

UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF
ENVIRONMENTAL, SOCIAL, AND
GOVERNANCE (ESG) INITIATIVES,
AND GREEN INNOVATION ON
COMPANY PERFORMANCE
AMONG CHINESE A-SHARES**

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ABSTRACT

With rapid economic growth, the world faces increasingly severe environmental and social challenges. These challenges bring resource shortages, regulatory risks and prominent environmental, social and governance (ESG) issues to the company. The introduction of the ESG has provided a new perspective on company value creation. However, due to its late start and insufficient attention, Chinese companies face problems with uniform initiatives standards, low disclosure rates, and unclear content and scope in ESG initiatives. Green innovation is a key driver for achieving ESG goals. However, Chinese companies face the problem of insufficient investment and low output of green innovation. This study applies stakeholder theory to explain the effect of ESG initiatives on company performance. Additionally, this study employs the dynamic capability theory to examine the relationship between green innovation and company performance. This study examines the direct effect of ESG initiatives and green innovation on company performance. Moreover, this study further examines the moderating effect of green innovation on the relationship between ESG initiatives and company performance. Using static panel analysis with industry-fixed and year-fixed effects, the final sample of this study comprises 36,280 company-year observations from 2009 to 2022 among Chinese A-share listed companies. This study finds that environmental initiatives have a negative and significant relationship with company performance. However, social and governance initiatives show a positive and significant relationship with company performance. This study also finds that green innovation can enhance a company's market performance, and that companies' investment in green innovation can mitigate the negative relationship between environmental initiatives and market performance. Meanwhile, the moderating effect of green innovation further strengthens the positive relationship between social initiatives and company performance. However, the moderating effect of green innovation on governance initiatives and company performance shows an insignificant relationship. This study divides the ESG initiatives into three pillars and examines the different effects of the ESG initiatives on company performance. This study reveals the profound logic behind the sustainable growth of company performance. Therefore, this study helps listed companies recognise the importance of ESG initiatives and green innovation to company performance. This study also enhances information transparency, directs capital flows and responsible consumption, and strengthens the effectiveness of social supervision. Moreover, this study provides a reference for regulators to formulate ESG and green innovation policies. Additionally, this study helps investors strengthen the ESG value investment concept and foster long-term investment awareness.

Keywords: Environmental, Social and Governance (ESG) initiatives, green innovation, company performance

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This chapter provides an overview of the research thesis. Section 1.2 discusses the background of the research. Section 1.3 outlines the problem statement, which discusses the issues with China's environmental, social, and governance (ESG) initiatives standards and frameworks, including the lack of unified standards, the absence of mandatory enforcement, and the unclear scope and content of the ESG initiative. Section 1.3 also discusses the problems of insufficient input and inefficient output in Chinese companies' green innovation. Then, Section 1.4 introduces the research problem, Section 1.5 introduces the research objective, and Section 1.6 introduces the scope of the study. Finally, Section 1.7 presents the significance and rationale of the study. Section 1.8 provides a summary of the thesis structure.

1.2 Research Background

The performance of companies in developing and emerging markets has been affected in recent years by a confluence of factors, including the global economic environment, regional policies, market demand, and geopolitical changes. (OECD, 2024). In general, emerging market countries such as China, India, Southeast Asian countries, and Brazil provide growth impetus for companies due to high economic growth rates (World Benchmarking Alliance, 2022). Company performance in emerging market countries shows significant geographical and industrial differences.

Regarding geographical differences, China has benefited from the rapid development of technology and new energy industries, but has been affected by the weak property market and export pressures (OECD, 2024). Strong consumer demand has driven growth in India's financial, consumer goods, and technology industries (Roshchyk et al., 2022). Infrastructure investment and booming e-commerce in Southeast Asian countries have driven the profitability of regional companies (Huynh, 2022). The resource-based economies of Latin American countries drive the mining and energy sectors, but some are negatively impacted by inflation and currency fluctuations