

Impact of ESG on Corporate Financing Optimization

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Abstract. In the context of accelerated green transformation of global industries and the growing popularity of the concept of sustainable development, the framework of Environmental, Social, and Corporate Governance (ESG) has emerged as a central topic in the domains of corporate sustainable growth and finance in recent years. This study focuses on the three dimensions of financing efficiency, financing cost, and financing constraints, and systematically analyzes the intrinsic mechanism of ESG influencing the optimization of corporate financing, and in-depth investigation of the logical relationship and operating rules behind it. This study aims to provide a basis for enterprises to formulate scientific and reasonable financing strategies; to prompt enterprises to improve information disclosure, reduce information asymmetry, and enhance the stability and effectiveness of the financial market; and to guide enterprises to assume social responsibility and realize the synergistic development of economic and social benefits, so as to promote the sustainable development of the economic system.

Keywords: ESG; financing efficiency; financing optimization.

1. Introduction

Financing is the lifeblood of enterprise development, which can not only provide operating funds for enterprises to ensure the smooth implementation of research and development, production and other activities, but also enhance the risk-resistant ability of enterprises, but also enhance the competitiveness of enterprises, helping enterprises to develop steadily in the market.

As global warming accelerates and extreme weather events grow more frequent, addressing climate change has emerged as a critical challenge for human survival and development. An increasing number of countries have realized the urgency of achieving sustainable development, begun to attach importance to the ESG concept, integrated it into policy design systems, promoted green investment, and optimized resource allocation to address climate challenges.

At the same time, public attention to climate issues, social responsibility, and transparent governance continues to rise. These factors collectively drive enterprises to incorporate the ESG conception of their development strategies, exerting a profound impact on corporate financing decisions.

The existing literature has carried out comprehensive investigations into how ESG factors influence financing efficiency, financing costs, and financing constraints. However, there remains a shortage of holistic research on the optimization mechanisms of ESG factors in the context of financing.

This study systematically reviews and evaluates ESG-related literature, and deeply explores the impact of ESG performance on corporate financing optimization. The study reveals that ESG performance can achieve the objectives of enhancing corporate financing efficiency, reducing financing costs, and alleviating financing constraints by optimizing corporate information disclosure quality, mitigating information asymmetry among internal and external stakeholders, elevating corporate social reputation, and garnering market attention. The research results contribute to the enrichment of academic research on ESG and offer practical insights for enterprises to improve ESG performance in financing.

2. Financing Efficiency

Through systematic ESG practices, enterprises can optimize decision-making mechanisms by improving corporate governance structures, build trust systems through transparent and comprehensive information disclosure, and actively implement development strategies centered on green innovation. This not only effectively enhances the enterprise's sustainable development capabilities and long-term profit potential but also establishes a good reputation in the capital market, ultimately significantly improving financing efficiency. There have been several studies supporting this view; for example, Li et al. point out that enterprises implementing more effective ESG practices demonstrate higher efficiency in financing. This suggests that ESG investment can promote the long-term financial sustainability of enterprises. Companies with higher ESG ratings have the potential to reduce capital costs, thereby enhancing their attractiveness to investors [1]. Chang et al. note that higher ESG performance aligns with stakeholders' expectations for corporate value. By delivering positive and transparent signals, it enhances market trust, thereby reducing a company's financing costs. Meanwhile, good ESG practices can optimize resource allocation, facilitate capital circulation, improve input-output efficiency, achieve healthy growth of cash flow, and ultimately drive a significant improvement in corporate financing efficiency [2]. Huang et al. indicate that ESG performance exerts a notable beneficial influence on commercial credit financing (CCF). Through advancing green innovation, strengthening social reputation, and mitigating business risks, ESG performance can help enterprises obtain more commercial credit support, thus broadening their financing channels [3]. From the perspective of resource allocation efficiency, the diversified expansion of financing channels can effectively reduce the time and transaction costs required for enterprises to obtain funds and optimize the efficiency of matching fund supply and demand. Thus, the elevation of firms' ESG performance objectively advances the enhancement of their financing efficiency by upgrading the conditions of commercial credit financing. HE & LIU reveal firms' ESG scores significantly and positively correlate with the efficiency of debt fund utilization. High efficiency in debt fund utilization can promote a virtuous cycle of corporate debt financing. In addition, the study also points out that external environmental changes such as the acceleration of digital transformation, the increasingly fierce market competition, and the continuous improvement of the institutional environment perform a crucial moderating function in the course of ESG factors affecting debt financing efficiency. These moderating effects amplify the favorable impact of ESG on the improvement of debt financing efficiency, revealing the catalytic role of the external environment in the value realization path of ESG [4].

3. Financing Costs

Good ESG performance reduces corporate financing costs through a two-wheel drive mechanism. On the one hand, enterprises that continuously practice the ESG concept can effectively lower investors' psychological expectations of default risk and strengthen the foundation of market trust by virtue of their high-quality social image. On the other hand, standardized and transparent ESG information disclosure by enterprises can significantly alleviate information asymmetry and reduce transaction and supervision costs. The synergistic effect of these two aspects helps enterprises obtain more favorable pricing in the financing market and achieve a reduction in financing costs.

Multiple studies have provided support for this view. Guo et al. indicate that ESG advantages establish a close link with debt financing by enhancing a firm's social reputation and optimizing the quality of information disclosure. On the one hand, a good social reputation can enhance market trust, thereby reducing negative perceptions of the enterprise's default risk; on the other hand, transparent and comprehensive information disclosure helps alleviate information asymmetry. These two measures work in tandem to improve creditors' credit evaluation of the enterprise. Ultimately, this positive impact translates into a significant reduction in the debt financing costs of firms [5]. From the perspective of creditors, Zhang et al. deeply analyze the penalty mechanism of enterprises' poor ESG performance and point out that the competitive disadvantages of enterprises' ESG performance

will drive up debt financing costs. The internal logic of this effect lies in that ESG competitive disadvantages will exacerbate corporate financial risks while widening the information asymmetry gap. Against this backdrop, the uncertainty in corporate development has significantly increased.

Based on risk assessments, creditors adjust their credit-granting strategies by raising risk premiums to cover potential losses, ultimately leading to an escalation in corporate financing costs [6]. Eliwa et al. lay stress on the significance of social value and discovers that the effectiveness of enterprises' ESG implementation is notably inversely related to the costs of corporate financing. The study points out that in countries with a strong stakeholder orientation. Specifically, firms with outstanding ESG performance are more likely to secure low-cost debt funding. This phenomenon has been validated at a broader level. Market participants such as lending institutions actively incentivize firms to improve their ESG practices and upgrade information disclosure quality by reducing the expense of debt capital. To rephrase, the more enterprises prioritize environmental sustainability, fulfillment of social responsibilities, and optimization of corporate governance, and systematically disclose the outcomes of these practices, the more they can earn the trust of financial institutions. As a result, they can enjoy interest rate preferences in the financing process, substantially reducing the cost of accessing capital [7]. Zhao & He show that circulation enterprises with excellent ESG performance can significantly reduce their debt financing costs, and market competition can enhance the impact of such performance on these costs [8]. Additionally, other studies offer varied perspectives, illustrating how shifts in the external landscape impact the relationship between ESG and financing costs, with such impacts evolving alongside differences in market conditions or specific phases. Lavin & Montecinos-Pearc indicate that a significant negative correlation exists between the level of ESG information disclosure and debt financing costs. However, this relationship is constrained by specific market environments. Due to significant differences among different emerging economies in terms of financial market maturity, the implementation intensity of ESG standards, and the completeness of information disclosure, this conclusion cannot be simply applied to other emerging market contexts. Its effectiveness needs to be revalidated by integrating multi-dimensional factors such as the development level of the local capital market, the regulatory policy framework, and the market participants' awareness of ESG [9]. Malik & Kashiramka investigated the association between ESG disclosure ratings and the financial performance of Indian listed firms, discovering a significant negative correlation between ESG disclosure scores and these companies' debt costs. However, during exceptional periods, this relationship reverses. The additional investments required to implement ESG practices are perceived as an extra burden on corporate operations, thereby increasing the risks faced by lenders and leading to a significant rise in enterprises' debt costs. This phenomenon fully reflects that under crisis pressure, stakeholders, especially investors and lenders, still lack sufficient recognition and confidence in ESG concepts and practices. This also indirectly confirms that sustainable finance in India is still in its early development stage, and the maturity of its system and market acceptance urgently need further improvement [10].

4. Alleviating Financing Constraints

ESG alleviates financing constraints through the coordination of internal and external mechanisms. Internally, environmental management can reduce risks and stabilize cash flow; fulfilling social responsibilities can enhance the trust of stakeholders and lower operational risks; and a sound corporate governance structure can reduce agency costs and information asymmetry. In terms of external mechanisms, firms tend to obtain policy support when they have excellent ESG performance metrics from government departments, thereby optimizing their financial conditions; institutional investors who align with ESG investment concepts will increase capital supply. These mechanisms work together to effectively alleviate corporate financing constraints. Several studies have been conducted to support this view. Bai et al. utilize a dataset of Chinese listed companies to further expand the academic discussion on the link between ESG performance and financing constraints. The research indicates that improving ESG performance has a significant effect in alleviating corporate

financing constraints. Moreover, research indicates that institutional capital providers moderate the link between ESG performance and financing constraints. Their ESG investment preferences serve as the core transmission pathway between the two.

By prioritizing investments in enterprises with excellent ESG performance, institutional investors directly optimize corporate financing structures. Additionally, through the demonstration effect of capital allocation, they drive market revaluation of enterprises' values, improve corporate financing environments, and ultimately effectively alleviate corporate financing constraints [11]. Guo & Hong point out that ESG information disclosure can alleviate corporate financing constraints by increasing market attention and reducing financing costs. Empirical analysis shows that both internal control and corporate green innovation help enhance the mitigating effect of ESG information disclosure on financing constraints [12]. Li et al. point out that Chinese enterprises face significant green financing constraints, and corporate ESG performance can effectively alleviate these constraints. In addition, there are significant differences in the mitigating effects of ESG performance on green financing constraints across different regions, presenting unbalanced regional characteristics [13]. Tang's research shows that commercial entities with higher ESG ratings tend to disclose positive public information. This behavior not only helps narrow the information gap between investors and commercial entities but also further alleviates the financing constraints faced by commercial entities. Further research reveals that investor belief heterogeneity moderates the association between ESG performance and financing constraints. When the divergence of opinions among investors deepens, even if an enterprise has excellent ESG performance, the perceived risk will rise accordingly, leading to a further intensification of the financing constraints faced by the enterprise [14].

5. Conclusion

Against the backdrop of the accelerated global green transformation of industries and the broad prevalence of sustainable development concepts, the ESG philosophy has become a critical factor that cannot be ignored in corporate strategic planning and financial market investment decisions. This study takes the three core dimensions of enhancing financing efficiency, cutting financing expenses, and easing financing limitations as entry points. Through theoretical deduction, it systematically decomposes the driving factors of ESG's impact on corporate financing optimization, deeply explores its internal mechanism, and comprehensively analyzes the logical relationships between various elements and the dynamic change mechanisms. A systematic study on the mechanism of ESG factors influencing corporate financing optimization holds multiple theoretical and practical values. At the micro level, this research can provide a theoretical framework and practical pathways for enterprises to formulate scientific financing decisions based on ESG principles. From a meso-level analysis, it helps promote the improvement of corporate information disclosure systems, reduce market information barriers, and enhance the efficiency and stability of resource allocation in financial markets. At the macro level, by guiding enterprises to deeply embed ESG concepts into their business strategies, it can encourage enterprises to fulfill social responsibilities, achieve the collaborative evolution of economic and social benefits, and further promote the sustainable transformation and high-quality development of the economic system. This study carries important enlightenment significance for deepening the theoretical and practical innovation of corporate finance.

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