

Study on the Impact of ESG Performance on Financial Performance

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Introduction

With the development of commercial economy, sustainable development is becoming increasingly important for enterprises. Taking Chinese A-share listed companies from 2015 to 2021 as research samples, this paper discusses the relationship between ESG performance and financial performance, and whether executive compensation can play an intermediary role in the relationship between ESG performance and financial performance.

Mathematical Formulas

$$ROA_{i,t} = \alpha_0 + \alpha_1 ESG_{i,t} + \alpha_i Control_{i,t} + \mu_i + \theta_i + \varepsilon_{i,t} \quad (1)$$

$$Pay_{i,t} = \beta_0 + \beta_1 ESG_{i,t} + \beta_i Control_{i,t} + \mu_i + \theta_i + \varepsilon_{i,t} \quad (2)$$

$$ROA_{i,t} = \gamma_0 + \gamma_1 ESG_{i,t} + \gamma_2 Pay_{i,t} + \gamma_i Control_{i,t} + \mu_i + \theta_i \quad (3)$$

Research Questions

Whether ESG performance can promote the improvement of corporate financial performance and whether executive compensation can play an intermediary role in the relationship between ESG performance and financial performance.

Methodologies

This paper uses the literature research method and the empirical research method to study the relationship between ESG performance and financial performance and the role of executive compensation in the relationship.

Tables

Table 1. Results of the descriptive analysis

Var	Obs	Mean	Std. Dev.	Min	Max
ROA	12589	0.065	0.048	0.002	0.245
ESG	12589	4.253	1.073	1	6
Pay	12589	12.77	0.611	11.397	14.546
Gro	12589	0.213	0.34	-0.392	1.937
Lev	12589	0.369	0.181	0.053	0.805
Num	12589	15.332	3.144	10	26
Age	12589	18.254	5.386	8	33
Size	12589	22.038	1.13	20.07	25.72

Conclusion

This paper found through empirical research that there is a positive correlation between ESG performance and financial performance, that is, companies can improve their financial performance by improving their ESG performance. Meanwhile, there is a positive correlation between ESG performance and executive compensation, indicating that there is a certain connection between the level of attention given to ESG issues and the executive compensation system. Executive compensation plays a mediating role in the relationship between ESG and financial performance, as it can transmit and strengthen the positive impact of ESG. Stimulating executives' attention to ESG goals through incentive mechanisms can further enhance the impact of ESG on financial performance.