Vol.6 Iss.2 2025 Economics & Management Review
https://doi.org/10.37420/j.emr.2025.025

The "Superficial Strength, Underlying Weakness" of ESG and Strategies for Enhancing High-Quality Corporate Development

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Abstract:
In the process of Chinese modernization, Environmental, Social, and Governance (ESG) indicators have emerged as a core benchmark for evaluating high-quality corporate development. However, the phenomenon of "superficial strength but underlying weakness"—where impressive disclosures coexist with distorted internal realities—has become a critical challenge to the effectiveness of ESG practices. This paper analyzes the roots of this discrepancy and proposes strategies from three dimensions: corporate governance, government regulation, and societal oversight. The goal is to support enterprises in aligning economic performance with social value, thereby advancing toward sustainable, high-quality development.

Keywords:
ESG indicators; superficial strength, underlying weakness; high-quality corporate development

The report of the 20th National Congress of the Communist Party of China set forth a series of strategic goals for the country's future, covering sustainable development across economic, social, and environmental dimensions. Within this context, Environmental, Social, and Governance (ESG) indicators have emerged as a critical benchmark for assessing corporate competitiveness and accountability. Yet, in practice, many firms remain stuck in a paradox of "glossy reports but distorted reality". This phenomenon—often described as "superficial strength but underlying weakness"—is characterized by detailed, favorable disclosures that mask neglect of environmental, social, or governance risks in actual operations. Such misalignment distorts corporate value assessments, misleads investors, and undermines the foundations of long-term sustainability. Addressing the causes of this disconnect and promoting a shift from "formal compliance" to "substantive improvement" has become essential to overcoming barriers to high-quality development.

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1. The Characteristics of ESG "Superficial Strength but Underlying Weakness"

1.1 The Composition and Role of ESG Indicators

ESG encompasses three core dimensions: Environment (E), Social (S), and Governance (G). Each reflects distinct aspects of corporate responsibility and sustainability performance. Specifically, the environmental dimension centers on strategies for climate change mitigation and resource management, which directly affect a firm's long-term survival. The social dimension emphasizes relationships with stakeholders—including investors, communities, customers, suppliers, and employees. Governance focuses on transparency and internal management practices. ESG not only strengthens resilience against external risks but also facilitates long-term sustainable growth. In China's modernization process, ESG management has increasingly become an integral part of corporate operations and strategy. With the widespread adoption of ESG principles and the continuous refinement of government policies, ESG practices are moving toward greater depth and systematic integration.

1.2 Definition and Manifestations of "Superficial Strength but Underlying Weakness"

This phenomenon arises when internal realities diverge from ESG reports. Firms may embellish ESG disclosures, overstating achievements in environmental protection, social responsibility, or governance. Under external pressure, some disclose only selective, favorable information while downplaying or concealing negative impacts. Other manifestations include opaque governance structures, weak accountability mechanisms, and a fragmented understanding of social responsibility. Together, these issues erode the effectiveness and credibility of ESG management systems.

2. Causes of ESG "Superficial Strength but Underlying Weakness"

2.1 Weak External Regulation and Enforcement

An underdeveloped regulatory system provides fertile ground for superficial compliance. Regulatory agencies often impose insufficient penalties for noncompliance, weakening incentives for firms to improve ESG performance. Loopholes in laws, weak enforcement capacity, and inadequate sanctions encourage firms to rely on "cosmetic compliance"—publishing data on environmental projects or philanthropic activities while neglecting governance reforms or supply chain risk management. Disclosure authenticity largely depends on corporate integrity, while third-party auditors often focus on formal compliance rather than substantive risks. Penalties for greenwashing are typically mild, and when the gains from misreporting outweigh compliance costs, firms are incentivized to inflate indicators to appeal to investors.

2.2 Short-Termism in Corporate Governance

Internally, governance structures guided by short-term profit motives are a major driver of superficial ESG practices. Many firms set vague ESG goals, design unclear implementation pathways, and leave significant gaps in monitoring and evaluation. To meet short-term financing needs, companies often prioritize improving

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easily quantifiable indicators rather than investing in structural reforms, environmental technology, or human capital development. Misaligned incentive systems further distort decision-making, making ESG commitments unsustainable and undermining the market's ability to accurately evaluate long-term corporate value.

2.3 The Complexity of Stakeholder Relations

Balancing the interests of diverse stakeholders—communities, shareholders, employees, suppliers, customers, and the environment—is inherently complex. In practice, firms often prioritize capital market expectations, leading to selective disclosure of ESG information. For instance, while companies may highlight their commitment to employee well-being in reports, many still suffer from overwork, limited career advancement opportunities, and poor human capital management, all of which contradict ESG pledges. Information asymmetry and goal divergence among stakeholders exacerbate these tensions, resulting in ESG practices that exist primarily on paper but fail in implementation.

3. The Impact of "Superficial Strength but Underlying Weakness" on High-Quality Corporate Development

3.1 Destabilizing Capital Markets

Exaggerated or fabricated ESG performance can trigger overreactions in capital markets. Inflated scores often lead to short-term stock price surges, mispricing of corporate risks, and even asset bubbles. When such bubbles burst, markets experience sharp corrections, investor confidence collapses, and systemic volatility increases. False disclosures undermine resource allocation efficiency, distort price signals, and erode the fairness and stability of capital markets.

3.2 Hindering Long-Term Strategic Development

This phenomenon also undermines long-term corporate strategy in three ways: Short-sighted resource allocation. Firms channel resources into short-term "image projects" to boost scores—such as selective reporting or symbolic charitable initiatives—rather than investing in core capabilities like environmental technologies, governance reforms, or workforce development. Heightened uncertainty in decision-making. Superficially high ESG scores often conceal hidden risks, limiting management's ability to anticipate threats and plan effectively. Erosion of external trust. When markets or rating agencies overly emphasize superficial indicators, firms are incentivized to pursue cosmetic compliance for financing or policy support. Once exposed, reputational damage, capital flight, and regulatory penalties follow, undermining the external environment required for long-term strategies.

3.3 Undermining Stakeholder Interests

Finally, "superficial strength but underlying weakness" directly harms stakeholders. Investors who rely on ESG scores may overlook structural governance risks, weakening confidence in ESG-based investing and disrupting the flow of capital toward sustainable enterprises. Employees may face poor working conditions or limited opportunities, while customers suffer from inadequate product quality or services. Communities may

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bear the brunt of environmental neglect, leading to reputational crises. Thus, the phenomenon not only affects shareholders but also jeopardizes the rights and welfare of broader stakeholders.

4. Strategies for Enhancing ESG Indicators and Promoting High-Quality Corporate Development

4.1 Government-Level: Improving ESG Evaluation Standards and Regulatory Frameworks

First, strengthen ESG evaluation standards. Policymakers should establish a standardized and scientific disclosure framework tailored to industry-specific characteristics. To ensure fairness and objectivity, the scoring rules and requirements for each indicator must be clearly defined, balancing qualitative and quantitative metrics so that firms disclose information in a consistent and standardized manner. To prevent disconnection between ESG standards, regulatory requirements, and market demand, evaluation criteria should be regularly updated, with efforts made to minimize subjectivity, thereby ensuring that ESG assessments accurately reflect business realities. Second, build a robust regulatory system. The government should continuously refine oversight mechanisms, intensify supervision of ESG practices, and strictly penalize noncompliant firms to increase the cost of misconduct and uphold fair market competition. Third, promote transparent ESG disclosure. Firms that voluntarily provide ESG disclosures with demonstrable objectivity should be rewarded with incentives to encourage greater participation. Third-party audits and evaluations can enhance the authenticity and completeness of reports, alleviating public concerns while contributing to a healthier market environment. Ultimately, only by anchoring corporate supervision in law and standards can the "superficial strength but underlying weakness" problem be effectively mitigated.

4.2 Firm-Level: Establishing Dynamic ESG Performance Monitoring Systems

Firms should continuously update and refine ESG monitoring systems in line with their specific circumstances. Mainstream management tools (such as the Balanced Scorecard) can be used to anticipate governance risks, clarify social responsibilities, and manage environmental costs, ensuring that ESG objectives remain aligned with financial goals. To reduce dependence on traditional governance models, companies should cultivate teams with strong ESG analytical expertise and strengthen the role of sustainability committees within boards of directors. Equally important is enhancing internal governance. Effective internal control mechanisms should be established to address barriers to ESG management. Regular employee training and incentive programs can motivate participation and align personal objectives with corporate goals. Linking executive compensation to long-term social responsibility outcomes can also reduce opportunistic behavior and ensure more rational and science-based decision-making. Finally, firms should prioritize innovation in environmental technologies. This includes investing in green equipment, developing pollution-reduction technologies, or restructuring supply chains to deliver environmentally friendly products and services. Innovation not only demonstrates corporate responsibility but also contributes to long-term competitiveness.

4.3 Stakeholder-Level: Strengthening Oversight and Accountability Mechanisms

On one hand, stakeholder oversight should be reinforced. Employees can exercise supervisory rights

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through labor unions to safeguard their interests, while shareholders can use general meetings to press for improved ESG practices. Under such scrutiny, companies are more likely to strengthen governance, fulfill social responsibilities, and produce comprehensive and credible ESG reports. Broad societal supervision also enhances corporate credibility by reducing information asymmetry and rebuilding public trust. On the other hand, scientific exposure mechanisms should be established. Regularly disclosing the poor ESG performance of firms to the public places reputational pressure on them to improve. Non-governmental organizations can conduct field investigations to identify weaknesses in ESG practices, while investors, governments, and civil society should engage in regular dialogue with firms to provide constructive guidance. Governments can further support this process by offering technical assistance and policy guidance. Ultimately, the combination of media exposure and social supervision ensures objectivity in ESG reporting, enhances investor decision-making, and fosters a healthier market ecosystem.

5. Conclusion

The phenomenon of “superficial strength but underlying weakness” in ESG practices presents complex challenges for corporate development within China’s modernization process. Rather than contributing to value creation, such practices often produce adverse effects. Breaking this impasse requires joint efforts from governments, firms, and society at large. By improving ESG evaluation standards and regulatory systems, establishing dynamic performance monitoring mechanisms, and strengthening stakeholder oversight and exposure practices, firms can shift from passive compliance to proactive innovation. This transformation will enable the integration of economic value with social value, ultimately advancing sustainable, high-quality corporate development.

Funding

This study was supported by the Guangdong Provincial Philosophy and Social Sciences Planning General Project (2024), “ESG Empowerment for High-Quality Corporate Development under the New Vision of Chinese Modernization: Effects, Mechanisms, and Path Optimization” (Project No. GD24CGL41).

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