolution and carbon risk, with the goal to bring the research's findings more into line with the present climate and to encourage the creation of superior ESG in order to accomplish the sustainable growth of businesses.

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