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Factors Influencing Enterprise ESG Performance

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Abstract: This paper discusses the factors which influence the environmental, social, and governance performance of enterprises by reviewing previous studies. The article is analyzed from the external and internal environment of enterprises and developed from three dimensions: social institution, policy, and executives' characteristics. Social institution and policy are external environments, and executives' characteristic is the internal environment. The factor of social institutions, political institutions, labor institutions, and cultural institutions are discussed. They will be detailed on corruption, unemployment rate, labor protection, social cohesion, and equal opportunities. Unemployment rate and labor protection pose a positive impact on enterprise ESG performance, while high levels of country corruption, social cohesion, and equal opportunities contribute to negative ESG performance. Spanish, French, and Japanese enterprises are listed as an example. Spanish and French firms have similar levels of social and corporate governance performance, while Japanese firms are more committed to environmental issues due to cultural institutional differences. In the factor of policy, the article focuses on the positive influence of China's environmental regulation on technology innovation in the paper industry. The factor of executives' characteristics, international background, and diversity, specifically in female proportion, of corporate executives are helpful to enterprise ESG performance. ESG performance is influenced by the external and internal environment of the enterprise. There is a mutual promotion between external and internal environments. This paper analyzing several factors will provide a reference for developing enterprise ESG performance in different countries.

Keywords: ESG, social institution, policy, executives' characteristics

1. Introduction

Severe environmental pollution, drastic climate change and the increasing depletion of natural resources have gradually become global economic and political issues that are relevant to human survival and social development. In addition, poor working conditions and numerous corporate scandals have increased the public's appeal to companies' social and ethical responsibility. A sustainable economy is becoming a necessary condition for the healthy development of society. International organizations, government agencies and academic institutions are actively exploring various ways of achieving sustainable development strategies, particularly in mitigating environmental problems and combating climate change. As a result, the concept of responsible investment has emerged. Investors are expected to incorporate the ecological, social and

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macroeconomic impact of a company into the investment decision-making process, in spite of financial performance

ESG is an extent of responsible investment theory. It is an investment philosophy and corporate evaluation criteria that focus on corporate environmental, social, and governance performance rather than financial performance. It assesses corporate environmental responsibility and is conducive for enterprises to advocate the concept of green development, thereby promoting the development of an environmentally friendly society. Only by achieving good performance in business operations can we create value in a stable and sustainable manner and achieve a win-win situation in terms of economic, social, and ecological benefits. Since the signing of the Paris Agreement in 2015, ESG has begun to gain popularity globally, and the impact it has on corporate value is growing. Capital markets need to assess the risks and opportunities for companies arising from ESG issues, and more and more companies are voluntarily disclosing sustainability-related information.

Most of the previous studies focus on the impact of enterprises' ESG performance due to access to many companies' ESG disclosing. Xue Yang and Jun Qin hold the view that companies with good ESG performance can increase their enterprise value to a certain extent [1]. Zixian Ren et al. argues that ESG performance has a significant positive correlation with corporate financial performance [2]. Kang Zhu and Yong Tang claim that participation in ESG ratings helps to reduce the cost of debt financing, and the higher the ESG rating, the stronger the reduction in financing costs [3]. In studies related to corporate ESG performance, previous scholars have explored the economic consequences far more than the influencing factors. The economic consequences of corporate ESG performance have focused on aspects such as company operating conditions and capital market performance, including financial performance, financing costs, company value, and market resilience, mostly confirming that companies with better ESG management have better long-term competitiveness. There are fewer studies concerning influencing factors of enterprise ESG performance and those articles did not combine several factors to have a comprehensive analysis. These factors deserve to be researched and concluded because they contribute to the sustainable development of companies.

Therefore, this article reviews the previous paper and examines the factors that influence the development of enterprise ESG performance, focusing on the external and internal environment of companies, analyzing factors of social institution, policy, and administrator characteristics.

2. Social Institution

Social institution is a big external environment where all the corporate behaviors take place. Each company operates under a country's or regional specific regulations and different social culture. Social institution contains all aspects of institutions in the society and political institution, labor institution and culture institution are discussed in this article.

Baldini et al believe unemployment rate and labor protection promote corporate ESG performance, while high level of country's corruption, social cohesion and equal opportunities contribute to negative ESG performance [4]. Unemployment rate enhances ESG performance because when the public get easy access to the corporate ESG disclosing, potential employees will find it as a promising career. Transparent data about environment, social and government performance helps the enterprise establish an excellent image. It does not only pursue financial benefits, instead it cares about the society's health. Under the environment with high level of unemployment rate, those unemployed people are eager to secure a job. High unemployment rate must have some reasons, for example, it may cause from economic depression. In this situation, many companies lay off staff to reduce expense. Unemployed people need to turn to companies with social responsibilities so that they are more likely to be employed. Moreover, ESG disclosure tool is an avenue that managers adopt to attempt to attract highly skilled employees. They actually succeed.

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A labor union, which is a voluntary association of workers, is an organization of the working class. The impact of labor union's density on corporate social and governance performance overweighs that on corporate environment performance [4]. Labor union is formed primarily with the intention of being able to negotiate wages, working time limits, working conditions with employers. It puts pressure on the enterprises to help the workers strive for their reasonable rights. Labor union holds that workers are not tools for capitalists to make profits. Capitalists should not simply squeeze the value out of workers and should not suppress wages and prolong working hours. Workers do hard works but receive a pittance in return, while capitalists sit on vast wealth and the wealth is steadily increasing. Since the workers' situation has been arduous, labor union works in order to change the inequality and protect workers from poor treatment. It is entirely understandable that the higher the labor union's density, the greater the social and governance disclosure and performance.

High degree of the country's corruption may results in poor corporate ESG performance [4]. Collusion between officials and businessmen is not a rare matter. To facilitate commercial activities, businessmen bribe officials in order to achieve commercial objectives. To be specific, some companies in high-polluted industry have to operate under strict environmental protection regulation, otherwise, they will be fined or receive other punishment due to violation to laws. However, the main objective of the business is to make money. Businessmen prioritize financial interest. It often occurs that to reduce production cost, some enterprises secretly violate the regulations, continuing producing regardless of environmental pollution. To escape from punishment by law, those businessmen bribe government officials in advance. Those enterprises report fake ESG disclosure and does harm to sustainability to environment. which is not a long-term solution for the development. Corruption is unfavorable to enterprise ESG performance, which is not a long-term solution for the development. Initiative should be taken to control corruption under political institution.

A country's cultural institution plays a significant role in enterprise ESG decision. The higher social cohesion and equal opportunities, the lower the enterprise ESG performance and environmental and social disclosure [4]. Moreover, Eduardo et al mention that Spanish and French companies have similar levels of social and corporate governance performance, while Japanese companies are more committed to environmental issues, due to cultural institutional differences in religion [5]. If someone comes from a Buddhist or Judeo-Christian heritage, for example, they might prioritize social issues differently than environmental issues. Judaism-Catholicism and Buddhism have different cultural cores, which lead to different choices of priorities for society and the environment. The impact of cultural differences is immense. The Spanish and French are predominantly Catholic. Catholic concerns for society and human beings, emphasizing human well-being. The Japanese are mainly Shinto and Buddhist whose religious cores are concerned with nature and the environment. There is no doubt that cultural institution contributes to different preference in corporate ESG performance in a different country.

3. Policy

Since enterprises are created to make profits, most of the time they quit consideration of the social and environmental consequences for the sake of economic benefits. To qualify this unethical business practice in some industries, the government has taken initiatives, formulating laws to regulate business operations. These policies are external influencing factors to enterprise ESG performance. China's paper industry is listed as an example below.

China's paper industry has made significant advancements and experienced fast growth in recent years. However, the paper industry uses a lot of water and pollutes it severely. The government has developed a number of environmental regulation policies in an effort to regulate the paper industry, adapt the industrial structure, and safeguard the environment. The government has decreased backward manufacturing capacity, created hurdles to entry, and imposed new requirements for market access [6]. In order to promote cleaner manufacturing and environmental protection, the government aims to encourage paper businesses to continue implementing technology innovation. Against the backdrop of increasing environmental regulation, companies are actively responding to this shift by innovating with new materials, equipment and processes in order to survive and grow. There are two ways that environmental regulation impacts technology innovation in paper industry: government incentives mechanism and market inducement mechanism [7].

There is no substitute for the role of government in the technological innovation process of enterprises. Government environmental regulations influence the direction, speed and scale of technological innovation, providing direction and policy support for technological innovation. Government incentives are the direct effect of government environmental regulation on enterprises, urging or stimulating them to undertake technological innovation. To a certain extent, government environmental regulation can reduce uncertainty in the institutional environment in the process of corporate technological innovation, thus influencing the allocation of resources for corporate technological innovation. To be precise, in the context of environmental regulation, the government influences the choice of paths for technological innovation through the formulation of various standards and the choice of tools, indicating the specific direction of technological innovation development, reducing uncertainty in the process of technological innovation and reducing the risk of technological innovation. By guiding the direction of technological innovation through environmental regulation policies, the government enables enterprises to readjust their innovation strategies, optimize the allocation of resources and adjust the direction and speed of innovation, thereby increasing the success rate of technological innovation by enterprises. While the government regulates the development of enterprises through environmental regulations, it also creates a favorable market environment through the implementation of various policies to encourage and support enterprises to engage in technological innovation. Fiscal policy is mainly aimed at supporting technological innovation through various tax incentives and increased investment in research and development to increase the motivation of enterprises. The main objective of the patent policy is to stimulate enterprises to carry out technological innovation by protecting the interests of inventors. SME policies are designed to encourage the development of small and medium-sized enterprises (SMEs), thereby creating a mechanism for sharing the risks involved in technological innovation between large enterprises and SMEs. The implementation of these policies aims to stimulate enterprises to innovate through various incentives and rewards, to optimize the allocation of resources, to reduce the risk of technological innovation and to give them the confidence to do so.

The market is the link and bridge between enterprises and consumers. The role of the market is mainly to transmit information on consumer demand, to guide enterprises to produce and improve, so that their products are marketable and thus maximize their profits. In the market, enterprises need to face consumers and competitors, the three coexist, and therefore, changes in consumer demand and competitors' product strategy will induce enterprises to make changes in order to respond to the changing market environment. With the growing environmental problems, the development of social civilization and the continuous improvement of production technology, the concept of green, energy-saving and low-carbon has been penetrating people's lives. More and more consumers are advocating the concept of green consumption, advocating a civilized and healthy way of consumption, and a new concept of green consumption is taking shape. The green consumption concept is no longer only concerned with the individual's own consumption, but also pays more attention to the living environment of society, focusing on saving and low carbon, green and environmental protection. Therefore, in order to survive better, enterprises have to pay close attention to the changes in consumer demand and carry out technological innovation and product improvement to continuously meet the needs of consumers. China's paper enterprises are generally small and medium-sized enterprises, the number is large while the scale is generally small, therefore, the market competition is very fierce, and each enterprise has to bear the pressure from the competitors. Paper products are a necessity of life and as the quality of life continues to improve, people's requirements for the quality of paper products are increasing and green is becoming more and more important to consumers. Quality certification and environmental certification in the paper industry are increasingly recognized and accepted by the industry, and companies have begun to pursue green marks and environmental certification. Moreover, green products can give enterprises the advantage of product differentiation and enhance their competitive strength. If an enterprise's paper products are exported abroad, they often also have to face the obstacle of green barriers in other countries. Therefore, under the strong pressure of domestic and foreign competitors, if paper enterprises want to survive and develop, they have to adapt to the market environment, actively promote technological innovation, continuously develop new raw materials, improve production processes and update production equipment, promote green and clean production, energy saving and environmental protection, and produce quality products that meet green and environmental protection standards.

It cannot be denied that while environmental regulation qualifies enterprises' financial benefit to some extent, it indeed maintains the sustainable development of both the companies and the environment. Environmental regulation is external supervision of enterprise ESG performance.

4. Executives' Characteristic

While external environment provide opportunities for enterprises to develop ESG performance, internal influencing factor, such as executives' characteristic, is also important. All of the enterprise decisions are made by executives eventually, so the corporate ESG decision-making depends on executives' characteristics to a high degree.

Education and working background are necessities for executives, which reflect one's academic knowledge and horizon. Enterprises will show better ESG performance if their executives have international backgrounds [8]. Executives are distinguished from ordinary managers. Corporate executives are the central figures in the operation of a business and are the executors who fulfill the objectives of the board of directors. An excellent executive must possess brilliant business skills, so both theory and practice count. ESG performance is significantly enhanced when there are executives with overseas backgrounds. The responsible investment philosophy from executives with overseas backgrounds help companies strengthen their sustainability capabilities and improve their ESG performance. The corporate ESG performance will promote if quantity of executives with international background increases [8]. Moreover, executives with overseas backgrounds tend to act as "role models" within the executive team, and the attitudes and behaviors of "role models" will inevitably have an impact on local executives. Local executives are likely to pay attention to, and imitate, the attitudes and behaviors of executives from overseas backgrounds, including their attitudes and behaviors focusing on ESG performance and ESG information disclosure. As overseas executives and local executives share the same executive team, there will be exchanges and interactions between them naturally when discussing some major strategic decisions of the company. Therefore, through communication and interaction, executives from overseas backgrounds are able to pass on to local executives the idea and perception that they value ESG compliance and strict information disclosure. Once accepted and recognized by local executives, they will also consciously or unconsciously focus their "attention" on ESG.

Diversity in executives also contributes to better ESG performance of enterprises. A study shows that board diversity can improve the quality of management decisions and business ethics [9]. Using a sample of German and Austrian companies, Velte studied the impact of the proportion of women in the executive team on corporate ESG performance and concluded that the presence of women in the executive team is beneficial to corporate ESG performance [10]. From a rational perspective, women can bring more diverse thinking to corporate decision-making and enhance the efficiency of corporate

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decision-making; women have a deeper understanding of the consumer market, which facilitates the development of market strategies; women are more cautious about risk and can avoid excessive risk-taking, reducing governance issues such as corporate financial fraud; women are more concerned about public affairs and can promote corporate social responsibility. In recent years a growing number of scholars have found evidence from global data that women promote corporate performance and social responsibility.

5. Conclusion

Enterprise ESG performance is influenced by external and internal factors. In external factors, social institution, containing political institution, labor institution, and cultural institution, represents a whole environment. Unemployment rate and labor protection pose a positive impact on enterprise ESG performance, while the country's corruption, social cohesion, and equal opportunities contribute to negative ESG performance. Meanwhile, countries have different ESG focus due to distinctions in a cultural institution. Policy factor is included in externality. It is detailed by China's environmental regulation on the paper industry and environmental regulation promotes paper-making enterprises' ESG performance. Executives' characteristic detailed in diversity shows that an increasing proportion of female in executive team facilitates enterprise ESG performance. The external and internal factors mutually influence, whose joint efforts facilitate enterprise ESG performance. This article reviews previous studies, analyzing influencing factors from several dimensions. It can be provided as a reference for developing enterprise ESG performance in different countries. There are more dimensions not considered in, which deserve to be reviewed comprehensively.

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