

Corporate Governance, ESG Performance and Firm Performance: A Literature-Based Analysis of Chinese Listed Companies

Shixuan Li

School of Business, University of New South Wales, Kensington, NSW 2033 Australia

Abstract: Environmental, Social and Governance (ESG) has become an important framework for assessing corporate function, governance, sustainability, and the competitiveness of corporations, as companies are increasingly looking for a path towards sustainable development and invest responsibly. ESG indicators reflect not only a company's environmental responsibility and social contribution, but also the quality of its governance and a company's strategic sustainability. This study reviews the literature on corporate governance, corporate social responsibility (CSR), and ESG performance and investigates its association with the performance of Chinese-listed firms. Through integrating the existing literature and analysis of ESG disclosure from Chinese listed companies we propose to investigate the theoretical connection between corporate governance and sustainable corporate performance via ESG practices. The results imply that a well-structured corporate governance plays a major role in achieving increased ESG performance, in which corporate reputation in turn enhances its status while also lowering the operating risk and enhancing long-term financial output. Furthermore, corporate sustainability reports reveal that ESG strategies have emerged as a part of businesses and governance constructs developed by leading Chinese companies. The article also addresses the implications of ESG governance on sustainable corporate development, presents suggestions for enhancing ESG disclosure and governance systems in Chinese firms.

Keywords: ESG governance, corporate governance, firm performance, sustainability, Chinese listed companies.

1. Introduction

Sustainable development has emerged as an issue of great international importance in the field of economic governance and corporate governance. Environmental challenges such as climate change, carbon emissions, and resource depletion have heightened the questions on the sustainability of the current models of economic growth.

Simultaneously, corporate scandals and corporate governance failures have called into question the effectiveness of today's corporate governance system. These problems have led governments, investors, and regulators around the world to stress the role of Environmental, Social and Governance (ESG) practices.

On ESG, we define corporate sustainability in the broadest spectrum—as in environmental protection, social responsibility, governance quality/characteristics. ESG indicators, in comparison to conventional financial indicators, offer a wider view for evaluating performance and the long run of a firm's value adding capability. ESG impacts have been one of the most important issues affecting investment decisions in the worldwide capital markets of the recent past.

ESG indicators are becoming more integrated into the investment decisions of institutional investors, as they become more effective in identifying companies with strong sustainability performance and long-term growth prospect. China, ESG-oriented development and corporate behaviors also showed significant improvement in speed.

The continuous growth of the capital market and the realization of green development plans has led to the introduction of guidelines by Chinese regulators to promote disclosure of ESG information from listed companies and strengthen corporate governance mechanisms. Large listed companies are also included among those companies and

sustainability reporting guidelines are published as part of the Sustainability Reporting Standards on Chinese stock exchanges for large listed companies to disclose both environmental and social information to promote sustainable development and transparency in the capital markets.

Additionally, the level of disclosure of ESG information issued by Chinese listed companies has escalated rapidly over the past years. [5] More than 1,000 listed companies announced ESG, CSR, or sustainability reports by 2024: Based on information from the Shenzhen Stock Exchange, higher (35% disclosure), which is a new all-time high.

This is in line with the importance of ESG governance that has emerged in corporate governance and investment decision making. [6] Many Chinese companies listed on the stock exchanges have also started to include ethics in their long-term development strategy.

As an example, the Ping An Group has issued sustainability information reports for more than 15 years, indicating the Group is a serious social and environmental entity. [4] These practices demonstrate that ESG strategies are slowly yet inexorably transitioning into an integral part of governance and strategic management.

Notwithstanding these developments, the relationship between corporate governance, ESG performance and corporate performance is a crucial area of research still needs to be explored. Therefore, knowledge regarding the impact of corporate governance on ESG conduct and on corporate value creation through ESG performance is important for realizing sustainable development in emerging economies.

Accordingly, this paper will look into the review of the corporate disclosures and extant literature to examine the linkage of corporate governance, ESG performance and firm performance in Chinese listed companies.

2. Literature Review

2.1. Corporate Governance and Corporate Social Responsibility

Corporate governance is the structure of rules, procedures and institutions by which entities are directed and governed. This establishes what the relationships between the shareholders, managers, boards of directors, and other stakeholders are.

Effective corporate governance mechanisms improve decision-making efficiency, enhance transparency and reduce agency conflicts between managers and shareholders. The main purpose of corporate governance is that firms must have decisions made for shareholders while keeping in good faith with all involved interest.

It is one of the main aims of corporate managers, and at the same time, it ought to safeguard shareholders' interests. Stakeholder theory dictates, firms should cater to the various interests of such a variety of other stakeholders as employees, customers, suppliers and communities.

Corporate governance structures as independent boards of directors (IBDs), internal audit systems and transparent reporting lines enable accountability (or governance of data) to ensure good decision-making is performed. Studies in Chinese listed companies provide empirical evidence of the significant impact of corporate governance on corporate social responsibility practice.

Stronger governance mechanisms result in investments in environmental conservation, employee prosperity, and local enterprise development programmes in companies. These practices add value and are consistent with long-term corporate benefit and sustainability.

Environmental regulation is also considered an important external driver of corporate sustainability practices. Empirical evidence from Chinese listed companies suggests that stricter environmental regulations can stimulate corporate green innovation by encouraging firms to increase environmental R&D investment and adopt cleaner production technologies [1].

2.2. ESG Performance and Firm Performance

ESG performance has become a vital basis for measuring corporate sustainability and competitiveness. [12] Environmental management, social responsibility and governance quality are all part of ESG. These three dimensions overall measure how businesses address environmental risk, meet social responsibilities, and uphold transparent systems of governance.

Studies have shown several ways in which ESG performance can positively affect firm performance. The first is for company ESG initiatives to improve brand values and make the company look good. Organisations that are environmentally responsible and in an ethical corporate way are more likely to attract investors and customers.

ESG activities lower risks of both law and operation. Those companies are less likely to be penalized financially, or be stigmatized for doing so by society, if they take steps to actively confront social and environmental challenges.

Also, companies can innovate and be more competitive with enhanced ESG practices. Those companies that adopt sustainable strategies often invest in green technologies, energy efficiency and responsible supply chains. Such innovations can enhance operational proficiency and aid ongoing expansion.

Research conducted on Chinese listed companies similarly reveals that corporate internationalization and global competitiveness are reinforced by ESG performance. [8] Good ESG performance enables corporations to secure foreign investment and to grow in international markets. As sustainability becomes increasingly visible in the portfolio of global investors, companies with strong ESG performance gain further access to capital and market opportunities.

2.3. ESG Disclosure and Corporate Transparency

ESG disclosure has an impact on corporate effectiveness—the corporate level being one of the important factors. [10] Reporting ESG will better enable investors to gauge corporate sustainability performance and risk-control efforts.

Chinese regulators have recently tightened the ESG disclosure standards and have strengthened them, to improve market transparency and responsibility in business, in a recent move to protect ESG. The Chinese securities regulatory framework is particularly encouraging of ESG disclosure that must include information about climate hazards, environment preservation, social responsibility, corporate governance, etc., while underscoring the significance of ESG.

Institutional governance mechanisms are also crucial in the context of ESG performance. According to studies conducted on the reform of China's social credit system, better credit supervision and information transparency can substantially improve corporate ESG performance by enhancing reputational incentives and reducing agency problems [2].

Similarly, ESG disclosure requires investors to review how companies manage these sustainability risks and opportunities in different business contexts. But we are still far behind in making ESG disclosure widely in China.

Some companies are still without one cohesive reporting framework, and the quality of ESG information can vary across an industry. According to previous studies, the quality of disclosure on ESG data differs from listed organizations in terms of the environmental and carbon emissions. Regulators and stock exchanges are working in tandem to remedy this.

3. Discussion

The literature explored by this study indicates that corporate governance, ESG performance, and firm performance are mutually, and in each case, interrelated as related principles for life-span management. It acts as the corporate bedrock that provides guidance not only for businesses' choices but also defines the strategic directions. As per the China ESG Development White Paper 2025, ESG investment and disclosure have rapidly expanded in Chinese capital markets, with more than 2,500 listed companies publishing ESG or sustainability reports by 2025. [3] This mirrors the growing integration of ESG principles in corporate governance and investment decision-making.

Enterprises with sound governance structures are encouraged to take sound business decisions and to build ESG with a strong foundation beyond operational plans to be a profitable business. Corporate performance and environmental, social, and governance (ESG) performance intersect to affect each other in various ways [15].

The first is ESG strategies that improve corporate reputation and brand value. Firms that are environmentally conscientious and have ethical corporate governance will be able to more easily obtain the trust of investors, regulators,

and consumers.

Second, ESG practices improve risk management. [14] Firms that take environmental protection approaches, with transparent governance systems, can reduce operational risks and red flags relating to regulation. And, in uncertain economic conditions, improve stability and adaptability through corporate development and the implementation of new business models.

Third, ESG initiatives improve stakeholder relationships. Good corporate behaviour helps develop trust and cooperation with employees, communities, and investors. Good stakeholder relations promote organizational growth and sustainable corporate development.

Indeed, for Chinese companies with public listings, ESG governance became particularly important due to the context of China's economic transition towards sustainable development. With green development and carbon neutrality aspirations in the spotlight in China, companies need to steer their business strategies in the direction of national sustainability objectives. Those companies that are taking ESG measures at the corporate governance level are more likely to realize sustained expansion and will also increase their standing.

4. Practical Evidence

Practical evidence also demonstrates the increasing attention to ESG governance in Chinese enterprises from Corporate Sustainability Reports. Several large listed firms also include ESG practices in their strategy and operations.

As an example, Ping An Insurance Group has issued sustainability reports for more than fifteen consecutive years, highlighting the company's progress in climate governance, responsible finance, and community development.

This paper shows how in the context of corporate governance and business operations, Ping An's sustainability plan demonstrates how ESG policy is not only a practice that it can be absorbed. Thus through the various areas of environmental sustainability management, in corporate governance frameworks, corporate social responsibility to environmental protection, responsible investment, and social welfare programs, the company has built a complete model of sustainable development initiatives.

By programs like green finance, inclusive financial services, and technological innovation, Ping An has increased its business sustainability model and continued to deliver strong financial results. The firm, meanwhile, recently reported large green insurance investments and carbon-related financial initiatives that are driving low-carbon economic transformation in its latest sustainability report.

Our practice indicates rather than just being a technical obligation, that ESG governance is strategically used for business value addition. Integrating sustainability principles into governance structures and business operations enables companies to leverage environmental performance improvements, social responsibility improvements, and increase financial performance results.

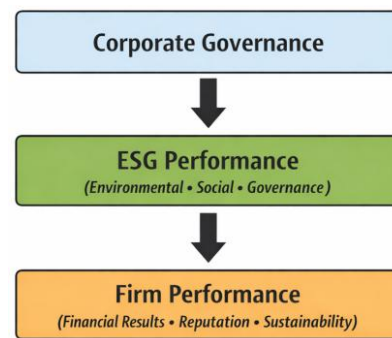


Figure 1. Governance–ESG–Performance Framework

5. Conclusion

We conducted a review of corporate disclosures in respect of corporate governance, ESG performance, and firm performance studies of Chinese listed firms. They found that corporate governance significantly shapes corporate social responsibility and the practice of ESG.

Companies with closer governance systems will use sustainable management and environmental & social responsibility. ESG performance helps the company to improve corporate sustainability on the grounds of enhancing corporate reputation, reducing risk, and improving relationships with stakeholders.

Therefore, the link between corporate and firm performance and ESG governance is considered an important link. Hence, in terms of sustainable corporate development, enterprises should implement processes to reinforce governance, increase transparency of ESG disclosures, and mainstream sustainability principles into their business activities. This should be supported by establishing common ESG reporting frameworks and incentivizing responsible investment practices among the stakeholders.

According to the study ESG governance is one of the key vehicles that help improve corporate competitiveness in a way that bears immediate relation to sustainable economic development in general. Developing ESG practices will allow Chinese listed companies to grow in the long run and contribute to protecting the environment and social well-being.

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