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# The Impact of ESG Performance on Corporate Financial Performance in the Context of Chinese-Style Modernization

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**Abstract:**
*ESG is a significant manifestation of a corporation's social responsibility and sustainable development. The relationship between corporate ESG performance and financial performance has always been a hot topic in academia. This article summarizes the research conclusions between ESG performance and financial performance from both theoretical and empirical perspectives, then focuses on analyzing the impact of ESG performance on corporate financial performance under the backdrop of Chinese-style modernization.*

**Keywords:**
*ESG Performance; Corporate Financial Performance; Impact Relationship; Chinese-Style Modernization Background*

## 1. Introduction

ESG, while emphasizing corporate environmental and governance performance, also pays attention to society. It is an acronym covering three major areas: Environment, Social, and Governance. Compared to financial performance, ESG places greater emphasis on a set of standards and investment philosophies that evaluate company performance through indicators including environmental impact, social impact, and corporate governance performance. Each ESG indicator corresponds to a rating, and the overall ESG rating is determined through the ratings of all sub-indicators. The ESG rating serves not only as a judgment standard but also as a reference. On one hand, corporations can identify their shortcomings based on the ESG rating, thereby adjusting their development strategies and business policies to fulfill their social responsibilities. On the other hand, corporations can present a comprehensive display to stakeholders, especially investors, based on the ESG rating, disclosing the company's comprehensive development capabilities and enhancing corporate value.

As a criterion for comprehensive corporate development, ESG constrains corporate behavior, and a corporation's ESG performance can affect its financial performance through a "spillover" effect. The academic literature on ESG performance is rich, with many scholars focusing on its existing association with corporate financial performance. However, there is no consensus on the final conclusions. So, what is the relationship between corporate ESG performance and financial performance under the context of Chinese-style modern-

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ization? This study will provide an inductive summary.

## 2. Theoretical Impact of ESG Performance on Corporate Financial Performance

Organizational theory in business provides theoretical support for extended research in this field, leading to the development of corporate resource theory. This theory posits that internal factors are key to enhancing a company's competitive level in the market, not only due to their heterogeneity and difficulty to imitate but also because of their scarcity and the efficiency of monopolistic resources. ESG research in corporations, from the perspective of resource-based theory, begins with environmental performance, social performance, and corporate governance performance, and extends to stakeholder levels. Corporate ESG performance is a tool for signaling, providing positive information externally and influencing investors' judgments on company profits. When a company exhibits ESG performance, the market highly values it, benefiting the company's long-term development.

According to corporate resource theory, the specific impacts of corporate ESG performance are as follows: First, it strengthens existing connections with stakeholders, further gaining customer and government recognition while enhancing employee cohesion and supplier credibility, thereby improving market competitiveness. Second, it satisfies both the internal profits of a content organization, such as technological level and cultural strength, and obtains corresponding external profits, namely corporate reputation. Third, it is usually directly related to social responsibility, without considering the heterogeneous impacts generated in the field of social responsibility, nor the relationship with its own capabilities and resources. In other words, although a company can improve resource advantages and enhance competitive strength through ESG performance, not all ESG performances can do so, and they are directly influenced by the company's current situation.

From this, it is evident that under the perspective of corporate resource theory, the outcomes of corporate ESG performance vary. On one hand, when ESG performance is superior, it not only enhances environmental and corporate governance performance levels but also improves social performance. Corporate environmental performance aids in the company's sustainable development, social performance helps win a good social image, and corporate governance performance can better improve the company's governance efficiency, thus bringing both internal and external competitive advantages and improving corporate financial performance. On the other hand, if a company excessively pursues ESG performance, it may backfire. In the pursuit of ESG performance, a company may overlook its resource capabilities, and if it exceeds the scope of its resources, the results may not be ideal. For example, excessively pursuing environmental performance may invisibly increase the company's cost expenditures, overly pursuing social performance may bring a heavy social burden, and excessively pursuing corporate governance performance may lead to a detachment from production and operations, easily resulting in a decrease in corporate financial performance.

Combining the above statements about financial performance, it is not difficult to see that corporate ESG performance can generate positive value but also has negative impacts. The final outcome depends on the magnitude of the positive and negative impacts. When the "positive impact" outweighs the "negative impact," the final result is a positive effect; when the "positive impact" is less than the "negative impact," the

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result is a negative effect.

# 3. Empirical Level Impact of ESG Performance on Corporate Financial Performance

## *3.1 Overall ESG Performance and Its Impact on Corporate Financial Performance*

Reviewing domestic and international research findings, the impact of overall ESG performance on corporate financial performance can be broadly categorized into three aspects: positive impact, negative impact, and no significant impact. The main research literature results are summarized in Table 1.

*Table 1: Impact of Overall ESG Performance on Corporate Financial Performance*

| Impact Results | Main Exposition |
|---|---|
| Positive Impact | ① ESG can reduce debt costs and improve financial performance. Companies that actively disclose ESG generally perform better in ESG, which leads to lower debt costs, resulting in better ESG performance that is beneficial for improving financial performance.<br>② ESG can increase transparency, reduce volatility, and enhance financial performance. The higher the transparency of a company's disclosed ESG data, the lower the degree of information asymmetry, making it easier for investors to form stable investment relationships, thereby reducing the volatility of security yields and achieving better financial performance.<br>③ ESG can improve social reputation, promote sustainable development, and enhance financial performance. The better a company's ESG performance, the higher its score, demonstrating its social responsibility, winning a higher social reputation, which helps to better obtain social resources, gain competitive advantages, and improve financial performance. |
| Negative Impact | Despite the positive correlation between ESG performance and financial performance, this is not rigorous because it does not consider financial costs. If the costs associated with achieving ESG goals are included in the financial statements, there is a negative correlation between ESG performance and corporate financial performance. Some scholars have taken Latin America as a research area, with 2011-2015 as the research interval, selecting local multinational companies as case studies, discussing around ESG scores, and analyzing their actual association with corporate financial performance, ultimately concluding that there is a significant negative correlation between the two. |
| No Significant Correlation | Some in the academic community believe that the definition and indicators of ESG are complex and even contradictory, pointing out that there is no single, definite correlation between ESG and corporate financial performance. Some scholars, while studying the United States, also included the Asia-Pacific and European regions as research areas, comparing the Sharpe ratios of stock portfolios, and noting that for passive portfolios, there is no significant difference in performance obtained through ESG screening, meaning corporate ESG performance is not correlated with satisfactory financial performance. |

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### *3.2 Impact of Individual ESG Dimensions on Corporate Financial Performance*

Upon reviewing related domestic and international research findings, it is clear that the impact of individual ESG dimensions on corporate financial performance varies significantly, and there is no unified consensus. The main research literature results are summarized in Table 2.

*Table 2: Impact of Individual ESG Dimensions on Corporate Financial Performance*

| Impact Results | Environmental Performance and corporate social responsibility | Social Performance and corporate social responsibility | Corporate Governance and corporate social responsibility |
|---|---|---|---|
| Positive Impact | Publicly taking on social responsibilities can highlight a company's performance advantages and increase external credibility, thereby improving financial performance. | In the manufacturing sector, when a company actively manages and takes on more social responsibilities, it can further improve financial performance levels. | There is a clear positive relationship between the proportion of shares held by shareholders and corporate financial performance. |
| Negative Impact | If proactive actions are taken against a negative environment while accelerating economic development, this can negatively correlate with financial performance. | From the perspective of stakeholders, neglecting long-term development, even while taking on social responsibilities, can suppress financial performance. | There is no correlation between the size of the board of directors and corporate financial performance. |
| No Significant Correlation | There is no short-term correlation between environmental performance and financial performance. | If there is no significant effect at the level of social responsibility, the financial manifestation may also lag, showing no correlation. | There is no significant correlation between corporate governance and financial performance because changes in financial performance are a reflection of operational development influenced by corporate governance. |

## 4. The Impact of ESG Performance on Corporate Financial Performance Under the Context of Chinese-Style Modernization

Under the "dual carbon" goal, Chinese enterprises are increasingly required to focus on resource conservation and low-carbon production. This extends from environmental actions to social and corporate governance actions, forming the ESG performance under the context of Chinese-style modernization. In other words, while fully reflecting environmental performance, companies are also continuously optimizing corporate governance performance and enhancing social performance.

Considering the broader context of modernization in China, the specific impact of corporate ESG perfor-

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mance on financial performance can be discussed from the following three aspects:

### *4.1 The Impact of Individual ESG Performance on Corporate Financial Performance*

In terms of corporate financial performance, its association with environmental performance is as follows: Beyond upstream and downstream enterprises, the principal-agent theory also includes investors, and the asymmetry of information resources between enterprises and stakeholders becomes the greatest obstacle. Since modernization, companies dedicated to environmental protection, pollution control, and actively disclosing their environmental information have been able to enhance their social credibility and reputation, creating a positive operational image in the market. Influenced by the broader social environment, such companies can also enjoy national green subsidy policies and even meet financing needs through green bonds, thereby achieving the goal of improving financial performance.

In terms of corporate financial performance, its association with social performance is as follows: Enterprises and the social environment on which they depend affect each other. Since modernization, other stakeholders in society directly influence the trend of corporate interests. Therefore, positive feedback to society can have a positive impact on enterprises, presenting them with a more sought-after positive image. Based on China's modernization environment, such enterprises can more easily transmit their positive corporate signals externally, enhancing society's recognition and understanding of the enterprise, which is conducive to promoting further cooperation between all sectors of society and the enterprise, thus improving financial performance.

In terms of corporate financial performance, its association with governance performance is as follows: Internally, an enterprise is an independent large system. The company's governance structure can affect not only the efficiency of corporate decision-making but also the efficiency of operations. A scientific corporate governance structure is more likely to win the favor of investors. Under the background of Chinese-style modernization, building a corporate governance system is beneficial for enhancing internal control, reducing management inaction and speculative behavior, and improving corporate financial performance. Moreover, under the background of Chinese-style modernization, such enterprises can achieve sustainability and stability of development at the institutional level, continuously approaching the corporate development goals, comprehensively improving their performance level, and helping enterprises obtain higher financial performance.

In summary, in the process of seeking development under the background of Chinese-style modernization, enterprises can not only improve their financial performance through environmental and corporate governance performance but also enhance their financial performance level with the help of social performance.

### *4.2 The Overall Impact of ESG Performance on Corporate Financial Performance*

Under the backdrop of Chinese-style modernization, the concept of ESG has been continuously deepened and developed in corporate operations. It has become a consensus to focus on and value ESG performance. However, the relationship between ESG performance and corporate financial performance also shows significant differences in practice. A company with good ESG performance does not necessarily have good financial performance, and a company with high financial performance does not necessarily have a high ESG rating. That is to say, under the context of Chinese-style modernization, the relationship between overall ESG per-

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formance and corporate performance is complex, and the impact results are inconsistent.

One viewpoint starts from the perspective of information asymmetry. Observing the specific circumstances of enterprises, it points out that maintaining excellent ESG performance is an important basis for judging the current financing situation of a company. Therefore, valuing and emphasizing the disclosure of ESG information is significant, as it can reduce the phenomenon of information asymmetry between parties, improve governance levels, and effectively enhance overall profitability. Based on this, it concludes that better ESG performance can significantly improve financial performance.

Other scholars have analyzed from the perspective of cost management. According to the development of ESG, continuously increasing regulatory signals will demand higher standards from those with excellent ESG performance. In addition to actively taking on environmental responsibilities and increasing governance investments, companies must also operate by taking on more social responsibilities, thereby quickly offsetting the income effect. Therefore, when ESG performance is at a high level, the operational pressure on the company increases, which is not conducive to profitability. From this angle, corporate ESG performance has a negative impact on corporate financial performance.

In conclusion, under the context of Chinese-style modernization, corporate ESG performance has a "dual-faced" impact on corporate financial performance, both positive and negative.

### *4.3 The Impact of ESG Performance on Corporate Financial Performance Under Different Conditions*

In the process of seeking development under the backdrop of Chinese-style modernization, the specific impact of ESG performance on corporate financial performance is directly related to the nature of the enterprise, in addition to the size of the enterprise and the industry it operates in.

From the perspective of enterprise size, according to the theory of economies of scale, when enterprises are primarily small and medium-sized, they usually expand their scale by reducing the average cost consumption and attempt to enhance profitability accordingly. Generally, such enterprises not only avoid high-cost environmental and corporate governance performance but also avoid high-cost social responsibility performance. However, this is not the case for large enterprises. Therefore, compared to large enterprises, the financial performance impact effect produced by small and medium-sized enterprises is smaller.

From the perspective of the nature of the enterprise, state-owned enterprises always implement various policies issued by our country, actively fulfill environmental responsibilities, maintain the ecological environment, prioritize social responsibilities, and continuously improve their governance capabilities. Compared to non-state-owned enterprises, the inherent attributes of state-owned enterprises require them to fulfill ESG responsibilities, and even if their ESG performance is good, the public will consider it "a matter of course." Therefore, compared to non-state-owned enterprises, the financial performance impact effect produced by state-owned enterprises is smaller.

From the perspective of the current industry, when an enterprise has a high level of pollution, increasing the intensity of ESG information disclosure is also a way to enhance its value. However, once entering the oper-

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ational phase, the enterprise must increase its investment scale to enhance ESG assurance; when the level of pollution is too high, it needs to pay a higher cost, which cannot significantly improve profitability. Therefore, compared to low-pollution or non-pollution enterprises, the financial performance impact effect produced by high-pollution enterprises is smaller.

In summary, under the backdrop of Chinese-style modernization, the degree of impact of ESG performance on corporate financial performance varies according to the size of the enterprise, the nature of the enterprise, and the category of the industry to which the enterprise belongs.

## 5. Conclusion

In summary, after analyzing the performance of corporate ESG and financial performance from the perspective of corporate resource theory, it is found that they have both positive and negative correlations. Combining the academic research on ESG performance and its dimensions, it is known that in addition to being positively correlated and uncorrelated, there is also a negative correlation with financial performance. Under the context of Chinese-style modernization, each dimension of ESG performance is positively correlated with financial performance, while the overall ESG performance can have both positive and negative impacts. At the same time, the degree of impact on large enterprises, non-state-owned enterprises, and non-polluting enterprises is higher than that on small and medium-sized enterprises, state-owned enterprises, and high-pollution enterprises.

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