

# The Impact of Environmental Responsibility of Small and Medium-Sized Enterprises on Their Performance: The Regulatory Role of Action Ability

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**Abstract:** The Chinese economy is gradually entering the path of high-quality development, which requires promoting the coordinated progress of economic development and environmental protection. China has proposed the "dual carbon" goal, which is the strategic goal of achieving carbon peak by 2030 and carbon neutrality by 2060. This strategic goal indicates that China will adhere to the path of low-carbon, green, and high-quality development. As microeconomic entities, enterprises should not only serve as the main force of national economic development, but also take into account environmental responsibilities. Therefore, enterprises need to bear dual responsibilities and obligations for environmental protection and economy. Most research results in the literature indicate that fulfilling environmental responsibilities has a positive impact on corporate financial performance. For enterprises, the decision-making and problem-solving abilities of leaders have an impact on the integration of internal and external resources. In the process of resource integration, enterprises need to identify opportunities and threats, especially the ability to take action in the face of sustainable innovation, and whether it plays a moderating role in the dual responsibilities of environmental and economic responsibility. This article summarizes relevant literature on the current research status of corporate environmental responsibility, corporate financial performance, and action capability. It is found that corporate action capability does play a moderating role in corporate environmental responsibility and financial performance.

**Keywords:** Corporate Environmental

**Responsibility; Corporate Financial Performance; Enterprise Action Capability Sustainable Development; Small and Medium-sized Enterprises; Green Transformation**

## 1. Introduction

The United Nations' global development agenda integrates the Millennium Development Goals (MDGs) with the Sustainable Development Goals (SDGs), emphasizing the core concept of putting humanity and the planet at the center. In the process of globalization, the range of stakeholders faced by enterprises has expanded globally, and competition between enterprises is becoming increasingly fierce. Although some environmental responsibilities have not yet been legally constrained domestically, they have been elevated to the legal level in other countries. Law has national borders, but ethical responsibilities can transcend national borders, which helps companies better integrate into the international market. Following ethical standards is the fundamental rule of competition, and companies must first comply with competition rules in order to pursue international development. The current market environment has shifted from a seller's market to a buyer's market, and stakeholders' requirements for enterprises are constantly increasing. Their recognition is a prerequisite for enterprises to obtain international market access qualifications [1]. In the fiercely competitive and buyer's market environment, the goals of enterprise performance evaluation have undergone fundamental changes, gradually shifting from focusing on short-term performance to long-term performance that can reflect the market value of the enterprise [2]. Enterprises play a crucial role in socio-economic development, therefore, while seeking their own development, they must also

take responsibility for the ecological environment. According to the resource-based theory, the development of enterprises inevitably involves the utilization of various internal and external resources. In this process, enterprises often lead to the waste of a large amount of material resources, including various renewable and non-renewable resources. This development model has led to various types of pollution emissions, such as wastewater and exhaust gas. Therefore, various environmental responsibility behaviors of enterprises are crucial for environmental protection and sustainable human development. While pursuing economic growth, enterprises should seriously consider and implement environmental protection measures to ensure that their development not only conforms to economic interests, but also does not harm the sustainability of the environment.

## 2. Related Literature

### 2.1 Corporate Environmental Responsibility

For corporate environmental responsibility, we first need to define the three terms "enterprise", "environment", and "responsibility". Firstly, in daily life, we often confuse the concepts of enterprise and company. Enterprises, according to relevant explanations, refer to independent accounting economic units engaged in production, circulation, or service activities. They can also be classified into corporate enterprises and non-corporate enterprises. The second environment generally refers to all things related to human beings, which can be further divided into natural ecological environment and social environment of life. Ecological environment, such as our exposure to living places, including air, water, animals, and plants; The social environment refers to the material and spiritual conditions of human society. The selected research literature for this article is on ecological environmental responsibility. The third word 'responsibility' can refer to on-the-job duties, actively fulfilling the burden of proof, or fulfilling the obligation of breach of contract. We can usually view responsibility according to the composition of subjective elements, objective elements, and forms. The objective element is the obligation, the subjective element depends on whether there is a fault in the behavior, and the form refers to

the binding force, which can be the consequences of violating national laws and regulations.

The factors that affect corporate environmental responsibility can be mainly divided into two aspects: external factors and internal factors.

On the one hand, some viewpoints that support the influence of external factors on corporate environmental responsibility argue that companies are subject to legal pressure and regulatory systems in their host countries when fulfilling environmental responsibilities [3]. In some developing countries, environmental legal pressure and regulatory systems are relatively low, and companies usually only carry out environmental protection behaviors required by law, without actively assuming voluntary environmental responsibilities. In developed countries with high legal pressure and regulatory requirements, enterprises not only fulfill the environmental protection behaviors required by law, but also actively adopt voluntary environmental protection behaviors and assume corporate environmental responsibilities. Industry sensitivity can also affect companies' ability to fulfill environmental responsibilities. Industries with high environmental sensitivity encourage companies to be more proactive in fulfilling their environmental responsibilities, as these companies receive more social attention and their production activities may have a greater impact on the environment. Therefore, they need to be more proactive in fulfilling their environmental responsibilities to compensate for the damage to the environment [4].

On the other hand, from the perspective of internal factors of enterprises, the factors that affect the fulfillment of environmental responsibilities mainly include enterprise size, environmental values, Corporate strategy, management attitude, and corporate governance mechanisms [5]. In countries with less external environmental pressure and inadequate environmental laws and regulations, scholars believe that a company's strategic choices will affect its behavior in fulfilling environmental responsibilities. Enterprises with market-oriented corporate strategies are more inclined to proactively fulfill their environmental responsibilities. Internal factors include corporate culture, employee quality, and leaders' values. This enlightens us that in order to encourage enterprises to actively

fulfill their environmental responsibilities, it is not only necessary to strengthen policy guidance and public opinion supervision, but also to make enterprises realize that fulfilling environmental responsibilities helps to establish a good public image in the market, and in the long run, it also promotes the economic benefits of enterprises.

## 2.2 Enterprise Performance

There are differences in the evaluation criteria for corporate performance among scholars in different periods, but overall, scholars can classify the connotation of corporate performance into two categories. Firstly, elaborate from the perspective of the process, results, and the combination of process and results in achieving performance for enterprises. Ji, Y believes that corporate performance is an evaluation criterion for the strategic goals and organizational plans of a company, emphasizing that performance is both the result of the management process and the core of the company's production and operation [6]. Secondly, the connotation of corporate performance is defined from three aspects: management efficiency, operational efficiency, and adaptability to the external environment. Among them, enterprise management efficiency refers to the ability of an enterprise to produce tangible products for the market in society, while enterprise operational efficiency focuses on the ratio of production input to return, and the adaptability to the external environment emphasizes the degree to which the enterprise adapts to changing environments.

Enterprise performance can be measured through both financial and non-financial indicators, and is the unity of enterprise management process and management results. Given the research purpose, this article categorizes performance into economic performance and social performance, which is consistent with the classification criteria used by previous scholars to combine financial and non-financial indicators. Meanwhile, considering scholars' views, corporate performance is closely related to the adaptability of enterprises to the external environment, which is also an important reason why this study introduces action skills as a moderating variable in the relationship between environmental responsibility and

corporate performance.

## 2.3 Mobility

Enterprise action skills refer to the ability of an enterprise to adapt to and solve changes by continuously optimizing and rebuilding internal and external resources in a constantly changing external environment. Li, B. argue that the ability of a company to upgrade, transform, and expand its general capabilities is its action skill [7]. The judgment and decision-making abilities of leaders are considered to have a significant impact on the development of corporate action skills. Regardless of the speed of external environmental changes, enterprises have the ability to adjust, change, and reconstruct internal and external resources. Therefore, enterprises are born with certain action skills. Li, Y pointed out that when facing the risks that may arise from market changes, enterprises should incorporate action skills into organizational practices and resist potential losses by allocating internal and external resources reasonably [8]. Action skills are regarded as a relatively stable ability, which enables enterprises to correct and adjust problems through dynamic capabilities.

Liu, G., Wang, G., Pu, Q., & Lu, Z. elaborated on the evolution process of action skills in four stages, including the emergence of dynamic capabilities, screening of enterprises, internal dissemination, and transformation. Action skills involve the absorption, dissemination, and reconstruction of new knowledge both internally and externally, with the aim of achieving the integration and updating of knowledge [9]. It is the ability of enterprises to adjust their internal technical capabilities, resources, organizational structure, and strategic goals in order to seize opportunities in a changing environment. From the perspective of strategic management, Ma, S., & Li, C (2020) believe that enterprises with dynamic capabilities are more effective in updating internal and external resources [10]. In the face of environmental degradation, companies need to increase their identification of opportunities and threats, which requires them to quickly develop action skills that also drive their green transformation.

## 3. The Impact of Environmental Responsibility of Small and Medium-sized

### **Enterprises on Their Performance**

With the increasing uncertainty of the external business environment, the action skills of enterprises have a significant impact on their innovative behavior and performance. Although there have been some breakthroughs in the mechanism of the impact of action skills in existing research, most scholars are exploring the influence of internal and external resources owned by enterprises on action skills. The research on action skills, sustainable innovation, and performance is still scattered and lacks systematic depth, especially regarding whether dynamic capabilities play a moderating role between environmental responsibility and sustainable innovation.

Corporate environmental responsibility, in this study, is defined as the management actions voluntarily taken by enterprises to reduce pollution, improve the ecological environment, and enhance the entire production process under certain ethical regulations, in order to control negative environmental impacts and meet the requirements of stakeholders.

Corporate performance, combined with existing literature, is divided into financial performance and social performance. Among them, financial performance refers to the internal performance generated by the enterprise itself, while social performance includes the performance of other stakeholders such as the environment.

Action skills, in the research context and selected industry of this article, are defined as the potential to respond and make timely decisions to external environmental changes, identify opportunities and threats, ensure the correctness of strategic direction, and effectively solve practical problems in manufacturing enterprises.

Corporate environmental responsibility has a significant positive impact on corporate performance. By analyzing the relevant data between a company's environmental management practices and its financial performance, scholars have revealed a positive correlation between a company's active investment in environmental responsibility and its financial indicators such as profitability and market value. This discovery emphasizes that environmental responsibility as a management strategy not only helps to enhance a company's reputation and social identity, but also creates economic benefits for the company.

Corporate environmental responsibility has a significant positive impact on the financial performance of enterprises. By taking environmental measures such as reducing carbon emissions, effectively utilizing resources, and promoting sustainable innovation, enterprises can not only help alleviate environmental pressures, but also create more robust business models, improve resource utilization efficiency, reduce production costs, and thus have a positive impact on the financial performance of the enterprise (Sun & Guo, 2021). A core issue of common concern in research is the direct impact of corporate environmental responsibility on financial performance.

Corporate environmental responsibility has a significant positive impact on corporate social performance. Hu (2020) believes that while pursuing the maximization of shareholder interests, enterprises should actively assume social responsibility and be responsible for the interests of all stakeholders. Chen (2019) believes that companies have recognized the importance of corporate social performance for their survival and development. Fulfilling environmental responsibilities meets the needs of stakeholders and enhances the reputation of the company, forming intangible assets that enable the company to gain greater social recognition.

Action skills play a positive moderating role between environmental responsibility and sustainable innovation. In the ever-changing competitive environment faced by modern enterprises, only those with keen insight and quick response capabilities can maintain their competitive advantage in the competitive market. Therefore, it is required for enterprises to effectively coordinate internal and external resources and allocate them reasonably in the competitive market. People believe that dynamic capabilities affect a company's competitive advantage. Faced with a complex and ever-changing external environment, there is high uncertainty about whether a company's environmental responsibility can effectively bring dual performance through green innovation. Only companies with strong dynamic capabilities that are influenced by the external environment can gain a favorable position in the fierce competition of the industry. People argue that organizations have limitations in their development based on

internal resources. Enterprises are not in a stable and unchanging environment, and flexible resource integration and restructuring based on environmental changes can effectively achieve a competitive advantage. The observation ability of enterprises in the environment, their response to environmental problems, and their adaptation are all crucial to the success or failure of environmental strategies.

#### 4. Conclusion and Prospect

Urgent need for green transformation of enterprises in response to the deterioration of environmental problems.

In recent years, the environmental responsibility awareness of Chinese listed companies has been continuously enhanced, and the number of environmental information reports disclosed by companies has also been increasing. However, there is room for improvement in terms of the content and disclosure form of environmental information. Some companies still have a mentality of taking chances and cannot truly understand the true situation of fulfilling environmental responsibilities. To break this situation, companies need to take action to promote the fulfillment of environmental responsibilities, positively improve financial performance, and achieve sustainable development.

The results of this study can to some extent raise awareness among small and medium-sized enterprises about the positive impact of corporate environmental responsibility on corporate performance, and promote the long-term development of corporate performance by actively assuming environmental responsibility. It is not difficult to find through literature review that fulfilling environmental responsibilities by enterprises has a positive impact on financial performance, and action skills play a moderating role. At the same time, action skills also have a positive moderating effect on sustainable innovation in enterprises. From a social perspective, as users and emitters of natural resources, reducing pollution, conserving resources, and enhancing environmental awareness can help alleviate environmental hazards faced by society, improve environmental conditions, and create conditions for harmonious development between humans and nature. It is expected to promote sustainable green development in

society. This article takes the impact of environmental ethical responsibility of small and medium-sized enterprises on corporate performance as the research object. Based on theoretical analysis, the core driving factors, degree of impact, and impact path of the impact of corporate environmental ethical responsibility on corporate performance are identified. The results of the research will be beneficial for a deeper understanding of the impact mechanism of corporate environmental ethical responsibility on corporate performance, and provide reference for the practice of corporate environmental ethical responsibility and macro policy formulation.

This fully demonstrates that under the concept of green development, the responsible parties for ecological civilization construction and governance should present diversity

How to leverage the main role of enterprises in environmental governance has become a key factor in the construction of China's ecological civilization, as the pattern of transformation has become increasingly important issues.

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