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ESG and Corporate Value Creation: Progress, Reflections, and Future Directions

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Abstract:
In recent years, the concept of Environmental, Social, and Governance (ESG) has gained increasing attention from both academia and industry, emerging as a focal point in research and practice. ESG practices play a critical role in corporate strategic transformation, risk management, and decision-making optimization. However, existing research on ESG remains at a relatively early stage. This paper reviews the origins and evolution of ESG, its core definitions, theoretical foundations, and the mechanisms through which ESG influences non-financial value. It further examines empirical studies on the financial implications of ESG and the relationship between ESG and corporate strategic decision-making. The review reveals several limitations in the current literature, including the lack of unified evaluation standards, the prevalence of "greenwashing" in ESG practices, insufficient consideration of industry and regional differences, and the neglect of in-depth reflections on ESG implementation. Finally, the paper offers a forward-looking perspective on the future development of ESG research.

Keywords:
ESG; corporate value creation; research progress; critical reflections

1. Introduction

The report of the 20th National Congress of the Communist Party of China explicitly emphasized the goal of "advancing the great rejuvenation of the Chinese nation through Chinese modernization." This strategic orientation provides clear guidance for China's economic and social development in the new era. Against this backdrop, it is necessary to re-examine the relationship between ESG and corporate value creation within the framework of Chinese modernization. Specifically, this paper aims to: (1) review the core findings and key debates in the existing literature; (2) provide critical reflections and highlight existing limitations; and (3) propose potential avenues for future research that align with both theoretical development and practical needs. The ultimate goal is to offer insights that may facilitate a virtuous interaction between ESG practices and value creation in the modernization process of Chinese enterprises.

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2. ESG Conceptual Framework and Theoretical Foundations

2.1 Origins, Evolution, and Core Definitions of ESG

ESG—short for Environmental, Social, and Governance—has emerged in recent decades as a globally significant framework for assessing corporate responsibility and sustainability. Its origins can be traced back to the late 1980s and early 1990s, when discussions first centered on how to integrate social responsibility and environmental protection into corporate decision-making. Since the early 2000s, ESG has gained widespread recognition and application worldwide.

As a core framework for evaluating corporate sustainability, ESG encompasses three interrelated dimensions: Environment (E): Focuses on a firm's impact on and responsibility toward natural ecosystems, with its scope expanding as sustainability thinking deepens. Society (S): Concerned with corporate interactions with stakeholders, moving beyond the ambiguity of traditional Corporate Social Responsibility (CSR) to emphasize concrete rights protection and inclusive development. Governance (G): Centers on transparency and effectiveness in corporate management, extending beyond mere compliance to emphasize ethics and accountability.

2.2 Theoretical Foundations of ESG

(1) Sustainable Development Theory

Sustainable development provides the normative foundation for ESG. Its essence lies in harmonizing economic growth, social well-being, and environmental protection without jeopardizing the prospects of future generations. ESG operationalizes this principle by embedding sustainability considerations into business evaluation systems. It transforms the broad and abstract goals of sustainable development into tangible, actionable guidelines for corporate operations, thereby promoting a more resilient, inclusive, and environmentally responsible growth model.

(2) Stakeholder Theory

Stakeholder theory challenges the traditional "shareholder primacy" paradigm by arguing that corporations must balance the needs of shareholders, employees, customers, suppliers, communities, governments, and the natural environment. ESG translates these diverse stakeholder demands into measurable practices, thus providing tools to reconcile competing interests. This integration creates a complementary relationship in which corporations can generate both private and social value through ESG implementation.

(3) Corporate Social Responsibility (CSR) Theory

CSR theory underscores the importance of signaling sustainable development commitments through social responsibility, environmental stewardship, and governance improvements. CSR provided the intellectual foundation for ESG by transforming intangible social responsibility actions into measurable indicators. For example, environmental performance is evaluated through metrics such as carbon emissions and resource efficiency; social responsibility through labor practices, supply chain relations, and community engagement; and governance through board effectiveness, disclosure, and anti-corruption measures. By structuring CSR

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into an operationalizable framework, ESG has enhanced comparability across firms and provided investors with concrete criteria for assessing long-term risks.

3. Mechanisms Linking ESG to Corporate Value Creation

3.1 ESG and Non-Financial Value Creation

ESG contributes to non-financial value through several pathways: Brand equity: By committing to environmental responsibility, social inclusivity, and strong governance, firms strengthen public trust and legitimacy. Stakeholder relationships: ESG helps balance the interests of employees, suppliers, communities, and governments. For instance, satisfied employees reduce turnover and enhance loyalty, sustainable supply chains improve resilience, and community engagement mitigates resistance to corporate activities while fostering policy support. Organizational resilience: ESG requires firms to proactively identify and manage risks related to environmental, social, and governance factors, thereby reducing exposure to potential disputes or disruptions. Innovation capacity: ESG-driven sustainability goals often stimulate innovation, encouraging firms to explore new technologies, products, and business models that align with long-term development.

3.2 ESG and Financial Value: Empirical Evidence

Empirical studies suggest that strong ESG performance is positively correlated with financial outcomes, moderated by factors such as regulatory intensity and industry competition. Firms with effective ESG strategies often adopt energy-efficient production processes, strengthen supply chain management, and improve operational efficiency, which collectively reduce costs. Many have also leveraged green products and services to enhance market competitiveness and profitability. Furthermore, companies with high ESG ratings are better positioned to attract long-term investors, secure favorable valuations, and lower capital costs. ESG performance also reduces implicit costs—such as regulatory fines, employee turnover, and reputational risks—thereby indirectly boosting net profit margins.

3.3 ESG and Strategic Decision-Making

In an era where globalization and sustainable development are strategic imperatives, ESG is increasingly becoming a cornerstone of corporate strategy. By integrating ESG into decision-making, firms can achieve sustainable transformation and maintain competitive advantage in volatile markets. Investments in environmental protection, social responsibility, and governance reforms facilitate the transition from traditional business models to sustainability-oriented strategies. Green innovation and circular economy practices, particularly in manufacturing, not only meet regulatory and societal expectations but also enhance long-term profitability. Incorporating ESG considerations into strategic planning helps firms anticipate and mitigate risks—legal, regulatory, and reputational—thus strengthening resilience and ensuring sustainable competitive advantage.

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4. Critical Reflections on Current Research

4.1 Limitations of ESG Evaluation Systems

First, fragmentation and inconsistency of standards remain major obstacles. Domestic and international institutions have established their own ESG evaluation frameworks, yet these vary significantly in indicators and scoring methods. Even when the same enterprise is assessed using the same criteria, results can differ drastically, causing confusion for investors, regulators, and companies themselves regarding disclosure and transparency. Second, incomplete and low-quality data undermine the reliability of evaluations. Many firms disclose information in ways that lack authenticity and transparency. Some selectively report or exaggerate ESG performance to enhance credibility, thereby eroding the objectivity of ESG ratings. Because disclosure is largely voluntary and lacks unified rules, data coverage is limited, reporting standards vary, and comparability is compromised. Third, ESG evaluation systems often suffer from weak dynamic adaptability, relying heavily on static, historical data. Such approaches fail to capture firms' evolving ESG trajectories, provide timely warnings of emerging risks, or predict future value creation effectively.

4.2 The Problem of "Greenwashing" in ESG Practice

With the rapid adoption of ESG, greenwashing has emerged as a persistent challenge to value creation. Greenwashing occurs when firms selectively disclose, exaggerate, or even falsify ESG performance to present a misleading image of compliance, without substantively improving their environmental or social responsibility practices. In some cases, companies under competitive or reputational pressure pursue superficial ESG actions—for instance, reporting reduced emissions to satisfy regulatory requirements while neglecting deeper adoption of green technologies or resource efficiency. While such strategies may generate short-term reputational gains, they undermine long-term brand trust and corporate credibility. A key driver of greenwashing is insufficient regulation. Although many jurisdictions have issued ESG-related guidelines, gaps in enforcement allow firms—especially in developing economies lacking disclosure verification mechanisms—to gain recognition and market advantages through misleading claims.

4.3 Methodological Limitations

Methodologically, ESG research faces several persistent challenges: Endogeneity in empirical studies. High-value firms may simply be more likely to adopt ESG initiatives, raising questions about causalit. Omitted variables may further confound this relationship. Subjectivity in data measurement. Because ESG disclosure is voluntary, available datasets are incomplete, biased toward large, listed firms, and difficult to compare across regions or sectors. This poses particular difficulties for small and medium-sized enterprises (SMEs) and firms in emerging economies, where ESG reporting remains nascent. Limited generalizability. Many empirical findings are based on publicly listed firms, limiting their applicability to broader contexts and industries.

4.4 Industry and Regional Heterogeneity

The value-creation effects of ESG vary significantly across industries and regions. In manufacturing, strong ESG performance often translates directly into competitive advantages, while in mining, ESG-driven value

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creation is closely tied to digital technology adoption. Cultural and institutional differences also shape ESG outcomes. In Western contexts, research often emphasizes direct effects on shareholder value, reflecting a shareholder-primacy orientation. In collectivist societies, however, ESG tends to foster value through community engagement, employee welfare, and relational outcomes, producing more complex and indirect financial impacts. Moreover, localization challenges arise when ESG frameworks designed in Western institutional contexts are applied to emerging markets. The lack of contextual adaptation often reduces explanatory power and weakens the connection between theory and practice.

5. Future Research Directions

5.1 Refining ESG Metrics and Data Systems

Future research must focus on building globally harmonized ESG standards and improving data reliability. Key directions include: Standardization plus industry-specific refinement: Establish universal ESG frameworks while tailoring core indicators to material issues within specific industries, linking metrics directly to value drivers. Enhancing data authenticity and dynamism: Adopt mandatory disclosure rules, blockchain for tamper-proof data, and AI/NLP methods to extract insights from unstructured disclosures, thereby building comprehensive systems from disclosure to verification to analysis. Causality-focused research: Use large-sample studies to identify how specific ESG indicators causally influence firm value, avoiding the "decoupling" of ESG measurement from actual value creation.

5.2 Integrating ESG Policies with Corporate Practice

The interplay between policy, regulation, and corporate ESG practices will be a critical driver of future development. Key pathways include: Strengthening coordination between policy frameworks and ESG implementation, balancing environmental protection with economic development. Designing differentiated policy tools, such as subsidies for SME ESG capacity building, tax incentives for green innovation, and targeted financial support for ESG-related initiatives. Leveraging digital regulatory tools—big data and AI—for real-time monitoring, policy adjustment, and alignment between policy intent and corporate practice.

5.3 Innovation in ESG through Emerging Technologies

Emerging technologies, particularly AI and blockchain, are redefining ESG management by improving data reliability, process efficiency, and stakeholder trust. Potential pathways include: Scenario-based modeling: AI- and blockchain-enabled models tailored to sectoral needs (e.g., energy efficiency optimization in manufacturing or social responsibility evaluation in services). Normative frameworks for technology use: Establishing ethical guidelines for applying AI and blockchain in ESG management. Collaborative governance: Encouraging multi-stakeholder participation—enterprises, governments, and technology firms—in designing data-sharing protocols and governance mechanisms to maximize collaborative value creation.

5.4 Interdisciplinary Approaches to ESG

Future ESG research must embrace cross-disciplinary integration. Complex systems theory can illuminate the synergies and conflicts across ESG dimensions, moving beyond linear cause-effect assumptions. Be-

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havioral science and organizational theory can reveal how managerial attitudes shape ESG strategies, how employee identification with ESG fosters innovation, and how consumer ESG preferences influence market share. Law and ethics can refine the boundaries of corporate responsibility, addressing issues such as "excessive ESG" or formalistic compliance. These perspectives can guide firms toward more balanced and scientifically grounded commitments to sustainable value creation.

6. Conclusion

Re-examining the pathways through which ESG influences corporate value creation under the framework of Chinese modernization highlights persistent challenges, including fragmented evaluation standards, unreliable data, greenwashing, and insufficient attention to industry and regional heterogeneity. To address these gaps, this study proposes advancing unified ESG metrics and data systems, strengthening the integration of ESG policies with corporate practice, leveraging new technologies for ESG innovation, and adopting interdisciplinary research perspectives. These measures aim to provide both theoretical and practical guidance for Chinese enterprises seeking to achieve sustainable value creation and high-quality development in the modernization process.

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