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# *The Mechanism and Research of ESG Performance's Impact on Corporate Value: A Systematic Analysis Based on Literature from the Past Five Years*

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***Abstract.*** Against the backdrop of the advancing global sustainability agenda and China's "dual carbon" strategy, environmental, social and governance (ESG) factors have emerged as pivotal determinants of enterprises' long-term competitiveness. This study systematically reviews extant literature (2019–2024) exploring the impact of ESG performance on corporate value, and further delves into its inherent mechanisms and boundary conditions. Drawing on a systematic literature review methodology, this paper integrates stakeholder theory, the resource-based view, and information asymmetry theory to construct a three-dimensional theoretical framework: 'ESG performance–transmission mechanisms–corporate value'. Research findings reveal that ESG performance primarily enhances corporate value through three core transmission pathways: firstly, the financial pathway, which is realised by improving corporate creditworthiness and attracting long-term institutional investors; secondly, the market pathway, which enhances brand reputation and secures stakeholder endorsement; and thirdly, the innovation pathway, which fosters green technological innovation and optimises human capital allocation. Furthermore, the study identifies key moderating factors such as institutional environment, industry attributes, and corporate life cycle stage. Findings further illustrate that superior ESG performance is not merely a cost burden but rather a strategic asset that empowers enterprises to attain sustainable competitive advantage.

***Keywords:*** ESG, corporate value, impact mechanism, stakeholder theory, systematic review

## 1. Introduction

Since the dawn of the 2020s, issues such as climate change, social equity and corporate governance have attracted growing attention from society at large. The ESG philosophy embodies an investment approach that emphasises core corporate performance across environmental, social, and governance dimensions, while also serving as a normative framework for guiding corporate operations. Globally, ESG has transitioned from a peripheral ethical practice to a mainstream consensus within capital markets and the real economy. This transformation has been driven by the dual drivers of escalating regulatory oversight and rising investor attention. Against this backdrop, China's national strategy of achieving "carbon peak and carbon neutrality" has elevated ESG to an unprecedented

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strategic height. Theoretically, however, debate persists between the "value creation theory" and the "shareholder cost theory" regarding whether ESG performance enhances corporate value. While a multitude of studies have sought to address this issue, the literature over the past five years exhibits distinct new features: research focus has shifted from a sole focus on testing 'correlation' to more detailed exploration of complex 'impact mechanisms' and 'boundary conditions'. Existing studies have identified multiple influence pathways but fail to systematically integrate "transmission mechanisms" and "boundary conditions".

This paper focuses on exploring the intrinsic mechanisms through which corporate ESG performance has influenced value over the past five years. The core research questions encompass, firstly, the key mediating pathways through which ESG exerts its influence on corporate value and, secondly, whether these effects vary significantly across different contextual settings (such as institutional frameworks, industry sectors, and firm characteristics). Employing a systematic literature review methodology, this study analyses core journal articles in both Chinese and English from 2019 to 2024 to remedy the deficiency in the systematic integration of theoretical frameworks. By synthesising multiple theoretical perspectives, it aims to construct a more systematic theoretical model of ESG value creation mechanisms, thereby providing clear theoretical guidance for understanding the transformation process from corporate ESG "practices" to "value realisation".

## 2. Literature review and theoretical foundations

### 2.1. ESG and corporate value: debates and evolution of their relationship

Pioneering research on the relationship between ESG (or CSR) and financial performance produced inconsistent findings. However, systematic reviews and empirical analyses undertaken over the past five years demonstrate that evidence in favour of the "value creation theory" has attained a dominant status. Gillan et al. point out that while certain measurement challenges persist—including inconsistencies in ESG performance metrics and selection bias in financial performance indicators—nevertheless, the majority of studies have confirmed a positive correlation between sound ESG performance and superior financial outcomes, in conjunction with valuation metrics such as Tobin's Q [1]. Moreover, the discourse surrounding this relationship has gradually shifted its focus from the fundamental question of "whether it works" to exploring "why it works" and "under what conditions it proves most effective". Li et al. developed a cross-country panel data model to verify that the value-enhancing effect of ESG performance is more pronounced in economies with higher marketisation levels and remains stable across economic cycles [2].

Furthermore, research on China's A-share market has enriched the academic discourse regarding the relationship between ESG and corporate value. Han, M. W., et al. carried out empirical tests using a sample of non-financial listed companies on China's A-share market covering the period 2018–2022. Their findings indicated that ESG performance exerts a significant positive driving effect on corporate value, with the transmission pathway being "ESG performance – alleviating financing constraints – enhancing corporate value" [3]. The study specifically emphasises that this positive effect is more pronounced in non-state-owned enterprises and companies with concurrent executive positions. Non-state-owned enterprises, which face greater market competition pressure, are more dependent on fostering differentiated advantages through ESG performance to obtain financing support.

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## 2.2. Core theoretical foundations

(1) Stakeholder Theory: This theory posits that an enterprise constitutes a collaborative entity encompassing diverse stakeholders such as employees, customers, suppliers, communities, and governments. Fulfilling the expectations of various stakeholders enables enterprises to accumulate trust capital, reduce transaction costs, and thereby generate long-term value. ESG acts as the core instrument for corporate management and nurtures relationships with these multifaceted stakeholders.

(2) The resource-based view posits that enterprises constitute a collection of unique resources. Superior ESG performance enables companies to nurture intangible assets that are difficult for competitors to replicate, such as green technology patents, premium brand reputation, and a highly competent and loyal workforce. These intangible assets constitute the critical resources and core competencies for enterprises in the era of sustainable development.

(3) Theory of Information Asymmetry: ESG disclosure, as a signalling mechanism, enables companies to demonstrate their high-quality management standards, long-term strategic vision and sound risk management capabilities to the market. This alleviates information asymmetry between internal and external stakeholders, diminishes the uncertainty discount borne by investors, and thereby drives an increase in corporate valuations.

## 3. The core mechanisms through which ESG influences corporate value

Based on the aforementioned theories, this paper has identified three core pathways of influence.

## 3.1. Path one: the financial pathway – reducing capital costs and enhancing risk resilience

The financial pathway constitutes the most direct channel via which ESG performance impacts corporate value. When a company exhibits sound ESG performance, particularly robust governance structures and transparent environmental disclosures, it conveys a positive signal to creditors. This signal signifies the enterprise's long-term operational stability and controllable risk profile. Empirical studies by Zhang Lin and Ye Kangtao demonstrate that enterprises with leading ESG performance exhibit significantly lower debt financing costs. From the equity perspective, strong ESG performance attracts institutional investors adhering to long-term value investment principles, thereby reducing the cost of equity capital [4].

ESG serves as a corporate 'risk shock absorber'. From an environmental perspective, enterprises proactively engaging in emission reduction and effectively responding to climate change can mitigate "carbon risks" and potential environmental penalties. From a social perspective, enterprises fostering harmonious labour relations and implementing responsible supply chain management can mitigate operational disruption risks. In terms of governance, enterprises with robust board oversight and anti-corruption mechanisms can mitigate agency costs and compliance risks. Albuquerque et al. theoretically elaborated and empirically validated the specific mechanism through which CSR (as a proxy for ESG) enhances corporate value by reducing systemic and idiosyncratic risks [5]. International evidence from Dyck et al. further corroborates this view [6]. Such comprehensive risk management capabilities stabilise expectations regarding a company's future cash flows, thereby prompting the market to assign it a valuation premium.

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### 3.2. Pathway two: the market approach – enhancing reputation and securing stakeholder support

In the consumer market, as social responsibility awareness grows among consumers, individuals are increasingly willing to pay a premium for brands with strong ESG reputations. Corporate environmental innovation and philanthropic endeavours effectively enhance brand loyalty and expand market share. For instance, enterprises prioritising environmentally friendly materials are more likely to gain consumer preference, while brands proactively participating in charitable activities strengthen consumers' emotional affinity—both of which directly translate into market competitiveness.

In the talent market, ESG performance—particularly investments in the social dimension such as employee welfare and career development support—significantly enhances an organisation's employer brand attractiveness, thereby boosting its operational efficiency and innovation capacity.

At the government-community interface, enterprises that proactively fulfil their environmental and social responsibilities are more likely to obtain governmental policy support, tax incentives, and community recognition, thereby fostering a conducive external environment for business operations. The meta-analysis by Grewatsch and Kleindienst explicitly identifies reputation and stakeholder relations as key mediating variables in the value creation process of CSR/ESG initiatives [7].

### 3.3. Path three: the innovation pathway – driving green innovation and optimising human capital

This constitutes the most strategically critical pathway of influence.

Driving innovation: Firms must pursue green technological innovation to respond to stringent environmental regulations and market demands. Although costly, successful green innovation enables companies to meet compliance requirements while simultaneously unlocking new market opportunities through enhanced resource efficiency and green product development. This helps enterprises form formidable first-mover advantages and technological barriers. Research by Wang Bo and Li Ni on Chinese listed companies demonstrates that superior ESG performance significantly drives corporate green innovation [8].

In terms of optimising human capital, when employees work for an enterprise that upholds social responsibility, their intrinsic motivation, sense of belonging to the organisation, and commitment are significantly enhanced. The creativity, collaborative spirit, and loyalty derived from this sense of purpose constitute precisely the most valuable and difficult-to-replicate core assets of a business, directly driving the continuous growth of its value. Flammer's research on green bonds further corroborates this perspective, revealing that corporate environmental commitments send strong positive signals to various markets—including the talent market. For instance, in the automotive sector, the yield differential between conventional bonds and green bonds stands at approximately 5% [9].

## 4. Discussion: boundary conditions of impact

The value creation effects of ESG do not exhibit universal validity; their effectiveness is moderated by various contextual factors.

1. Institutional Environment: In regions characterised by stringent environmental regulations, robust enforcement, and intensive media supervision, the value-creating effects of ESG practices

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tend to be more pronounced. China's "dual carbon" policy is currently exerting a profound shaping effect on such an institutional environment.

2. Industry Characteristics: For sectors with heightened environmental sensitivity—such as energy and chemicals—or strong social sensitivity—such as food and finance—ESG performance frequently exerts a more direct and salient impact on corporate value.

3. Companies in the mature phase of their lifecycle typically own more abundant resources and sophisticated management systems, which may enable them to more effectively transform ESG investments into strategic advantages. In contrast, start-ups typically confront substantial resource constraints, resulting in longer return cycles for their ESG investments.

4. Quality of ESG Disclosure: Authentic, accurate, and timely ESG disclosure is a crucial prerequisite for the market to appropriately evaluate a company's ESG value. Empirical research by Chen Chen and Jia Ximeng reveals that the quality of non-financial information disclosure directly affects capital costs. High-quality non-financial information disclosure signals corporate integrity to investors, enhancing trust and reducing equity capital costs [10]. If greenwashing practices are identified, they will severely damage a company's reputation and erode its corporate value.

## 5. Conclusion

This study reveals that ESG performance affects corporate value through three core pathways: the financial pathway, the market pathway, and the innovation pathway. The underlying mechanisms of this impact are remarkably complex. Relevant research indicates that the value-creating nature of ESG constitutes a systemic process. This process relies on stakeholder endorsement, necessitates the continuous accumulation of heterogeneous resources, and is further enhanced through signalling mechanisms. Moreover, the intensity of its impact is jointly constrained by external institutional environments and internal corporate characteristics. The conclusions presented herein are based on extant research findings. Future research may advance in the following directions:

1. Empirical testing of mechanisms: Future research may adopt large-sample panel data and structural equation modelling to conduct rigorous empirical tests of the three mediating pathways proposed in this study.

2. Research on dimensional heterogeneity: Deepen the exploration of the distinct value creation mechanisms within each E, S, and G dimension and their interactive effects, moving beyond the homogenised treatment of ESG as an integrated construct.

3. Research in the Chinese Context: Incorporate uniquely Chinese institutional and cultural factors—such as Confucian culture, government-enterprise relations, and state-owned enterprise reforms—to uncover distinctive pathways through which ESG influences corporate development.

4. Greenwashing Identification and Consequences: Develop effective identification methodologies for greenwashing practices while conducting in-depth research on their long-term, disruptive impacts on both enterprises and capital markets.

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