

The Relationship between ESG Performance and Corporate Performance - Based on Stakeholder Theory

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Abstract: Stakeholder theory has been widely used in business management research by scholars of various disciplines at home and abroad. Initially, stakeholder theory asserted that the growth of any company is inseparable from stakeholders, emphasizing the consideration of stakeholders when making or implementing decisions. However, in recent years, with the deepening of theoretical research, the scope of stakeholder theory research has been expanding, and environmental, social and governance (ESG) has become one of the important aspects of stakeholder theory research. This paper explores the relationship between ESG, and corporate performance based on stakeholder theory. Stakeholder theory suggests that by demonstrating strong ESG performance, companies can gain buy-in from both external and internal stakeholders. ESG can meet the needs of both external and internal stakeholders. As a result, it not only enhances the brand image, but also improves operational efficiency, which in turn improves the quality of sales and services. Ultimately, this helps to improve business performance.

1. Introduction

Against the backdrop of continuous economic development and comprehensive technological progress in the domestic landscape, corporate performance stands as the goal of business operations. It serves as the safeguard for corporate growth and forms the foundation for a company's survival in the market. However, with the evolution of time, consumer and legal expectations of businesses are on the rise. Companies cannot exist independently of the environment, ecology, and society, with an increasing number of factors becoming stakeholders in businesses. Consequently, corporate performance is influenced by numerous stakeholder factors, and the impact of corporate governance, ecological environment, and societal aspects on corporate performance is growing.

Hence, companies must prioritize issues related to the ecological environment, society, and corporate governance; otherwise, it will significantly impact corporate performance. The emergence of ESG performance in businesses is designed to measure a company's performance in terms of the ecological environment, society, and corporate governance. By evaluating unseen factors, it provides a more intuitive reflection of a company's performance in these areas. This, in turn, reflects a company's social recognition, the extent of its social responsibility, the establishment of a positive brand image, and the dissemination of the brand's influence.

According to Freeman's description, stakeholder theory, when applied to corporate governance, encompasses a broad spectrum of entities, including managers, consumers,

investors, and any group related to corporate management [1]. The theory, expanding its influence after the 1980s, began affecting the corporate governance models of English and American companies, promoting a shift in management practices. Subsequently, it became the theoretical foundation for various disciplines such as management and economics in China.

In the present day, both the government and businesses are increasingly valuing the application of stakeholder theory in performance evaluation. In ESG research, stakeholder theory serves as a theoretical bridge, connecting and constructing with other influencing factors, contributing significantly to the academic realm. In summary, the research scope of stakeholder theory has become remarkably extensive, providing a theoretical bridge and foundation for ESG and corporate performance. Currently, numerous domestic scholars have verified the impact of ESG on corporate performance from a stakeholder perspective, concluding that, under stakeholder theory, good ESG performance correlates with higher corporate performance. Therefore, it is inferred that under stakeholder theory, ESG does have an impact on corporate performance.

Initially centered on straightforward charitable actions, the notion of corporate responsibility has maturely evolved, embodying a broad spectrum of practices under the Environmental, Social, and Governance (ESG) umbrella as it stands today. This journey from simple acts of philanthropy to an integrated strategic approach underscores a paradigm shift in the corporate world. Early CSR efforts were mainly about financial donations to community projects or social causes, but now, the scope has significantly widened. Modern CSR encompasses a

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deep commitment to maintaining ethical employment standards, actively preserving the environment, and upholding stringent governance standards with an unwavering focus on transparency and accountability. This shift is a direct response to the increasing calls from the public for businesses to go beyond merely generating profits and to play a substantive role in tackling pressing global issues. Today, embedding CSR and ESG into the very fabric of corporate strategy is deemed essential, marking their critical contribution to the development of sustainable business models that aim to have a lasting, positive impact on society.

2.Literature Review

Zhang Zhongxiang et al., analyzing the necessity of government accounting reform, elucidate the impact of government accounting on financial management in universities. The research indicates that government reforms contribute to updating the financial management philosophy in universities, fostering a more scientifically rational approach to financial management, and thereby promoting the overall development of university education.

Du Zemin et al., adopting a perspective on foreign ESG development, analyze the influence of foreign ESG evaluations. The study reveals that embracing the ESG philosophy facilitates sustainable development for businesses.

Li Jiangtao et al., utilizing the China Securities Regulatory Commission's "Guidelines for Industry Classification of Listed Companies (Revised in 2012)" as a standard, select data from A-share pharmaceutical manufacturing industry-listed companies for the years 2015-2019 as their research sample. Employing a media attention perspective, they analyze the impact of ESG performance on corporate performance. The research finds that a strong ESG performance contributes to increased media attention, subsequently enhancing the financial performance of companies.

Sun Hui et al., are based on stakeholder theory. We believe that fulfilling ESG responsibilities creates a strong connection between the company and stakeholder groups, helps the company access scarce resources, and thus improves corporate performance.

Xie Liufang et al., using A-share listed companies from 2010 to 2021 as their research sample, conduct a series of analyses, including descriptive statistical analysis. The conclusion drawn is that a robust ESG performance can alleviate corporate financing constraints.

Bai Xiong et al. used the panel data of 3,400 listed companies from 2013 to 2020 to analyze the impact and mechanism of ESG performance on corporate value. The results of the study suggest that good ESG performance can enhance corporate value by increasing the shareholding ratio of institutional investors.

Albert Tsang makes recommendations for the future based on a comprehensive review of the ESG disclosure literature in accounting research. The key role of non-financial rating agencies as a new type of ESG information intermediary in the capital market is discussed, and opportunities for future research are proposed.

Maxime L.D. Nicolas focuses on the impact of social media. Using a dataset of 114 million tweets about S&P 100 listed companies between 2016 and 2022, the occurrence of ESG risk events resulted in a statistically significant average reduction in abnormal returns

3.Relationship between ESG Performance and Corporate Performance

Global climate change represents a significant challenge facing society today, with profound impacts on the environment ranging from increased extreme weather events to ecosystem destruction, all of which threaten human ways of life. As global warming leads to glacier melting, sea level rise, and shifts in agricultural production patterns, governments and international organizations are seeking strategies to cope. Against this backdrop, the role of businesses becomes especially crucial. Businesses are required not only to be accountable for their environmental footprints but also to integrate the impacts of climate change into their operational strategies. The environmental dimension of ESG (Environmental, Social, and Governance) criteria compels companies to adopt sustainable practices, reduce carbon emissions, and embrace green technologies. Investors and consumers are increasingly favoring businesses that are committed to mitigating the impacts of climate change and demonstrate environmental responsibility, further driving corporate efforts in climate action. Therefore, understanding the background of global climate change is essential for exploring the impact of ESG on corporate performance. This ground-breaking exploration of ESG emerged because of collaborative efforts by 20 financial institutions hailing from nine countries during the 1980s. The primary objective was to delve into more effective ways of incorporating environmental, social, and governance considerations into various economic activities, ranging from corporate operations to securities services [1]. Signal transmission theory posits that overall factor productivity is intricately connected to factors such as consumer trust, the alleviation of financing constraints, corporate innovation capabilities, and production efficiency. ESG represents Environmental, Social, and Governance aspects. First introduced in the 1980s, ESG gained momentum with the participation of 20 financial institutions from 9 countries in research aimed at exploring the better integration of environmental, social, and governance issues with various economic activities such as corporate operations and securities services [2]. The factors influencing corporate performance can be considered from external and internal perspectives.

Externally, a company's brand image plays a crucial role in corporate performance. A positive brand image enhances credibility in the eyes of consumers, attracting more attention and fostering customer loyalty. Consumer demands also significantly impact corporate performance, as continuous surveys help companies understand market trends and adapt to dynamic market conditions. Internally, effective management and strong team cohesion are essential for improving corporate performance. Efficient

management ensures optimal resource utilization, while team cohesion inspires collaboration and initiative among employees, contributing to operational efficiency and increased employee motivation.

Investor trust, stock prices, and shareholder relationships are linked to a company's financial condition and market value. Building investor trust facilitates financing and high-quality development. ESG encompasses three key aspects: environmental issues, social issues, and corporate governance.

Discussing how Environmental, Social, and Governance (ESG) metrics influence firm achievements necessitates considering the evolving preferences of investors and consumers. This shift towards prioritizing companies that uphold ESG standards signifies a broader, more conscientious engagement with the market.

The finance community is progressively choosing to invest in entities that demonstrate a robust commitment to sustainable, ethical, and socially responsible practices, recognizing these as markers of foresight and resilience against future uncertainties. Meanwhile, the consumer base is gravitating towards businesses that reflect their values regarding sustainability, ethical production, and social equity, marking a significant trend towards deliberate and values-based purchasing decisions.

This change in market behavior underscores the strategic significance of incorporating ESG considerations into business planning. Firms that align with these emerging market values not only enhance their competitive positioning but also contribute significantly to advancing a sustainable, durable economic framework. Such alignment fosters innovation, bolstering the firm's standing in an increasingly competitive and environmentally conscious global marketplace.

Acknowledging this transformation in market dynamics is essential for an in-depth understanding of the impact of ESG factors on business success. It highlights the imperative for enterprises to navigate evolving market expectations, emphasizing ESG's pivotal role in addressing today's economic, environmental, and social challenges.

Environmental considerations directly involve a company's commitment to and contribution to the ecological environment. Environmental measures not only impact brand image but are also closely connected to social responsibility and sustainable development. Active participation in environmental activities helps companies establish a positive reputation in society, conveying a commitment to ecological sustainability. This environmentally friendly image increases social recognition, enhances brand image, influences customer loyalty, and ultimately contributes to increased brand value and improved corporate performance.

A company's environmental focus contributes to social responsibility, meeting consumer and societal demands, reducing the costs of environmental protection law violations, attracting investor interest, and alleviating financing constraints, ultimately improving corporate performance.

Social issues in ESG emphasize a company's positive contributions to society, such as charitable donations and community services. Based on stakeholder theory, a

company's strong ESG performance increases media attention. Media coverage of a company's social contributions conveys its social responsibility to stakeholders, building a positive image and increasing public recognition, thereby promoting improved financial performance[3]. Additionally, outstanding ESG performance establishes close connections between the company and stakeholders, maximizing value creation for stakeholders and helping the company obtain scarce resources, ultimately enhancing corporate performance[4]. Good social contributions also increase investor interest, as investors prefer to invest in socially responsible companies. This optimizes the financing environment, reduces financing constraints and costs, contributing to improved corporate performance. A company's strong social responsibility also influences collaborators, enhancing the company's reputation and strengthening collaboration, leading to more collaborators, increased profitability projects, and improved corporate performance [5].

Lastly, corporate governance issues in ESG involve internal structures, decision-making systems, and team cohesion. Effective corporate governance contributes to increased internal operational efficiency, creating a better work environment, stimulating employee enthusiasm and creativity. Optimizing corporate governance structures enhances transparency and information disclosure, reducing investment risks and increasing investor trust, stabilizing stock prices, lowering financing costs, and ultimately improving business performance.

Investors prioritize a company's intrinsic value over operational performance [6]. A strong corporate governance system, where shareholders dominate decision-making, protects shareholder rights, increases investor inclination, and helps reduce financing costs, improving operational efficiency and long-term performance. The connection between ESG performance and corporate performance is multi-layered and multifaceted. ESG performance is not only a moral obligation but also a strategic focus that enhances a company's market image, competitiveness, and, ultimately, its performance. A well-established corporate governance system contributes to a positive company image, lowers financing costs, and has far-reaching effects on corporate performance.

Otherwise, exploring the impact of ESG (Environmental, Social, and Governance) on corporate performance while considering cultural variations deepens our understanding by highlighting the diverse ways in which ESG criteria are interpreted and applied across different cultural landscapes. This diversity reflects differing societal norms, regulatory frameworks, and expectations from stakeholders, shaping how organizations address environmental, social, and governance issues.

For example, in cultures that prioritize communal welfare and social equity, there might be a stronger focus on the social components of ESG, such as promoting labor rights, enhancing employee welfare, and fostering community relations. Meanwhile, in areas where environmental preservation is paramount, efforts may lean

towards sustainable practices, lowering carbon footprints, and safeguarding biodiversity.

Additionally, governance practices, encompassing transparency, ethical behavior, and diversity within corporate leadership, can vary based on local norms and regulatory stipulations. Certain cultures demand extensive transparency and active stakeholder participation, while others may permit a more closed approach to business operations.

Recognizing these cultural distinctions allows companies to adapt their ESG strategies effectively, aligning them with both global standards and local values. This not only bolsters corporate performance by ensuring global and local compliance but also strengthens community support and participation, thereby fostering a sustainable and ethically responsible business environment worldwide.

Thus, considering cultural differences is essential for a nuanced analysis of ESG's influence on corporate performance, underscoring the importance of a context-aware and culturally informed approach to the integration and communication of ESG initiatives.

4. Conclusion

The impact of corporate ESG performance on corporate performance is crucial and deserves significant attention. Researching the significance of ESG on corporate performance allows companies to explore avenues for improving performance, thereby diversifying decision-making. By broadening the channels of approach, companies can consider multiple aspects in decision-making, enhancing the scientific and feasible nature of their decisions.

The importance of studying the impact of corporate ESG performance on corporate performance lies in increasing emphasis on ESG performance. This shift ensures that decision-making extends beyond immediate benefits, directing the company's focus towards areas that are favorable for society, the environment, and the company itself. It signifies the company's commitment to social responsibility, environmental awareness, and compliance with environmental protection laws. The necessity arises from the risk of companies falling into a profit-centric mindset without understanding the broader implications. Without such research, companies may predominantly prioritize their interests, neglecting responsibilities towards society and the environment.

The influence of corporate ESG performance on corporate performance is not widely recognized and needs further promotion. On the government front, establishing ESG disclosure policies or regulatory frameworks can ensure fairness and reasonableness, encouraging more companies to participate. Additionally, implementing corporate rating systems that reward or penalize companies based on their ESG performance can raise awareness and appropriately recognize socially responsible companies.

Within companies, it is essential to raise awareness among employees and management regarding ESG considerations. Conducting training on ESG-related topics

for both employees and managers enhances their understanding. Integrating ESG into employee and management performance assessments encourages a broader perspective on corporate development, emphasizing social responsibility and the establishment of environmentally friendly businesses. Stakeholders, including shareholders, managers, employees, and society as a whole [7].

A business's reputation can affect the financial consequences [8] Good ESG performance not only represents corporate social responsibility but also meets the needs of internal and external stakeholders, contributing to improved corporate performance. A broader focus on ESG factors in decision-making benefits both the company and its stakeholders.

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