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Short-Term Profits for Long-Term Value: Corporate ESG Dilemmas Under Earnings Pressure and Pathways to Governance

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ABSTRACT

This study examines the negative effect of *earnings pressure* (EP) on corporate *environmental, social, and governance* (ESG) performance and explores governance mechanisms that can address this problem. Drawing on behavioural agency theory and incorporating insights from resource allocation theory and agency theory, this paper identifies the key mechanism through which EP triggers managers' loss aversion and short-term orientation. Under such pressure, managers tend to treat ESG investments as an opportunity to reduce cost, which leads to the misallocation of ESG resources and the erosion of long-term value. The study further finds that *employee stock ownership plans* (ESOPs) can effectively mitigate this negative effect. The moderation role of ESOPs operates through two channels. First, ESOPs reducing managers' loss aversion align the interests of employees and the firm, thereby reducing managers' loss aversion and limiting short-term decision-making. Second, ESOPs create a broad form of internal supervision that helps correct the distorted resource allocation logic caused by managers' cognitive biases. However, the governance effect of ESOPs is not uniform. The effect is more pronounced when the employee contribution ratio is higher, the participation is broader, and grant conditions are linked to long-term performance indicators.

1 | Introduction

As the global sustainable development agenda advances, corporate environmental, social, and governance (ESG) practices have become key indicators of a firm's sustainable development capacity and long-term value creation potential (Ed-Dafali et al. 2025; Shen et al. 2023; Zhou et al. 2022). Existing research has increasingly focused on how companies balance short-term profit pressure with long-term ESG value and on the theoretical frameworks developed to explain this issue (Linnenluecke 2022; Wang et al. 2023). In the 1970s, stakeholder theory emerged and defined ESG as an extension of corporate responsibility beyond profit maximization. At this stage, studies mainly addressed the normative question of whether firms should implement ESG practices; they did not provide a mature theoretical framework

for addressing practical challenges or fully examining the tension between ESG investment and short-term profits (Bhandari et al. 2022; Young-Ferris and Roberts 2023). In the 1990s, traditional agency theory introduced empirical approaches to this field. Scholars assumed that managers were fully rational and examined how conflicts of interest between shareholders and managers affected ESG investment.

However, this theory could not explain why managers made different ESG decisions under the same profit pressure. Nor could it resolve the conflict between long-term ESG investment and short-term profit evaluation. In 1998, Wiseman and Gomez-Mejia proposed behavioural agency theory, which relaxed the rationality assumption of traditional agency theory and incorporated managerial behavioural traits, such as loss aversion and risk preference

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into the analytical framework (Lin and Ding 2024; Wiseman and Gomez-Mejia 1998). This theory provided important support for understanding ESG decision deviations under profit pressure. In 2022, the *Shanghai and Shenzhen Stock Exchanges* revised their listing rules and introduced mandatory ESG disclosure requirements, marking a new stage in China's ESG practice. However, the 'China A-share Listed Companies ESG Action Report (2022–2023)' shows that among 1455 A-share listed companies, only 28.65% released ESG-related reports, and the quality of disclosure varied significantly (Li et al. 2023; Wen et al. 2022). Most companies still face the problem of symbolic compliance rather than substantive improvement. Current research has not yet systematically integrated the resource integration logic of resource allocation theory with the interest-conflict perspective of agency theory. Therefore, it has not fully explained how profit pressure is transmitted through manager behavioural traits to ESG practice and how this process ultimately affects company long-term value (Lee et al. 2024; Yang et al. 2024).

This study examines firms' ESG dilemmas and governance pathways under profit pressure at the intersection of theory, data technology and social policy. It therefore has strong research relevance and practical importance. From a theoretical perspective, recent academic debates on ESG decision-making mechanisms have highlighted the limitations of traditional retrospective research. Previous studies have mainly focused on external drivers and static internal factors affecting ESG performance (Lozano and Martinez-Ferrero 2022; Seow 2024; Zhang and Lucey 2022). Even studies based on behavioural theory perspectives have often overlooked the forward-looking nature of ESG investment, making it difficult to explain managerial decision-making under real-time profit pressure. However, a new analytical framework based on the behavioural agency theory of Wiseman and Gomez-Mejia (1998) and incorporating resource allocation theory and agency theory helps address this theoretical gap and provides a basis support for re-examining this issue. From a data and technology perspective, high-quality micro-level datasets have become increasingly available. In addition to the 'ESG Action Report of Chinese A-share Listed Companies (2022–2023)', relevant disclosure data in 2025 have achieved full coverage of quantitative indicators, with disclosure rates reaching nearly 35%. Together with the mature application of tools such as instrumental variable methods and panel data econometrics, these developments help address the challenges of accurately measuring profit pressure and ESG investment and identifying causal relationships (Chen et al. 2023; Long et al. 2023). They also make the study more operational and verifiable. From a social and policy perspective, in 2026, the *Shanghai-Shenzhen-Beijing Exchanges* simultaneously upgraded their ESG disclosure guidelines. In 2025, China's ESG policy system also completed its transition to a specific implementation framework through the expansion of the carbon market and the unification of green finance standards. These policy developments, together with real-world problems such as corporate greenwashing and insufficient ESG investment under profit pressure, make it urgent to examine firms' ESG dilemma and governance pathways under profit pressure (Liao et al. 2023; Zhang 2023).

Based on the existing literature, significant theoretical, methodological, empirical, and contextual gaps remain in research on ESG dilemma and governance pathways under earning pressure. A systematic research framework has not yet been established.

In terms of theoretical gaps, most existing studies adopt a single theoretical lens. Some focused on external driver such as regulation and consumer pressure, while others examined static internal factors, such as enterprise characteristics (Ameer and Khan 2023; Ashaduzzaman et al. 2022; Dhir et al. 2023). Even studies using behavioural theory have not fully integrated the behavioural agency theory of Wiseman and Gomez-Mejia (1998) to examine managers' behavioural traits and decision-making logic under real-time earning pressure. Consequently, existing research lack a systematic integration of behavioural agency theory, resource allocation theory, and agency theory. This makes it difficult to reveal the complete transmission mechanism from profit pressure to manager behaviour bias, ESG resource misallocation and long-term value erosion. This theoretical gap also limits our understanding of why firms exhibit different ESG performance under the same level of earning pressure and why managers may perceive ESG as either a cost burden or a long-term investment (Bissoondoyal-Bheenick et al. 2023; Fang et al. 2023). From a methodological view, existing studies mostly rely on cross-sectional data or single-regression models and lack long-term panel-data analysis. Many studies have not fully utilized rigorous econometric methods, such as instrumental variable (IV) methods and propensity score matching (PSM) to address endogeneity concerns (Chen et al. 2023; Shen et al. 2023). Moreover, the measurement of ESG dilemmas often focuses on a single dimension and lacks a multidimensional and comprehensive evaluation system. These methodological limitations reduce the rigour of existing research and making it difficult to accurately identify the causal relationship between EP and ESG dilemmas (Li et al. 2023; Zhou et al. 2022). From an empirical standpoint, previous studies have often relied on small samples or data from a single industry, with limited support from large-scale, multi-industry microdata. Early ESG disclosure data are fragmented and weakly quantified, which prevents precise measurement of the relationship between EP and substantive ESG investment. Existing studies also provide insufficient evidence on the effectiveness of ESG governance pathways, especially regarding application of ESG investment accounting methods such as full-cost accounting (Mooneeapen et al. 2022; Wang et al. 2023). In addition, the mechanism through which investors' short-term orientation affects ESG decision-making has not been fully examined (Chan 2024). From a contextual perspective, existing studies mainly focus on mature capital markets in Europe and the United States, while paying insufficient attention to emerging markets, especially China. These studies ignore the unique institutional context in China, including its still-developing ESG disclosure system, the retail-investor-dominated short-term-oriented investor structure, and policy environment after the expansion of carbon market (Shen et al. 2023; Zhang 2023; Zhao et al. 2024). They also pay limited attention to the ESG transformation challenges faced by small and medium-sized enterprises (SMEs) and the special difficulties encountered by high-carbon industries. As a result, the conclusions of existing research are difficult to apply directly to Chinese firms and do not fully respond to the practical needs of ESG development in emerging markets.

This study addresses the core gaps in existing research from four dimensions: theory, method, empirical evidence and context, through a systematic research design (refer to Figure 1). From the theoretical perspective, the study constructs an

Systematic Research Design Framework

Research Logic: Four dimensions mutually support each other. Theoretical framework guides method selection, methods apply to empirical testing, contextual factors provide boundary constraints, jointly forming a complete causal inference system.

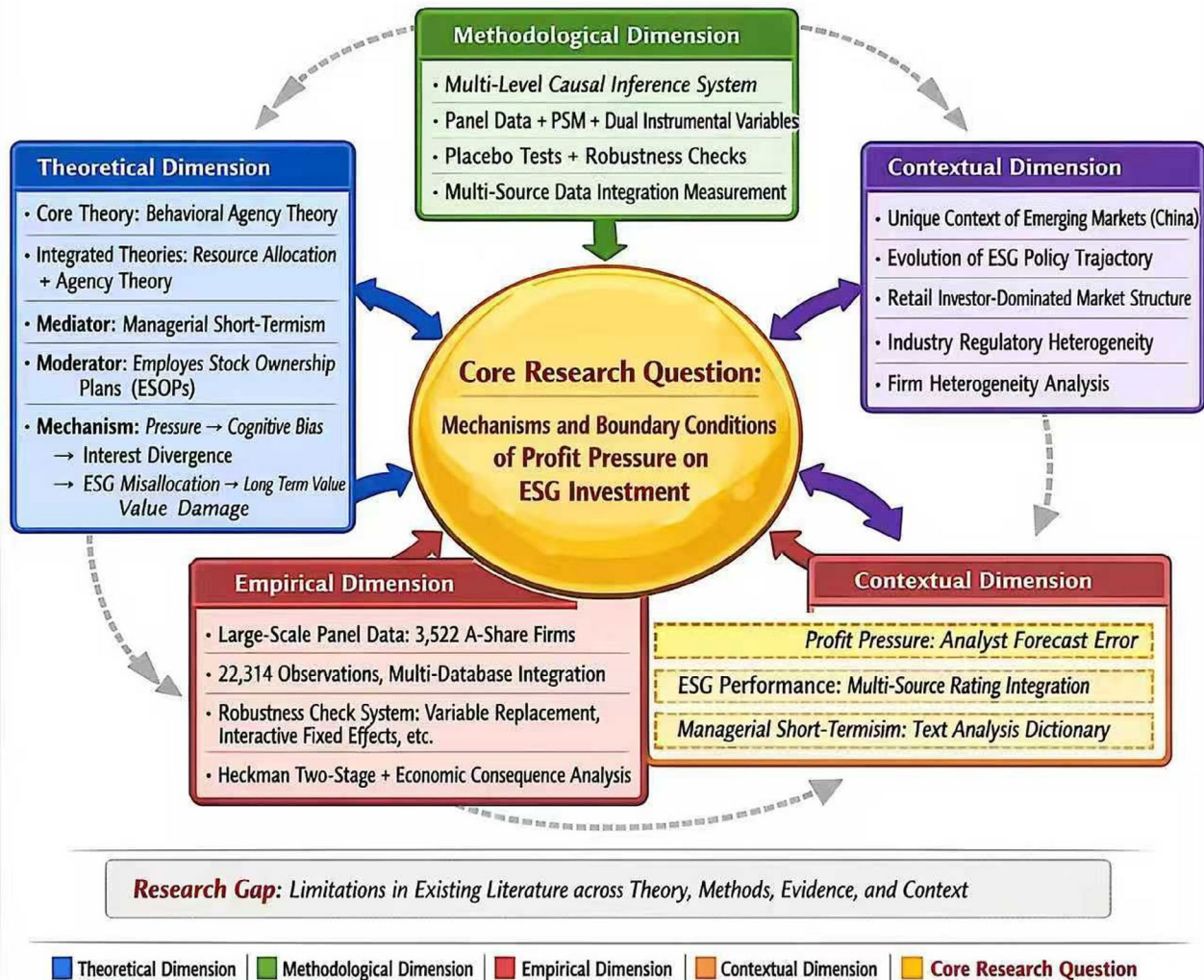


FIGURE 1 | Theoretical and empirical analytical framework.

integrated framework with behavioural agency theory at its core, while incorporating resource allocation theory and agency theory. Managerial short-termism is introduced as a mediating variable, which systematically reveals the transmission mechanism from EP to manager cognitive bias and interest divergence, then to ESG resource misallocation and ultimately to long-term value erosion. *Employee stock ownership plans* (ESOPs) are introduced as a moderate variable to explain the heterogeneity in corporate ESG performance. This framework addresses the limitations of previous research in explaining dynamic trade-off mechanisms of ESG decisions. From the methodological perspective, the study adopts a multi-level system to strengthen causal inference. Panel-data models are used to capture dynamic relationships, and multiple techniques, including PSM, dual IVs and placebo tests, are applied to address endogeneity concerns. A robust measurement system is constructed to cover EP (measured by analyst

forecast deviation), ESG performance (measured through multi-source rating integration), and managerial short-termism (measured using a text analysis dictionary). Through mechanism tests, moderating effects and heterogeneity analyses, the study clearly identifies the influencing channels and boundary conditions. From an empirical view, the study uses a large-scale panel dataset comprising 3522 A-share companies and 22,314 observations, while integrating multiple databases. A series of robust tests, including variable substitution, controls for interaction fixed effects, the Heckman two-stage method, and economic consequence analysis, provide reliable multi-dimensional support for the research conclusions. From the contextual perspective, the study focuses on China as an emerging market and considers its unique institutional background, including the evolution of ESG policies, a market structure dominated by retail investors, and industry-level regulatory differences. Through heterogeneity analysis, the

study reveals the differentiated effects of EP across different enterprise groups.

This research makes significant theoretical, methodological, and practical contributions. First, this study moves beyond the retrospective perspective of behavioural theory and constructs an integrated framework centred on forward-looking earning pressure, including pressure expectations, resource allocation, and strategic choice. Based on behavioural agency theory, this framework reveals how EP triggers managers' loss aversion and risk aversion, leading them to redefine ESG investment as a reducible cost. By integrating resource allocation theory and agency theory, the framework explains the cognitive reconfiguration of resource allocation and the mechanism through which agency conflicts intensify managerial short-termism. It therefore provides a novel theoretical lens for analyzing the tension between short-term EP and long-term value creation. Second, this study constructs an integrated model that includes both mediating and moderating variables. It employs multiple causal inference techniques such as panel-data model, PSM, and dual IVs, as well as a refined measurement system based on multiple data sources. These methods help alleviate endogeneity issues and enable clear identification and testing of the transmission pathway from pressure to behaviour and then to consequences and its boundary conditions. Finally, the research provides specific insights into ESG governance in the Chinese context. It reveals the economic disciplinary mechanism of the capital market against ESG short-sighted behaviour, especially the 'voting with their feet' effect of long-term institutional investors. Otherwise, it shows that ESOPs, particularly those characterized by high employee contribution ratios, broad coverage, and performance-based vesting conditions, can effectively mitigate ESG investment deficiencies caused by profit pressure.

The remainder of this paper is organized as follows. Section 2 develops the theoretical framework and hypotheses. Section 3 describes the research design, including variable definitions and empirical models. Section 4 presents the empirical results. Section 5 provides further analysis. Section 6 conclusion and implications.

2 | Theoretical, Literature and Hypotheses

2.1 | Antecedents of Corporate ESG Performance and the Unique Chinese Context

This study focuses on firms' ESG dilemma and governance pathways under EP and aims to fill systematic gaps in existing research in terms of theory, methods, empirical evidence and context. When examining the determinants of ESG performance, existing studies often focus in isolation on external regulatory pressure or static internal characteristics, or they conduct retrospective analyses based on historical performance (Shin et al. 2023; Yang et al. 2024). These approaches do not effectively explain how forward-looking, real-time EP influences managers' cognition and decision-making logic, ultimately leading to insufficient ESG investment. This theoretical gap is also reflected in current academic debates on the driving forces of corporate sustainable development.

Resource allocation theory emphasizes rational trade-offs under resource constraints (Helfat and Maritan 2024). Agency theory focuses on opportunistic behaviour under conflicts of interests (Onjewu et al. 2023). The institutional perspective emphasizes the regulatory role of external conditions (Pye et al. 2024). However, none of these perspectives have fully integrated behavioural cognition and motivation mechanisms to systematically reveal the specific transmission pathway through which EP affects ESG outcomes or to identify effective governance tools.

To address these challenges, this study adopts the behavioural agency theory proposed by Wiseman and Gomez-Mejia (1998) as its core analytical perspective. This theory is highly consistent with the central objective of this study: to reveal managers' dynamic decision-making logic under EP. By moving beyond the traditional assumption of complete managerial rationality and can explain how forward-looking profit pressure triggers managers' loss aversion and risk-averse tendencies (Jain et al. 2024; Liu et al. 2022). This process leads managers to reframe the long-term value of ESG investment as a short-term costs that can be reduced, ultimately resulting in short-sighted decisions (Grego et al. 2025; Sobreperre i Profitós et al. 2022). In contrast, agency theory can explain underinvestment caused by conflicts of interest, but its assumption of rational individuals overlooks cognitive biases under pressure and cannot fully explain why managers make different decisions under the same level of pressure (Lee et al. 2023; Vazirani et al. 2023). Resource allocation theory can describe the process of resource allocation, but it has difficulty explaining why the logic of the resource allocation becomes distorted under e pressure (Xi and Mei 2022). Therefore, behavioural agency theory provides essential explanatory power for opening the black box of managerial decision-making.

This research does not completely abandon other theoretical perspectives. Instead, it establishes behavioural agency theory as the core framework and integrates resource allocation theory and agency theory as complementary standpoints. This integrated framework aims to capture both the behavioural logic linking EP, managers' cognitive bias and resource allocation distortion, as well as the motivational logic from agency conflict, short-term incentive misalignment, and the exacerbation of managerial myopia. Thus, it enables a comprehensive analysis of the formation mechanism of firm's ESG dilemma. It is particularly important to examine this theoretical framework in the Chinese context. The implementation of mandatory ESG disclosure policies, the deepening of the carbon neutrality goal, and a capital market structure dominated by retail investors and characterized by short-term orientation have created a unique tension. This makes it necessary to explore the ESG decision-making mechanism and governance pathways under the influence of earning pressure.

2.2 | EP and Corporate Strategic Responses

EP refers to the gap between analysts' earnings forecasts and firms' actual performance (Irani and Oesch 2016; Zhang and Gong 2018). As a forward-looking capital-market expectation, its impact on corporate decision-making can be analyzed

Theoretical Framework of Corporate ESG Decisions under Pressure

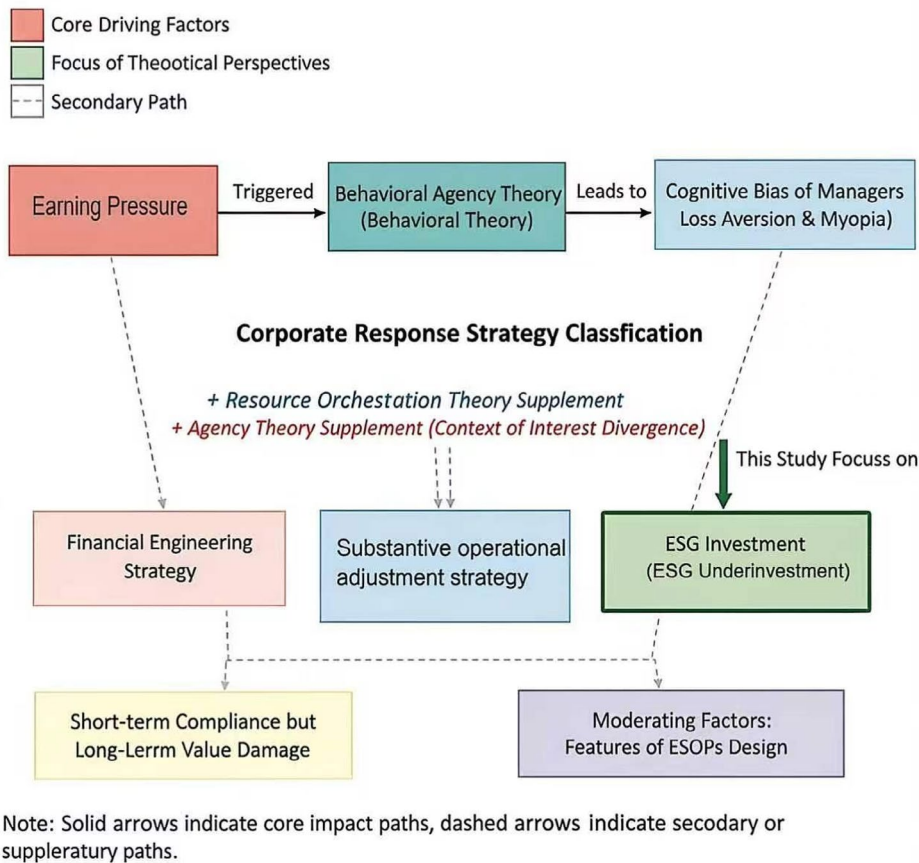


FIGURE 2 | EP and corporate strategic responses framework.

through the behavioural agency theory proposed by Wiseman and Gomez-Mejia (1998). The key contribution of this theory is that it moves beyond the assumption of perfect rationality and argues that EP activates managers' loss aversion (Qian et al. 2023; Tong and Zhang 2024). Hence, managers have become more concerned about immediate losses associated with missing market expectations—such as compensation reductions or reputational damage—than about potential long-term gains. This cognitive bias directly shapes firms' strategic choices. Within this framework, resource allocation theory and agency theory play complementary roles. Resource allocation theory explains how managers adjust and reallocate resources in response to pressure, whereas agency theory explains why conflicts of interest and short-term incentives amplify managerial short-termism. However, neither can replace behavioural agency theory in explaining the core transmission mechanism from pressure to cognition and then to decision-making.

Based on behavioural agency theory, firms' responses to EP can be grouped into two categories, both of which are rooted in managers' loss-aversion psychology (Aghamolla and Hashimoto 2023; Kalyanaram and Winer 2022). The first is financial engineering, whereby managers use tools such as earnings management to quickly improve reported performance and avoid immediate losses. This strategy represents

an explicit form of short-termism; although it may help firms meet near-term targets, it can undermine long-run credibility and reputation (Bilal et al. 2023; Kong et al. 2025; Wiersema et al. 2025). The second is substantive operational adjustment. Under loss aversion, managers may reframe long-term investments (such as R&D) as reducible costs and, following the logic of resource allocation, redirect resources toward activities with faster short-term effects, such as layoffs or cuts to strategic expenditures (Canace et al. 2022; Keum and Meier 2024; Levinthal and Wu 2025). Although these actions may relieve near-term pressure, they can weaken firms' long-term innovation capacity and competitiveness.

Two limitations in the current literature motivate this study. First, prior research tends to examine individual response strategies in isolation, without clarifying whether financial engineering and substantive operational adjustment are complements or substitutes. Second, insufficient attention has been paid to how EP affects sustainable investment, particularly ESG investment. Because ESG investment typically involves long return cycles and high asset specificity, managers under EP are more likely to treat it as a short-term cost that can be reduced. However, the specific mechanism through which EP suppresses ESG investment via managerial short-termism has not been fully theorized or empirically tested (see Figure 2). This constitutes the central question addressed in this study.

2.3 | The Unique Impact of EP on ESG Performance

Behavioural agency theory moves beyond the assumption that managers are completely rational and focusing on managers' loss aversion triggered by EP (Andrei et al. 2024; Gagné and Hewett 2025). Resource allocation theory and agency theory complement this perspective by explaining the resource allocation process and interest-based motivation, respectively. Together, these three theoretical elements construct an integrated framework linking pressure, cognition, resources, motivation, thereby explaining the unique inhibitory effect of EP on ESG performance.

Guided by behavioural agency theory and complemented by resource allocation theory, this study argues that the unique influence of EP on ESG performance is primarily manifested in the distortion of managers' cognition of resource allocation (Fang et al. 2023; Liu, Jin, et al. 2024). Behavioural agency theory suggests that EP activates managers' loss aversion, triggering a cognitive reframing of ESG investment (Liu and Zhang 2023; Lopez-de-Silanes et al. 2024; Zhang and Lucey 2022). When combined with resource allocation theory, this cognitive bias can be further understood as a distortion in resource allocation logic. Specifically, managers may reclassify ESG investment from a long-term strategic investment into a reducible discretionary cost. Compared with R&D and human resources investment, ESG investment often has a longer return cycle and returns are more difficult to quantify. Under EP, ESG investment is therefore more likely to be cut, while limited resources are redirected toward activities that generate immediate financial returns (He et al. 2023; Wang et al. 2023). The short-term performance evaluation culture in China's emerging markets further amplifies this cognitive bias and resource mismatch.

By integrating agency theory, this study further reveals the motivational mechanism through which EP affects ESG performance. Agency theory emphasizes the divergence of interests between managers and shareholders under conditions of information asymmetry. EP exacerbates this conflict and interacts with managers' aversion loss, as emphasized in behavioural agency theory (Dong et al. 2021; Uchida 2023). Specifically, behavioural agency theory explains why managers are inclined to reduce ESG investment to avoid immediate losses, whereas agency theory explains why managers have incentive-based motivations to do so. Because the benefits of ESG are typically long-term, while the penalties for failing to meet earnings targets are immediate (Edmans 2023; Jatmiko et al. 2025), managers may be strongly motivated to reduce ESG expenditures to boost short-term profits. This tendency is particularly pronounced when executive compensation is linked to short-term financial indicators (Eliwa et al. 2026; Liu and Zhang 2023). Moreover, market participants' preference for short-term earnings improvements may further reinforce such short-sighted behaviour.

China's unique institutional environment further amplifies these dual mechanisms, highlighting the value of focusing on the Chinese A-share market. From the perspectives of behavioural agency theory and resource allocation theory, relatively weak ESG disclosure standards and regulation enforcement reduce the perceived cost of resource misallocation by managers

(Menla Ali et al. 2024). From the perspectives of behavioural agency theory and agency theory, a market dominated by retail investors weakens external ESG monitoring and lowers the accountability costs associated with managers' short-sighted decisions (Li, He, et al. 2025; Li, Zhao, and Ren 2025). The interaction of these institutional factors may form a reinforcing cycle, suggesting that the unique influence of EP on ESG performance results from the joint effects of cognition, resources allocation, motivation, and institutions conditions. Therefore, only by integrating these resource allocation theory and agency theory with behavioural agency theory as the core can this mechanism be fully explained. Based on this reasoning, this study proposes the following hypothesis:

Hypothesis 1. *EP triggers managers' loss aversion and short-sighted tendencies, prompting them to reframe ESG investment from long-term strategic investment to reducible discretionary cost. This leads to ESG resource misallocation and a decline in ESG performance.*

2.4 | Managerial Myopia: The Core Link Through Which EP Affects ESG Performance

Behavioural agency theory identifies the root cause of managerial myopia by explaining how EP, as a forward-looking performance risk, activates the managers' loss aversion (Aghamolla and Hashimoto 2023; Gu 2023). This activation leads to short-term cognitive orientation, namely managerial myopia. Such myopia reflects cognitive irrationality under pressure and arises from the career and compensation risks associated with earning pressure. Consequently, managers become overly focused on avoiding immediate losses while neglecting long-term value creation (Liu and Zhang 2023; Tong and Zhang 2024). This explanatory logic constitutes the core advantage of behavioural agency theory in capturing managerial decision-making deviations under EP.

By integrating agency theory with resource allocation theory, the mediating role of managerial myopia can be clarified, thereby extending the analytical chain of behavioural agency theory can be improved. From the perspective of agency theory, EP intensifies the divergence of interests between managers and shareholders (Bian et al. 2023; Gao et al. 2023; Zhang and Gimeno 2016). When combined with managers' loss aversion, this conflict further strengthens managerial myopia. Based on the perspective of resource allocation theory, myopic cognition distorts resource allocation logic by leading managers to underestimate the long-term value of ESG, overestimate immediate financial profits, and classify ESG investment as a reducible discretionary cost. This distorted allocation logic ultimately results in a decline in ESG performance (Liu and Zhang 2023; Lu et al. 2024). The integration of these three theories suggests that behavioural agency theory explains why managers become myopic, agency theory supplements this explanation by revealing the incentive-based motivation underlying myopia, and resource allocation theory clarifies how managerial myopia affects ESG.

Existing studies also support this mediating path. Myopic managers are less likely to engage in and disclose ESG activities because their tendency to avoid long-term uncertainty conflicts

with the long-term commitment required for ESG investment (Kim and Yoon 2023; Martínez-Ferrero et al. 2024). In summary, EP activates the loss aversion trait, leading to managerial myopia, which in turn suppresses ESG performance. Managerial myopia is the core mediating variable in the relationship between the two. Based on this reasoning and the core logic of behavioural agency theory, this study proposes the following hypotheses:

Hypothesis 2. *EP induces managers' loss aversion trait, which further triggers managerial myopia. Myopic managers distort resource allocation logic and prioritize short-term earnings, thereby reducing ESG investment and ultimately leading to the decline of corporate ESG performance.*

2.5 | ESOPs: A Governance Tool to Address EPs and Managerial Myopia

ESOPs serve as an important strategic governance mechanism and can play a crucial moderating role in mitigating the negative impact of EP on corporate ESG performance. The core logic is that ESOPs reshape incentive mechanisms and correct cognitive biases, thereby disrupting the transmission chain identified by behavioural agency theory: from loss aversion to managerial myopia and, ultimately, to insufficient ESG investment (Fang et al. 2023; Lee et al. 2024; Liu and Zhang 2023; Mooneeapen et al. 2022). Based on behavioural agency theory and agency theory, the incentive foundation underlying the moderating effect of ESOPs can be clearly explained. Behavioural agency theory suggests that managers' myopic decisions under EP stem from cognitive irrationality induced by loss aversion. When combined with the divergence of interests emphasized in agency theory, this cognitive bias may ultimately lead to a reduction in ESG investment. By granting managers and employees equity ownership and establishing lock-up periods, ESOPs link their personal wealth to the firm's long-term stock performance (Chila and Devarakonda 2024; Cohen et al. 2023; He et al. 2025; Wu et al. 2023; Xu and Duan 2023). In essence, ESOPs weaken managers' loss-aversion orientation by aligning their interests with the long-term value of the firm. When personal gains are closely tied to the long-term value, the personal cost of sacrificing ESG investment for short-term profits increases significantly, thereby suppressing myopic decisions and alleviating the agency conflict intensified by EP (Kong et al. 2025). This argument is consistent with Zhou et al. (2022), who find that ESOPs promote sustainable performance among Chinese enterprises through economic incentives and psychological belonging, thereby weakening the negative effects of EP.

Based on resource allocation theory, the behavioural channel through which ESOPs exert their moderating role can be further analyzed, thereby extending the analytical logic of behavioural agency theory. Resource allocation theory emphasizes that resource allocation efficiency depends on managers' dynamic capabilities, while ESOPs can reshape the firm's internal logic and cultivate internal stakeholder groups that focus on long-term value (Heaton et al. 2023; Levinthal and Wu 2025; Schulze and Brusoni 2022). Employees participating in ESOPs, including managers, are more likely to

be concerned about the firm's long-term healthy development, such as workplace safety, corporate reputation, and sustainable positioning. Through peer monitoring and voice behaviour, these participants can resist the cognitive restructuring induced by managers' EP (He et al. 2025; Liu and Zhang 2023; Xu and Duan 2023). Specifically, they may challenge the perception that ESG investments should be classified as a reducible discretionary cost and encourage managers to correct distorted resource allocation logic. As a result, firms are more likely to prioritize long-term strategic investments such as ESG, thereby alleviating the negative impact of EP on ESG performance.

It is essential to clarify that the moderating effect of ESOPs is neither uniform nor constant; rather, it depends on their specific contractual design. This argument is closely aligned with the core logic of behavioural agency theory, which suggests that incentive intensity shapes behavioural orientation (Dasilas 2024; Zolotoy et al. 2022). Three design dimensions determine the strength of this moderating effect. The first is the proportion of employee contributions. A higher contribution in proportion indicates a stronger degree of interest alignment between employees and the firm, which can enhance incentives, increase willingness to monitor managerial behaviour, and resist reduction in ESG investment (Kong et al. 2025; Liu et al. 2023; Shan and Zhu 2024). The second dimension is the breadth of participation. Broader participation creates a larger group of long-term value-oriented stakeholders, generating monitoring synergy and constraining managers' myopic decisions. The third dimension concerns performance-linked granting conditions. Granting rules tied to long-term performance indicators can embed a long-term orientation into the incentive system and directly counteract the myopic tendencies caused by EP.

In conclusion, ESOPs mitigate managers' loss aversion by aligning interests, correct deviations in resource allocation through internal supervision, and further enhance their moderating effectiveness through contractual design. In this way, ESOPs can effectively alleviate the negative impact of EP on ESG performance. Based on the core logic of behavioural agency theory, this study proposes following hypotheses:

Hypothesis 3. *ESOPs bind the wealth of managers and employees with the long-term value of the company, thereby weakening the loss aversion and myopic tendencies triggered by EP, and thus blocking the behavioural transmission chain from EP to loss aversion to managerial myopia to insufficient ESG investment.*

Hypothesis 3a. *The moderating effect of ESOPs is stronger when the proportion of employee contributions is higher. A higher contribution ratio deepens the binding of interests and can more effectively restrain the loss aversion and myopic tendencies of managers.*

Hypothesis 3b. *The moderating effect of ESOPs is stronger when the scope of employee participation is broader. A wider participation degree forms a stronger internal supervision force, which can more effectively restrain the myopic decisions of managers.*

Hypothesis 3c. *The moderating effect of ESOPs is stronger when the granting conditions are linked to long-term performance indicators. Such conditions embed a long-term orientation into the system, which can directly counteract the myopic cognition generated by loss aversion.*

3 | Research Methodology and Empirical Design

3.1 | Sample and Data

Our initial sample includes all Chinese A-share listed firms on the Shanghai and Shenzhen Stock Exchanges from 2009 to 2022. The data used in this paper were obtained from the following sources:

- Information on ESOPs was primarily extracted from the RESSET Database, with missing items supplemented by using the *Wind Financial Terminal*. Ownership type classifications were derived from a manually compiled and cross-verified annual corporate registry.
- ESG performance metrics and institutional ownership data were systematically sourced from the *Wind Financial Terminal*.
- Data for the control variables were collected from the CSMAR databases.

Following previous studies (Gillan et al. 2021; Feng et al. 2024), we applied the following sample screening procedures:

- We eliminated observations involving firms with special treatment (ST/*ST) or particular transfer (PT) designations.
- We dropped observations for firms in the financial industry.
- We removed observations with missing values for the main variables.

To minimize the influence of outliers, all continuous variables were winsorized at the 1-st and 99-th percentiles. The final sample consists of 22,314 firm-year observations for 3522 firms.

3.2 | Variable Definitions

3.2.1 | Corporate ESG Performance

We measure firms' ESG performance using the *Sino-Securities ESG rating* system, a well-established framework that has been consistently applied to Chinese A-share listed firms since 2009. This system uses a comprehensive nine-level grading ranging from AAA to C. To incorporate this measure into the regression analyses, we convert the ratings into numerical scores, assigning 9 to AAA and decreasing by one point for each lower grade, with C assigned a value of 1. The Sino-Securities ESG rating has been widely used and validated in prior studies focusing on Chinese firms (e.g., Jiang et al. 2022; Tian and Tian 2022). To ensure the robustness of our findings, we also employ Bloomberg ESG scores as an alternative proxy in supplementary tests.

3.2.2 | EP

Following Matsumoto (2002) and Schulz and Wiersema (2018), we measure EP as follows:

$$\text{Pressure} = (\text{Analyst Forecast EPS} - \text{Actual EPS}) / \text{Total Assets} \quad (1)$$

where analyst forecasts represent the mean earnings estimate for each firm-year. To address potential reverse causality, ESG performance is lagged for one period. Higher values indicate greater managerial pressure to meet earnings targets.

3.2.3 | Control Variables

Following previous studies (Ding, Zhao, et al. 2024; Liu, Guo, et al. 2024; Xu, Ding, and Zhao 2026), we control for firm characteristics that may influence corporate ESG performance, including *firm size* (Size), *leverage* (Lev), *return on assets* (ROA), *liquidity* (Liquid), the *fixed asset ratio* (Tang), *ownership concentration among the top ten shareholders* (Top10), *ownership balance* (Balance), *firm listing age* (ListAge), and *growth opportunities* (TobinQ). Governance-related controls include the *compensation of top three executives* (TMTPay), *gender diversity* (Female), *executives' international background* (OverseasBack), and *R&D intensity* (RDIncome). Furthermore, we control for industry competition using the *Herfindahl–Hirschman Index* (HHI), which is computed annually at the industry level based on sales revenue. Definitions of the main variables are presented in Table 1.

3.3 | Model Specification

Referring to previous studies (Schulz and Wiersema 2018; Saridakis et al. 2023; Almeida et al. 2025), our empirical models are as follows:

$$\text{ESG}_{i,t+1} = \beta_0 + \beta_1 \text{EP}_{i,t} + \gamma \text{Controls}_{i,t} + \text{Ind FE} + \text{Year FE} + \varepsilon_{i,t} \quad (2)$$

where i and t denote firm and year, respectively; $\text{ESG}_{i,t+1}$ represents the ESG performance of firm i in year $t+1$. We lead the dependent variable by one period to mitigate potential reverse causality concerns. $\text{EP}_{i,t}$ represents the EP faced by firm i in year t ; Controls is a vector of control variables, as discussed; Ind FE and Year FE respectively represent industry fixed effects and year fixed effects; $\varepsilon_{i,t}$ represents stochastic error term. Besides, we also clustered robust standard errors.

4 | Empirical Findings and Results Analyses

4.1 | Descriptive Statistics

Table 2 presents descriptive statistics for the key variables used in the analysis. The mean ESG score is 4.2269, with a median of 4.0000, indicating that the typical Chinese listed firm exhibits moderate ESG performance, roughly equivalent to a B or BB rating in standard rating systems. The standard deviation of 1.0587 and the interquartile range from 4.0000 to 5.0000 indicate

TABLE 1 | Definition of main variables.

Variable	Variable name	Symbol	Measure
Dependent variable	Corporate ESG performance	ESG	Numerical conversion of SinoSec ESG ratings
Independent variable	Earnings pressure	EP	(Mean analyst forecasted net profit – actual net profit)/total assets at period-end
Control variables	Firm size	Size	Ln (number of employees)
	Leverage ratio	Lev	Year-end total liabilities/year-end total assets
	Return on assets	ROA	Net profit/average total assets
	Current ratio	Liquid	Current assets/current liabilities
	Fixed asset ratio	Tang	Net fixed assets/total assets
	Top 10 shareholders' ownership	TOP10	Shares held by top 10 shareholders/ total shares outstanding
	Ownership balance	Balance	Second largest shareholder's ownership/ largest shareholder's ownership
	Tobin's Q	TobinQ	(Market value of tradable shares + Non- tradable shares × net asset value per share + book value of liabilities)/total assets
	Listing age	ListAge	ln(Current year – IPO year + 1)
	Top 3 executives' compensation	TMTPay	Natural logarithm of total compensation for top three executives
	Female executive ratio	Female	Number of female executives/ total number of executives
	Overseas background	OverseaBack	Dummy variable (1 if any director/supervisor has overseas education or work experience)
	R&D intensity	RDIncome	R&D expenditure/operating revenue
	Herfindahl–Hirschman Index	HHI	$HHI = \sum([X_i/X]^2)$

substantial cross-sectional variation, highlighting significant differences in ESG engagement across firms and suggesting considerable room for improvement.

For EP, the mean value is 0.0396, suggesting that, on average, analysts' earnings forecasts exceed actual performance by approximately 3.96% of total assets. The standard deviation of 0.0737, together with minimum to maximum values, indicates considerable dispersion in EP across observations.

Prior to the regression analyses, we conducted diagnostic tests for multicollinearity. As shown in Table 3, all *variance inflation factors* (VIFs) are well below the conventional threshold of 10, and pairwise correlations among independent variables do not exceed 0.5, confirming that multicollinearity is not a concern in our models.

4.2 | Baseline Regression Results Analyses

Table 4 reports the baseline regression results for the relationship between EP and ESG performance. The results reveal a statistically and economically significant negative association. In column (1), which excludes control variables, the coefficient on EP is -1.8424 ($p < 0.01$). After the full set of controls

in column (2), the coefficient remains significantly negative at -1.7936 ($p < 0.01$), providing strong support for Hypothesis 1. Economically, a one-standard-deviation increase in EP, equal to 0.0737, is associated with a 0.132-point decrease in the ESG score, representing approximately 12.5% of the interquartile range. This effect is economically meaningful, as it could potentially lower a firm's ESG rating from BB to B in standard rating systems.

Our integrated theoretical framework, drawing on resource orchestration theory and principal-agent theory, provides a compelling explanation for these findings. From a resource orchestration perspective, EP systematically distorts managerial resource allocation, prompting executives to reclassify ESG expenditures from long-term strategic investments as reducible discretionary costs. This cognitive reframing leads to defensive resource reconfiguration away from ESG initiatives with longer payoff horizons, consistent with prior evidence on reductions in R&D expenditure under financial constraints (He and Tian 2013; Xu et al. 2019). Simultaneously, principal-agent theory suggests that EP exacerbates the conflict between managerial self-interest and long-term shareholder value. The immediate penalties associated with missing earnings targets, contrasted with the multi-year horizon over which ESG investment benefits materialize, create strong incentives for managers to reduce

TABLE 2 | Descriptive statistics.

Variables	Observations	Mean	SD	Min	P25	Median	P75	Max
ESG _{t+1}	22,314	4.2269	1.0587	1.0000	4.0000	4.0000	5.0000	8.0000
EP	22,314	0.0396	0.0737	−0.0569	0.0033	0.0193	0.0501	0.5255
Size	22,314	7.9365	1.2147	4.0780	7.0880	7.8610	8.6720	11.1800
Lev	22,314	0.4325	0.1959	0.0274	0.2785	0.4288	0.5787	0.9079
ROA	22,314	0.0438	0.0639	−0.3730	0.0160	0.0406	0.0734	0.2473
Liquid	22,314	2.2853	2.2522	0.2683	1.1450	1.6170	2.5310	30.5800
Tang	22,314	0.2152	0.1584	0.0016	0.0919	0.1835	0.3066	0.7364
TOP10	22,314	58.0182	14.7210	20.8400	47.5300	58.4600	68.7700	90.9700
Balance	22,314	0.3599	0.2857	0.0062	0.1125	0.2773	0.5716	1.0000
TobinQ	22,314	2.0142	1.3020	0.8024	1.2170	1.6010	2.3140	15.6100
ListAge	22,314	2.2557	0.6660	1.0990	1.7920	2.3030	2.8330	3.4010
TMTPay	22,314	14.6659	0.7147	12.3200	14.1900	14.6200	15.1000	16.8800
Female	22,314	18.7889	11.1839	0	10.5300	17.6500	26.0900	56.2500
OverseaBack	22,314	0.5341	0.4988	0	0	1.0000	1.0000	1.0000
RDincome	22,314	0.0441	0.0630	0	0.0079	0.0329	0.0528	3.2370
HHI	22,314	0.1308	0.1361	0	0.0541	0.0891	0.1491	1.0000

ESG spending to protect their career security and compensation. This interpretation is consistent with prior research on earnings-induced managerial myopic (Schulz and Wiersema 2018; Zhang and Gong 2018).

The persistently negative coefficients across specifications underscore the dominant role of resource misallocation and agency problems in shaping ESG outcomes under EPEP in China's emerging market context. These findings contrast with evidence from developed markets, where stakeholder pressure can help protect sustainability investments (Eccles et al. 2014; Flammer 2015). It suggests that China's less mature ESG regulatory framework and retail-investor-dominated market structure may weaken stakeholder governance mechanisms common in developed markets.

4.3 | Endogeneity Analysis and Other Robustness Tests

4.3.1 | Endogeneity Analysis

4.3.1.1 | PSM. To address potential sample selection bias and strengthen the comparability between firms facing high and low EP, we employ PSM, following Feng et al. (2024) and Xu (2026). This method helps mitigate concerns that firms with differing levels of EP may systematically differ in observable characteristics. We first classify firms into treatment and control groups based on whether a firm's EP exceeds the sample median each year (treatment = 1 if above, 0 otherwise). Specifically, firms with above-median EP are assigned to the treatment group, while the remaining firms are assigned to the control group. This dichotomization facilitates a clearer comparison between firms subject to relatively high and low EP.

This paper conducts 1:4 nearest-neighbour matching annually to reduce temporal mismatch, using the following covariates: ROA, Size, Top10, Liquid, RDincome, OverseasBack, Balance, Female, ListAge, Lev, TobinQ, HHI and Tang. The matched samples are then pooled for subsequent analysis, as illustrated in Figure 3.

The balance tests confirm that the standardized percentage bias for all covariates falls below the 10% threshold after matching. As shown in Table 5, the distributions of observed characteristics between treated and control groups are well-balanced after matching, with no statistically significant differences. Moreover, the average treatment effect on the treated (ATT) for ESG is statistically significant ($\beta = -0.0779$, $p < 0.01$), indicating that firms facing higher EP exhibit lower ESG performance after observable differences are accounted for.

We then re-estimate the baseline model using the matched sample. As reported in columns (1) and (2) of Table 6, the coefficient on EP remains negative and significant at the 1% level, consistent with the baseline findings. These findings confirm that the negative association between EP and ESG performance is robust to sample selection concerns based on observable firm characteristics and provide further support for our main conclusion.

4.3.1.2 | Placebo Test. Although PSM helps alleviate selection bias arising from observable characteristics, the baseline regression results may still be affected by unobservable or difficult-to-measure time-varying confounding factors. To assess the potential influence of such biases and further strengthen the credibility of our causal interpretation, we conducted a placebo test by randomly assigning the explanatory variable EP, following practices in existing literature (Bertrand et al. 2004; Brav et al. 2015; Cheng et al. 2025).

TABLE 3 | Correlation matrix.

Variables	ESG _{t+1}	EP	Size	Lev	ROA	Liquid	Tang
ESG _{t+1}	1.0000						
EP	−0.1210***	1.0000					
Size	0.162***	−0.2080***	1.0000				
Lev	−0.0060	−0.0620***	0.3870***	1.0000			
ROA	0.1370***	−0.6180***	0.0420***	−0.3420***	1.0000		
Liquid	0.0260***	0.0730***	−0.3490***	−0.6350***	0.2050***	1.0000	
Tang	−0.0380***	−0.0330***	0.2060***	0.0690***	−0.0570***	−0.2340***	1.0000
TOP10	0.1020***	−0.1250***	0.1520***	−0.0180***	0.1800***	0.0430***	0.0560***
Balance	−0.0020	0.0660***	−0.0530***	−0.0830***	−0.0080	0.0760***	−0.0580***
TobinQ	−0.0450***	0.0360***	−0.2370***	−0.3460***	0.2880***	0.2710***	−0.1290***
ListAge	−0.0010	−0.0690***	0.3250***	0.3370***	−0.1240***	−0.2770***	0.1010***
TMTPay	0.1580***	−0.1000***	0.3390***	0.1020***	0.1740***	−0.0680***	−0.1480***
Female	−0.0340***	0.0960***	−0.2100***	−0.1370***	0.0150**	0.1210***	−0.1620***
OverseaBack	0.0090	−0.0050	0.0430***	−0.0120*	0.0200***	0.0110*	−0.0740***
RDincome	−0.0090	0.1760***	−0.1630***	−0.2910***	−0.0490***	0.2840***	−0.2010***
HHI	−0.0650***	0.0020	0.0510***	0.0430***	−0.0540***	−0.0660***	0.0350***
Variables	TOP10	Balance	TobinQ	ListAge	TMTPay	Female	OverseBack
TOP10	1.0000						
Balance	0.0340***	1.0000					
TobinQ	−0.0440***	0.0380***	1.0000				
ListAge	−0.2420***	−0.1260***	−0.1610***	1.0000			
TMTPay	0.0610***	0.1120***	−0.0060	0.1710***	1.0000		
Female	−0.0260***	0.0600***	0.1060***	−0.1220***	0.0690***	1.0000	
OverseaBack	0.0600***	0.0710***	0.0660***	−0.0610***	0.0930***	−0.0120*	1.0000
RDincome	−0.1100***	0.1110***	0.2490***	−0.2250***	0.0810***	0.0800***	0.0250***
HHI	0.0670***	−0.0340***	−0.0410***	0.0310***	−0.0080	−0.0150**	0
Variables	RDincome			HHI			
RDincome	1.0000						
HHI	−0.1490***			1.0000			

*** Indicate significance at 1% level respectively. The values in parentheses are the *t*-values.

This test follows counterfactual logic: if EP has no causal effect on ESG performance, then randomly reshuffling the observed values across firm-year observations should produce pseudo-EP indicators whose estimated coefficients do not systematically deviate from zero. Specifically, while keeping the baseline model specification, control variables, and fixed effects unchanged, we randomly permuted the actual EP variable 500 times at the company-year level. After each permutation, we re-estimate the regression and record the coefficient on pseudo-EP, thereby constructing an empirical distribution of coefficients that could arise under the null hypothesis of no effect.

The results of the placebo test are presented in Figure 4. The placebo coefficients generated from 500 random permutations form a symmetric distribution centred around zero, consistent with the theoretical expectation of no systematic effect. Importantly, the actual finding coefficient estimated in the baseline regression, −0.4072, lies in the far-left tail of this empirical distribution and is clearly separated from most placebo coefficients. The empirical *p*-value is 0.002, indicating that only a very small proportion of the 500 random simulations produced a coefficient whose absolute value was greater than or equal to that of the actual estimate. Therefore, the placebo test suggests that the significant negative relationship

TABLE 4 | Regression results of EP and corporate ESG performance.

Variables	(1)	(2)
	ESG _{t+1}	ESG _{t+1}
EP	-1.8424*** (-17.6321)	-0.4072*** (-2.8464)
Size		0.2009*** (26.0071)
Lev		-0.4868*** (-8.6595)
ROA		1.2194*** (6.6181)
Liquid		0.0200*** (5.2616)
Tang		0.0236 (0.4185)
TOP10		0.0022*** (4.1713)
Balance		-0.0396* (-1.6681)
TobinQ		-0.0343*** (-5.5850)
ListAge		-0.0978*** (-7.6345)
TMTPay		0.0694*** (5.7556)
Female		-0.0035*** (-5.3087)
OverseaBack		-0.0002 (-0.0156)
RDIncome		0.1421 (1.1799)
HHI		-0.4950*** (-7.5089)
Constant	4.2998*** (552.7161)	2.0395*** (12.1516)
Ind FE	YES	YES
Year FE	YES	YES
N	22,314	22,314
Adjusted R ²	0.0802	0.1405

Note: The numbers in parentheses are *t*-statistics. *, and *** denote significance at the 10%, and 1% levels, respectively. The same applies to the following tables.

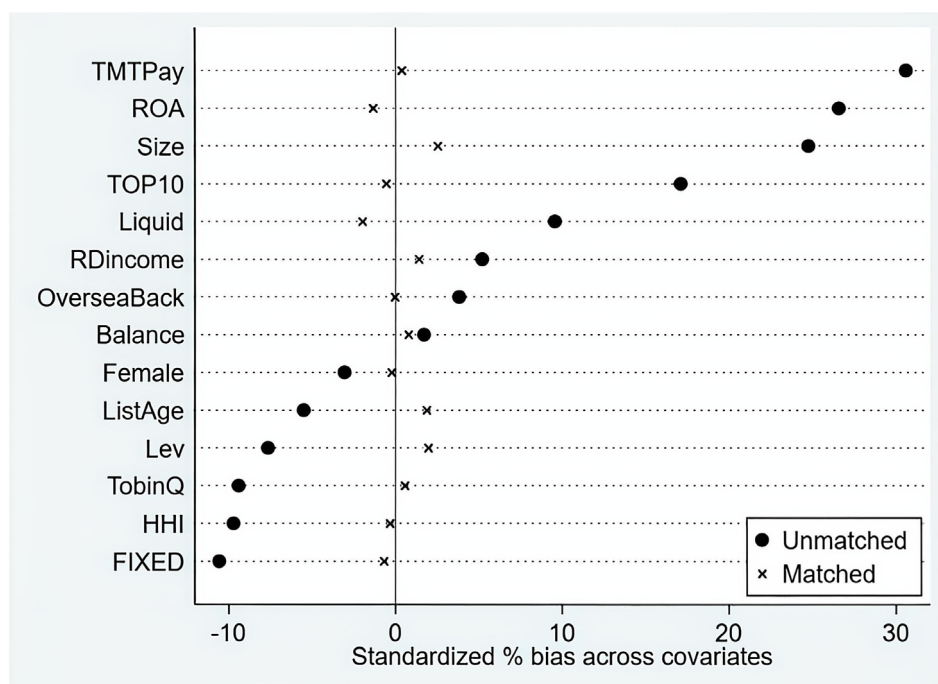
**FIGURE 3** | Plot of standardized deviations for each variable.

TABLE 5 | Equilibrium test for propensity score matching.

Variables	<i>U</i>	Average value		Standardized deviation (%)	Decrease in standardized deviation (%)	<i>t</i> -test	
	<i>M</i>	Experimental group	Control subjects			<i>t</i> -value	<i>p</i>
Size	<i>U</i>	7.9835	7.6828	24.8	89.8	20.41	0.00
	<i>M</i>	7.9835	7.9529	2.5		2.08	0.04
Lev	<i>U</i>	0.4162	0.4314	−7.7	74.4	−6.32	0.00
	<i>M</i>	0.4162	0.4123	2.0		1.64	0.10
ROA	<i>U</i>	0.0542	0.0376	26.6	94.9	22.00	0.00
	<i>M</i>	0.0542	0.0551	−1.4		−1.22	0.22
Liquid	<i>U</i>	2.5705	2.3245	9.6	79.0	7.89	0.00
	<i>M</i>	2.5705	2.6221	−2.0		−1.53	0.13
Fixed	<i>U</i>	0.2049	0.2216	−10.6	93.3	−8.73	0.00
	<i>M</i>	0.2049	0.2060	−0.7		−0.61	0.54
Top10	<i>U</i>	60.187	57.6520	17.1	96.6	14.14	0.00
	<i>M</i>	60.187	60.2720	−0.6		−0.48	0.63
Balance	<i>U</i>	0.3653	0.3604	1.7	54.7	1.40	0.16
	<i>M</i>	0.3653	0.3631	0.8		0.65	0.52
TobinQ	<i>U</i>	1.9711	2.0942	−9.4	94.1	−7.78	0.00
	<i>M</i>	1.9711	1.9638	0.6		0.51	0.61
ListAge	<i>U</i>	2.1028	2.1455	−5.5	66.2	−4.56	0.00
	<i>M</i>	2.1028	2.0884	1.9		1.53	0.13
TMTPay	<i>U</i>	14.726	14.507	30.6	98.8	25.26	0.00
	<i>M</i>	14.726	14.724	0.4		0.29	0.77
Female	<i>U</i>	18.618	18.962	−3.1	92.0	−2.54	0.01
	<i>M</i>	18.618	18.646	−0.2		−0.21	0.84
OverseaBack	<i>U</i>	0.5380	0.5189	3.8	98.7	3.15	0.00
	<i>M</i>	0.5380	0.5382	−0.0		−0.04	0.97
RDincome	<i>U</i>	0.0462	0.0425	5.2	73.3	4.29	0.00
	<i>M</i>	0.0462	0.0452	1.4		1.18	0.239
HHI	<i>U</i>	0.1251	0.1386	−9.7	96.5	−8.04	0.00
	<i>M</i>	0.1251	0.1255	−0.3		−0.31	0.76

between EP and ESG performance documented in the base-line regression is unlikely to be driven by random assignment patterns, unobserved time-varying confounding factors, or pure data chance.

4.3.1.3 | Instrumental Variable Approach. To address potential endogeneity concerns in the relationship between EP and ESG performance, we employ a two-stage least squares (2SLS) approach using two IVs. Following Fisman et al. (2007) and Feng et al. (2024), we use the industry-level proportion of loss-making firms and the average EP of peer firms located in the same city and in the same year as instruments for firm-level EP.

These instruments are expected to satisfy the relevance and exclusion conditions. The industry-level proportion of loss-making firms captures sector-wide profitability shocks that may shape managerial earnings expectations through competitive dynamics and industry benchmarking, thereby supporting the relevance condition. Similarly, the average EP of peer firms' pressure in the same city and year reflects local economic conditions and peer effects that may generate comparable performance expectations among geographically proximate firms. Regarding the exclusion restriction, the industry-level proportion of loss-making firms is unlikely to affect a firm's ESG performance directly, as it mainly reflects broader industry conditions beyond the control of individual firms and

TABLE 6 | Results of PSM-based regression analysis.

Variables	(1)	(2)
	ESG _{t+1}	ESG _{t+1}
EP	−1.8401*** (−17.4594)	−0.4220*** (−2.9427)
Size		0.2005*** (25.9391)
Lev		−0.4912*** (−8.7307)
ROA		1.2228*** (6.6162)
Liquid		0.0199*** (5.2339)
Tang		0.0239 (0.4224)
TOP10		0.0022*** (4.2366)
Balance		−0.0378 (−1.5903)
TobinQ		−0.0348*** (−5.5868)
ListAge		−0.0967*** (−7.5411)
TMTPay		0.0688*** (5.7053)
Female		−0.0035*** (−5.3280)
OverseaBack		0.0004 (0.0261)
RDincome		0.1436 (1.1922)
HHI		−0.4927*** (−7.4707)
Constant	4.3005*** (552.4022)	2.0486*** (12.1984)
Ind FE	YES	YES
Year FE	YES	YES
N	22,281	22,281
Adjusted R ²	0.0800	0.1401

*** Indicate significance at 1% level respectively. The values in parentheses are the *t*-values.

should influence ESG decisions primarily through firm-level EP. Likewise, peer firms' EP captures regional peer and economic shocks that are expected to influence a firm's ESG behaviour mainly through the EP channel, rather than through direct firm-specific ESG pathways. These arguments provide theoretical support for the validity of the selected instruments.

The first-stage results show that both instruments are significantly associated with EP. The under-identification test rejects the null hypothesis that the model is underidentified, as indicated by the *Kleibergen–Paap rk LM statistic* of 166.459, with a *p*-value of 0.0001. The *Cragg–Donald Wald F-statistic* is 631.992, exceeding the relevant critical values and thereby alleviating concerns about weak instrument. In addition, the *Hansen J statistic* of 0.2048 suggests that the overidentifying restrictions cannot be rejected, providing support for the validity of the exclusion restrictions.

In the second stage, after accounting for potential endogeneity, EP continues to have a significantly negative effect on ESG, with a coefficient of −0.9762 and a *t*-statistic of −2.0255, significant at the 5% level. In economic terms, a one-standard-deviation increase in EP (0.0737) is associated with a decrease of approximately 0.0719 points in the ESG score, equivalent to about

6.8% of the interquartile range. This effect remains economically meaningful and supports the fact that EP inhibits firms' ESG performance. Weak-instrument-robust tests, including the *Anderson–Rubin Wald* test and the *Stock–Wright LM* tests, further confirm the robustness of this finding.

4.3.1.4 | System GMM Estimation. To overcome potential dynamic panel bias and endogeneity issues in the baseline regression, we estimate the model using the system GMM method, following Schultz et al. (2017). Specifically, the first- and second-lagged terms of the dependent variable (L.ESG, L2.ESG) as well as the core explanatory variable are treated as endogenous, and their lags from period 1–2 to 2–3 are used as GMM-style instrumental. We also applied the collapse option to reduce the number of instruments and mitigate instrument proliferation. The remaining control variables are treated as exogenous and introduced as standard instruments. The model passes the key diagnostic tests for GMM estimation: the *Arellano–Bond AR* (1) test is significant (*p* = 0.000), while the *AR* (2) test is insignificant (*p* = 0.272), indicating that the differenced residuals do not exhibit second-order serial correlation and that the model is appropriately specified. In addition, the Hansen over-identification test yielded a *p*-value of 0.101 (> 0.1), so the null hypothesis that the instruments are jointly

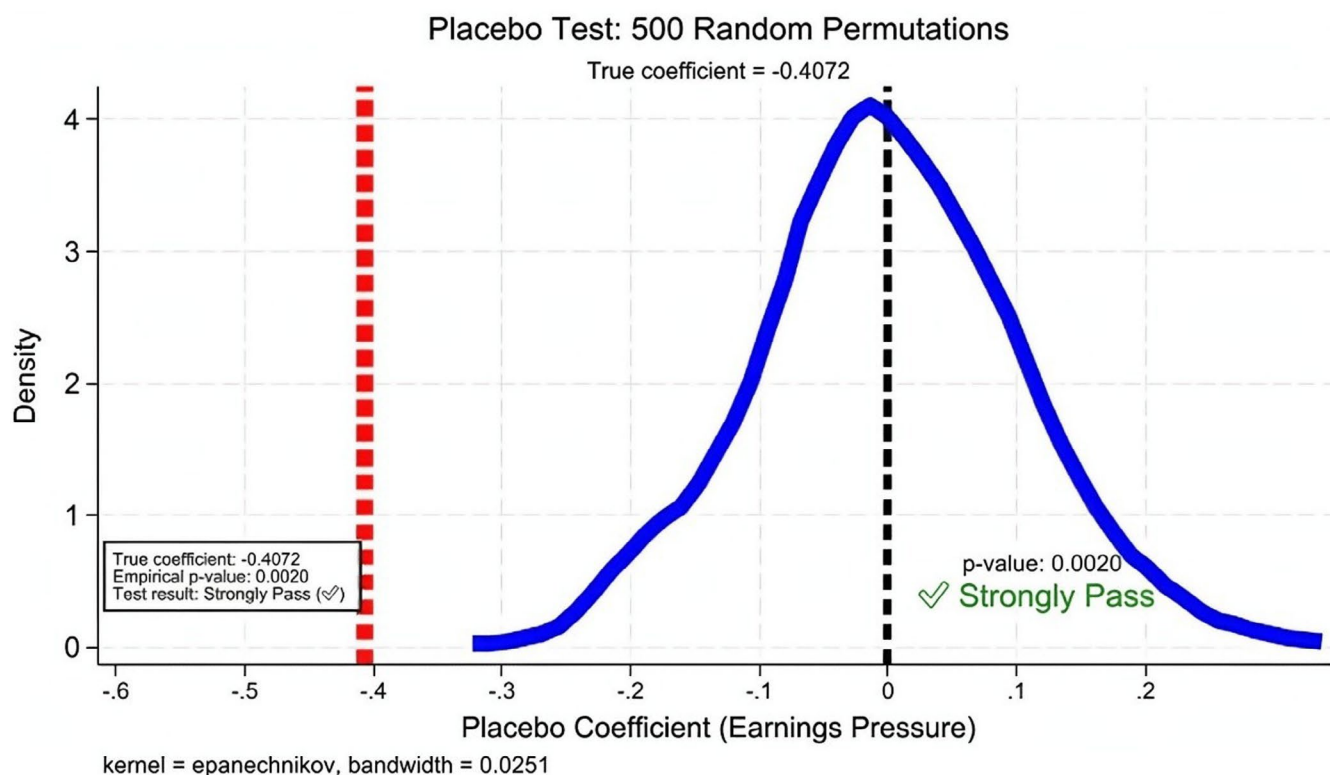


FIGURE 4 | Placebo test results.

valid cannot be rejected. This provides support for the reasonableness of the instrument specification.

Column (3) of Table 7 reports the system GMM estimation results. After accounting for potential endogeneity, the coefficient of EP remains significantly negative at the 1% level ($\beta = -16.5969$, $z = -5.7840$), indicating that EP significantly inhibits firms' ESG performance. This finding further confirms the robustness of the baseline regression results. Meanwhile, the coefficients of first- and second-lagged ESG terms are both significantly positive, indicating that firms' ESG performance exhibits clear path dependence and dynamic persistence. Overall, the system GMM results further support *Hypothesis 1* and strengthen the credibility of the paper's core conclusion.

4.3.2 | Other Robustness Tests

4.3.2.1 | Alternative Measures of ESG Performance. This study assesses the robustness of the core findings through a series of multidimensional robustness tests. First, we decompose overall ESG performance into three sub-dimensions: environmental, social and governance. The results in Table 8 have shown that EP is significantly negatively associated with the social dimension ($\beta = -0.3707$, $p < 0.05$) and the governance dimension ($\beta = -0.5826$, $p < 0.01$). This suggests that the inhibitory effect of EP is mainly concentrated in ESG components that are more sensitive to managerial discretion and stakeholder relationships and are thus more vulnerable to short-term considerations. These findings are consistent with

theoretical expectations and further strengthen the internal logic of the proposed mechanism.

Second, to mitigate potential dependence on a specific ESG measure, we re-estimate the models using ESG ratings from three alternative and widely used data providers, following Su et al. (2024). When ESG performance is measured using the *Bloomberg rating* (ESG1), the coefficient of EP is -0.0730 ($p < 0.01$). When the *Wind rating* (ESG2) is used, the coefficient is -0.6099 ($p < 0.01$); and using the *SynTao Green Finance rating* (ESG3), the coefficient is -0.7218 ($p < 0.01$). Although these rating systems differ in scoring ranges and weighting schemes, the estimated sign and statistical significance of the core explanatory variable remain highly consistent. Taken together, these results indicate that the negative effect of EP on corporate ESG performance is not driven by any particular indicator or database, thereby underscoring the robustness and generalizability of the study's conclusions.

4.3.2.2 | Interaction Fixed Effects. Based on the baseline model, we further introduced *industry* $\times$ *year* and *province* $\times$ *year* fixed effects to enhance the robustness of the baseline regression results. First, we introduced the *industry* $\times$ *year* fixed effect to absorb industry-specific common trends over time, such as cyclical policy shocks or the heterogeneous effects of technological changes on ESG investments across industries. After adding these fixed effects, column (1) of Table 9 shows that the coefficient of EP is -0.4141 and is significant at the 1% level. Second, we introduced the *province* $\times$ *year* fixed effect to control for time-varying factors,

TABLE 7 | Endogeneity analysis regression results.

Variables	2SLS		System GMM
	(1) First stage	(2) Second stage	(3)
	EP	ESG _{t+1}	ESG
EP_Peer	0.5383*** (20.5623)		
Loss_ratio_pct	0.0002*** (3.4393)		
EP		−0.9762** (−2.0255)	−16.5969*** (−5.7840)
Size	−0.0034*** (−8.5085)	0.1989*** (25.9059)	−0.1234* (−1.8521)
Lev	−0.0695*** (−22.1130)	−0.5297*** (−8.1286)	−1.2325*** (−4.7995)
ROA	−0.8196*** (−63.5634)	0.7136 (1.5992)	−18.3715*** (−5.9852)
Liquid	0.0004* (1.7011)	0.0203*** (5.0179)	0.0045 (0.3281)
Tang	−0.0039 (−1.4473)	0.0217 (0.3892)	0.3013 (1.1594)
TOP10	0.0001*** (3.4926)	0.0022*** (4.3178)	−0.0069** (−2.5055)
Balance	0.0029** (2.3312)	−0.0378 (−1.5900)	−0.0385 (−0.3277)
TobinQ	0.0086*** (17.9262)	−0.0289*** (−3.7547)	0.0125 (0.7878)
ListAge	−0.0025*** (−3.8345)	−0.0996*** (−7.8357)	0.5230*** (3.3083)
TMTPay	0.0059*** (9.2742)	0.0732*** (5.8970)	0.1783*** (3.5443)
Female	0.0002*** (5.5520)	−0.0034*** (−5.1767)	0.0015 (0.5340)
OverseaBack	0.0005 (0.6800)	−0.0001 (−0.0100)	−0.0063 (−0.1674)
RDIncome	−0.0180 (−1.4139)	0.1271 (0.9625)	1.0542 (1.5705)
HHI	−0.0053* (−1.8547)	−0.4977*** (−7.5379)	−0.0450 (−0.1694)
ESG _{t+1}			0.7835*** (17.1722)
ESG _{t+2}			0.2030*** (9.0282)
Constant	0.0269*** (2.6898)	1.8789*** (10.6253)	
Ind FE	YES	YES	YES
Year FE	YES	YES	YES
Kleibergen-Paap rk LM statistic	166.459[0.0001]		
Cragg–Donald Wald <i>F</i> statistic	631.992		
<i>N</i>	22,314	22,314	14,644
Adjusted <i>R</i> ²	0.5593	0.1424	

*, **, *** Indicate significance at 10%, 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

such as local regional economic conditions, regulatory intensity, and development priorities, that may affect firms' ESG decisions within the given province. After adding these fixed effects, column (2) of Table 9 shows that the coefficient of EP is −0.3828 and remains significant at the 1% level.

4.3.2.3 | Clustering Standard Errors at the Firm Level. Because observations for the same enterprise across different years in panel data may exhibit serial correlation, ignoring within-firm correlation may lead to underestimated standard errors and thus affect the reliability of statistical inference. To address this issue, we cluster standard errors at the firm level. Column (3) of Table 9 shows that, after firm-level clustering, the coefficient of EP is −0.4072 and is significant at

the 5% level. This confirms that the inhibitory effect of EP on ESG is robust.

4.3.2.4 | Additional Control Variables to Reduce Omitted Variable Bias. Following prior literature (Li et al. 2024; Meng and Cheng 2025; Xu, Ding, and Ahmed 2026), we further include a set of corporate governance variables in the baseline regression model, including *board size* (Board), *loss status* (Loss), *proportion of independent directors* (Indep), *CEO-chair duality* (Dual), *institutional ownership* (Inst), and *managerial shareholding* (Mshare). These variables capture key factors that may influence ESG resource allocation decisions from the perspectives of monitoring mechanisms, financial pressure, ownership structure, and internal incentives. The results in Column

TABLE 8 | Robustness check regression results 1.

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	E_{t+1}	S_{t+1}	G_{t+1}	$ESG1_{t+1}$	$ESG2_{t+1}$	$ESG3_{t+1}$
EP	−0.1643 (−1.3023)	−0.3707** (−2.5614)	−0.5826*** (−2.9829)	−0.0730*** (−5.3805)	−0.6099*** (−2.6146)	−0.7218*** (−5.3028)
Size	0.1322*** (16.1565)	0.1986*** (25.4048)	0.1584*** (16.4639)	0.0134*** (20.0220)	0.1362*** (9.5966)	0.1092*** (11.5319)
Lev	0.2258*** (3.8603)	−0.4736*** (−8.2859)	−1.2842*** (−18.3459)	−0.0044 (−0.8464)	0.1701* (1.6683)	−0.2918*** (−4.2131)
ROA	0.1901 (1.1019)	1.2655*** (6.7985)	1.4177*** (5.8896)	−0.0363** (−2.1833)	−0.0550 (−0.1868)	−0.2794 (−1.4748)
Liquid	−0.0075** (−2.1242)	0.0198*** (5.0515)	0.0523*** (10.7336)	−0.0007* (−1.8711)	0.0173** (2.0551)	0.0084 (1.6098)
Tang	−0.0931 (−1.5637)	0.0142 (0.2495)	0.3438*** (5.1150)	−0.0122** (−2.4372)	0.1094 (1.0272)	−0.0391 (−0.5686)
TOP10	0.0005 (0.9374)	0.0022*** (4.1312)	0.0082*** (12.8084)	0.0006*** (12.2254)	0.0086*** (9.2531)	0.0037*** (5.8660)
Balance	0.0553** (2.1287)	−0.0341 (−1.4181)	−0.1898*** (−6.5060)	0.0196*** (8.8478)	0.0630 (1.4500)	0.0704** (2.4899)
TobinQ	−0.0553*** (−8.8895)	−0.0319*** (−5.0929)	−0.0144* (−1.8490)	−0.0008 (−1.5099)	−0.0039 (−0.3882)	0.0070 (0.9758)
ListAge	0.1327*** (9.8179)	−0.1000*** (−7.7065)	−0.0408*** (−2.6486)	0.0057*** (4.4262)	0.0895*** (3.8248)	−0.0620*** (−4.1352)
TMTPay	0.0694*** (5.2538)	0.0726*** (5.9130)	0.0382*** (2.5926)	0.0145*** (13.0381)	0.1652*** (7.8478)	0.1205*** (8.2987)
Female	−0.0019*** (−2.6283)	−0.0036*** (−5.3678)	−0.0024*** (−2.9229)	−0.0000 (−0.3860)	0.0037*** (3.3008)	0.0006 (0.8998)
OverseaBack	0.0460*** (2.8868)	0.0007 (0.0477)	−0.0283 (−1.5966)	0.0096*** (7.8034)	0.1488*** (4.4469)	0.0522*** (2.8510)
RDincome	−0.6638*** (−4.5546)	0.1404 (1.1592)	0.7255*** (4.6372)	0.0156 (1.5179)	0.3604** (2.4331)	1.1693*** (3.5340)
HHI	−0.6171*** (−9.7776)	−0.4918*** (−7.3890)	0.0293 (0.3588)	0.0131** (2.3097)	0.0392 (0.3307)	0.0012 (0.0126)
Constant	−0.3188* (−1.6819)	1.9867*** (11.6731)	3.7331*** (18.1994)	−0.1010*** (−6.2462)	0.6202* (1.9599)	3.3166*** (15.7196)
Ind FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
N	22,314	22,314	22,314	9363	6049	8974
Adjusted R ²	0.1651	0.1461	0.1863	0.5971	0.1823	0.1869

*, **, *** Indicate significance at 10%, 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

TABLE 9 | Robustness check regression results 2.

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}
EP	−0.4141*** (−2.8628)	−0.3828*** (−2.6316)	−0.4072** (−1.9619)	−0.3292** (−2.2103)	−0.3534*** (−2.6633)	−0.2728* (−1.8694)
Size	0.2036*** (26.0422)	0.2047*** (26.3298)	0.2009*** (13.9387)	0.1890*** (23.7417)	0.1898*** (27.4582)	0.1949*** (24.9469)
Lev	−0.5040*** (−8.8709)	−0.4768*** (−8.4181)	−0.4868*** (−5.2879)	−0.5393*** (−9.4719)	−0.4624*** (−9.1579)	−0.5121*** (−9.0288)
ROA	1.2582*** (6.6884)	1.2135*** (6.5213)	1.2194*** (4.4222)	0.7258*** (3.6323)	1.2524*** (7.5008)	1.3452*** (7.1924)
Liquid	0.0185*** (4.7448)	0.0210*** (5.5344)	0.0200*** (3.4913)	0.0186*** (4.8810)	0.0160*** (4.5935)	0.0170*** (4.3729)
Tang	0.0217 (0.3824)	0.0674 (1.1884)	0.0236 (0.2228)	0.0768 (1.3363)	0.0074 (0.1468)	0.0102 (0.1785)
TOP10	0.0021*** (3.9971)	0.0019*** (3.5599)	0.0022** (2.2424)	−0.0026*** (−3.1798)	0.0020*** (4.2996)	0.0017*** (3.1028)
Balance	−0.0413* (−1.7286)	−0.0368 (−1.5378)	−0.0396 (−0.8915)	−0.0439* (−1.8174)	−0.0392* (−1.8516)	−0.0248 (−1.0209)
TobinQ	−0.0370*** (−5.7434)	−0.0307*** (−4.9660)	−0.0343*** (−3.7608)	−0.0346*** (−5.4555)	−0.0391*** (−7.1494)	−0.0330*** (−5.3466)
ListAge	−0.0984*** (−7.6108)	−0.0829*** (−6.4346)	−0.0978*** (−4.1260)	−0.0844*** (−6.0007)	−0.1058*** (−9.2273)	−0.1320*** (−9.8163)
TMTPay	0.0673*** (5.5516)	0.0652*** (5.2137)	0.0694*** (3.2556)	0.0728*** (5.9664)	0.0687*** (6.3483)	0.0749*** (6.0928)
Female	−0.0034*** (−5.1024)	−0.0038*** (−5.7050)	−0.0035*** (−3.0335)	−0.0038*** (−5.6082)	−0.0037*** (−6.1585)	−0.0027*** (−3.9761)
OverseaBack	−0.0021 (−0.1440)	−0.0104 (−0.7037)	−0.0002 (−0.0096)	−0.0115 (−0.7778)	0.0002 (0.0134)	−0.0014 (−0.0920)
RDincome	0.1670 (1.3409)	0.0794 (0.6585)	0.1421 (0.7347)	0.0815 (0.6899)	0.1392 (1.2921)	0.1290 (1.0826)
HHI	−0.5118*** (−6.8755)	−0.4992*** (−7.5423)	−0.4950*** (−4.4125)	−0.5012*** (−7.5239)	−0.4468*** (−7.3010)	−0.4746*** (−7.1776)
Board				0.2369*** (5.3828)		
Loss				−0.1257*** (−3.8938)		
Indep				0.0199*** (13.4258)		

(Continues)

TABLE 9 | (Continued)

Variables	(1) ESG _{t+1}	(2) ESG _{t+1}	(3) ESG _{t+1}	(4) ESG _{t+1}	(5) ESG _{t+1}	(6) ESG _{t+1}
Dual				−0.0675*** (−4.2440)		
Inst				0.0042*** (6.6629)		
Mshare				0.0066*** (8.8933)		
IMR					0.5955*** (79.9029)	
Policy						0.2351*** (9.6646)
Constant	2.0690*** (12.2171)	2.0436*** (11.7413)	2.0395*** (6.7921)	0.8767*** (4.2180)	2.1656*** (14.4468)	2.0593*** (12.0571)
Ind FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Ind × Year FE	YES	NO	NO	NO	NO	NO
Pro × Year FE	NO	YES	NO	NO	NO	NO
N	22,310	22,311	22,314	21,676	22,314	21,824
Adjusted R ²	0.1402	0.1519	0.1405	0.1516	0.3163	0.1428

*, **, *** Indicate significance at 10%, 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

(4) of Table 9 show that after controlling for these variables, the coefficient of EP is −0.3292 and is significant at the 5% level. This result indicates that the inhibitory effect of EP on ESG performance is not driven by the omission of relevant governance variables, further supporting the robustness of the baseline regression results.

4.3.2.5 | Heckman Two-Stage Method. Corporates may face varying levels of EP, and their ESG resource allocation decisions may also involve systematic self-selection. For example, firms with better ESG performance may operate in different earnings-pressure environments. To alleviate the resulting sample selection bias, we employ a Heckman two-stage model.

In the first stage, we estimate a Probit selection model. The dependent variable is an indicator for whether a firm is a high-level ESG discloser, which equals 1 if the firm's ESG score is above the industry median in the current year and 0 otherwise. To satisfy the identification requirement, we use the *industry-average ESG level* as an exclusion restriction. This variable reflects the industry's overall sustainability climate and regulatory pressure, which may affect a firm's propensity to disclose high-level ESG information but, conditional on the disclosure level and other controls, should not directly affect the marginal relationship between EP and firm-level ESG performance. Based on the first-stage estimation, we compute the inverse Mills ratio (IMR).

In the second stage, we include IMR as an additional control variable in the baseline regression. The results reported in Column (5) of Table 9 show that after correcting for selection bias, the coefficient of EP is −0.3534 and remains significant at the 1% level. Meanwhile, the coefficient on the IMR is 0.5955 and is also significant at the 1% level, indicating the presence of sample self-selection. Overall, the core conclusion continues to hold after correcting for endogeneity induced by non-random sample selection, confirming that the negative effect of EP on ESG performance is robust.

4.3.2.6 | Excluding the Influence of ESG Disclosure Policy. In September 2018, the *China Securities Regulatory Commission*¹ issued the revised *Corporate Governance Guidelines for Listed Companies*, which explicitly encouraged listed firms to disclose environmental information and report on poverty alleviation and related matters (Krueger et al. 2024). This policy is widely viewed as a key starting point for China's ESG disclosure framework. To rule out the potential confounding effect of this policy shock, we add a policy control to the baseline model. Although the policy established a basic disclosure framework, it is essentially a non-mandatory, soft-guidance document that affects firms mainly through signalling and expectation guidance rather than through immediate and binding compliance requirements.

Because our mechanism focuses on how EP—as a market force—induces managerial myopia and thereby affects ESG resource

allocation, contemporaneous changes in the policy environment could provide an alternative explanation. Accordingly, we construct a policy dummy (*Policy*) by coding 2018 and later years as the post-policy period, and we further interact this time dummy with the state ownership indicator (*SOE*) to allow for heterogeneous policy effects across ownership types. By controlling this macro-institutional factor, we more cleanly isolate the independent economic effect of EP, ensuring that the observed changes in ESG performance are not driven by coincidence policy-induced convergence.

The results in Column (6) of Table 9 show that, after controlling the ESG disclosure policy, the coefficient of EP remains negative and is significant at the 10% level. This indicates that even after accounting for the post-2018 improvement in the ESG institutional environment, the inhibitory effect of EP on firm ESG performance remains robust, and the core conclusion is not driven by this potential confounder.

5 | Additional Tests and Further Analysis

5.1 | The Mechanism Test of Managerial Myopia

Based on our theoretical framework, we examine whether managerial myopia mediates the effect of EP on ESG performance. We employ two alternative measures to capture managerial myopia. Following prior studies (Liu et al. 2023; Lu et al. 2024; Sun et al. 2025), our primary measure is adapted from the English 'short-term perspective' lexicon developed by Brochet et al. (2015) and the text-analysis approach of Hu et al. (2021). Specifically, we construct a specialized dictionary of short-term-oriented language used in the MD&A sections of annual reports.

The construction procedure starts with an English short-termism vocabulary adapted to the Chinese context, including temporal words such as 'immediately' and 'short-term', as well as indicative words such as 'pressure' and 'assessment'. Using a Word2Vec *continuous bag-of-words* (CBOW) model trained on annual reports of Chinese listed firms, we then conduct semantic expansion and ultimately obtain 43 myopia-related terms (Ding, Jiang, et al. 2024), as reported in Appendix 1. *Myopia_1* is defined as the proportion of these terms relative to the total number of words in the MD&A section and is used to capture managers' inherent short-term orientation.

To enhance robustness of our results, we use an alternative measure proposed by Yu et al. (2024), denoted as *Myopia_2*. This measure captures the extent to which executives emphasize short-term performance in strategic communication. The measure is constructed as follows. First, following Yu et al. (2024), we select 12 seed words and phrases²—such as 'now', 'at this moment', 'current', 'at present' and 'recently'—to represent a present-oriented focus. Second, we construct a word vector space using the CBOW model in *Word2Vec*. We then identify candidate similar words with a word frequency greater than 1000 and a cosine similarity more than 30% with seed words. Third, we manually screen the candidate words generated by the model, to obtain a refined set of present-oriented terms. Finally, we apply this dictionary to the

MD&A text using a dictionary-based method and calculate the frequency of these terms to measure *Myopia_2*.

Table 10 reports the empirical results. Column (1) shows that EP has a significantly positive effect on *Myopia_1* ($\beta = 0.224$, $t = 2.31$, $p < 0.05$). Column (2) shows that EP also has a significantly positive effect on *Myopia_2* ($\beta = 0.186$, $t = 3.07$, $p < 0.01$). These findings are consistent with Brochet et al. (2015), who show that market pressure increases managerial short-termism. Thus, the results support Hypothesis 2. They are also consistent with our theoretical framework; under EP, managers tend to treat ESG investments as discretionary costs (He and Tian 2013). This evidence confirms that managerial myopia is a key channel through which EP weakens ESG performance.

For robustness, we use an alternative measure of managerial myopia, *Myopia_2* from Yu et al. (2024). This measure captures executives' emphasis on short-term performance in strategic communications. Column (1) of Table 10 shows that EP has a positive and significant effect on *Myopia_1* ($\beta = 0.224$, $t = 2.31$, $p < 0.05$). Column (2) shows that EP also has a positive and significant effect on *Myopia_2* ($\beta = 0.186$, $t = 3.07$, $p < 0.01$). This consists of Brochet et al. (2015), who show that market pressures increase managerial short-termism. Therefore, the results support Hypothesis 2. Consistent with our theoretical framework, managers under EP tend to treat ESG investments as discretionary costs (He and Tian 2013). This finding confirms that managerial myopia is a key pathway through which EP impairs ESG performance.

5.2 | The Moderating Role of ESOPs

5.2.1 | Baseline Moderating Effect of ESOPs

Building on our framework that integrates agency theory and resource orchestration theory, we argue that ESOPs mitigate the negative impact of EP on ESG performance by aligning incentives and reshaping resource allocation. From an agency perspective, ESOPs link the wealth of employees and managers to long-term firm value, thereby reducing their incentive to sacrifice ESG investment for short-term earnings (Jensen and Meckling 1976). This argument aligns with Zhou et al. (2022), who showed ESOPs improve CSR through psychological ownership in China. From a resource orchestration view, ESOPs change internal power dynamics and enable employee-owners to support long-term ESG decisions, even when managers face pressure to make myopic cuts (Sirmon et al. 2011).

To test this moderating effect, we use an ESOP dummy variable that equals 1 if a firm has an active ESOP in a given year and 0 otherwise. The data are obtained from RESSET and verified using the *Wind Financial Terminal*. We add the interaction term EP × ESOP to the model. The coefficient on EP × ESOP is positive and significant at the 1% level in columns (1) and (2) of Table 11, indicating that ESOPs weaken the negative relationship between EP and ESG performance. These results support Hypothesis 3. It is also consistent with Kong et al. (2025), who show that ESOPs reduce managerial myopia through improved governance. Specifically, ESOPs reduce the negative effect of

TABLE 10 | The results of the mechanism test of managerial myopia.

Variables	(1)	(2)
	Myopia_1	Myopia_2
EP	0.0125** (2.5460)	0.0292** (2.4569)
Size	−0.0008*** (−2.8022)	−0.0013** (−2.1441)
Lev	−0.0028 (−1.4423)	−0.0397*** (−9.5568)
ROA	−0.0202*** (−3.2456)	0.1333*** (8.0635)
Liquid	−0.0000 (−0.0352)	0.0019*** (3.8315)
Tang	0.0202*** (9.7086)	−0.0602*** (−14.5667)
TOP10	0.0000** (2.3514)	0.0001** (2.3513)
Balance	−0.0037*** (−4.5090)	−0.0024 (−1.2778)
TobinQ	−0.0005** (−2.1644)	0.0004 (0.5652)
ListAge	0.0071*** (15.5056)	0.0023** (2.1593)
TMTPay	−0.0009** (−2.1656)	−0.0003 (−0.2382)
Female	−0.0000** (−2.1548)	0.0001 (1.3839)
OverseaBack	−0.0022*** (−4.0664)	−0.0017 (−1.4381)
RDIncome	−0.0112*** (−2.5856)	0.0391*** (2.7305)
HHI	−0.0052** (−2.2399)	−0.0026 (−0.5394)
Constant	0.0454*** (7.6928)	0.0509*** (3.4975)
Ind FE	YES	YES
Year FE	YES	YES
N	22,210	22,314
Adjusted R ²	0.1111	0.0888

***, ** Indicate significance at 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

TABLE 11 | The results of the baseline moderating effect of ESOPs.

Variables	(1)	(2)
	ESG _{<i>t</i>+1}	ESG _{<i>t</i>+1}
EP×ESOPs	0.8048*** (3.0420)	0.5502** (2.1258)
EP	−2.1865*** (−15.7703)	−0.5598*** (−2.9803)
ESOPs	−0.0968*** (−3.7699)	−0.1234*** (−4.9436)
Size		0.2362*** (24.7799)
Lev		−0.5525*** (−7.7556)
ROA		1.1783*** (5.2777)
Liquid		0.0282*** (4.8991)
Tang		−0.0151 (−0.2172)
TOP10		0.0021*** (3.3392)
Balance		−0.0398 (−1.3339)
TobinQ		−0.0321*** (−4.3163)
ListAge		−0.0630*** (−3.4471)
TMTPay		0.0616*** (4.1272)
Female		−0.0028*** (−3.3837)
OverseaBack		0.0090 (0.4846)
RDIncome		0.1974 (0.9171)
HHI		−0.5533*** (−6.6018)
Constant	4.3159*** (398.7709)	1.8123*** (8.6172)
Ind FE	YES	YES

(Continues)

TABLE 12 | The results of moderating effects of ESOP contractual design.

	(1) High	(2) Low	(3) High	(4) Low	(5) Conditional	(6) Unconditional
Variables	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}	ESG _{t+1}
EP	0.9151 (1.2479)	−0.5143*** (−2.9118)	0.5623 (0.6499)	−0.4863*** (−2.7664)	−0.9850 (−0.9488)	−0.4162** (−2.3737)
Size	0.2682*** (6.2365)	0.2317*** (23.5695)	0.2499*** (5.4437)	0.2325*** (23.7630)	0.3418*** (5.0168)	0.2317*** (24.0101)
Lev	−0.4740 (−1.4180)	−0.5525*** (−7.5590)	−0.5554 (−1.5820)	−0.5435*** (−7.4529)	−0.9619 (−1.5846)	−0.5434*** (−7.5593)
ROA	1.8003* (1.8317)	1.1195*** (4.8736)	1.5759 (1.4230)	1.1469*** (5.0148)	0.4039 (0.2543)	1.2164*** (5.3781)
Liquid	0.0282 (1.0421)	0.0290*** (4.8979)	0.0148 (0.5989)	0.0297*** (5.0239)	0.0336 (0.7202)	0.0289*** (4.9887)
Tang	0.0774 (0.2397)	0.0034 (0.0477)	−0.1052 (−0.3038)	0.0125 (0.1776)	−0.1379 (−0.2580)	0.0022 (0.0315)
TOP10	0.0026 (0.7851)	0.0023*** (3.5862)	0.0030 (0.8393)	0.0023*** (3.5219)	0.0087 (1.5795)	0.0022*** (3.4048)
Balance	0.0415 (0.3313)	−0.0514* (−1.6679)	0.1331 (0.9615)	−0.0535* (−1.7487)	0.3891 (1.6037)	−0.0583* (−1.9357)
TobinQ	−0.0333 (−1.1282)	−0.0326*** (−4.2399)	−0.0345 (−1.0607)	−0.0328*** (−4.2986)	−0.0572 (−1.1713)	−0.0316*** (−4.2022)
ListAge	−0.1148 (−1.4498)	−0.0528*** (−2.7883)	−0.1579* (−1.8565)	−0.0516*** (−2.7352)	−0.0213 (−0.1537)	−0.0619*** (−3.3546)
TMTPay	0.0845 (1.2965)	0.0597*** (3.8708)	0.1011 (1.4152)	0.0597*** (3.8891)	0.0009 (0.0084)	0.0638*** (4.2138)
Female	−0.0076** (−2.2504)	−0.0026*** (−3.0229)	−0.0064* (−1.7911)	−0.0026*** (−3.1383)	−0.0066 (−1.1658)	−0.0028*** (−3.4166)
OverseaBack	0.1134 (1.3655)	−0.0000 (−0.0021)	0.1633* (1.8577)	−0.0011 (−0.0557)	0.2335 (1.2825)	0.0035 (0.1902)
RDincome	0.2944 (0.4630)	0.1765 (0.7705)	0.1099 (0.1554)	0.1996 (0.8764)	1.3522 (1.6217)	0.1320 (0.5953)
HHI	0.0693 (0.1963)	−0.5577*** (−6.4417)	0.2473 (0.6507)	−0.5620*** (−6.5489)	0.0595 (0.0998)	−0.5605*** (−6.5756)
Constant	1.0217 (1.1787)	1.8261*** (8.3783)	1.0131 (1.0743)	1.8128*** (8.3581)	1.2320 (0.8792)	1.7917*** (8.3797)
Ind FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
N	984	14,675	875	14,784	384	15,273
Adjusted R ²	0.1314	0.1505	0.1265	0.1511	0.1563	0.1502

*, **, *** Indicate significance at 10%, 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

TABLE 13 | Regression results in declining long-term capital attractiveness.

Variables	(1)	(2)
	Shareholdings _{t+2}	Shareholdings _{t+2}
EP × ESG _{t+1}	−11.7374*** (−6.8151)	−8.0627*** (−4.9769)
EP	22.6229*** (3.3004)	17.5073*** (2.6388)
ESG _{t+1}	2.2552*** (12.1313)	1.0524*** (5.8578)
Size		2.1116*** (11.0736)
Lev		−2.0629 (−1.5829)
ROA		−17.4511*** (−4.3624)
Liquid		0.0005 (0.0057)
Tang		6.3418*** (4.5791)
TOP10		0.3899*** (30.7954)
Balance		−3.4948*** (−6.4443)
TobinQ		0.3140** (2.1091)
ListAge		8.4834*** (24.4841)
TMTPay		1.0456*** (3.6854)
Female		−0.0345** (−2.3314)
OverseaBack		0.2461 (0.7220)
RDincome		−3.8781 (−1.2488)
HHI		−1.4766 (−0.7961)
Constant	8.6548*** (10.8317)	−59.6414*** (−15.1419)

(Continues)

TABLE 13 | (Continued)

Variables	(1)	(2)
	Shareholdings _{t+2}	Shareholdings _{t+2}
Ind FE	YES	YES
Year FE	YES	YES
N	17,807	17,807
Adjusted R ²	0.1069	0.2122

, * Indicate significance at 5% and 1% levels respectively. The values in parentheses are the *t*-values.

to obscure the underlying source of improved short-term performance. Financial restatements can therefore serve as a mechanism for diverting attention from strategic decisions to curtail ESG spending, thereby masking the potential long-term consequences of such myopic actions.

This behaviour is consistent with the concept of ‘symbolic compliance’ in the ESG literature (Velte, 2023), whereby firms seek to manage external perceptions through disclosure strategies rather than substantive performance improvements. Real-world cases, such as firms being excluded from major sustainability indices because of inadequate ESG performance or disclosure failures, underscore the capital market relevance of ESG and the reputational damage associated with perceived underperformance. To avoid such outcomes and preserve stock price stability and financing capacity, managers may be more likely to issue subsequent financial restatements.

Following Zhang and Gong (2018), we define *Restate* as a binary variable equal to 1 if a firm issues a financial statement restatement in a given year and 0 otherwise. The results in Table 14 show that the interaction term $EP \times ESG$ is negative and significant at the 5% level. This finding supports the inference that firms under EP not only reduce ESG investments but also exhibit a greater propensity for financial restatements, likely as a tactic to obscure the strategic implications and potential market backlash associated with ESG divestment. This result is consistent with Ren et al. (2022), who document a positive association between missed analyst forecasts and corporate fraud, and extends their evidence to the context of ESG-related strategic trade-offs.

5.4 | Heterogeneity Results Analysis

To further examine the boundary conditions of the effect of EP on corporate ESG performance, this study conducts heterogeneity analyses along three dimensions: industry environmental characteristics, information transparency, and executive incentive structures. We acknowledge potential endogeneity concerns related to certain grouping variables, such as information transparency and executive pay-performance sensitivity, which may themselves be influenced by ESG performance or EP (Bertrand and Mullainathan 2003). Accordingly, the following results should be interpreted as correlational

TABLE 14 | Regression results of financial restatement.

Variables	(1)	(2)
	Restate _{t+1}	Restate _{t+1}
EP×ESG	−0.0798** (−2.5165)	−0.0723** (−2.2808)
EP	0.5135*** (3.9487)	0.3926*** (2.9291)
ESG	−0.0217*** (−8.4086)	−0.0176*** (−6.6031)
Size		−0.0028 (−1.1294)
Lev		0.1077*** (5.5810)
ROA		−0.1200** (−2.0072)
Liquid		−0.0002 (−0.1863)
Tang		−0.0319* (−1.6957)
TOP10		−0.0007*** (−3.8900)
Balance		0.0074 (0.9395)
TobinQ		−0.0029 (−1.4800)
ListAge		0.0013 (0.3075)
TMTPay		−0.0168*** (−4.1637)
Female		0.0001 (0.2773)
OverseaBack		0.0008 (0.1511)
RDincome		−0.0738** (−2.0709)
HHI		−0.0287 (−1.3816)
Constant	0.2112*** (18.1066)	0.4755*** (8.5710)
Ind FE	YES	YES

(Continues)

TABLE 14 | (Continued)

Variables	(1)	(2)
	Restate _{t+1}	Restate _{t+1}
Year FE	YES	YES
N	22,314	22,314
Adjusted R ²	0.0282	0.0346

*, **, *** Indicate significance at 10%, 5%, and 1% levels respectively. The values in parentheses are the *t*-values.

associations rather than strict causal inferences. Nevertheless, this limitation does not preclude the identification of theoretically meaningful and practically relevant heterogeneous patterns.

5.4.1 | Heterogeneity of Heavy Polluting Industries

Following the *Environmental Verification Industry Classification List* issued by China's Ministry of Environmental Protection, we divide the sample into heavy polluting and non-heavy polluting industries for subgroup regressions. Results in Table 15 show that in heavy-polluting industries, the coefficient for *EP* is −1.0035 and significant at the 1% level, whereas in non-heavy polluting industries, the coefficient is negative but statistically insignificant. This disparity likely reflects the stricter environmental regulations and stronger stakeholder monitoring pressures faced by heavy polluters (Wang et al. 2023). When confronted with analyst earnings expectations, managers in heavy-polluting industries exhibit a typical resource-orchestration realignment: under finite resource constraints, they tend to reclassify ESG investment from 'strategic investments' to 'reducible costs', cutting environmental expenditures to meet short-term profit targets and mitigate the capital market penalties and reputational risks associated with earnings shortfalls. This finding consistent with resource orchestration theory, which emphasizes how environmental uncertainty shapes resource allocation priorities (Sirmon et al. 2011), and provides empirical support for differentiated environmental regulatory policies under China's 'Dual Carbon' goals.

5.4.2 | Heterogeneity of Corporate Information Transparency

From an institutional theory perspective, this study integrates legitimacy mechanisms and external supervisory pressure to explain why firms with high information transparency experience a stronger negative impact from *EP* on ESG performance. As shown in Table 16, the coefficient of *EP* is significantly negative at the 1% level in the high-transparency subsample, whereas it is statistically insignificant in the low-transparency subsample. This finding suggests that greater transparency, while strengthening external supervision, may paradoxically intensify short-term-oriented behaviours and deepen the legitimacy paradox faced by firms.

First, institutional theory posits that highly transparent firms face stricter external oversight and stronger institutional

pressures (Huang and Chen 2022; Yang et al. 2023). Analysts and investors can more readily monitor their operations and ESG investments (Liu, Jin, et al. 2024; Park et al. 2025). Consequently, any failure to meet profit expectations is quickly interpreted by the market as a negative signal of managerial incompetence or strategic errors, directly threatening organizational legitimacy. To preserve market reputation and legitimacy under EP, managers may engage in more extensive resource reallocation, prioritizing reductions in highly visible ESG investments with long payback periods to rapidly meet short-term financial targets. This behaviour reflects symbolic compliance under institutional pressure, whereby firms sacrifice substantive long-term investments to maintain the appearance of short-term financial health amid external scrutiny.

Second, this finding engages with and complements agency theory. In high-transparency settings, although information asymmetry is reduced, managers face heightened performance pressure and accountability risks. Agency conflicts therefore shift from exploiting hidden information for private gain to publicly conforming to short-term market expectations (Galleli and Amaral 2026; Ingram et al. 2025; Xin et al. 2024). Thus, high transparency does not eliminate agency problems; rather, it changes the context in which they arise. Consistent with the loss-aversion logic of behavioural agency theory, managers may seek to avoid severe reputational damage from missing performance targets, thereby strengthening their short-term incentives to cut ESG investment under institutional oversight.

5.4.3 | Heterogeneity of Executive Pay-Performance Sensitivity

Following the measurement approach of Xu and Duan (2023), we construct a dummy variable to distinguish between subsamples of firms with executive pay-performance sensitivity above and below the industry median. Column (1) of Table 17 shows that the coefficient on EP is significantly negative at the 5% level in the high-sensitivity group, whereas it is statistically insignificant in the low-sensitivity group. This pattern suggests that when executive compensation is closely tied to short-term financial performance, structural biases in incentive mechanisms reinforce managerial myopia (Zhang and Gong 2018). Under analyst EP, executives in such firms are more likely to reduce ESG investment to maintain compensation levels, reflecting a typical agency problem in the context of sustainable development. This finding has important implications for current debates on executive incentive reform, suggesting that regulators and firms should promote the inclusion of ESG-related metrics in executive performance evaluation systems to mitigate myopic incentives embedded in compensation contract design.

6 | Conclusion and Implications

6.1 | Conclusion

This study provides compelling evidence that EP constitutes a significant impediment to corporate ESG performance, while also identifying ESOPs as an effective governance mechanism

TABLE 17 | Heterogeneity results on executive pay-performance sensitivity.

Variables	(1) High	(2) Low
	ESG _{t+1}	ESG _{t+1}
EP	−0.5398** (−2.4978)	−0.1131 (−0.4703)
Size	0.2292*** (19.5917)	0.1659*** (13.4236)
Lev	−0.6126*** (−7.2606)	−0.3287*** (−3.6556)
ROA	0.8521*** (2.9771)	1.6973*** (5.8170)
Liquid	0.0176*** (2.5923)	0.0247*** (4.6426)
Tang	−0.0081 (−0.0966)	0.0852 (0.9469)
TOP10	−0.0019** (−2.3543)	0.0039*** (4.8185)
Balance	−0.0086 (−0.2355)	−0.0788** (−2.1493)
TobinQ	−0.0263*** (−2.5829)	−0.0428*** (−4.8076)
ListAge	−0.1611*** (−8.0054)	−0.0274 (−1.3535)
TMTPay	0.0856*** (4.5917)	0.0316* (1.7163)
Female	−0.0026** (−2.3802)	−0.0041*** (−4.2117)
OverseaBack	0.0152 (0.6940)	−0.0030 (−0.1410)
RDincome	0.1236 (0.3689)	0.1924 (0.8124)
HHI	−0.6686*** (−6.0105)	−0.4673*** (−4.6522)
Constant	1.9760*** (7.6020)	2.5598*** (10.0397)
Ind FE	YES	YES
Year FE	YES	YES
N	9231	9788
Adjusted R ²	0.1481	0.1334

*** ** * Indicate significance at 5% and 1% levels respectively. The values in parentheses are the *t*-values.

for mitigating this negative relationship. Our findings show that EP systematically undermines ESG investment by reinforcing managerial short-termism through two channels: resource misallocation and agency conflicts. However, this relationship is significantly moderated by well-designed ESOPs which align managerial incentives with long-term organizational objectives. The consistency of our findings with mainstream literature reinforces the validity of the core theoretical frameworks, while apparent inconsistencies refine the applicable boundary conditions of these theories. In particular, our results highlight institutional context as a critical moderating factor that shapes both the direction and intensity of EP's effects. Accordingly, this study not only verifies existing theory but also offers a meaningful theoretical refinement.

6.2 | Theoretical Implications

This research makes several substantive theoretical contributions. First, by introducing EP as a key determinant operating through capital market channels into research on the antecedents of ESG performance, we extend the existing understanding of firms' sustainability behaviour. Whereas prior studies have predominantly focused on institutional, stakeholder, and internal organizational factors (Delmas and Toffel 2011; Dyck et al. 2019), this study shows how external performance expectations can induce managerial myopia in sustainability investment.

Second, we advance resource orchestration theory by showing how EP disrupts the strategic resource allocation process oriented toward long-term value creation, particularly in sustainability domains characterized by extended payback periods (Sirmon et al. 2011). Our empirical findings indicate that EP induces managers to reclassify ESG expenditures from 'strategic investments' to 'reducible discretionary costs', thereby enriching theoretical understanding of resource allocation dynamics under performance constraints.

Third, this study contributes to agency theory by elucidating the mechanism through which ESOPs mitigate principal-agent conflicts in sustainability investment (Jensen and Meckling 1976). Our findings show that ESOPs serve as an effective ex-ante interest-alignment mechanism by linking managerial and employee wealth to long-term firm value, thereby suppressing incentives for myopic decision-making. This extends theoretical understanding of how internal governance mechanisms can counteract external market pressures.

Finally, through heterogeneity analysis, we examine the boundary conditions and reveal its differentiated manifestations of EP across firm types and institutional contexts, particularly within China's distinctive regulatory environment and under the national 'Dual Carbon' policy goals. This provides novel theoretical insights into how institutional contexts moderate resource orchestration processes and agency relationships.

6.3 | Practical Implications

The theoretical findings of this study offer clear and actionable practical guidance for relevant stakeholders. First, firms should

systematically optimize ESOPs design by explicitly incorporating specific ESG performance indicators—such as *carbon intensity reduction rates* and *green R&D investment ratios*—into vesting conditions and by appropriately extending lock-up periods to 3–5 years to strengthen long-term incentive orientation. Boards of directors should promote the adoption of balanced scorecards that integrate financial and sustainability dimensions, reduce the weight assigned to short-term profitability indicators in performance evaluations, and guide resource allocation toward ESG initiatives with long-term value creation potential.

Second, we suggest that the China Securities Regulatory Commission (CSRC) consider mandating ESG compliance as a prerequisite for ESOP vesting in key polluting industries to curb the reduction of sustainability investment under EP. Environmental protection authorities, in coordination with tax agencies, could introduce differentiated tax incentive policies that provide income tax credits proportional to ESG investment maintained or increased by high-pollution enterprises facing EP, thereby creating positive policy guidance. Stock exchanges should further strengthen ESG disclosure requirements, enhance the readability and intertemporal comparability of environmental information, and curb opportunistic behaviour involving the concealment of actual sustainability performance through ambiguous disclosure.

Finally, institutional investors and rating agencies should incorporate the stability of corporate ESG investments during periods of EP into due diligence processes and ESG rating models. Downgrading firms with insufficient disclosure or excessive investment volatility would help establish a market-based monitoring and disciplinary mechanism.

6.4 | Limitations and Future Research

This study acknowledges several limitations and suggests directions for future research. First, although multiple EP ESG ratings were used for cross-validation and sub-dimensional analysis, reliance on third-party data limits the ability to fully capture the multidimensional nature and depth of firms' sustainability practices. Second, despite employing methods such as interaction fixed effects and Heckman two-stage models to address endogeneity concerns, observational studies cannot completely eliminate potential reverse causality between EP and ESG performance or biases arising from omitted variables. Third, the measurement of managerial short-term orientation, the core mediating variable, relied on two text analysis dictionaries for cross-validation. However, its validity remains constrained by the completeness of the dictionaries and the superficial nature of textual disclosures. Finally, findings based on China's A-share market should be generalized to other institutional contexts with caution.

Future research could pursue the following directions. First, experimental or qualitative methods could more directly examine the micro-psychological mechanisms through which EPEP triggers managerial loss aversion and cognitive biases. Second, comparative studies across countries or institutional settings could examine how regulatory intensity, market characteristics,

and other contextual factors shape the boundary conditions of these relationships. Third, analyses using detailed contract data could explore interactions among design features of governance mechanisms, such as employee stock ownership plans, and their heterogeneous incentive effects. Fourth, future studies could investigate how emerging technologies, including digital transformation and artificial intelligence, affect the relationship between financial pressure and sustainable investment.

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Disclosure

During the preparation of this work, the author(s) used GPT 5.5 in order to improve the readability and language of the manuscript. After using this tool/service, the author(s) reviewed and edited the content as needed and took full responsibility for the content of the published article. The AI command is followed: below is a paragraph from an academic paper. Polish the writing to meet the academic style, improve the spelling, grammar, clarity, concision, and overall readability. When necessary, rewrite the whole sentence. Furthermore, list all modifications and explain the reasons for doing so at the markdown table. Use a professional tone.

Data Availability Statement

The original contributions presented in the study are included in the article/Supporting Information; further inquiries can be directed to the corresponding authors. We have uploaded the data and coding in the supplementary file.

Endnotes

¹ Source: <http://www.csrc.gov.cn/csrc/c100028/c7577643/content.shtml>.

² All the words that represent the present include: 'now', 'at this moment', 'right now', 'recently', 'currently', 'at this stage', 'the current situation', 'the present state', 'in recent years', 'on that day', 'in the past few years', 'at this moment'.

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Supporting Information

Additional supporting information can be found online in the Supporting Information section. **Data S1:** Supporting Information.

Appendix 1: A Set of Indicators of Managerial Myopia

(1) Seed words

Source	Brochet et al. (2015); China Securities Regulatory Commission and Annual Report MD&A
Dictionary	Within a day, within a few months, within a year, as soon as possible, immediately, right away (direct expressions); opportunity, moment, pressure, test (indirect expressions) (a total of 10)

(2) Expand the vocabulary list

Source	The expansion and elimination of similar words in Word2Vec does not involve short-sighted domain-specific words (such as in the similar words of 'as soon as possible' mentioned above, words like 'all-out effort' and 'do one's best') nor does it eliminate words with noise in annual reports (such as in the similar words of 'within the day', words like '30 days' and '15 days' representing date statements)
Dictionary	Every day, within a few days, immediately, at once, shortly, at the latest, at the very end, at the critical moment, coinciding with, just as the time approaches, on the eve, when it happens, precisely at that time, difficulty, hardship, severe test, double pressure, inflationary pressure, etc. (a total of 33 items)