

# Research on the Mechanism of ESG Performance's Impact on Enterprise Value

## -- Based on the Perspective of Corporate Governance

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### Abstract

Clarifying the impact of enterprise ESG performance on enterprise value from multiple perspectives plays an important role in promoting the development of new quality productivity. This article is based on data from Chinese listed companies from 2013 to 2022, and from the perspective of corporate governance, examines the intrinsic relationship between corporate ESG performance and corporate value generation. Using the first type of agency cost as an intermediate variable, it analyzes the impact path of "ESG performance corporate governance corporate value". The results indicate a significant positive correlation between corporate ESG practice performance and corporate value. There is a significant negative correlation between corporate ESG practice performance and agency costs; The improvement of ESG practice performance can enhance enterprise value by reducing agency costs. The study provides empirical evidence for the positive impact of ESG practices on corporate value for Chinese listed companies, increasing the attention of enterprises, investors, and governments to ESG, and encouraging enterprises to achieve the goal of enhancing corporate value through participation in ESG practices and other means.

### Keywords

ESG Corporate; Governance Enterprise; Value Agency Costs.

## 1. Introduction

The development of the new era must be of high quality, and new productive forces have also been formed and demonstrated in practice as a strong driving force for high-quality development. In addition to the adjustments brought about by digital technology reform to the economic structure, low-carbon economy is a more realistic development path, and the ESG development concept is highly compatible with low-carbon concepts. Currently, the ESG performance of A-share listed companies in China, especially the G (Corporate Governance) rating, is generally at a lower than average level. This is mainly due to the agency problem commonly caused by the separation of ownership and control in modern corporate governance, resulting in agency costs consisting of three main parts: the supervision activity expenses of the principal, the guarantee cost expenses of the agent, and residual losses (Xu Wenyi, 2022). Since the 1980s, the contradiction between company owners and operators has become increasingly prominent, and there is a need for improved corporate governance to constrain the occurrence of the "Black Swan" incident (Zhang Changjiang, Yang Yuqi, Lan Kai, 2023). At the beginning of 2024, A-share listed companies officially ushered in the era of mandatory disclosure of ESG information. Under the guidance of the China Securities Regulatory Commission, the release of

ESG reports became a mandatory option for listed companies. Under the guidance of the continuous evolution of the two-way opening of China's capital market and the "dual wheel drive" and "dual carbon" goals between the government and the market, the driving force for improving ESG performance of listed companies is shifting from external regulation to internal drive, and from voluntary selection to key mandatory transformation.

At present, most scholars support the positive impact of ESG on corporate value, believing that ESG can enhance business performance or market valuation (Wang Bo and Yang Maojia, 2022), while some scholars have reached the opposite conclusion. For example, Krüger (2015) found that social responsibility is used by managers as a self-interest tool, sacrificing shareholder interests, or deviating from business, increasing costs, reducing profitability, and thus reducing corporate value, resulting in negative effects. Although research has shown that implementing ESG practices can improve corporate governance, further exploration has not been conducted on the effectiveness of enhancing corporate value. Moreover, the mediating mechanism of ESG enhancing corporate value in domestic research has not been systematically explored, and various studies have selected different mediating variables. Existing literature has not yet reached consensus on research conclusions and impact mechanisms. Therefore, some enterprises currently only focus on fulfilling relevant regulatory requirements in ESG practice, and lack endogenous motivation to improve ESG practice performance. The three major aspects of ESG practice have significant positive effects (Yu Junqiu et al., 2021). Therefore, this article starts from the perspective of corporate governance, conducts more research on the relationship between corporate ESG practice performance and corporate value, constructs an impact path of "ESG performance corporate governance corporate value", and provides a certain theoretical basis for the future decision-making direction of companies and government regulatory direction.

Based on this, this article takes A-share listed companies in Shanghai and Shenzhen from 2013 to 2022 as the research object, explores the role and mechanism of ESG performance that may arise from corporate governance measures of listed companies on corporate value, analyzes the mediating effect of agency costs, and provides theoretical basis and policy recommendations for promoting listed companies in China to fulfill ESG, improve corporate governance level, and enhance corporate value.

## 2. Theoretical Analysis and Research Hypotheses

ESG performance is a holistic concept formed by three major components: environmental protection, social impact, and corporate governance. The ESG concept believes that enterprises are part of an organic social network, and their value creation and judgment need to consider the public interest of society. It is expected that enterprises can actively contribute to social value while striving to enhance their own corporate value. In recent years, the capital market has gradually accepted the concept of ESG, and both emerging and traditional enterprises have responded to government calls or catered to social needs to embark on a comprehensive green transformation path. Companies with ESG development concepts are more likely to be favored in the market because they are considered to have higher growth potential and stronger risk resistance.

According to stakeholder theory, business operations should incorporate the relevant demands of stakeholders into strategic decision-making considerations. Enterprises should practice the ESG concept, meet the interests and demands of a wide range of stakeholders, and thus form a long-term stable relationship with them. From the perspective of the government, companies that actively engage in environmental protection, assume social responsibility, and improve corporate governance level are in line with policy orientation and are at the forefront of change. For such enterprises, they are more likely to receive government preferential or subsidy

policies, and are also more inclined to purchase products from these enterprises within the industry to support their business development. For consumers, they are also more willing to choose safe and environmentally friendly products produced by companies with good reputation and reputation, thereby allowing the company to occupy more market share. For financial institutions, in the context of promoting the development of green finance in recent years, they are more inclined to provide loan financing and other services to companies with good ESG performance. In addition, the prominence of more green finance products has also expanded the channels for corporate financial financing, thereby reducing financing costs and improving business efficiency. Although ESG practices may lead to business deviation, increased costs, and reduced profitability, this article believes that having good ESG performance not only benefits stakeholders, but also adapts to the requirements of the times and policies, enhances the comprehensive strength and market competitiveness of the enterprise, thereby enhancing the level of enterprise management and adding value to the enterprise.

Based on this, this article proposes hypothesis one:

H1: A good ESG performance of a company is beneficial for enhancing its value.

Enterprises with good ESG practices can alleviate agency problems, reduce agency costs, and increase enterprise value.

By fulfilling good social responsibility, enterprises can effectively enhance their reputation, accumulate reputation for performance, and investors and financial institutions such as banks have higher trust in companies with high ESG performance. Therefore, they are more willing to invest in them, provide credit funds, or set more relaxed loan conditions. Meanwhile, companies with good ESG practices can also reduce agency costs caused by agency issues among shareholders. Major shareholders promote corporate ESG practices, which require them to consider the interests and demands of minority shareholders, restrain themselves, and thereby reduce interest friction among shareholders. Good governance by shareholders enhances the reputation and credibility of the company, making it more favored by investors in the capital market and generating stock appreciation returns. Small and medium-sized shareholders who benefit from it will also increase their trust in major shareholders, reduce supervisory behavior appropriately, and thus reduce agency costs. On the contrary, if the major shareholders or management of a company demonstrate a low level of ethics, they are likely to engage in behavior that damages the company's reputation, leading to a decline in stock prices. This will increase the motivation for small and medium-sized shareholders to supervise internal decision-making within the company, thereby increasing agency costs. Secondly, companies that perform well in ESG practice themselves have a higher level of corporate governance, which can regulate the behavior of corporate agents through their own mechanisms, establish long-term stable relationships between shareholders, company owners, and operators, and work together to reduce agency costs. The alleviation of agency problems and the reduction of agency costs are beneficial for enterprises to establish a good image, gain market competitiveness and financing opportunities, thereby bringing good opportunities for enterprise development and enhancing enterprise value.

Based on this, this article proposes hypothesis two:

H2: Green development of enterprises is beneficial for alleviating agency problems and enhancing enterprise value.

### 3. Research Design

#### 3.1. Sample Selection

This article selects data from all A-share listed companies between 2013 and 2022 as sample data, and performs the following processing: (1) Exclude enterprises with abnormal operations such as ST or \*ST; (2) Excluding financial industry samples; (3) Excluding extreme values of 1% above and below; (4) Exclude sample companies from which some indicator data cannot be obtained. Through screening, a total of 4368 enterprises and 26758 samples were obtained to construct imbalanced panel data.

#### 3.2. Variable Setting

**Table 1.** Summary of Variables

Variable type	Variable Name	Variable symbols	Variable definition
Dependent variable	Return on total assets	ROA	Net profit/average balance of total assets
Core explanatory variables	ESGperformance	Zesg	Standardization of Huazheng Rating
	Eperformance	Ze	Standardization of Huazheng Rating
	Sperformance	Zs	Standardization of Huazheng Rating
	Gperformance	Zg	Standardization of Huazheng Rating
Mediating variables	The first type of agency cost	Mfee	Management expenses/sales revenue
control variable	company size	Size	Ln(total assets of the enterprise)
	Asset liability ratio	Lev	Totalliabilities/total assets
	Cash flow ratio	Cashflow	Net cash flow generated from operating activities/total assets
	Revenue growth rate	Growth	Current year's operating revenue/Previous year's operating revenue -1
	Is it one of the four major audits	Big4	The company has passed the four major audits and is rated as 1. Otherwise, it is rated as 0
	The largest shareholder's shareholding ratio	Top1	Number of shares held by the largest shareholder/total number of shares
	Integration of two positions	Dual	The Chairman and General Manager are the same person, which is 1. Otherwise, it is 0

(1) Explained variable: Currently, research on measurement indicators of enterprise value mostly uses Tobin Q, P/E ratio, P/B ratio, and return on total assets as the dependent variables. This article uses the return on total assets (ROA) as a proxy variable. ROA, as a financial indicator of a company, reflects its profitability very well.

(2) Core explanatory variable: Currently, there are numerous ESG rating agencies and systems both domestically and internationally. This article uses Huazheng ESG rating as a proxy indicator for the degree of green development of enterprises. The Huazheng ESG evaluation system is based on the disclosed data of listed companies, covering a wide range, with a detailed and complete indicator system, and ultimately obtaining a C-AAA nine tier rating. Considering the impact of the industry on ESG ratings, this article has standardized the rating data within the industry.

(3) Mediating variable: The mediating variable in this article is agency cost. There are three main types of variables for existing agency costs: the first type of agency cost, the second type of agency cost, and the third type of agency cost. Li Shouxi (2007) conducted a detailed analysis and comparison of agency costs and enterprise management expenses, and believed that management expenses can reflect the agency costs of enterprises. The first type of agency cost. Jiang Baoqiang et al. (2006), Zhou Jian et al. (2013), and Wan Xiaowen et al. (2016) also used sales management expense ratio as a substitute variable. This article follows the approach of Li Shouxi (2007) and selects the first type of agency cost (Mfee), namely the management expense rate, as the mediating variable.

(4) Control variables: Considering the financial and governance factors of the company, the selected variables are as follows. Financial factors include: company size (Size), debt to asset ratio (Lev), cash flow ratio (Cashflow), revenue growth rate (Growth), whether it is one of the Big Four auditors (Big4), corporate governance factors include: the proportion of the largest shareholder's shareholding (Top1), and dual roles. The specific variable descriptions are shown in Table 1.

### 3.3. Model settings

(1) To verify hypothesis 1, conduct a double fixed effects model test using panel data. Build the model as shown in equation (1):

$$ROA_{i,t} = \alpha_0 + \alpha_1 Zesg_{i,t} + \alpha_2 CONTROLS_{i,t} + \beta_i + \gamma_i + \varepsilon_{i,t} \quad (1)$$

ROA is the total return on assets of enterprise  $i$  in year  $t$ ,  $Zesg$  is the industry adjusted ESG score, and  $CONTROLS$  represents the control variable,  $\alpha_0$  represents a constant term,  $\alpha_1$  for the core explanatory variable coefficient,  $\alpha_2$  to control the coefficient vector of the variable,  $\beta_i$  and  $\gamma_i$  representing industry fixed effects and time fixed effects respectively,  $\varepsilon_{i,t}$  is a random error term. At the same time, to examine the impact of each sub item in ESG on enterprise value,  $Ze$ ,  $Zs$ , and  $Zg$  were used to replace  $Zesg$  in equation (1) for regression, while the rest remained unchanged.

(2) To explore hypothesis 2, based on the intermediary effect of agency costs, this article refers to the Jiang boat two-step method (2020) for testing and constructs a regression equation for the intermediary effect, as shown in equations (1) and (2):

$$Mfee = \alpha_0 + \alpha_1 Zesg_{i,t} + \alpha_2 CONTROLS_{i,t} + \beta_i + \gamma_i + \varepsilon_{i,t} \quad (2)$$

$Mfee$  is the first type of agency cost,  $\alpha_0$  represents a constant term,  $\alpha_1$  for the core explanatory variable coefficient,  $\alpha_2$  to control the coefficient vector of the variable,  $\beta_i$  and  $\gamma_i$  representing industry fixed effects and time fixed effects respectively,  $\varepsilon_{i,t}$  is a random error term.

## 4. Empirical Analysis

### 4.1. Descriptive Statistics

Table 2 reports the descriptive statistics of the main variables. Among them, the average return on assets (ROA) of enterprises is 0.041, with a minimum value of -0.217, a maximum value of 0.228, and a median value of 0.039. This indicates that the overall profitability of listed enterprises in China is improving, but the degree of differentiation in ROA among enterprises with different industries and property rights is relatively high. The standardized ESG score ( $Zesg$ ) and  $E(Ze)$ ,  $S(Zs)$  have maximum scores between 2-3 and minimum scores between -2 and -3. However, the maximum score for  $G(Zg)$  is only 1.571 and the minimum score is -3.545.

This indicates that most listed companies in China have environmental awareness and actively undertake social responsibility, but there is room for improvement in corporate governance. At the same time, ESG ratings vary among different industries. The median of the first type of agency cost (Mfee) of the mediating variable is 0.067, with a maximum value of 0.401 and a minimum value of 0.008, indicating that the proportion of management expenses to revenue of listed companies in China is generally low, but the proportion of management expenses expenditure in some companies is as high as almost half of revenue. In addition, there is a significant difference in the shareholding ratio of the largest shareholder among the controlling variables, and there is also a certain span in other variables.

**Table 2. Descriptive Statistics**

variable	sample size	standard deviation	mean value	minimum value	median	Maximum value
ROA	26758	0.065	0.041	-0.217	0.039	0.228
Zesg	26758	0.974	0.003	-2.877	0.054	2.119
Ze	26758	0.976	0.001	-2.021	-0.062	2.606
Zs	26758	0.957	0.008	-2.712	0.059	2.060
Zg	26758	0.967	0.005	-3.545	0.214	1.571
Size	26758	1.305	22.332	20.033	22.136	26.403
Lev	26758	0.199	0.419	0.060	0.411	0.880
Cashflow	26758	0.067	0.050	-0.143	0.048	0.247
Growth	26758	0.355	0.152	-0.536	0.101	2.028
Top1	26758	14.819	33.804	8.376	31.493	74.239
Big4	26758	0.244	0.064	0.000	0.000	1.000
Dual	26758	0.456	0.296	0.000	0.000	1.000
Mfee	26758	0.067	0.084	0.008	0.067	0.401

Before conducting regression analysis, correlation coefficient tests and variance inflation factor tests were conducted on the variables. The correlation coefficients between each variable are all below 0.45, and there is a positive correlation between ESG and ROA. The mean coefficient of variance inflation (VIF) is 1.21, with a maximum of 1.74, indicating that there is no collinearity between the variables, which can ensure the reliability of the experimental results.

#### 4.2. Benchmark Regression

To verify hypothesis one, this article first conducts a regression analysis of ESG performance and three separate aspect ratings on enterprise value. The fixed effects regression model was ultimately selected through F-test and Hausman test, with fixed industry and time effects. As shown in Table 3, the first column uses ESG score as the explanatory variable and ROA as the dependent variable. The coefficient of influence of ESG on enterprise value is 0.008, which is significant at the 1% level. This indicates that for every 1% increase in ESG performance of listed companies, enterprise value increases by 0.008%, indicating that listed companies have good ESG performance and will be able to simultaneously increase enterprise value. ESG performance significantly contributes to improving the performance level of enterprises. The better the overall performance of ESG, the higher the awareness of corporate environmental and social governance responsibility, the stronger the ability to fulfill responsibilities, and the concept of environmental responsibility and risk awareness. It conveys a good image of corporate responsibility to the outside world, which is conducive to attracting investment and alleviating information asymmetry. At the same time, companies with good ESG performance are favored by consumers, governments, and the market, gaining more business expansion and

financing opportunities, thereby improving their accounts receivable and achieving good profitability.

The second, third, and fourth columns respectively use E(environmental), S(social), and G(governance) performance as explanatory variables. The regression results show that only S and G have a significant improvement effect on corporate value, while Es core is negatively correlated with corporate value. Overall, the process of fulfilling ESG helps companies optimize internal production and management, reduce unnecessary expenses and agency costs, and at the same time, a good corporate reputation for fulfilling social responsibility enables it to obtain financial support from stakeholders, there by enhancing corporate value. However, in terms of sub items, the environmental protection aspect of ESG rating did not meet expectations and showed a significant negative correlation, indicating that the national government still has loopholes in the attention of enterprises to environmental protection, and there is a certain degree of green washing, which artificially increases the level of enterprise environmental governance or leads to increased expenditures due to increased environmental costs, resulting in a decrease in the profitability of enterprises.

**Table 3. Benchmark Regression Results**

variable	(1)	(2)	(3)	(4)
	ROA	ROA	ROA	ROA
Zesg	0.008*** (22.334)			
Ze		-0.001*** (-3.211)		
Zs			0.006*** (17.408)	
Zg				0.009*** (22.058)
Size	0.008*** (22.089)	0.020*** (20.725)	0.009*** (25.303)	0.009*** (24.747)
Lev	-0.121*** (-51.799)	-0.184*** (-54.390)	-0.129*** (-55.352)	-0.115*** (-48.562)
Growth	0.050*** (41.656)	0.043*** (51.177)	0.050*** (40.857)	0.050*** (41.433)
Cashflow	0.327*** (53.419)	0.191*** (36.504)	0.330*** (53.829)	0.327*** (53.551)
Top1	0.000*** (17.120)	0.001*** (9.952)	0.000*** (18.961)	0.000*** (15.486)
Dual	0.003*** (3.812)	0.001 (1.227)	0.002*** (3.293)	0.003*** (3.889)
Big4	-0.005*** (-3.912)	-0.003 (-1.053)	-0.003*** (-2.821)	-0.006*** (-4.638)
_Cons	-0.118*** (-16.045)	-0.374*** (-9.444)	-0.140*** (-19.102)	-0.137*** (-18.916)
industry	control	control	control	control
time	control	control	control	control
N	26758	26758	26758	26758
R <sup>2</sup>	0.425	0.290	0.419	0.426
Adj.R <sup>2</sup>	0.423	0.148	0.417	0.424

Note: The parentheses represent standard errors\*P<0.10,\* \* p<0.05,\* \* \* p<0.01, the same applies below.

### 4.3. Mediation Effect Test

To verify the mediating role of the first type of agency cost (Mfee) between ESG performance and firm value, this study used the two-step method of Jiang Chuan (2020) for testing, and the results are shown in Table4. The first column shows the impact of ESG performance on corporate value, with a coefficient of 0.008, which is significant at the 1%level. The second column represents the impact of ESG performance on the first type of agency costs, with a coefficient of-0.006, which is significant at the 1%level, indicating that better ESG performance will significantly reduce the management expense rate of the enterprise. In the regression results, the coefficients of the mediation effect model all passed the test. Good ESG performance proves that companies actively fulfill their social responsibilities and synchronously improve their production technology and management levels in the process, thereby better meeting the demands of stakeholders, gaining more trust and support, and increasing enterprise value and reducing the first type of agency costs. In addition, a lower proportion of management expenses reduces agency costs between investors and managers, reduces conflicts of interest between operators and business owners, stabilizes operations, and enables enterprises to gain more favor from investors, thereby expanding production and business, obtaining more financial support or sales revenue, and improving profitability.

**Table 4.** Mediation Effect Regression

variable	(1)	(2)
	ROA	Mfee
Zesg	0.008***	-0.006***
	(22.334)	(-15.231)
Size	0.008***	-0.010***
	(22.089)	(-25.172)
Lev	-0.121***	-0.047***
	(-51.799)	(-17.072)
Growth	0.050***	-0.025***
	(41.656)	(-20.306)
Cashflow	0.327***	-0.107***
	(53.419)	(-16.764)
Top1	0.000***	-0.000***
	(17.120)	(-12.924)
Dual	0.003***	-0.000
	(3.812)	(-0.434)
Big4	-0.005***	0.006***
	(-3.912)	(4.814)
_Cons	-0.118***	0.347***
	(-16.045)	(40.849)
industry	control	control
time	control	control
N	26758	26758
R <sup>2</sup>	0.425	0.337
Adj. R <sup>2</sup>	0.423	0.335

### 4.4. Heterogeneity Testing

(1) Heterogeneity analysis based on different property rights

To verify whether there are differences in the impact of ESG performance on firm value among different types of corporate property rights, this article assigns state-owned holding enterprises a value of 1 (SOE=1) and non-state-owned holding enterprises a value of 0 (SOE=0) for group regression. According to Table 5, ESG performance has a significant positive impact on the improvement of enterprise value under any property rights nature. But in state-owned enterprises (1), for every 1% increase in ESG, the ROA only increases by 0.005%, while in non-state-owned enterprises (2), the ROA increases by 0.01%. This indicates that ESG scores play a greater role in enhancing the value of non-state-owned enterprises. On the one hand, due to their nature, state-owned enterprises are often seen as mandatory requirements for their operations, such as fulfilling social responsibilities and taking environmental actions, resulting in a lower level of public response to their ESG ratings. On the other hand, for non-state-owned enterprises, they are less constrained in the capital market compared to state-owned enterprises and receive more attention from investors. The capital market is more sensitive to their ESG ratings. Once they actively implement environmental protection measures, demonstrate a responsible corporate image, and improve the level of corporate governance, they are more likely to gain market trust and capital injection, thereby increasing the value of the enterprise.

(2) Heterogeneity analysis based on different regions

**Table 5.** Heterogeneity Analysis of Different Property Rights in Different Regions

	(1)	(2)	(3)	(4)	(5)
variable	SOE=1	SOE=0	Eastern region	Western region	Central region
	ROA	ROA	ROA	ROA	ROA
Zesg	0.005***	0.010***	0.008***	0.007***	0.008***
	(8.33)	(20.65)	(18.875)	(8.030)	(8.953)
Size	0.008***	0.009***	0.008***	0.010***	0.007***
	(16.74)	(18.46)	(18.644)	(11.299)	(7.034)
Lev	-0.117***	-0.123***	-0.125***	-0.129***	-0.104***
	(-34.22)	(-38.68)	(-43.974)	(-22.640)	(-15.233)
Growth	0.035***	0.055***	0.053***	0.045***	0.043***
	(19.61)	(35.56)	(35.721)	(15.646)	(14.839)
Cashflow	0.259***	0.352***	0.312***	0.353***	0.350***
	(26.54)	(45.64)	(42.493)	(25.135)	(19.759)
Top1	0.000***	0.000***	0.000***	0.000***	0.000***
	(6.58)	(16.92)	(15.344)	(6.247)	(4.706)
Dual	0.002	0.002*	0.003***	0.001	0.003
	(1.39)	(1.98)	(3.417)	(0.726)	(1.328)
Big4	-0.005**	-0.002	-0.004**	-0.006**	0.007*
	(-3.28)	(-0.95)	(-2.539)	(-2.141)	(1.730)
Cons_	-0.128***	-0.152***	-0.120***	-0.172***	-0.105***
	(-12.04)	(-14.51)	(-13.529)	(-8.825)	(-5.181)
industry	control	control	control	control	control
time	control	control	control	control	control
N	9557	17201	19298	4110	3350
R2	0.417	0.445	0.414	0.495	0.477
R2ua	0.411	0.442	0.411	0.485	0.464

According to the standards of the National Development and Reform Commission, this article divides various provinces and municipalities in China into three sub samples: eastern, western, and central for regression analysis. There are certain differences in policy background, geographical location, and environmental resources among the three regions. The regression results are shown in Table 5. The ESG coefficients for all three regions passed the significance test, but the coefficients for the eastern region (3) and central region (5) were both 0.008, while the coefficients for the western region (5) were 0.007. This indicates that ESG performance has a greater impact on enhancing corporate value in the eastern and central regions. This is mainly because the eastern coastal region has a good geographical location, developed economy, and prosperous industry, while in recent years, the central region has increased the proportion of national resource tilt under the "Central Rise" policy. The government is investing more funds in these two regions. However, for the western region, due to its poor geographical location and resources, relatively less national financial support, and the need for industrial development, the requirements for fulfilling corporate responsibilities are not as strict as those in the eastern and central regions. Therefore, the positive effect of ESG on enterprise value is more pronounced in the eastern and central regions.

## 5. Conclusion and Suggestions

### 5.1. Conclusion

This article uses data from A-share listed companies in China from 2013 to 2022, with the return on total assets (ROA) as the dependent variable, industry adjusted ESG practice performance (Zesg) as the core explanatory variable, and the first type of agency cost (Mfee) as the mediating variable, to conduct empirical analysis, explore the direction and mechanism of the impact of ESG performance on company value, and verify the mediating effect of agency cost. Based on empirical analysis results, the following research conclusions are drawn in this article:

Firstly, after controlling for variables such as enterprise size, debt to asset ratio, and revenue growth rate that can easily affect enterprise performance, the improvement of enterprise performance in environmental, social, and governance has a significant impact on enterprise value. Enterprises that value environmental protection, social responsibility, and corporate governance are in line with China's policy orientation, meet environmental regulatory requirements, and can access more green financing opportunities. Integrating ESG concepts into business decision-making can help companies avoid investment targets with significant shortcomings in ESG practices, improve their operational capabilities, and reduce operational risks. At the same time, high ESG performance represents a company's emphasis on the demands of stakeholders, winning recognition and trust from a wider social group, transmitting signal so factive operation and development of the company, forming a good social reputation and gaining greater development space, and improving corporate value.

Secondly, the promotion effect of ESG performance on corporate value is more significant in non-state-owned enterprises and enterprises in the eastern and central regions. Non state-owned enterprises often place greater emphasis on economic interests in their operations and participate less in activities such as environmental protection and social responsibility. In addition, non-state-owned enterprises receive more attention from market investors. Therefore, when they actively improve their ESG performance, they are more likely to enhance their reputation and gain recognition from investors; From a regional perspective, the eastern region has sufficient financial resources, a high level of economic development, and a greater emphasis on balanced development between economy, resources, and environment. Enterprises also have a higher enthusiasm for ESG practice, resulting in a more significant value enhancement effect of ESG performance; For the central region, there is a large number of industries, and under the years of development of the "rise of the central region", the industrial

level has been improved to a certain extent. Therefore, in the economic transformation, sustainable and green development has also been emphasized, promoting the improvement of new quality productivity.

Thirdly, the improvement of ESG practice performance can reduce the agency costs of enterprises, and the reduction of agency costs can effectively enhance the value of enterprises and enhance the level of corporate governance. Alleviating agency problems and reducing agency costs can play a role in enhancing enterprise value through ESG practices. This is because banks and other financial institutions have a higher level of trust in enterprises with high ESG practice performance to fulfill their obligations on schedule. Therefore, under the same conditions, they are more willing to provide credit funds or set more relaxed loan conditions, thereby reducing the agency costs of banks and other financial institutions. The promotion of more ESG practices by major share holders can enhance the reputation and credibility of the company, increase investor favor in the capital market, and generate stock appreciation returns. Benefiting small and medium-sized shareholders will weaken their supervisory power and reduce related costs. Corporate agents who perform well in ESG practice also have higher moral standards and a longer-term development vision, facing more standardized internal supervision and more comprehensive external supervision,

## 5.2. Suggestions

Firstly, for enterprises, they should actively fulfill ESG practices, engage in environmentally friendly production, assume social responsibility, enhance corporate governance, thereby enhancing their reputation and gaining competitive advantages. Enterprise management should recognize the implementation of ESG strategies and provide relevant resource support, educate on relevant concepts, recognize the current pace of ESG construction, and thus gain the recognition of all employees in the enterprise; More importantly, it is necessary to establish relevant departments for ESG supervision within the enterprise, and explore or cultivate relevant talents. Meanwhile, due to the involvement of many non-financial indicators in the ESG system, it is easy to cause agency problems. This requires enterprises to take measures through multiple channels to reduce agency costs, such as implementing material and spiritual incentives for agents, improving internal supervision mechanisms such as business decision-making and financial control, forming external constraint mechanisms for product and capital markets, and other conventional methods to reduce agency costs. In addition, a comprehensive reform will be carried out on the measurement and disclosure system of relevant performance within the enterprise, and the allocation of indicator resources and responsibilities will be clarified. In the disclosure of ESG reports, companies should ensure the authenticity and completeness of ESG information and refuse to conceal information.

Secondly, encourage state-owned enterprises and western regions to continue participating in ESG practices, and increase policy support for non-state-owned enterprises and central and eastern regions to participate in ESG practices. Accelerate the development of key performance indicators for various industries, establish unified ESG industry standards, and achieve broad consensus among all parties on standards, certification requirements, and auditing. Promote the establishment of relevant platforms to help enterprises enhance their ESG system construction capabilities, assist issuing institutions in promoting financial products that meet ESG requirements, provide necessary information to investors, and help investors understand information related to green financing. At the same time, investors also need to incorporate environmental, social, and governance factors into their investment decisions and make investment plans.

Thirdly, for the government, in order to achieve green and sustainable development, the government should appropriately shift its development focus and policy benefits towards environmentally friendly, socially responsible, and well performing corporate governance

enterprises, and improve the top-level design of ESG; At the same time, increase regulatory measures, establish reward and punishment mechanisms, and provide preferential policies for enterprises with good ESG performance. Otherwise, administrative penalties or credit limits will be imposed; Urge the improvement of ESG disclosure requirements. Although the China Securities Regulatory Commission has established a basic framework for ESG information disclosure in the "Guidelines for Corporate Governance of Listed Companies", and stock exchanges also require companies to disclose reports on environmental responsibility, social responsibility, and sustainable development to the public, the release of ESG reports is still voluntary. We can refer to the Hong Kong Stock Exchange for continuous market communication and publicity education on capital market ESG reports, and make clear provisions on the substantive content of the reports to ensure the comprehensiveness and authenticity of the report content.

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