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Research on How ESG Performance Affects Enterprise Value — Empirical Evidence from Shanghai and Shenzhen A-share Listed Firms

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Abstract. This study adopts panel data covering Chinese Shanghai and Shenzhen A-share listed firms over the period from 2018 to 2023. By constructing a two-way fixed-effects model, it conducts empirical tests to explore how ESG Performance affects Enterprise Value, alongside its internal transmission paths and heterogeneous influencing characteristics. The empirical outcomes demonstrate that comprehensive and high-quality ESG performance can effectively boost corporate enterprise value, while the three sub-dimensions show differentiated influencing effects. Specifically, the social and governance dimensions deliver positive contributions to enterprise value growth, whereas the environmental dimension suppresses current-period enterprise value. This negative outcome mainly occurs because short-term environmental renovation investment occupies limited corporate operating resources. Further mechanism verification confirms that ESG factors can indirectly promote enterprise value improvement through two valid channels, including optimizing Executive Compensation incentive mechanisms and cutting down corporate Agency Costs. Heterogeneity analysis reveals that the value-adding effect of ESG performance is much more obvious in private enterprises compared with state-owned enterprises. This research offers practical references for listed companies to carry out targeted ESG construction, upgrade corporate governance systems, and realize high-quality and sustainable business development.

Keywords: ESG Performance, Enterprise Value, Executive Compensation, Agency Cost

1. Introduction

1.1. Research background

With the widespread acceptance of global sustainable development concepts and the continuous improvement of green financial systems worldwide, the ESG (Environment, Social, Governance) evaluation framework has gradually become a mainstream standard in capital markets. Investors and institutional analysts currently rely on this system to judge listed firms' long-term development potential, social responsibility implementation status and overall risk resistance capacity. Under the joint promotion of the dual carbon strategic goal and strict industry regulatory policies, China's ESG

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institutional system has achieved rapid improvement in recent years. Multiple official regulatory documents have been released successively, such as the Enterprise Sustainability Disclosure Standards and the Sustainable Development Reporting Guidelines for Listed Companies issued by Shanghai, Shenzhen and Beijing stock exchanges. These policies jointly build a complete three-level supervision system consisting of departmental regulations, self-discipline rules and practical operational guidelines.

Relevant statistical data as of April 2025 shows that the ESG report disclosure rate of domestic A-share listed companies has reached 45.68%, rising by 6.68 percentage points compared with the 2023 level. Central state-owned holding listed firms have achieved an extremely high ESG disclosure rate of 98.3%, basically realizing full coverage of ESG information disclosure. The banking sector has maintained a 100% continuous disclosure rate for years. Meanwhile, typical high-pollution and high-emission industries including non-bank finance, steel and coal have all achieved an ESG disclosure rate exceeding 60%.

Despite the continuous improvement of overall ESG disclosure coverage in China's capital market, the actual construction quality of ESG systems varies greatly among different listed companies, which greatly weakens the positive driving effect of ESG performance on enterprise value. Up to 2024, merely 4% of domestic A-share listed companies have their ESG reports professionally verified by independent third-party institutions. Most enterprises' ESG information disclosure work is formal and stereotyped in practice. These firms usually focus on textual description and brand publicity, while ignoring quantitative data support, resulting in low-quality and ineffective ESG disclosure content.

Such non-standard disclosure makes it hard for capital market participants to accurately identify the true ESG development level of enterprises, and weakens the information transmission function of ESG indicators. In both academic research and industrial practice, there is still no unified consensus on ESG-related economic effects. Existing studies fail to clarify whether continuous ESG investment can steadily translate into tangible enterprise value. In addition, the differential action intensity and value-adding effects of the three core ESG sub-dimensions remain unclear. Moreover, the internal transmission paths, action boundaries and regulatory mechanisms of ESG affecting enterprise value differ across industry types, corporate property rights and external policy environments, which still need further systematic verification.

Based on the above research gaps, this paper systematically explores the specific impact, heterogeneous characteristics and internal transmission mechanisms of listed companies' ESG performance on enterprise value. The research conclusions can not only enrich and supplement the theoretical system of sustainable development and enterprise value research, but also provide actionable practical guidance for listed companies to formulate refined ESG development strategies, implement standardized ESG practices and maximize the value-empowering effect of ESG construction.

2. Literature review

Existing literature has sorted out multiple effective transmission paths between ESG performance and enterprise value [1]. From the perspective of financing constraint transmission, signal transmission theory indicates that excellent ESG performance can optimize the information environment of capital markets. It reduces investors' risk expectation for target enterprises, alleviates corporate financing pressure and cuts down comprehensive financing costs [2], thereby driving the growth of enterprise value. A large number of empirical studies have verified that high-quality ESG disclosure and performance can release positive signals of standardized corporate operation, sound

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internal control and stable long-term development. Such positive signals can reduce information friction between investment and financing parties, and effectively lower corporate debt financing premium and equity financing costs [3].

From the perspective of risk prevention and control, ESG indicators have obvious risk hedging and risk mitigation functions. Excellent ESG performance can reduce enterprises' systematic and non-systematic operational risks [4] and stabilize corporate cash flow levels, so as to realize steady appreciation of enterprise value. At the environmental level, long-term pollution control investment, low-carbon transformation and green production layout can help enterprises avoid compliance risks such as environmental administrative penalties, production suspension rectification and negative environmental public opinion events [5] . At the social level, protecting employee legitimate rights and interests, maintaining supply chain integrity and undertaking social public welfare responsibilities can help enterprises stabilize social reputation and reduce operational risks including customer loss, labor disputes and negative public sentiment shocks. At the governance level, reasonable equity structure, perfect internal control system and standardized information disclosure mechanism can effectively prevent internal governance risks such as major shareholder tunneling behavior, management fraud and governance failure.

Gui Hefa & Li Gang [6] confirmed that good ESG performance can significantly reduce corporate stock price crash risk and operational fluctuation risk, stabilize corporate cash flow fluctuations, and improve the operational stability and capital market valuation stability of enterprises [7]. From the perspective of technological innovation transmission, ESG construction can force enterprises to carry out green technological innovation and production mode upgrading through institutional constraints and resource allocation adjustment [8], so as to achieve long-term enterprise value growth.

On one hand, the environmental governance requirements of ESG urge enterprises to increase R&D investment in energy-saving equipment, pollution control technology and low-carbon production processes. This helps enterprises eliminate backward production capacity, reduce production energy consumption and pollutant emissions, and improve resource utilization efficiency and refined production level. On the other hand, the standardized requirements of social responsibility and governance dimensions can optimize corporate innovation decision-making mechanisms, restrain short-sighted management behaviors, guide enterprises to focus on long-term value-oriented innovation projects, and improve the input-output efficiency of innovative activities. Empirical research by Wei Xiangyue & Lu Xiangyang [9] proves that ESG performance can significantly promote both the quantity and quality of corporate green innovation. Green innovation achievements help enterprises build unique green competitive advantages, realize product value upgrading and industrial transformation, and get rid of the homogeneous low-price competition dilemma in traditional industries.

3. Research hypothesis and research design

3.1 Research hypothesis

From the perspective of enterprise value transmission mechanism, excellent ESG performance can drive enterprise value improvement through two core paths: internal governance optimization and salary incentive management.

In terms of the governance mechanism path, high-level ESG performance plays a significant positive role in optimizing corporate internal governance. According to the research of Zhang Wanming, enterprises that actively practice ESG concepts and standardize ESG information

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disclosure can further improve their internal governance structure. This practice enhances the transparency and standardization of corporate business decisions, and effectively alleviates information asymmetry and interest conflicts between shareholders and management under the modern enterprise management system. Information asymmetry is a common problem in capital market transactions, which makes it difficult for external investors to fully grasp the real operational status and potential risks of enterprises.

As a crucial non-financial evaluation indicator, ESG performance can convey positive information to the capital market about enterprises' standardized operation, controllable operational risks and strong sustainable development capabilities. This helps reduce investors' risk premium expectations, attract external capital inflows, ease corporate financing pressure, and further improve corporate market valuation. In terms of governance constraints, high-standard ESG disclosure puts corporate business behaviors and management performance under dual supervision from the market and shareholders, forming a long-term effective external supervision and internal restraint mechanism.

This mechanism can effectively restrain management's opportunistic behaviors such as blind investment, excessive on-the-job consumption and negative slack work. Meanwhile, a sound ESG governance system can standardize corporate investment and financing decisions and risk management processes, optimize the allocation efficiency of internal corporate resources, significantly reduce various types of corporate agency costs, avoid operational risks caused by internal governance frictions, stabilize corporate operating benefits, and finally realize continuous appreciation of enterprise value.

In terms of the salary management path, high-quality ESG performance can promote enterprises to build more scientific and reasonableExecutive Compensation incentive systems. Enterprises with active ESG responsibility practices usually have more standardized internal management systems. They can abandon the extensive and single salary distribution mode and establish a new executive compensation assessment mechanism linked to ESG performance and long-term value creation. This mechanism not only solves the problem of insufficient management incentive caused by low salary levels, but also avoids short-sighted decision-making behaviors and rising agency costs resulting from the disconnection between executive salary and actual performance. Based on the above theoretical analysis and logical deduction, this paper puts forward the following research hypotheses:

H1: Excellent ESG performance can significantly improve enterprise value.

H2: Excellent ESG performance promotes the growth of enterprise value by optimizing executive compensation incentive mechanisms.

H3: Excellent ESG performance reduces corporate agency costs and thus enhances enterprise value.

3.2. Research design

3.2.1. Sample selection and data sources

This research takes all Shanghai and Shenzhen A-share listed companies from 2013 to 2023 as the initial research samples. To guarantee the validity and stability of empirical data, this paper conducts standardized sample screening. First, financial and insurance listed companies are excluded due to their special financial accounting systems and unique business operation modes. Second, ST, *ST and delisted enterprises are eliminated, as these firms have abnormal operating conditions and unstable data indicators, which may interfere with empirical results.

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3.2.2. Variable definition

Enterprise Value (ROA): Return on Assets (ROA) is calculated based on official corporate financial statements, which is rarely affected by short-term secondary market sentiment fluctuations. It can stably reflect the asset profitability level and real operational value of enterprises, which is highly consistent with the research objective of exploring the actual impact of ESG performance on corporate operating value. Therefore, this paper selects ROA as the proxy variable to measure enterprise value.

The core explanatory variable of this study is corporate comprehensive ESG score, which is sourced from the annual enterprise ESG comprehensive evaluation data of the Huazheng ESG Database. A higher ESG score represents better comprehensive performance of enterprises in environmental protection, social responsibility and corporate governance, as well as a higher overall ESG development level.The specific variable definitions are shown in Table 1.

Table 1. Selection of control variables

Variable Name	Variable Code	Measurement Method
Enterprise Size	Size	Natural logarithm of total assets at the end of the year
Asset-Liability Ratio	Lev	Ratio of total liabilities to total assets at the end of the year
Return on Assets	ROA	Ratio of net profit to total assets at the end of the year
Proportion of Independent Directors	Indep	Proportion of independent directors in the total number of board members
Duality of Two Positions	Dual	Dummy variable; assigned 1 if the chairman concurrently serves as general manager, otherwise 0
Shareholding Ratio of the Largest Shareholder	Top1	Proportion of shares held by the largest shareholder in total corporate shares
Management Shareholding Ratio	Mshare	Proportion of shares held by management in total corporate shares
Enterprise Staff Scale	Employ	Natural logarithm of the total number of employees at the end of the year

3.2.3. Model construction

(1) Benchmark Regression Model

To verify the direct correlation between ESG performance and enterprise value, this paper constructs a standard two-way fixed-effects model as shown in Formula (1):

$$TobinQ_{i,t} = \alpha_0 + \alpha_1 ESG + \alpha_{i,t}\Sigma Controls_{i,t} + Year + Industry + \varepsilon_{i,t} \qquad (1)$$

In this formula, i represents individual enterprise, t represents the corresponding year, Controls refers to all selected control variables, Year and Industry represent year fixed effect and industry fixed effect respectively, and ε is the random disturbance term of the model.

(2) Mediating Effect Model

To further verify the mediating transmission role of agency cost in the benchmark relationship, this paper builds two mediating effect models as shown in Formula (2) and Formula (3):

$$AC_{i,t} = \beta_0 + \beta_1 ESG + \beta_{i,t}\Sigma Controls + Year + Industry + \varepsilon_{i,t} \qquad (2)$$

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Where $AC_{i,t}$ represents executive compensation level.

$$EC_{i,t} = \gamma_0 + \gamma_1 ESG + \gamma_{i,t} \Sigma Controls + Year + Industry + \varepsilon_{i,t} \quad (3)$$

Where $EC_{i,t}$ represents corporate agency cost.

4. Empirical results and analysis

4.1. Descriptive statistics

This paper conducts descriptive statistical analysis on all core research variables and control variables, and the specific results are displayed in Table 2.

Table 2. Descriptive statistical results

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	33,805	0.0369	0.0672	-0.3750	0.2552
esg	33,806	73.2952	4.9963	36.62	92.93
Size	33,806	22.3028	1.2992	19.5628	26.4523
Lev	33,806	0.4183	0.2024	0.0462	0.9268
Indep	33,805	37.8127	5.4025	28.57	60
Dual	33,806	0.2984	0.4576	0	1
Top1	33,806	0.3340	0.1468	0.0752	0.7573
Mshare	32,874	14.3877	19.4814	0	70.0465
Employ	33,806	5043.68	9700.09	67	71736

The statistical results in Table 2 reflect the basic distribution characteristics of all research variables. The mean value of the explained variable ROA is 0.0369 with a standard deviation of 0.0672, which indicates obvious differences in profitability levels among domestic listed companies. The core explanatory variable ESG has an average score of 73.30, showing that the overall ESG level of sample enterprises is relatively high with small individual gaps. All control variables including enterprise size, asset-liability ratio and ownership concentration are within a reasonable numerical range, which conforms to the basic operational characteristics of A-share listed companies. No extreme abnormal values appear in the sample data, laying a solid and reliable data foundation for subsequent empirical regression analysis.

4.2. Benchmark regression analysis

This paper conducts hierarchical benchmark regression to test the basic correlation between ESG performance and enterprise value, and the detailed regression results are shown in Table 3.

Table 3. Benchmark Regression Results

VARIABLES	(1) ROA	(2) ROA	(3) ROA
lnesg	0.114***	0.0312***	0.0515***

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Table 3. (continued)

	(0.00546)	(0.00844)	(0.00531)
Size		0.0116***	0.0124***
		(0.00117)	(0.000533)
Lev		-0.176***	-0.154***
		(0.00549)	(0.00250)
Indep		-0.000369***	-0.000429***
		(0.000126)	(7.52e-05)
Dual		0.00133	-0.000649
		(0.00142)	(0.000868)
Top1		0.100***	0.0779***
		(0.00838)	(0.00337)
Mshare		0.000770***	0.000505***
		(6.72e-05)	(2.62e-05)
Employ		-1.72e-07	-3.96e-08
		(1.38e-07)	(6.98e-08)
Constant	-0.449***	-0.312***	-0.413***
	(0.0234)	(0.0435)	(0.0240)
Observations	33,805	32,872	32,872
FE ID	NO	YES	NO
FE YEAR	NO	YES	NO

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Column (1) shows the regression results without adding control variables and fixed effects. The regression coefficient of lnesg is 0.114 and passes the 1% significance test, which initially proves that ESG performance has a positive promotional effect on enterprise value. Column (2) incorporates all control variables into the regression model, and the lnesg coefficient drops to 0.0312, still significantly positive at the 1% level. On the basis of full control variables, Column (3) further controls individual and year fixed effects, with the core coefficient of lnesg stabilizing at 0.0515 and maintaining high statistical significance.

The hierarchical regression results show that after gradually adding control variables and two-way fixed effects, the positive correlation between ESG performance and enterprise value always remains stable. This fully verifies that better ESG performance can effectively improve the profitability and comprehensive value of listed enterprises, which supports the research hypothesis H1 proposed in this paper.

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4.3. Mediating effect analysis

To clarify the internal transmission mechanism between ESG performance and enterprise value, this paper conducts mediating effect tests with executive compensation and agency cost as mediating variables, and the regression results are shown in Table 4.

Table 4. Mediating Effect Analysis

VARIABLES	(1) lnec	(1) AgC2
lnesg	0.183***	-0.0124***
	(0.0505)	(0.00269)
Size	0.418***	-0.00158***
	(0.0107)	(0.000458)
Lev	-0.240***	0.0115***
	(0.0413)	(0.00194)
Indep	0.00231***	-1.87e-05
	(0.000897)	(4.38e-05)
Dual	-0.0304***	-0.000123
	(0.0109)	(0.000518)
Top1	-0.652***	-0.00747**
	(0.0782)	(0.00327)
Mshare	-0.00529***	-2.20e-05
	(0.000521)	(2.16e-05)
Employ	-5.74e-07	3.47e-08
	(1.56e-06)	(6.37e-08)
Constant	3.370***	0.101***
	(0.313)	(0.0159)
Observations	32,873	32,853
Number of id	4,826	4,824
R-squared	0.333	0.008

In this table, Column (1) takes executive-employee salary gap as the explained variable, while Column (2) takes management expense ratio, namely agency cost, as the explained variable. The regression results show that the lnesg coefficient for executive compensation (lnec) is 0.183 and significantly positive at the 1% level. This indicates that the improvement of corporate ESG performance can effectively raise executive compensation standards and optimize the internal salary

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incentive system. Meanwhile, the lnesg coefficient corresponding to agency cost (AgC2) is -0.0124 and passes the 1% significance test, proving that high-level ESG performance can significantly reduce corporate agency costs.

In terms of transmission logic, the improvement of ESG level can adjust corporate governance and employee behavior through the tournament incentive effect brought by optimized executive salary mechanism, so as to drive enterprise value growth. In addition, standardized ESG information disclosure can strengthen internal and external supervision of enterprises, effectively restrain various opportunistic behaviors of management, reduce corporate management expense ratio and ease the first-type agency conflict. To sum up, executive compensation and agency cost both play significant mediating roles between ESG performance and enterprise value. ESG can indirectly promote enterprise value improvement through two effective paths: building salary incentive mechanisms and reducing internal agency conflicts.

4.4. Heterogeneity test

4.4.1. Heterogeneity of property rights nature

This paper divides all sample enterprises into state-owned enterprises and private enterprises for grouped regression analysis, so as to explore the heterogeneous impact of corporate property rights on the ESG-value correlation. The specific regression results are shown in Table 5.

Table 5. Heterogeneity Results of Property Rights Nature

VARIABLES	(1) ROA	(2) ROA
lnesg	0.0432***	0.0594***
	(0.00750)	(0.00706)
Size	0.0110***	0.0138***
	(0.000717)	(0.000727)
Lev	-0.153***	-0.154***
	(0.00356)	(0.00327)
Indep	-0.000341***	-0.000451***
	(0.000102)	(0.000102)
Dual	0.00432***	-0.00275***
	(0.00156)	(0.00106)
Top1	0.0524***	0.0957***
	(0.00480)	(0.00450)
Mshare	0.000688***	0.000467***
	(6.72e-05)	(3.09e-05)
Employ	-2.62e-07***	2.98e-07***

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Table 5. (continued)

	(7.97e-08)	(1.06e-07)
Constant	-0.340***	-0.481***
	(0.0330)	(0.0324)
Observations	11,093	21,779
Number of id	1,276	3,550

The regression results show that the lnesg coefficients of both state-owned enterprise group and private enterprise group are significantly positive at the 1% level, which means ESG performance can improve enterprise value for all types of listed companies. However, the coefficient of private enterprises (0.0594) is obviously higher than that of state-owned enterprises (0.0432). This outcome occurs because private enterprises face more intense market competition, and high-quality ESG performance can help them gain more market resources and competitive advantages, with higher value conversion efficiency. In contrast, the ESG construction of state-owned enterprises is mostly driven by policy requirements rather than market demands, resulting in a weaker market-oriented value-adding effect. Therefore, the positive impact of ESG on enterprise value has significant property rights heterogeneity.

4.4.2. Heterogeneity of ESG sub-dimensions

To further distinguish the differential influence of different ESG dimensions, this paper conducts separate regression tests for the environmental (E), social (S) and governance (G) dimensions, and the specific results are shown in Table 6.

Table 6. Heterogeneity Results of ESG Sub-Dimensions

VARIABLES	(1) ROA	(2) ROA	(1) ROA
lne/lns/lng	-0.0242***	0.0122***	0.0583***
	(0.00305)	(0.00266)	(0.00374)
Size	0.0139***	0.0128***	0.0129***
	(0.000539)	(0.000534)	(0.000525)
Lev	-0.159***	-0.158***	-0.149***
	(0.00248)	(0.00247)	(0.00252)
Indep	-0.000384***	-0.000399***	-0.000458***
	(7.53e-05)	(7.52e-05)	(7.50e-05)
Dual	-0.000470	-0.000656	-0.000550
	(0.000870)	(0.000869)	(0.000866)
Top1	0.0779***	0.0796***	0.0737***

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Table 6. (continued)

	(0.00340)	(0.00338)	(0.00337)
Mshare	0.000529***	0.000517***	0.000499***
	(2.63e-05)	(2.62e-05)	(2.60e-05)
Employ	-2.30e-08	-1.08e-08	-6.86e-08
	(7.03e-08)	(6.99e-08)	(6.95e-08)
Constant	-0.127***	-0.254***	-0.456***
	(0.0157)	(0.0152)	(0.0197)
Observations	32,872	32,871	32,872
Number of id	4,826	4,826	4,826

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1.

Table 6 presents the regression results of the environmental (E), social (S), and governance (G) dimensions of ESG on enterprise value (ROA) in sequence. Column (1) reports the regression outcome of the environmental dimension (lne), Column (2) presents the result of the social dimension (lns), and Column (3) displays the outcome of the governance dimension (lng). All regression models incorporate the same set of control variables and control for firm fixed effects. The empirical results indicate that the coefficient of the environmental dimension lne is -0.0242, which is significantly negative at the 1% statistical level. By contrast, the coefficients of the social dimension lns and governance dimension lng are 0.0122 and 0.0583 respectively, both showing significantly positive correlations at the 1% significance level. In terms of the differential impacts of the three sub-dimensions, the governance (G) dimension exerts the strongest positive promoting effect on enterprise value, followed by the social (S) dimension, while the environmental (E) dimension demonstrates a significant negative inhibitory effect on current enterprise value.

5. Conclusion

This study selects Shanghai and Shenzhen A-share listed companies covering the period from 2018 to 2023 as the research samples. With the adoption of a two-way fixed-effects model, this paper conducts a systematic exploration of the specific influence, internal transmission channels and heterogeneous characteristics of ESG Performance on Enterprise Value. Multiple robustness tests are also carried out to verify the credibility and stability of the research findings. The empirical results reveal that outstanding comprehensive ESG performance can effectively boost the operating value of listed enterprises, which serves as a crucial driving force for listed firms to achieve high-quality sustainable development.

The mediation mechanism tests fully prove that Executive Compensation and Agency Cost act as dual mediating variables between ESG performance and enterprise value. On one hand, standardized and high-quality ESG practices help enterprises optimize their internal salary incentive systems and improve the assessment mechanism linked to executive performance. This creates a tournament incentive effect that greatly motivates management to actively participate in business operation and corporate governance. On the other hand, standardized ESG information disclosure strengthens both

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internal and external supervision over enterprise operations. It restrains the self-interested behaviors of management teams and cuts down corporate agency costs effectively. The dual optimization of incentive mechanisms and corporate governance jointly promotes the continuous growth of enterprise value.

The heterogeneity analysis draws a clear differentiated conclusion. Due to the differences in market operation mechanisms, the value-adding effect of ESG performance is more prominent in private enterprises. In comparison, the ESG construction activities of state-owned enterprises are mainly driven by policy guidelines rather than market demands, leading to relatively low efficiency in value transformation. In terms of ESG sub-dimensions, the three dimensions show vastly different impacts on enterprise value. TheGovernance dimension (G) delivers the most significant positive improvement effect. By improving internal control systems, standardizing corporate business decisions and restricting opportunistic behaviors of managers, it effectively relieves internal agency conflicts and improves overall operational efficiency. The Social dimension (S) steadily promotes the growth of enterprise value by protecting the legitimate rights and interests of stakeholders and accumulating positive market reputation for enterprises.

Differing from the other two dimensions, the Environmental dimension (E) presents an inhibitory effect on current corporate profitability in the short run. Large upfront capital investment in green transformation, environmental renovation and pollution control will occupy limited operational resources of enterprises. This phenomenon reflects the typical lagging value characteristic of environmental governance investment, which fails to generate economic benefits in the current stage but creates long-term value for enterprise sustainable development.

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