

Mandatory Regulation and Corporate ESG Performance: A Multidimensional Framework and Evidence from China

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Abstract

Sustainability regulations are strengthened by governments worldwide. Studying which forms of mandatory regulations pressure (MRP) most effectively improve the corporate ESG performance has been important in terms of policy implications. Most of the existing studies consider environmental regulation as the single dimension of mandatory regulatory pressure. This study applies the multi dimensions of mandatory regulatory pressure and explores their effects on ESG performance.

Three dimensions of mandatory regulatory pressure include national policy intensity, environmental regulatory enforcement, and industry-level environmental intensity. Applying the regulatory theory and institutional theory, this study explores how these regulations influence ESG performance of Chinese A-share listed firms using data of 2018-2024. Mandatory regulatory pressure is constructed from national, provincial, and industry level, and ESG performance is measured by Huazheng ESG ratings. Structural equation model is applied to validate the construct of MRP multidimension, then panel regression is used to analyze the effectiveness of each regulatory dimension.

The results are expected to provide insight information for policymakers in designing and enforcing sustainability regulations, and to corporate management to implement the policies in enhancing ESG performance.

Keywords: mandatory regulatory pressure; ESG performance; sustainability; regulatory effectiveness; China