

The Pathways Through Corporate Governance Mechanisms Influence Corporate ESG Performance

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Abstract. As the concept of sustainable development deepens, environmental, social, and governance (ESG) has become a key framework for evaluating corporate non-financial performance. Among these, governance (G) is not only a core dimension of ESG but also an intrinsic mechanism driving environmental (E) and social (S) performance. This paper aims to systematically examine the theoretical pathways through which corporate governance influences corporate ESG performance. By reviewing relevant domestic and international literature, this paper first elaborates on theoretical foundations such as stakeholder theory and resource dependence theory. It then analyzes the direct pathways through which corporate governance influences ESG performance across four dimensions: equity structure, board governance, executive incentives, and information disclosure. Subsequently, it explores indirect pathways mediated by variables such as reduced agency costs, enhanced risk management capabilities, and the cultivation of a social responsibility culture. The paper concludes by summarizing existing research limitations and outlining future directions, suggesting deepening studies on configuration effects, innovating G-dimension measurement methods, and conducting cross-institutional comparative analyses to build a more integrated theoretical framework. This work provides theoretical foundations and practical insights for enterprises to optimize governance structures and enhance overall ESG performance.

Keywords: Corporate governance, ESG performance, influence pathways.

1. Introduction

Against the backdrop of global climate change, tightening resource constraints, and growing social inequality, advancing green transformation and sustainable development has become a core consensus within the international community. ESG principles, as a non-financial framework for comprehensively evaluating corporate environmental, social, and governance performance, have occupied a significant position in investment decisions and corporate strategy since the United Nations released Principles for Responsible Investment (PRI) in 2006 [1]. Guided by its dual carbon goals and high-quality development strategy, China has also integrated ESG into corporate evaluation systems to accelerate comprehensive green transformation across its economy and society [2].

Among the three ESG dimensions, corporate governance plays a pivotal role. It not only concerns corporate compliance and decision-making efficiency but also profoundly influences a company's willingness and capacity to fulfill environmental and social responsibilities [3]. Sound governance mechanisms provide institutional safeguards for ESG strategy formulation and execution through internal checks and balances, oversight incentives, and information transparency. Conversely, governance failures may lead companies to neglect long-term sustainable development, undermining the value of diverse stakeholders [4].

Although the impact of corporate governance on ESG performance has drawn extensive discussion, existing research either focuses on the "net effect" of individual governance elements or remains confined to specific industries and contexts. It lacks systematic explanations of complex mechanisms such as "multiple pathways, interactions, and context dependence" [5, 6]. Based on this, this paper adopts the theme "Pathways through which corporate governance mechanisms influence corporate ESG performance." Through a systematic review and integration of domestic and international literature, it aims to achieve the following objectives: First, clarify the theoretical foundations of how corporate governance affects ESG performance; second, reveal its direct and indirect pathways; third,

identify synergistic effects and contextual dependencies among different governance elements; fourth, propose key directions for future research and an integrated theoretical framework.

2. Theoretical Foundations and Literature Review

The influence of corporate governance on ESG performance rests upon multiple theoretical foundations. Stakeholder theory posits that corporations are not merely instruments for maximizing shareholder profits but should also balance the demands of diverse stakeholders including employees, consumers, communities, and the environment [7]. ESG performance serves as a key manifestation of how enterprises respond to stakeholder expectations, while corporate governance mechanisms provide institutional channels for identifying, coordinating, and internalizing these demands [4]. Resource Dependency Theory emphasizes that corporate survival and growth depend on external critical resources. Robust governance structures enhance trust and cooperation with stakeholders like governments, investors, and communities, thereby securing greater policy support, green financing, and technological innovation resources for ESG initiatives [6]. Agency theory posits that corporate governance mitigates conflicts of interest between owners and management through oversight and incentive mechanisms [8]. This curbs managerial myopia and directs focus toward long-term value creation, including ESG outcomes. Additionally, legitimacy theory and signaling theory are widely applied to explain how companies enhance social recognition, strengthen market trust, and improve capital costs by elevating ESG performance and disclosure quality [9].

In recent years, scholars have extensively explored the relationship between various corporate governance elements and ESG performance. Regarding equity structure, research indicates a nonlinear relationship between equity concentration and ESG performance. Moderate concentration (e.g., stable institutional investors) helps overcome shareholder free-riding and encourages long-term ESG investments; however, excessive concentration may lead to tunnel vision among major shareholders, causing them to neglect minority shareholders and societal values [5]. State-owned shareholders, bearing policy mandates, typically drive their controlled enterprises to perform better in social responsibility dimensions [6].

Regarding board governance, existing research focuses on the impacts of board size, independence, gender diversity, and professional backgrounds. Most studies suggest that a higher proportion of independent directors' aid in overseeing management's ESG decisions and resisting short-sighted projects detrimental to social and environmental values [10]. Establishing ESG committees enhances the strategic importance of related issues and decision-making efficiency [11]. However, the relationship between board gender composition and ESG performance remains contentious. Some studies find a positive correlation between female director representation and ESG disclosure quality, while others indicate that under specific conditions (e.g., family-owned enterprises), the relationship is insignificant or even negative [12, 13].

Executive incentives represent another crucial mechanism. Incorporating ESG metrics into executive compensation agreements effectively guides management to balance economic, environmental, and social objectives, reducing opportunistic behavior that sacrifices long-term sustainability for short-term financial performance [14]. Improvements in disclosure mechanisms have also been shown to enhance external oversight, compelling companies to increase transparency and management standards in ESG practices [15].

Despite these substantial findings, existing research faces several limitations: First, it predominantly focuses on the "net effect" of single governance variables, lacking systematic analysis of the synergistic effects of multiple factors [16]. Second, insufficient exploration of mediating and moderating mechanisms within influence pathways. Third, limited in-depth examination of pathway heterogeneity across industries, ownership structures, and firm sizes. Subsequent sections of this paper will systematically address these issues by constructing a "direct-indirect" influence pathway analytical framework.

3. Direct Influence Pathways of Corporate Governance on ESG Performance

3.1. The Guiding Role of Equity Structure

Equity structure determines the distribution of corporate power, profoundly influencing strategic direction and responsibility fulfillment. Shareholding concentration is a primary consideration. Research indicates that moderately concentrated equity structures (e.g., presence of controlling shareholders or long-term institutional investors) help overcome shareholder free riding, prompting effective oversight and resource support for corporate ESG practices [6]. Institutional investors adhering to sustainable investment principles are more inclined to actively exercise shareholder rights, driving corporate improvements in ESG performance [16]. However, excessive concentration may lead to large shareholders engaging in asset stripping or neglecting the interests of minority shareholders and other stakeholders, ultimately undermining overall ESG performance [6].

Shareholder type is equally critical. State-owned shareholders, bearing policy mandates and social responsibilities, typically prioritize environmental emissions reduction, employee welfare, and community contributions. Their controlled enterprises often exhibit stronger ESG performance, particularly in the social dimension [6]. In contrast, ESG investments by private enterprises rely more heavily on governance mechanisms balancing shareholders' short-term interests with long-term value. Furthermore, the degree of equity checks and balances—the ability of other major shareholders to counterbalance the largest shareholder—has been found to promote balanced ESG investments through internal governance dynamics, preventing the interests of any single shareholder from overriding overall sustainable development [17].

3.2. Decision-Making and Oversight Functions of Board Governance

As the highest decision-making and oversight body, the board's structure, operations, and expertise directly influence ESG strategy formulation and implementation. Board independence is crucial for ensuring objective oversight. A higher proportion of independent directors effectively monitors management opportunism and supports—or even initiates—ESG projects that may increase short-term costs but benefit long-term sustainability [18]. Some scholars further confirmed through configurational research that independent directors play an indispensable oversight role in pathways to high ESG disclosure quality [6].

Board expertise manifests in establishing ESG-related committees and fostering director background diversity. Establishing an ESG committee or sustainability committee elevates ESG issues to the strategic level, enabling systematic goal planning, resource allocation, and oversight of implementation [8]. Concurrently, directors with backgrounds in environmental science, social responsibility, or public policy bring specialized expertise and external perspectives to the board, enhancing the scientific rigor and foresight of ESG decision-making [19].

Board operational efficiency, such as meeting frequency, also significantly impacts ESG performance. Moderate meeting frequency facilitates timely board discussions on ESG issues, risk assessments, and decision-making [20]. However, excessively frequent meetings may indicate heightened corporate risks or internal conflicts, potentially diverting attention from long-term strategy [10].

3.3. The Effect of Executive Incentives Guiding

Linking ESG performance to executive compensation and equity incentives is an effective means of guiding management to focus on long-term corporate value and non-financial performance. Compensation contract design is central to this approach. Research indicates that when executive bonuses or stock option vesting conditions are tied to ESG metrics—such as emissions reduction targets, employee safety indicators, or community satisfaction—management becomes more motivated to advance related practices [11]. This incentive approach helps mitigate agency problems by aligning management interests with stakeholder value.

Long-term incentive mechanisms, such as restricted stock or performance-based equity, can curb management's short-termism and encourage long-term investments in ESG areas—even if these investments temporarily reduce profits [20]. Conversely, incentive structures overly focused on short-term financial performance may tempt management to cut ESG expenditure or even engage in environmentally harmful or socially irresponsible practices to meet targets.

3.4. Transparency Constraints through Disclosure Mechanisms

Robust disclosure mechanisms enhance external oversight of corporate ESG practices by increasing transparency. The quality of disclosure directly influences stakeholder perceptions of a company. Mandatory or voluntary ESG disclosure requires firms to systematically assess their environmental, social, and governance performance, exposing potential issues (e.g., excessive pollution emissions, labor rights disputes), thereby compelling management to implement corrective measures [9]. Some scholars use the extractive industry as an example, point out that inadequate ESG disclosure is a key factor constraining valuation growth in this sector [14].

Disclosure channels and standardization also impact oversight effectiveness. Disclosure through standardized channels such as annual reports, dedicated ESG reports, and corporate websites facilitate comparison and evaluation by investors, rating agencies, and the public, fostering a virtuous cycle of "disclosure-feedback-improvement" [8]. As global ESG disclosure standards converge (e.g., ISSB guidelines), the transparency-enforcing role of information disclosure will become increasingly prominent.

4. Indirect Pathways of Corporate Governance on ESG Performance

4.1. Reducing Agency Costs to Secure ESG Resource Allocation

The core function of corporate governance is mitigating agency costs between owners and managers. Robust governance mechanisms—such as effective board oversight, stringent executive accountability systems, and transparent financial reporting—curb management's tendency to misappropriate or squander corporate resources for personal gain [7]. When agency costs are effectively controlled, more corporate resources (capital, talent, managerial attention) can be allocated to ESG initiatives with long-term value but uncertain short-term returns, such as environmental technology R&D, employee skills training, and community philanthropy [6]. Conversely, in firms with severe agency problems, management may prioritize cutting ESG expenditures to artificially inflate short-term performance, thereby undermining the company's sustainable development capacity.

4.2. Enhancing Risk Management Capabilities to Address ESG Risks

ESG factors are increasingly becoming integral components of corporate risk landscapes, encompassing environmental incidents, labor litigation, supply chain ethical issues, and regulatory policy shifts. Robust corporate governance mechanisms—such as establishing risk committees, refining internal control systems, and strengthening the board's risk oversight functions—enable enterprises to promptly identify, assess, and manage these ESG-related risks [19]. For instance, boards can anticipate potential penalties and reputational damage by regularly reviewing environmental compliance reports. Assessing supply chain social responsibility performance helps prevent cascading effects from supplier scandals. This forward-looking risk management capability enables companies to avoid or mitigate financial and reputational losses from ESG incidents, thereby indirectly supporting stable or even outstanding ESG performance [15].

4.3. Fostering a Culture of Social Responsibility and Building ESG Consensus

Corporate governance mechanisms serve as the primary vehicle for shaping organizational culture and values. The values and ethical standards of the board and management permeate all levels of

corporate operations through formal governance structures (e.g., codes of conduct, decision-making processes) and informal signaling (e.g., executive behavior, resource allocation preferences) [16]. When governance prioritizes sustainability and integrates it into corporate mission and strategic objectives, an internal culture emphasizing ESG naturally emerges. Under this cultural influence, employees become more consciously engaged in environmentally responsible practices, managers proactively seek socially responsible investment opportunities, and departments collaborate more readily to drive green innovation [6]. This internally driven culture of social responsibility provides the deepest and most enduring motivation for enterprises to continuously enhance their ESG performance.

4.4. The Mediating Role of Dynamic Capabilities

Some scholars introduced dynamic capabilities as a key mediating variable [6]. They argue that strong ESG performance helps firms enhance their dynamic capabilities (including absorptive capacity, adaptability, and innovation capacity), with corporate governance mechanisms acting as a "catalyst" in this process. For instance, the board's social networks and strategic foresight (absorptive capacity), management's flexibility in responding to policy changes (adaptive capacity), and incentive systems supporting green technological innovation (innovative capacity) collectively form the internal mechanism through which firms transform ESG pressures into developmental momentum. This framework dynamically links corporate governance, ESG performance, and long-term corporate competitiveness, enriching the theoretical understanding of influence pathways.

5. Conclusion

This paper systematically reviews and synthesizes research on the pathways through which corporate governance mechanisms influence corporate ESG performance. Findings indicate that corporate governance primarily exerts direct effects on ESG performance via core mechanisms such as equity structure, board governance, executive incentives, and information disclosure—pathways that are both clearly defined and theoretically grounded. Simultaneously, corporate governance profoundly shapes the depth and breadth of ESG practices through multiple indirect pathways, including reducing agency costs, enhancing risk management capabilities, fostering a culture of social responsibility, and strengthening dynamic capabilities. Crucially, governance elements do not operate in isolation but generate synergistic effects through configuration, with their impact significantly moderated by internal and external contextual factors.

For enterprises, the traditional view of treating corporate governance and ESG as separate functions should be abandoned. Instead, their deep integration should be promoted from a strategic perspective. Specific measures include optimizing equity structures by introducing institutional investors focused on long-term value; enhancing board governance to ensure independence and professionalism, including establishing dedicated ESG committees; scientifically incorporating ESG metrics into executive performance evaluations and compensation systems; and comprehensively improving the transparency and quality of ESG disclosures. For regulators, accelerate the establishment of an ESG disclosure regime combining mandatory requirements with standardized frameworks. Guide and incentivize enterprises to optimize governance structures, offering policy incentives such as market access and financing advantages to companies with robust governance and outstanding ESG performance. For investors, prioritize corporate governance quality as a key indicator for predicting ESG performance and long-term resilience. Through active shareholder engagement, channel capital toward enterprises with sound governance and sustainable development practices.

Future research requires continuous innovation in theoretical frameworks, methodological design, and measurement tools to fully unravel this complex relationship. In practice, companies, regulators, and investors must collaborate to drive the deep integration of corporate governance and ESG

strategies, thereby laying a solid micro foundation for achieving sustainable corporate value creation and the green transformation of the economy and society.

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