

Research on the Impact of Corporate ESG on Promoting Common Prosperity— Empirical Evidence from Chinese A-share Listed Companies 2011-2023

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Abstract: Using data on Chinese A-share listed companies from 2011 to 2023, this paper examines the relationship between ESG and common prosperity at the firm level. From a theoretical perspective, corporate ESG activities can promote common prosperity through two channels: first, by improving corporate financial performance, that is, by "making the cake bigger"; and second, by optimizing the internal income distribution of enterprises, that is, by "dividing the cake well." The empirical analysis, based on a two-way fixed-effects model, yields the following results. ESG practices significantly enhance corporate financial performance, exerting significantly positive effects on return on equity, return on total assets, and operating profit, and the environmental dimension (E) has the strongest promoting effect on corporate growth. However, corporate ESG practices have not significantly optimized internal income distribution: they fail to increase the labor income share and, to some extent, even widen the pay gap between management and ordinary employees. These findings indicate that current ESG practices in Chinese enterprises play a positive role mainly in "making the cake bigger" but have not achieved the expected results in "dividing the cake well." To enable enterprises to better leverage ESG practices in contributing to common prosperity, policymakers should accelerate the improvement of ESG disclosure requirements and unified standards, strengthen ESG publicity and education, and promote the organic integration of the traditional concept of balancing righteousness and profit with ESG and common prosperity, so as to better respond to the theoretical and practical needs in related fields.

Keywords: ESG; Common Prosperity; Enterprise; Income Distribution; Financial Performance

1. Introduction

Common prosperity is one of the essential requirements of Chinese modernization. In 2020, the Fifth Plenary Session of the 19th Central Committee of the Communist Party of China proposed to "make more significant substantive progress in achieving common prosperity for all people," which is also among the long-term goals for basically achieving socialist modernization by 2035. In the current new stage of development, how to "make the cake bigger" while "dividing the cake well," so that all people advance toward common prosperity, is one of the most pressing policy issues. The goal of common prosperity is grounded in profound practical considerations. Since the 1980s, many developed economies around the world have experienced widening disparities in income and wealth,

which have led to class division and divisive social conflicts and have become the greatest crisis of contemporary capitalism. Promoting common prosperity is therefore not only a necessary choice for drawing lessons from Western countries and maintaining social stability, but also an inherent requirement for achieving high-quality development.

The "Opinions of the CPC Central Committee and the State Council on Supporting Zhejiang's High-Quality Development and Building a Common Prosperity Demonstration Zone" (2021) clearly states that common prosperity is the essential requirement of socialism and the common aspiration of the people. Common prosperity requires that all people share the fruits of reform and development, achieving the "dual unity of making the cake bigger and dividing the cake well." As micro-level entities in the market economy, enterprises are the core carriers of primary distribution, employment and income, green development, and social responsibility. In reflecting on the crises of contemporary capitalism, Western academia has proposed that enterprises should undertake greater social responsibilities, among which the ESG concept is the most classic and representative.

The concept of ESG originated from socially responsible investment in the twentieth century, and the term was formally introduced by the United Nations Global Compact in 2004. ESG holds that enterprises and investors should not only pursue profits but also pay close attention to non-financial performance along the environmental (Environmental), social (Social), and corporate governance (Corporate Governance) dimensions. The "Guiding Opinions on Central Enterprises High-Standard Fulfillment of Social Responsibilities in the New Era" (June 2024, an official document published on the China Government Network) points out that enterprises in the new era need to "effectively strengthen environmental, social, and corporate governance (ESG) work; integrate ESG work into the overall management of social responsibility, and actively grasp and respond to the opportunities and challenges brought by ESG development; promote controlled listed companies to implement high-standard environmental management requirements centered on ESG issues, actively fulfill social responsibilities, improve corporate governance, strengthen high-level ESG information disclosure, and continuously improve ESG governance capabilities and performance, thereby enhancing value recognition in the capital market; and promote overseas operating institutions to treat ESG work as an important component of overseas operations, management, and major project implementation, actively adapt to the ESG regulatory requirements of host countries and regions, strengthen ESG governance, practices, and information disclosure, and continuously enhance international market competitiveness."

The "Opinions on Improving and Strengthening the Market Value Management of Central Enterprise Controlling Listed Companies" (December 2024) calls for enterprises to "improve the environmental, social responsibility, and corporate governance (ESG) management system, and compile and disclose ESG-related reports at a high level; coordinate the preservation and appreciation of state-owned assets with the sharing of development benefits by employees, improve the market-oriented salary distribution mechanism, balance the income levels of management and ordinary employees, and use standardized ESG governance to help implement common prosperity." It is evident that ESG emphasizes that enterprises should pursue the maximization of value for all stakeholders, rather than merely maximizing shareholder profits.

From a stakeholder perspective, ESG and common prosperity are compatible in their value objectives. Both aim to "make the cake bigger" for society as a whole rather than simply to maximize shareholder profits, and both pursue a Pareto improvement that benefits all stakeholders. Enterprises, as micro-societies, are thus positioned to balance economic and social goals.

The "Opinions on Promoting the Development and Growth of the Private Economy" (2023, known as the 31 Articles on the Private Economy) states that governments should "educate and guide private enterprises to consciously undertake the social responsibility of promoting common prosperity, actively build harmonious labor relations within enterprises, and promote the construction of a community of interests for all employees, so that the

fruits of enterprise development benefit all employees more fairly; encourage private enterprises to promote green transformation, safeguard the wage rights and interests of employees, improve corporate governance, actively participate in rural revitalization and public welfare undertakings, and take sustainable operation (ESG) as the core focus for private entrepreneurs to be "rich and responsible, rich and righteous, and rich and loving." Accordingly, examining how common prosperity can be achieved through ESG from the perspective of enterprises is of particular value.

At the Symposium on the Inheritance and Development of Chinese Civilization, General Secretary Xi Jinping identified "enriching the people and benefiting the people, and balancing righteousness and profit" as important elements of the economic ethics of Chinese traditional culture. Of these, "enriching the people and benefiting the people" derives from "Guanzi" — "The way to govern a country must first enrich the people" — which takes the prosperity of the people's livelihood as the foundation of development, while "balancing righteousness and profit" originates from "The Analects" and "Mencius," which advocate restraining profit-seeking behavior with morality so as to achieve the unity of public and private interests. These ideas align closely with the stakeholder orientation of ESG and the core values of common prosperity.

Existing research has decomposed common prosperity, from an intra-firm perspective, into "making the cake bigger" and "dividing the cake well." However, the empirical evidence to date is concentrated in a relatively short period before 2020, and the heterogeneous effects of the different ESG components remain insufficiently examined^{[1][2][3]}. One study based on data on A-share listed companies from 2011 to 2019 finds that although ESG ratings improve employment efficiency, they significantly exacerbate income inequality within enterprises; the core reason is that ESG raises executive compensation and ordinary employee wages simultaneously, but the increase in excess executive compensation far exceeds that of ordinary employees, ultimately widening the internal income gap^[4]. Other studies reach different conclusions, arguing that ESG generally increases the labor income share of enterprises while having no significant effect on the executive income share, thereby narrowing the income gap between executives and employees, and that this effect is more pronounced in enterprises with high production efficiency and sound governance^[5]. Thus, no consensus has been reached on the distributional effects of ESG, with the disagreements arising mainly from differences in sample periods, indicator measurement, and industry heterogeneity^[6]. By drawing on a longer sample period, this paper provides further empirical evidence in this field. Specifically, it uses Bloomberg ESG disclosure data on Chinese A-share listed companies from 2011 to 2023, combined with financial statement, corporate governance, and cash flow data as well as the relevant literature, to examine the impact of corporate ESG engagement on financial performance and internal income distribution.

The marginal contributions of this paper are as follows. First, corporate ESG engagement improves corporate financial performance, verifying the "making the cake bigger" effect of ESG, and this effect stems primarily from the environmental dimension. Second, ESG engagement has not improved internal income distribution and has even widened the pay gap between management and ordinary employees, failing to achieve the "dividing the cake well" effect.

2. Literature Review and Theoretical Analysis

2.1 The Concept and Current State of ESG

As an investment philosophy, ESG originated in 2004 with a joint initiative launched by then UN Secretary-General Kofi Annan and a group of the world's leading investment institutions, which called for the integration of environmental, social, and corporate governance considerations into investment decisions. In 2006, the United Nations released the "Principles for Responsible Investment" (PRI) framework, guiding institutional investors to incorporate ESG factors into investment analysis and decision-making. ESG requires that firms attend not only to financial indicators such as profits and sales revenue but also to non-financial performance in areas such as

environmental protection, social equity, and corporate governance. Intellectually, the ESG concept can be traced to the ethical investment movement of the 1950s, when early investors applied moral screens by excluding tobacco, defense, and polluting companies. During the 1960s-1990s, the civil rights and environmental movements brought labor rights and ecological protection into the investment domain. In 1987, the UN report "Our Common Future" advanced the theory of sustainable development and established the triple-bottom-line logic of balancing environmental, social, and economic objectives, thereby providing the theoretical foundation for ESG. ESG differs from CSR in three principal respects. First, CSR emphasizes firms' voluntary ethical and philanthropic behavior and is largely qualitative, whereas ESG is oriented toward the capital market and constructs a quantifiable, ratable, and comparable indicator system that directly serves investment valuation and risk pricing. Second, traditional CSR covered only environmental and social issues and lacked a corporate governance dimension, whereas ESG treats governance as an independent core dimension, forming a complete three-dimensional evaluation system. Third, CSR is mostly a voluntary corporate undertaking, whereas many countries have now introduced mandatory ESG disclosure rules, giving ESG a regulatory compliance character. In 2024, China issued sustainability disclosure guidelines for listed companies, incorporating ESG disclosure into regulatory requirements^[7].

In recent years, as ESG has gained traction in China's capital market, a growing number of listed companies have begun to publish ESG reports. Domestic and international rating agencies, including Bloomberg, MSCI, FTSE Russell, Wind, and SynTao Green Finance, have also launched ESG ratings for Chinese listed companies. In our sample, both the number of Chinese listed companies receiving Bloomberg ESG disclosure scores and their average scores have risen year by year, reflecting firms' deepening engagement with ESG^[8].

Nevertheless, China still faces several challenges. First, a unified national mandatory disclosure standard has yet to be established. At present, disclosure remains largely voluntary, with inconsistent indicator definitions, a shortage of quantitative data, and limited third-party assurance coverage, which gives rise to selective disclosure and greenwashing. Second, market incentives are insufficient: investors have not yet developed a mature ESG value-investment philosophy, and firms lack intrinsic motivation to improve performance on the social dimension (e.g., income distribution and labor fairness). Third, the ESG evaluation system is insufficiently localized. Existing international ratings provide inadequate coverage of distinctively Chinese issues such as common prosperity, primary distribution, and rural revitalization, making it difficult to gauge firms' effectiveness in "dividing the cake well."

2.2 ESG and Common Prosperity: "Making the Cake Bigger" and "Dividing the Cake Well"

From a corporate perspective, promoting common prosperity is reflected mainly in two respects. First, "making the cake bigger" refers to improving corporate financial performance so that more profits are available for distribution. Second, "dividing the cake well" refers to raising the labor income share and narrowing the income gap between management and ordinary employees. With respect to "making the cake bigger," a substantial body of research documents a positive association between ESG and corporate financial performance or firm value^{[9][10][11]}.

ESG can reduce the risks firms face, including systemic risk, regulatory risk, supply chain risk, and reputational risk. Firms that engage in ESG effectively provide public goods to society and thereby accumulate "moral capital," which earns them sympathy and support from stakeholders when adverse risk events occur. ESG can also lower firms' financing costs: firms with outstanding ESG performance are more likely to attract responsible investors and to receive government subsidies and preferential loans. Accordingly, we propose the following hypothesis:

H1: Corporate ESG engagement improves financial performance, that is, it contributes to "making the cake bigger."

With respect to "dividing the cake well," the essence of ESG lies in achieving balance — and ideally mutual benefit — among all stakeholders, including shareholders, creditors, employees, customers, suppliers, and the

community. In ESG ratings, treating employees well is typically a core component of the Social (S) dimension, encompassing equal treatment of employees, greater investment in occupational safety, and more on-the-job training. Such measures help enhance employees' human capital and improve their income position. Admittedly, ESG investment raises capital expenditure in the short run and may substitute capital for labor, thereby widening the income gap between skilled and unskilled workers; moreover, the attention some rating systems pay to internal management compensation may, in effect, raise executive pay. On balance, this paper proposes the following hypothesis:

H2: Corporate ESG engagement helps raise the labor income share and narrow the compensation gap.

In theory, however, countervailing forces also exist. ESG investment raises capital expenditure in the short run and may substitute capital for labor, thereby widening the income gap between skilled and unskilled workers; moreover, the attention some rating systems pay to internal management compensation may, in effect, raise executive pay. Whether ESG can truly "divide the cake well" is therefore ultimately an empirical question.

3. Research Design

3.1 Data Sources and Sample

This paper takes Chinese A-share listed companies with Bloomberg ESG disclosure scores from 2011 to 2023 as the research sample. ESG data are obtained from Bloomberg; data on financial performance, corporate governance, and control variables are drawn from the CSMAR database; and labor income-related data are taken from listed companies' income statements and cash flow statements. Following common practice, we exclude financial-industry firms and firms designated ST or PT in a given year, and we winsorize the main continuous variables at the 1st and 99th percentiles to mitigate the influence of extreme values. This yields approximately 17,000 firm-year observations.

3.2 Variable Definitions

The core explanatory variable is the degree of corporate ESG engagement, measured by the Bloomberg ESG disclosure score (ranging from 0 to 100); we further distinguish among the environmental (E), social (S), and governance (G) sub-scores.

The dependent variables for "making the cake bigger" are financial performance measures: return on equity (ROE), return on total assets (ROA), total operating revenue (in logarithm), and operating profit (in logarithm). The dependent variables for "dividing the cake well" capture the firm's internal income distribution: the labor income share, measured as "cash paid to and on behalf of employees" divided by total operating revenue; and the ratio of management compensation to ordinary employee compensation, measured as average management compensation divided by average ordinary employee compensation, where average management compensation is approximated by one-third of the total compensation of the three highest-paid executives, and average ordinary employee compensation is computed as cash paid to employees divided by the number of employees.

Control variables include firm size (logarithm of total assets), firm age, the asset-liability ratio, state ownership status, the separation ratio between control rights and cash flow rights, ownership concentration (the shareholding ratio of the top ten shareholders), board size, the proportion of female executives, and industry concentration (the Herfindahl index).

3.3 Econometric Model Specification

To mitigate potential reverse causality, all explanatory and control variables are lagged by one period. The baseline regressions control for both firm and year fixed effects and employ robust standard errors clustered at the firm level. We specify three sets of econometric models to examine, respectively, the effect of firm characteristics on ESG, the effect of ESG on "making the cake bigger" (financial performance), and the effect of ESG on "dividing the cake

well" (internal income distribution). The three models share the same structure and differ only in their dependent variables and core explanatory variables.

First, to examine which firm characteristics affect ESG performance, we specify Model (1):

$$ESG_{it} = \beta_1 Features_{i,t-1} + \beta_2 Govern_{i,t-1} + \beta_3 Other_{i,t-1} + \delta_i + \delta_t + \varepsilon_{it} \quad (1)$$

Here, the subscript *i* indexes firms and *t* indexes years. The dependent variable ESG is the firm's overall ESG score or its individual environmental (E), social (S), or governance (G) score. Features, Govern, and Other denote the firm's basic characteristics, governance structure, and other factors, respectively. δ_i and δ_t are firm and year fixed effects, and ε_{it} is the random error term.

To examine the effect of ESG on financial performance, we specify Model (2):

$$Performance_{it} = \beta_1 ESG_{i,t-1} + \beta_2 X_{i,t-1} + \delta_i + \delta_t + \varepsilon_{it} \quad (2)$$

Here, the dependent variable Performance denotes corporate financial performance, measured by return on equity (ROE), return on total assets (ROA), total operating revenue (natural logarithm), and operating profit (natural logarithm). The core explanatory variable is the one-period-lagged ESG score. *X* is the vector of control variables, identical to that in Model (1). δ_i and δ_t are firm and year fixed effects, respectively.

To examine the impact of ESG on firms' internal income distribution, we specify Model (3):

$$Income_{it} = \beta_1 ESG_{i,t-1} + \beta_2 X_{i,t-1} + \delta_i + \delta_t + \varepsilon_{it} \quad (3)$$

Here, the dependent variable Income denotes the firm's internal income distribution, measured by the labor income share and the pay gap between management and ordinary employees; the core explanatory variable is the one-period lagged ESG score; *x* is the vector of control variables, identical to that in Models (1) and (2); and δ_i and δ_t denote firm and year fixed effects, respectively.

4. Stylized Facts and Empirical Results

4.1 Stylized Facts of Chinese Firms' ESG Participation

Table 1 Descriptive statistics of the main variables

variable	sample size	mean value	standard deviation	minimum value	maximum value
ESG total score (disclosure))	5803	31.298	11.073	12.514	63.662
Environment E score	5789	13.139	16.900	0.000	67.019
Social S score	5791	14.901	8.901	0.000	45.499
Governance G score	5782	65.819	13.221	29.651	89.284
ROE	16757	0.041	0.165	-0.993	0.331
ROA	16757	0.032	0.066	-0.268	0.197
Total operating income (logarithm)	16429	20.792	1.814	14.423	25.061
Operating profit (logarithm)	13630	18.767	1.572	9.326	24.935
labor income share	14621	0.200	0.168	0.014	0.851
Management-employee pay gap	16735	8.523	7.449	1.212	48.290
size of enterprise	16757	22.200	1.176	19.973	25.769

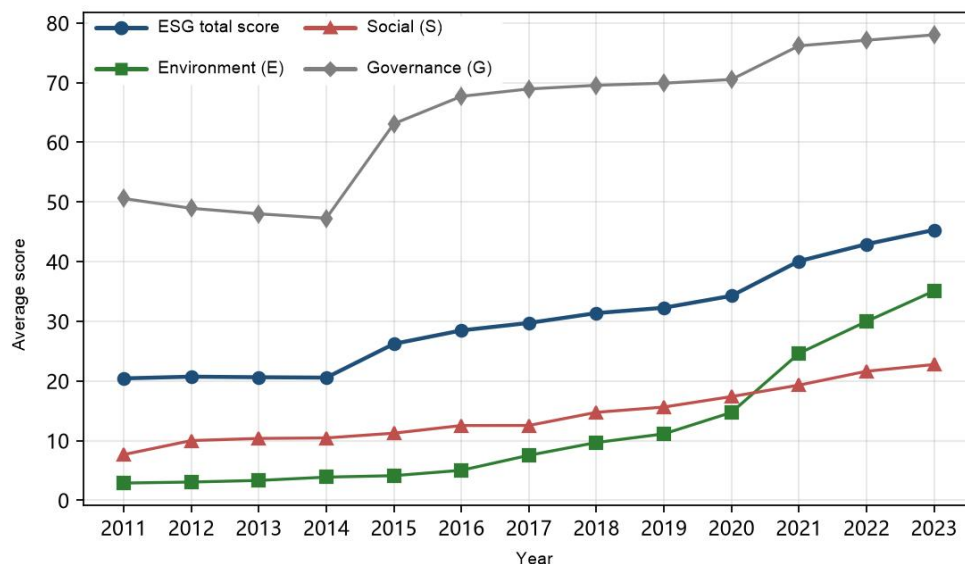
assets-liability ratio	16757	0.421	0.202	0.053	0.897
Whether state-owned enterprises	16757	0.309	0.462	0.000	1.000
ownership concentration	16757	0.563	0.152	0.226	0.882
board size	16754	2.117	0.188	1.609	2.565
Proportion of female executives	16757	0.198	0.112	0.000	0.500
Enterprise age (logarithm)	16757	2.965	0.339	1.946	3.664
industry concentration	16757	0.090	0.093	0.013	0.582

Note: All continuous variables are winsorized at the 1% level in both tails.

Table 1 reports descriptive statistics for the main variables. Over the period 2011-2023, the average ESG disclosure score of the sample firms is approximately 31.298, with substantial variation across firms. Among the sub-scores, corporate governance (G) has the highest mean, whereas the environmental (E) and social (S) scores are relatively low, a pattern broadly consistent with the "governance leading, environment and society lagging" feature of Chinese firms' ESG practice.

In terms of annual trends (see Figure 1), the average ESG score of Chinese listed companies rose steadily over 2011-2023, from 20.42 in 2011 to approximately 45.31 in 2023. Among the sub-scores, the environmental (E) score increased the most, from 2.88 to 35.08; the social (S) score improved continuously, while the corporate governance (G) score remained at a consistently high level with relatively flat growth. These patterns indicate that listed companies have attached increasing importance to ESG participation and disclosure quality, with the improvement concentrated primarily in the environmental dimension.

Figure 1 Trends in the average ESG scores of Chinese listed companies, 2011-2023



We further examine which firms participate more actively in ESG. Table 2 regresses the total ESG score and each sub-score on firm characteristics lagged by one period. The regression results show that firm size and ownership concentration have significant positive effects on ESG; that is, after controlling for firm fixed effects, increases in firm size and ownership concentration are significantly associated with higher ESG disclosure scores. The debt-to-asset ratio is significantly negatively correlated with ESG, indicating that firms with lower financial leverage perform better

on ESG, while the effects of state ownership and industry concentration are negative. At the sub-score level, the positive effects of firm size and ownership concentration are most pronounced for the environmental (E) and social (S) dimensions.

Table 2 Firm characteristics (lagged one period) and ESG scores

variable	ESG total score	Environment E	Society S	Governance G
Enterprise scale	2.0615*** (5.23)	4.0627*** (5.54)	2.4639*** (6.01)	-0.2121 (-0.48)
Enterprise age	-3.7247 (-1.08)	-2.2544 (-0.35)	-2.7461 (-0.75)	-6.2368* (-1.70)
Asset-liability ratio	-4.4453*** (-3.23)	-6.7749** (-2.46)	-4.3602*** (-2.76)	-2.2980 (-1.47)
Whether state-owned enterprises	-1.5873* (-1.79)	-3.4805** (-2.07)	-0.9452 (-0.93)	-0.2848 (-0.29)
Separation rate of two rights	0.8253 (0.24)	4.0346 (0.65)	-2.3561 (-0.54)	0.4305 (0.10)
Ownership concentration	7.0915*** (3.19)	12.7677*** (3.27)	5.1750** (2.21)	3.5307 (1.49)
Board size	-0.5061 (-0.40)	0.0121 (0.01)	-1.2420 (-0.89)	-0.2702 (-0.20)
Proportion of female executives	-0.8140 (-0.35)	1.6283 (0.38)	-1.3389 (-0.51)	-2.0821 (-0.82)
Industry concentration	-4.6804* (-1.93)	-7.3035 (-1.46)	-5.1111** (-2.07)	-1.2848 (-0.49)
Firm fixed effect	control	control	control	control
Year fixed effect	control	control	control	control
Sample size	5183	5173	5174	5168
R ²	0.832	0.760	0.687	0.829

Note: Robust t-statistics clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The same applies below.

4.2 ESG and "Making the Cake Bigger"

To examine the impact of ESG on financial performance, we specify Model (2):

$$Performance_{it} = \beta_1 ESG_{i,t-1} + \beta_2 X_{i,t-1} + \delta_i + \delta_t + \varepsilon_{it} \quad (2)$$

Here, the dependent variable Performance denotes the firm's financial performance, measured by the return on equity (ROE), the return on total assets (ROA), total operating revenue (in natural logarithm), and operating profit (in natural logarithm); the core explanatory variable is the one-period lagged ESG score; x is the vector of control variables, identical to that in Model (1); and δ_i and δ_t denote firm and year fixed effects, respectively.

Table 3 examines the impact of the total ESG score on financial performance. The results show that the one-period lagged total ESG score has a significant positive effect on the return on equity (ROE), the return on total assets (ROA), and operating profit, while its effect on total operating revenue is positive but insignificant. These findings indicate that corporate ESG participation does help "make the cake bigger," supporting Hypothesis H1 and consistent

with the mainstream conclusions in the international literature.

Table 3 Total ESG score (lagged one period) and financial performance

variable	ROE	ROA	Ln operating income	Ln operating profit
L. ESG total score	0.0024*** (4.33)	0.0008*** (3.81)	0.0012 (0.21)	0.0201*** (4.28)
control variable	control	control	control	control
Firm/year fixed effect	control	control	control	control
sample size	5030	5030	4941	4337
R ²	0.355	0.515	0.728	0.698

Table 4 further decomposes ESG into its three sub-scores: environmental (E), social (S), and corporate governance (G). The results show that the environmental (E) score is the main factor driving the improvement in financial performance, exerting a significant positive effect on ROE, ROA, and operating profit. By contrast, no robust significant relationship is found between the social (S) or corporate governance (G) scores and financial performance. The sub-score regressions indicate that the positive association between the environmental disclosure score and financial performance is the most stable, which may be related to recent changes in the institutional environment, such as the green transition, stricter environmental regulation, and increased green financial support.

Table 4 ESG sub-scores (lagged one period) and financial performance

variable	ROE	ROA	Ln operating income	Ln operating profit
Environment E	0.0018*** (5.10)	0.0006*** (4.06)	0.0012 (0.34)	0.0089*** (2.96)
Society S	-0.0005 (-0.76)	-0.0002 (-0.94)	-0.0018 (-0.28)	0.0086 (1.64)
Governance G	0.0000 (0.02)	0.0001 (0.95)	0.0011 (0.34)	0.0009 (0.28)
control variable	control	control	control	control
Firm/year fixed effect	control	control	control	control
sample size	4983	4983	4895	4290
R ²	0.361	0.517	0.731	0.698

4.3 ESG and "Dividing the Cake Well"

To examine the impact of ESG on firms' internal income distribution, we specify Model (3):

$$Income_{it} = \beta_1 ESG_{i,t-1} + \beta_2 X_{i,t-1} + \delta_i + \delta_t + \epsilon_{it} \quad (3)$$

Here, the dependent variable *Income* denotes the firm's internal income distribution, measured by the labor income share and the pay gap between management and ordinary employees; the core explanatory variable is the one-period lagged ESG score; *x* is the vector of control variables, identical to that in Models (1) and (2); and δ_i and δ_t denote firm and year fixed effects, respectively.

Table 5 examines the impact of ESG on firms' internal income distribution. Columns (1) and (2) use the labor income share and the pay gap between management and ordinary employees as the dependent variables, with the total ESG score as the explanatory variable; Columns (3) and (4) replace the total ESG score with the sub-scores. The results show that the total ESG score has no significant effect on the labor income share but has a significant positive effect on the pay gap between management and ordinary employees: the higher the ESG score, the wider the income gap between management and ordinary employees. Among the sub-scores, the social (S) score is negatively correlated with the labor income share, and the environmental (E) score is positively correlated with the pay gap. Overall, corporate ESG participation has not improved the income distribution within firms, and Hypothesis H2 is therefore not supported.

Table 5 ESG and internal income distribution

variable	Labor income share	Pay gap	Labor income share	Pay gap
L.ESG Score	-0.0010 (-1.32)	0.0509* (1.67)		
L.Environment E			0.0001 (0.28)	0.0361* (1.91)
L.Society S			-0.0014* (-1.95)	-0.0078 (-0.24)
L.Governance G			-0.0001 (-0.20)	0.0048 (0.26)
control variable	control	control	control	control
Firm / year fixed effect	control	control	control	control
sample size	4160	5019	4114	4972
R ²	0.614	0.771	0.615	0.771

5. Robustness and Endogeneity Tests

5.1 Robustness Tests

To further verify the reliability of the baseline results, this paper conducts robustness tests by replacing the measure of the core explanatory variable and adopting a stricter fixed-effects specification: year fixed effects are added on top of firm fixed effects to absorb common shocks affecting specific industries in specific years. Table 6 reports the regression results based on the Bloomberg ESG disclosure score (standardized to have a mean of 0 and a standard deviation of 1); the panel adopts a two-way fixed-effects specification with firm and year fixed effects. Each column controls for firm size, the debt-to-asset ratio, state ownership status, the separation rate of ownership and control rights, ownership concentration, board size, the proportion of female executives, industry concentration, and

firm age, and uses robust standard errors clustered at the firm level. Under the two-way fixed-effects specification, the coefficient on ESG is significantly positive at the 5% and 1% levels for ROE and operating profit, respectively, and marginally significant at the 10% level for ROA. Meanwhile, the conclusions that ESG has no significant improving effect on the labor income share and does not narrow the pay gap remain robust under both specifications.

Table 6 Robustness tests

variable	ROA	ROE	Ln operating income	labor income share	pay gap
L.ESG (standardization)	0.0022* (1.95)	0.0063** (2.28)	0.0855*** (3.39)	0.0023 (0.56)	0.0284** (2.29)
control variable	Yes	Yes	Yes	Yes	Yes
sample size	12646	12646	11013	10406	12626
Intragroup R ²	0.140	0.100	0.121	0.003	0.042

Note: Robust t-statistics clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The core explanatory variable is the standardized Bloomberg ESG disclosure score (lagged one period). Each column controls for firm size, the debt-to-asset ratio, state ownership status, the separation rate of ownership and control rights, ownership concentration, board size, the proportion of female executives, industry concentration, and firm age.

5.2 Addressing Endogeneity: The Instrumental Variable Approach

Endogeneity concerns arising from reverse causality or omitted variables may affect the relationship between firms' ESG performance and financial performance. To address this issue, this paper employs the instrumental variable method (2SLS) to further identify the causal effect. Drawing on the logic of peer effects, we use the average ESG score of other firms in the same industry and year as the instrument for a firm's own ESG: the ESG level of industry peers affects a firm's ESG decisions through industry demonstration effects and competitive pressure (satisfying the relevance condition), but is unlikely to directly affect the firm's financial performance or internal income distribution (satisfying the exogeneity condition). The core explanatory variable is consistent with Table 6, namely the standardized Bloomberg ESG disclosure score. The 2SLS results are reported in Table 7. The first-stage F-statistic is approximately 69, far exceeding the conventional critical value for weak instruments, indicating that the instrument is strongly correlated with the endogenous variable. In the second stage, ESG has a significant positive effect on ROA at the 1% level, supporting a causal interpretation of ESG "making the cake bigger"; meanwhile, the coefficient on ESG for the pay gap is significantly positive, indicating that ESG has not narrowed but rather widened the pay gap between management and ordinary employees, consistent with the baseline conclusion.

Table 7 Instrumental Variable (2SLS) Regression Results

variable	ROA	pay gap
L.ESG (standardization, 2SLS)	0.0436*** (4.58)	0.3089*** (3.10)
One-stage F value	68.7	68.3
instrumental variable	ESG mean of other enterprises in the same industry	ESG mean of other enterprises in the same industry
Firm / year fixed effect	control	control
sample size	12559	12539

Note: Robust t-statistics clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. The core explanatory variable is the standardized Bloomberg ESG disclosure score (lagged one period), and the instrumental variable is the mean ESG score of other firms in the same industry and year; each column includes all control variables listed in Table 6 as well as firm and year fixed effects.

6. Influence Mechanism and Heterogeneity Analysis

6.1 Influence Mechanism: The Financing Constraint Channel

The preceding analysis shows that ESG helps to make the cake bigger; through what channels, then, is this effect achieved? A common explanation is the financing constraint channel: firms with strong ESG performance are more likely to attract responsible investors and external financing support, thereby alleviating financing constraints and improving business performance. This paper measures financing constraints with the SA index and applies a stepwise regression approach to test this channel. The results are reported in Table 8. After the financing constraint variable is added, the coefficient of ESG on ROA remains essentially unchanged, and the mediating effect of financing constraints itself is not statistically significant; that is, financing constraints are not the main transmission channel through which ESG makes the cake bigger. Combined with the sub-dimension results in Table 4, the performance improvement associated with ESG is likely to stem from the compliance benefits and reputation mechanisms brought about by improved environmental performance.

Table 8 Impact Mechanism Test: The Financing Constraint Channel

variable	Financing Constraints (SA)	ROA (total effect)	ROA (including intermediaries)
L. ESG total score	0.0023*** (5.34)	0.0008*** (3.81)	0.0009*** (3.90)
L.Financing constraints (SA)			-0.0226 (-1.48)
Control variable / two-way fixed effect	control	control	control
sample size	5030	5030	5030

Note: Robust t-statistics clustered at the firm level are reported in parentheses; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

6.2 Heterogeneity Analysis

The economic and social effects of corporate ESG may vary with ownership type, region, and industry. Accordingly, this paper conducts subsample regressions. Table 9 reports the regression coefficients of ESG on ROA and the pay gap across subsamples. The results show the following. First, with respect to ownership, both the effect of ESG in making the cake bigger and its effect in widening the pay gap are significant in the non-state-owned enterprise sample but not among state-owned enterprises, which may be because state-owned enterprises bear more social responsibilities and are subject to pay regulation. Second, with respect to region, the effects of ESG on performance and the pay gap are more pronounced among firms in the central and western regions; that is, the marginal returns to improving ESG are higher for firms in later-developing regions. Third, with respect to industry, ESG significantly improves performance in both heavily polluting and non-heavily polluting industries. Overall, the pattern whereby ESG makes the cake bigger but fails to divide the cake well is more prominent among non-state-owned enterprises and enterprises in the central and western regions, where market orientation is more evident.

Table 9 Heterogeneity Analysis (Coefficients on the Core Explanatory Variable L.ESG)

subsample	ROA	pay gap	Sample size (ROA / Gap)
state-owned enterprises	0.0002 (0.73)	-0.0344 (-1.14)	2077 / 2068
Non-state-owned enterprises	0.0009*** (3.26)	0.1249*** (2.75)	2953 / 2951
the eastern part	0.0006*** (2.65)	0.0331 (0.87)	3555 / 3554
central and western parts of china	0.0013*** (3.15)	0.1008** (2.14)	1475 / 1465
heavy pollution	0.0009** (2.45)	-0.0214 (-0.45)	1331 / 1321
non-heavy pollution	0.0007*** (2.92)	0.0857** (2.29)	3699 / 3698

Note: Robust t-statistics clustered at the firm level are reported in parentheses; each cell reports the regression coefficient on the core explanatory variable L.ESG for the corresponding subsample, controlling for all control variables and two-way fixed effects.

7. Barriers to ESG Participation among Chinese Enterprises

The above analysis indicates that Chinese enterprises' ESG participation has only partially promoted common prosperity: its contribution is mainly reflected in making the cake bigger, whereas dividing the cake well has fallen short of theoretical expectations. Drawing on the findings of this paper and the existing literature, several institutional and market-level explanations can be offered.

First, from a regulatory perspective, ESG disclosure is subject to no strict requirements or unified standards, and comparability is relatively weak; yet adequate information disclosure is a prerequisite for effective ESG ratings and investment. In contrast to the mandatory or "comply or explain" disclosure regimes generally implemented in developed countries, China currently still encourages voluntary disclosure. Most companies' disclosures are biased and inconsistent in scope and lack third-party verification, giving rise to problems such as selective disclosure and even data distortion.

Second, at the enterprise level, the concept of ESG is often misunderstood: firms tend to regard ESG as a form of "charity" or "donation". In fact, ESG is, in essence, a means of making the cake bigger by sharing benefits with stakeholders—an incentive-compatible mechanism rather than simple charitable expenditure. Indeed, the greater a firm's operating difficulties, the more it needs to mobilize stakeholders' enthusiasm through ESG in order to overcome them; this misunderstanding leaves many small and medium-sized enterprises lacking intrinsic motivation for ESG.

Third, at the market level, investors and consumers have not yet fully embraced ESG, and a mature ESG market in which participants "vote with their feet" has yet to take shape. When firms with poor ESG performance face no penalty from the capital market or the product market, their incentive to improve ESG—especially along dimensions that do not directly raise revenue in the short term—remains weak.

Finally, at the theoretical level, a unified discourse framework linking the traditional concept of righteousness and profit, ESG, and common prosperity has yet to be established. Since ancient times, China has had a tradition of business ethics that values charity and the pursuit of profit through righteousness. The four-layer logic of the traditional Confucian merchant spirit concerning the relationship between righteousness and profit can be directly connected with contemporary ESG practice: "righteousness" corresponds to the enterprise's responsibilities toward

the environment, employees, and society, while "profit" corresponds to the enterprise's financial performance. The two are not a zero-sum game; rather, through compliance gains, reputational capital, and stakeholder support, firms can achieve a "symbiosis of righteousness and profit"—honoring one's responsibilities reduces transaction costs, strengthens long-term resilience, and ultimately yields more sustainable profits. This also provides cultural-logical support for this paper's finding that ESG makes the cake bigger. At present, however, enterprises largely follow Western interpretations in their ESG discourse and lack an indigenous cultural foundation; and although common prosperity, as a policy concept, is being implemented with considerable force, whether its spiritual core is closely linked to corporate behavior remains to be further articulated—otherwise it may impose moral pressure on enterprises rather than generate endogenous motivation.

8. Conclusion

Drawing on data on China's A-share listed companies from 2011 to 2023, this paper examines, from an ESG perspective, the theoretical logic and practical effects of enterprises' promotion of common prosperity. The results show that corporate ESG participation significantly improves financial performance, with the environmental dimension exerting the largest effect on performance, thereby confirming that ESG helps make the cake bigger. However, ESG participation has not significantly increased the labor income share and has, to some extent, widened the pay gap between management and ordinary employees; the effect of dividing the cake well has yet to materialize. This implies that Chinese enterprises' ESG activities are at present mainly oriented toward making the cake bigger and have not yet produced a positive effect on dividing the cake well. These conclusions remain robust and reliable after replacing the core explanatory variable, addressing endogeneity with the instrumental variable method, and conducting subsample tests by ownership, region, and industry; moreover, this pattern is more prominent among non-state-owned enterprises and enterprises in the central and western regions, where the degree of marketization is higher.

To better enable enterprises to promote common prosperity through ESG, this paper offers the following recommendations. First, accelerate the improvement of ESG disclosure requirements and unified standards. For example, listed companies (except for a few special industries) should be subject to stricter disclosure provisions, issue ESG reports in accordance with the "comply or explain" principle, and be subject to strengthened third-party verification of ESG information so as to enhance data comparability and credibility. Second, strengthen ESG education, with a focus on enterprises and investors. Securities regulators should make ESG an important component of investor education to help foster a mature ESG market in which participants "vote with their feet", and in particular should guide evaluation systems to incorporate firms' internal income distribution into the social dimension. Third, promote the theoretical integration of the traditional concept of righteousness and profit, ESG, and common prosperity. The righteousness-and-profit ethos of ancient Chinese merchants is essentially consistent with the modern spirit of ESG. Accordingly, while absorbing the strengths of China's own culture, attention should be paid to alignment with internationally accepted ESG concepts, thereby providing institutional incentives and cultural identification for enterprises to better practice ESG and promote common prosperity.

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