Financial Engineering and Risk Management (2024)
Clausius Scientific Press, Canada

DOI: 10.23977/ferm.2024.070622
ISSN 2523-2576 Vol. 7 Num. 6

The Impact of Public Participation on Corporate ESG Performance

Rijing Lu*

School of Economics, Guangxi University, Nanning, 530000, China
**Corresponding author: 2230301043@st.gxu.edu.cn*

Keywords: the "Dual Carbon" Strategy, Corporate ESG Performance, Public Governance, Policy Uncertainty

Abstract: The "Carbon Peak and Carbon Neutrality" strategy (hereinafter referred to as the "Dual Carbon" strategy) is a significant initiative for China's economic and social development in the new era. Enhancing corporate ESG (Environmental, Social, and Governance) performance through public participation is a crucial pathway to achieving the "Dual Carbon" goals. It also represents a pressing topic at the intersection of public governance and economics that demands further exploration. Corporate ESG performance reflects the sustainability of a company's operations and its impact on societal values. Strong ESG performance can accelerate the transition toward a green economy. Building on a review of relevant literature on corporate ESG performance, public governance, and policy uncertainty, this paper clarifies the impact of public participation on corporate environmental performance. It also summarizes the contributions and limitations of existing studies, providing a valuable academic reference for future research on stakeholder participation and corporate ESG performance.

1. Introduction

The "Carbon Peak and Carbon Neutrality" strategy (referred to as the "Dual Carbon" strategy) represents a major national initiative for China's economic and social development in the new era. It aims to address global climate change, drive the transition to a green economy, and achieve sustainable development goals. Against this backdrop, effectively enhancing corporate Environmental, Social, and Governance (ESG) performance has become a focal point in both academic and practical domains. As a key metric of a company's sustainability and its fulfillment of social responsibilities, corporate ESG performance not only directly impacts the realization of the "Dual Carbon" goals but also plays a critical role in advancing the green economic transition.

Public participation, as a vital tool in public governance, can significantly influence corporate behavior through the collaborative efforts of diverse stakeholders. However, research on how public participation promotes corporate ESG performance is still in its infancy, particularly at the intersection of public governance and economics. This issue presents both a practical challenge and a theoretical gap. Specifically, the effectiveness, mechanisms, and performance of public participation under conditions of policy uncertainty require further exploration.

Existing literature has provided valuable insights into the factors influencing corporate ESG performance and their underlying mechanisms, such as board independence and size (Birindelli et al., 2018)[1] and corporate liquidity (Nour Chams et al., 2021)[2]. However, the role and mechanisms of public participation remain underexplored, especially in the context of high policy uncertainty. This research gap limits the optimization of relevant policies and governance tools and fails to fully unveil the potential of public participation within the "Dual Carbon" strategy.

In this context, this paper systematically reviews research on corporate ESG performance, public governance, and policy uncertainty, investigating the impact of public participation on corporate environmental performance. It aims to elucidate the pathways and mechanisms of its influence while summarizing the contributions and limitations of existing studies. By addressing these gaps, this research not only offers theoretical insights for academic studies on stakeholder participation but also provides practical recommendations for advancing the "Dual Carbon" goals and promoting corporate sustainability.

2. Factors Affecting ESG Performance of a Company

The previous research on the factors influencing ESG performance mainly explores three perspectives:

2.1 Environmental Aspect

Wang Pei et al. (2021)[3] used environmental protection tax as a consideration in assessing enterprises' ESG performance. They examined the ESG performance of heavily polluting A-share companies in Shanghai and Shenzhen from 2010 to 2019. The results revealed that environmental protection tax positively impacted ESG performance with a one-period lag. Green technological innovation, driven by transitions in product structures and production processes, played a mediating role in this process.

2.2 Social Responsibility Aspect

Few scholars have studied the factors influencing enterprises' ESG performance directly, with most focusing on CSR (Corporate Social Responsibility) performance, which shares similar connotations with ESG. Bu Danlu (2021)[4] confirmed a positive U-shaped relationship between foreign ownership proportion and CSR performance. For foreign shareholders with low ownership proportions, the duration of holding significantly moderated social responsibility. Factors positively influencing CSR performance in foreign-invested enterprises included the introduction of state-owned shareholders or the distribution of cash dividends. Additional factors affecting CSR performance varied, such as the type, mode of entry, and investment motives of foreign shareholders.

Yu and Liu (2015)[5] found that institutional pressure had a direct and significant positive effect on CSR behaviors. However, the impact varied significantly across the three dimensions of institutional pressure. Institutional pressure influenced CSR behaviors positively, with managerial attention to CSR serving as a mediating variable.

2.3 Corporate Governance Aspect

Liu et al. (2022)[6] empirically demonstrated that governance by Party organizations positively moderated ESG performance. Compared to serving on company boards, Party members in executive roles had a more substantial impact on ESG performance. Using the "Eight-point Regulation" and media attention as moderating variables, the results showed these factors positively influenced ESG. Non-state-owned enterprises demonstrated a stronger effect of Party governance on ESG performance than state-owned enterprises.

Huang Xiaolian (2022)[7] found that ESG disclosure was not affected by the size of the executive team but was positively influenced by the quality of the team. The presence of female executives further strengthened this positive impact.

Birindelli et al. (2018)[1] identified key factors affecting ESG performance, such as the presence of sustainability committees, board independence, board size, and gender diversity among executives. emphasized the importance of stakeholder engagement and ESG reporting regulations in shaping environmental policies and sustainability practices.

Nour Chams et al. (2021)[2], using a distributed lag estimation model, showed that financial performance indicators like free cash flow (FCF) stimulated ESG scores. Based on the slack resources theory, corporate liquidity acted as a “trigger” or “enhancer” of ESG performance. Organizations with ample financial resources often achieved higher ESG performance, enabling better sustainability management. Companies implementing Total Quality Management (TQM) reduced reliance on financial capital to improve ESG scores. TQM also demonstrated a dual effect on the relationship between Tobin’s Q and ESG, enhancing statistical significance and positively revising correlation coefficients.

In contrast, Chinese scholars Zhang et al. (2021)[8] argued that ESG performance and financial performance exhibit a bidirectional causal relationship with a lag effect, where stronger financial capabilities correlate with weaker ESG performance. They attributed this phenomenon to the need for a solid economic foundation to enhance ESG performance. Currently, Chinese enterprises are in the early stages of recognizing ESG responsibilities and integrating into global markets. The long-term drivers of ESG investment include raising awareness of ESG activities, improving rating standards and evaluation metrics, aligning with global standards, and enhancing ESG images in international capital markets, thereby boosting corporate investment value.

Zhang et al., (2020)[9], using paper manufacturing firms listed on A-shares from 2014 to 2019, indicated that ESG performance was not affected by systematic market risks. However, capital structure positively influenced ESG performance, while debt-paying and operational capabilities had a negative impact on ESG performance.

3. Research on Public Governance and Corporate Environmental Performance

Enterprises are the fundamental units of socio-economic systems and the largest entities in social production. As key participants in economic activities, enterprises are both major contributors to environmental pollution and crucial micro-level agents in pollution control and environmental improvement (Fabian, 2015)[10]. Their willingness to actively assume environmental responsibility is directly linked to ecological security and sustainable social development.

Given that ecological environments exhibit the characteristics of public goods, enterprises, as profit-driven economic entities, lack the intrinsic motivation to improve the environment in the absence of regulation. Thus, the fulfillment of corporate environmental responsibilities largely depends on the legal framework governing environmental protection and the enforcement capacity of governments. To address environmental pollution, governments have introduced a series of policies and regulations, such as the *Air Pollution Prevention and Control Law*, *Water Pollution Prevention and Control Law*, and *Solid Waste Pollution Prevention and Control Law*. Additionally, market-based regulatory tools, including environmental protection taxes and emissions trading systems, have been rapidly developed, enriching the content of environmental regulatory policies and expanding their scope.

However, some scholars argue that under the political promotion "tournament" system, local officials prioritize economic growth over environmental protection. The collusion between local governments and enterprises lowers the implementation standards of laws and regulations, and the absence of effective governmental oversight diminishes the effectiveness of formal institutional arrangements like environmental regulations (Jia, 2012)[11]. Consequently, environmental problems remain inadequately addressed, and existing achievements are often only temporary, as exemplified by phenomena such as “APEC Blue” and “Two Sessions Blue” (Chen et al., 2012)[12].

According to the perspective of New Institutional Economics, informal institutions have a greater ability to constrain unethical behavior due to their enduring and transmissive nature compared to formal institutions (Hu Jun et al., 2017)[13]. When formal environmental laws and regulations are lacking or poorly enforced, informal mechanisms—such as media exposure, traditional culture, public pressure, or moral norms—can play a critical role (Xu Yuan, 2014)[14].

With escalating environmental pollution, public awareness of environmental protection has been rising, prompting the government to recognize the importance of public participation in environmental governance. The 2015 revision of the *Environmental Protection Law* explicitly stipulated the disclosure of environmental information and public participation in environmental protection in its fifth chapter. To further safeguard the public’s right to information and participation, the Ministry of Ecology and Environment introduced the *Public Participation Measures for Environmental Impact Assessment* in 2018. Additionally, the 14th Five-Year Plan emphasized the need to “improve mechanisms for public supervision and feedback, and encourage social organizations and the public to jointly participate in environmental governance” as part of a modernized environmental governance system.

Some researchers posit that government oversight of corporate pollution is costly, while spontaneous public participation in environmental protection can effectively reduce policy costs associated with government regulations and address the shortcomings of “government intervention” and “market mechanisms” (Zheng Siqi et al., 2013)[15].

To address the challenges of environmental protection and governance, the 19th National Congress of the Communist Party of China proposed building a multi-stakeholder environmental governance system led by the government, with enterprises as the main participants and public engagement as a critical component. This system underscores the principles of co-construction, co-governance, and co-sharing, aiming to maximize synergies among the government, the public, and enterprises in environmental governance.

Some scholars have begun to explore the interrelationships among the public, government, and enterprises in environmental governance. For example, Zhang Tongbin et al. (2017)[16] constructed a dynamic general equilibrium model for multi-stakeholder environmental governance and found that the combined effects of environmental taxation and public participation improved environmental outcomes. Ostrom et al. (1993)[17] highlighted the interdependence and mutual constraint among stakeholders such as governments, enterprises, and social organizations. They proposed that a polycentric governance model, which emphasizes power decentralization and overlapping management, could effectively enhance environmental governance.

4. The Impact of Policy Uncertainty on Corporate

The concept of policy uncertainty describes the inability of economic agents to forecast the government's future modifications to existing economic policies, including the timing and specific changes. As an important microeconomic entity and the primary target of economic policy implementation, the impact of policy uncertainty on corporate decision-making has also attracted academic attention. This includes its effects on corporate investment, financing, operations, corporate governance, and managerial opportunism.

Li and Yang (2015)[18] found that, in China, the overall investment level of firms decreases as economic policy uncertainty rises, with this effect being more pronounced during economic recessions. In terms of specific capital allocation, with the increase in policy uncertainty, firms reduce their investment in fixed assets (Zhang and Liu, 2018)[19], shift from speculative financial assets to more stable financial assets (Peng et al., 2018)[20], and experience a decline in physical investment while virtual investment rises (Xu et al., 2020)[21]. Moreover, policy uncertainty not only affects the scale of investment but also impacts investment efficiency (Rao et al., 2017)[22]. Gu et al. (2018)[23] further showed that policy uncertainty has a positive effect on the number of patents applied by firms, thus enhancing their innovation efficiency.

Cai et al. (2018)[24] found that policy uncertainty reduces firms' debt financing, but does not significantly affect equity financing. It also leads to a reduction in mergers and acquisitions activities (Bonaime et al., 2018)[25]. During periods of increased policy uncertainty, firms tend to increase their cash holdings (Wang et al., 2014)[26], although this relationship varies depending on factors such as agency problems, ownership structure, financing capacity, and the level of marketization in the region (Zhang et al., 2017)[27]. Additionally, rising policy uncertainty leads to a reduction in the supply of trade credit, as well as a shortening of credit supply periods (Chen and Liu, 2018)[28].

Rao and Xu (2017)[29] found that increased policy uncertainty lowers the likelihood of top management changes, which is a risk-hedging strategy employed by firms. This relationship is more significant in firms with lower risk-bearing capacity. Chen et al. (2016)[30] demonstrated that policy uncertainty arising from changes in government officials increases corporate tax avoidance behavior, with this effect being more pronounced in regions with weaker tax administration. Local listed companies may also engage in earnings management to reduce the potential costs arising from future policy adjustments, as economic policy uncertainty significantly increases the uncertainty of future cash flows, creating opportunities for earnings management (Jin et al., 2018)[31]. Dhole et al. (2019)[32] found that policy uncertainty reduces the comparability of corporate accounting information. Nagar et al. (2019)[33] suggested that firms increase voluntary disclosure to mitigate the adverse effects of rising policy uncertainty.

5. Conclusion

First, existing literature reveals that scholars have conducted extensive research on corporate ESG performance, primarily focusing on its economic consequences, such as impacts on corporate profitability, financial performance, corporate value, financing costs, institutional investors' stock preferences, and audit fees. However, the conclusions in this area remain inconsistent. On one hand, improving ESG performance can send positive signals, attract market attention, reduce information asymmetry, ease financing constraints, and enhance operational efficiency, thus leading to positive value-enhancing effects. On the other hand, ESG initiatives are high-investment projects, and given the scarcity of resources, investing in ESG performance may divert excessive resources toward activities unrelated to the core business, such as external environmental concerns and social responsibility. This could weaken the company's core competitiveness.

Second, while existing literature mainly explores the direct consequences of improving ESG performance, there has been less focus on the factors that drive companies to actively enhance their ESG performance. Only a few studies have examined the impact of factors such as environmental protection taxes, managerial characteristics, board independence and size, corporate liquidity, and capital structure on ESG performance. Most discussions have concentrated on the effects of national policies and internal corporate characteristics, with few studies considering the role of public participation as an influencing factor.

In conclusion, researching how public participation can improve corporate ESG performance under the "Dual Carbon" strategy has significant academic and practical implications.

References

[1] Birindelli G, Dell'Atti S, Iannuzzi A P, et al. Composition and activity of the board of directors: Impact on ESG performance in the banking system[J]. Sustainability, 2018, 10(12): 4699.
[2] Chams N, García-Blandón J, Hassan K. Role reversal! Financial performance as an antecedent of ESG: The moderating effect of total quality management[J]. Sustainability, 2021, 13(13): 7026.
[3] Wang Pei, Yang Shucheng, Huang Shan. The Impact of Environmental Protection Tax on Corporate Environmental, Social, and Governance Performance—The Mediating Effect of Green Technological Innovation [J]. Taxation Research, 2021(11): 50-56.
[4] Bu Danlu, He Chen, Wen Caihong. Foreign Ownership and Corporate Social Responsibility Performance [J]. Accounting Research, 2021(02): 86-101.
[5] Yu Fei, Liu Mingxia. The impact of institutional pressure on Corporate Social Responsibility: from the perspective of senior managers [J]. Journal of Technology and Economics,2015,34(11):127-135.
[6] Liu Xuexin, Li Huiyang, Kong Xiaoxu. The Impact of Party Organization Governance on Corporate ESG Performance [J]. Economic and Financial Review, 2022(01): 100-112.
[7] Huang Xiaolian, Bai Shixiu. The Relationship between Manager Characteristics (Executive Team Characteristics) and ESG Information Disclosure [J]. Enterprise Science and Development, 2022(02): 177-180.
[8] Zhang Xianhua, Gao Yuanyuan. Is There a Correlation between ESG Performance and Financial Performance of Listed Companies?—Evidence from the Constituent Stocks of the CSI 300 Index [J]. Journal of Fujian Business School, 2021(04): 54-61.
[9] Zhang Yonghui, Qu Xiaoyu, Li Kexuan, Song Shuhong. The Empirical Study on the Impact of Corporate Financial Performance and Systematic Risk on ESG Performance—Based on A-share Listed Paper Industry Companies [J]. Tropical Agricultural Engineering, 2020, 44(05): 119-124.
[10] Fabian, N. Support Low-Carbon Investment [J]. Nature, 2015, 519(7541): 27-29.
[11] Jia, R. Pollution for Promotion [J]. SSRN Working Paper, 2012.
[12] Chen, Y., G. Z. Jin, N. Kumar, and G. Shi. Gaming in Air Pollution Data? Lessons from China [J]. Journal of Economic Analysis and Policy, 2012, 12(3): 1-43.
[13] Hu Jun, Song Xianzhong, Wang Hongjian. Informal Institutions, Hometown Identity, and Corporate Environmental Governance [J]. Management World, 2017, (3):76-94+187-188.
[14] Xu Yuan. Does Informal Environmental Regulation Driven by Social Pressure Constrain Industrial Pollution in China? [J]. Financial and Trade Research, 2014, (2):7-15.
[15] Zheng Siqi, Wan Guanghua, Sun Weizeng, et al. Public Demands and Urban Environmental Governance [J]. Management World, 2013(06): 72-84.
[16] Zhang Tongbin, Zhang Qi, Fan Qingquan. Corporate Governance Motivation and Public Participation Externalities under Government Environmental Regulation [J]. China Population, Resources and Environment, 2017, (2):36-43.
[17] Ostrom, Elinor, Larry Schroeder, and Susan Wynne. Institutional Incentives and Sustainable Development: Infrastructure Policies in Perspective. 1st edition. Boulder: Westview Press, 1993.
[18] Li Fengyu, Yang Mozhu. Does Economic Policy Uncertainty Suppress Corporate Investment?—An Empirical Study Based on the China Economic Policy Uncertainty Index [J]. Financial Research, 2015, (4): 115-129.
[19] Zhang Chengsi, Liu Guanchun. Research on the Investment and Financing Decision-Making Mechanism in China's Industrial Sector—Based on the Perspective of Economic Policy Uncertainty and Financing Constraints Heterogeneity [J]. Economic Research, 2018, 53(12): 51-67.
[20] Peng Yuchao, Han Xun, Li Jianjun. Economic Policy Uncertainty and Corporate Financialization [J]. China Industrial Economy, 2018, (1): 137-155.
[21] Xu Guangwei, Sun Zheng, Liu Xing. The Impact of Economic Policy Uncertainty on Corporate Investment Structure Bias—Empirical Evidence Based on the China EPU Index [J]. Management Review, 2020, 32(1): 246-261.
[22] Rao Pingui, Yue Heng, Jiang Guohua. Economic Policy Uncertainty and Corporate Investment Behavior [J]. World Economy, 2017, 40(2): 27-51.
[23] Gu Xiaoming, Chen Yongmin, Pan Shiyuan. Economic Policy Uncertainty and Innovation—An Empirical Analysis of Listed Companies in China [J]. Economic Research, 2018, 53(2): 109-123.
[24] Cai Guowei, Wu Huaqing, Xu Xinzong. The Impact of Policy Uncertainty on Corporate Investment and Financing Behavior [J]. Financial Research, 2018, (3): 89-104.
[25] Bonaime A., Gulen H., Ion M. Does Policy Uncertainty Affect Mergers and Acquisitions? [J]. Journal of Financial Economics, 2018, 129(3): 531-558.
[26] Wang Hongjian, Li Qingyuan, Xing Fei. Economic Policy Uncertainty, Cash Holding Level, and Market Value [J]. Financial Research, 2014, (9): 53-68.
[27] Zhang Guangli, Qian Xianhang, Xu Jin. Can Economic Policy Uncertainty Affect Corporate Cash Holding Behavior? [J]. Management Review, 2017, 29(9): 15-27.

[28] Chen Shenglan, Liu Xiaoling. Economic Policy Uncertainty and Corporate Commercial Credit Supply [J]. Financial Research, 2018, (5): 172-190.
[29] Rao Pingui, Xu Zihui. Does Economic Policy Uncertainty Affect Corporate Executive Changes? [J]. Management World, 2017, (1): 145-157.
[30] Chen Deqiu, Chen Yunsen, Dong Zhiyong. Policy Uncertainty, Tax Collection Intensity, and Corporate Tax Evasion [J]. Management World, 2016, (5): 151-163.
[31] Jin J., Kanagaretnam K., Lobo G. J. Discretion in Bank Loan Loss Allowance, Risk Taking, and Earnings Management [J]. Accounting & Finance, 2018, 58(1): 171-193.
[32] Dhole S., Liu L., Lobo G., et al. Financial Statement Comparability and Economic Policy Uncertainty [C]. The 42nd Annual Congress of the European Accounting Association, 2019.
[33] Nagar V., Schoenfeld J., Wellman L. The Effect of Economic Policy Uncertainty on Investor Information Asymmetry and Management Disclosures [J]. Journal of Accounting and Economics, 2019, 67(1): 36-57.