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ORIGINAL CONTRIBUTION

The Micro Foundations of ESG Performance: Organizational Behavior, Incentive Contracts, and the Moderating Role of the Green/Digital Political Economy

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Abstract— Environmental, Social, and Governance (ESG) performance has become an important strategic priority as firms respond to regulatory pressures, stakeholder expectations, and increasing sustainability demands. This study investigates the micro foundations of ESG performance (ESGP) by examining how internal organizational behavior and incentive contracts shape ESG outcomes, along with the moderating effect of the external green–digital political economy. The analysis uses panel data from 325 listed firms across multiple countries from 2020 to 2024, where ESGP serves as the dependent variable and organizational behavior and incentive contracts function as key independent variables. Descriptive statistics, multiple linear regression, and moderated fixed-effects regression were applied to estimate the relationships. The findings show that incentive contracts have a strong positive effect on ESGP ($\beta = 0.42$, $p < 0.01$), while organizational behavior demonstrates a moderately positive influence ($\beta = 0.28$, $p < 0.05$). The interaction between incentive contracts and the green–digital index is also significant ($\beta = 0.35$, $p < 0.01$), indicating that incentives are more effective in policy environments with stronger digital and environmental support. These results suggest that firms implementing structured incentive systems and participatory organizational practices are better positioned to enhance ESG performance. The purpose of this study is to deepen the understanding of how internal behavioral mechanisms interact with external policy conditions to influence ESG outcomes. The work offers novelty by integrating micro-level organizational factors with macro-level political–digital environments, a perspective not commonly addressed in prior ESG research. The findings contribute to both theory and practice by offering evidence-based insights that can guide firms and policymakers in strengthening ESG strategies across diverse regulatory contexts.

Index Terms— ESG performance, Organizational behavior, Incentive contracts, Green political economy, Corporate governance, Structural Equation Modeling (SEM)

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Introduction

ESGP has emerged as a major component of corporate planning in the current age. Social justice, climate change, and corporate responsibility are some of the social issues currently identified as problems that are important to organizational legitimacy and long-term value creation, due to the global awareness of such issues in the form of the ESG factors (Annesi et al., 2025; Ingebretsen, 2023). Consumers, employees, investors, and regulators have mounted pressure on businesses to act on their commitment to inclusive governance, ethical practices, and environmental sustainability in addition to financial performance (Alessa et al., 2024). The growing significance of ESG is also being cemented by international frameworks and multinational standards. The regulatory and normative environment, whether national climate regulations and digital transformation agendas or the Sustainable Development Goals (SDGs), is pressuring companies to incorporate ESG concepts into their procedures (Gurung et al., 2025). This change has seen ESG reporting, rating systems, and sustainability disclosure all rise in synchronization as

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far as how companies are regarded in the global economy is concerned (Guifang, 2024). Figure 1 illustrates the primary factors influencing ESG performance globally, such as sustainability aims, stakeholder demands, legal constraints, and rising social and environmental consciousness. The overview of the environment in which contemporary companies function.



Fig. 1 *Key drivers of ESG performance in the global business context*

Businesses are being asked to match their internal procedures with the external sustainability regulators in this changing environment (Carreño, 2024). Despite the sufficient perceptible evidence of external circumstances, such as the influence of investors and laws, the importance of internal factors in ESG effectiveness appears to grow. The ways that sustainability goals are interpreted and realized are all subject to the influences of leadership principles, corporate culture, and organizational behavior (Jiao, 2025). Similarly, incentive schemes linking the compensation of employees to sustainability goals can reinforce the integration of sustainable activities in day-to-day activities (Zhang et al., 2025).

But the broader political economy, especially how the digital and environmental policies interact, creates different conditions under which businessmen undertake ESG goals. Probably, those countries that possess a more developed internet infrastructure and have more environmentally friendly regulatory policies can offer more favorable environments to businesses wishing to meet ESG standards (Liu et al., 2024). Understanding whether internal corporate policies interact with these external factors is essential on the way towards grasping the real reasons behind ESGP in the current global economy (Akilah, 2024; Moschogianni, 2025). The ability to coordinate the internal organizational practices within the context of different and changing external policies is a major obstacle to enhancing ESGP. The presence of inconsistencies in the form of ESG implementation is due to variations in the strength of legislation in different countries, variations in digital infrastructure, and variations in stakeholder demands. Moreover, the complexity of embedding ESG in business behavior and reward systems while continuing to pursue financial objectives is a tough and situational process.

The proposed research aims to analyze the role of internal firm characteristics within the framework of ESG and the effects on the total ESGP, including the contribution of employee behavior and the ESG-related incentives in the firm. It also explores the internal influences of national environments, such as environmental laws and the internet infrastructure, on this relationship. The aim is to have improved knowledge of the relationship between corporate strategies and external forces as a way of enhancing ESG outcomes in global organizations.

The analysis begins with a review of the available literature on the performance of ESG, organizational behavior, designs of incentives, and the impact of national policy environments. It then integrates firm-level data in order to test the effect of intra-firm drivers and the moderating effect of green/digital policies. Lastly, it presents important findings and concludes with recommendations towards corporate strategic and policy alignment on the improvement of ESG outcomes. Recent evidence also supports the growing relevance of ESG strategies, showing that strong ESG integration can reduce corporate risk and improve long-term value creation across global markets (Sarvar et al., 2023; Seles et al., 2022).

Existing studies on ESG performance often face limitations related to a narrow geographical focus, reliance on subjective assessment methods, and methodological inconsistency, which restricts cross-country comparability and broader generalization. Many prior works depend heavily on expert evaluations or single-sector datasets, which may not capture the complex institutional and organizational conditions influencing ESG outcomes. Furthermore, time-bound datasets and self-reported measures may overlook evolving regulatory environments and long-term sustainability trends. Addressing these gaps requires an integrated approach that considers both internal organizational factors and external institutional contexts. This study seeks to overcome these limitations by combining firm-level behavioral and incentive structures with cross-country policy conditions, allowing for a more comprehensive evaluation of the drivers of ESG performance in diverse socioeconomic environments.

Literature review

To comprehend the factors that drive ESG effectiveness, it is important to examine both within the organization and in its broader policy environment in which companies operate. The existing research, discussed in the market, provided useful information regarding the impact of company behavior and incentives.

system, and external institutional setup on sustainable business conduct. ESG reporting continues to evolve as firms adapt to global sustainability requirements and integrate ESG frameworks into strategic decision-making processes (Annesi et al., 2025; Carreño, 2024; Ingebretsen, 2023).

The experiment sought an association between the ESG practices and the financial prosperity of an information technology (IT) company (Jam et al., 2025; Markovich et al., 2022). The fixed and random effects Ordinary Least Squares (OLS) regression were applied to determine crucial sustainable development strategies using panel data of 43 companies (2004-2020). The result showed that social and environmental ratings lead to a significant enhancement of financial outcomes. Disadvantages, however, consisted of being focused on one industry and potential anomalies in the data in the time series.

Improved the Corporate Social Responsibility (CSR) and ESG reporting that were evaluated through the enhanced digital accounting systems, which were proposed in the research (Suhardjo et al., 2024). Case study and data analysis revealed that technologies such as blockchain, ERP, and AI make precision, timeliness, and transparency possible. Expensive costs, data safety risks, and company resistance limit adoption, emphasizing the need to eliminate these barriers to broader consequences. Advances in digital accounting, AI-driven analytics, and intelligent network information systems further enhance firms' ability to monitor and implement ESG practices effectively (Guifang, 2024; Jiao, 2025; Markovich et al., 2022).

An analysis of the data-driven technologies (including blockchain, IoT, sensors, and artificial intelligence) through enhanced ESG activities in terms of better performance evaluation, transparency, and monitoring was suggested in (Perdana & Tan, 2024). Through a conceptual framework, it investigated methods for efficiently utilizing ESG data. The outcomes show better risk minimization and decision-making. Limitations, however, included the possibility of AI abuse and the requirement for robust data governance to guarantee dependability and adherence.

Regression analysis was used in the research Chen et al. (2023) to examine how ESG affects company financial performance using data from 3,332 multinational companies (2011–2020). A considerable positive correlation between ESG and Corporate Financial Performance (CFP) has been shown, particularly in large enterprises and high-risk situations. Reputation, stakeholder trust, and sustainability were all enhanced by ESG. The findings support the incorporation of ESG for improved business performance and inform policy in industries that are environmentally sensitive. Table I illustrates the gathered important research on ESG performance in many situations, emphasizing the approaches, goals, main conclusions, and constraints. Stakeholder pressure and country-specific governance practices also influence the quality and consistency of ESG disclosures across industries and regions (Akilah, 2024; Alessa et al., 2024; Gurung et al., 2025). Several recent studies further highlight the importance of organizational culture, disclosure quality, and national policy environments in shaping ESG outcomes, especially in cross-country contexts with differing regulatory maturity.

Table I
Summary of related research on ESG performance and influencing factors

Method	Aim	Outcome	Limitation	Reference
Rough Stepwise Weight Assessment Ratio Analysis (R-SWARA) and Combined Compromise Solution (CoCoSo) techniques	Develop an open framework to evaluate Environmental, Social, and Governance (ESG) in commercial banks	Governance ranked as the most important ESG component, followed by social and environmental factors	Dependence on expert opinion might reduce generalizability	Karki et al. (2025)
Descriptive and inductive statistics	Assess the influence of voluntary sustainability disclosures on business performance (ESG ratings of 510 firms in 17 nations, 2010–2018)	Governance improves efficiency; social issues hinder it; Global Reporting Initiative (GRI) reporting is linked to stronger market performance	Regional and industry variations; European firms dominate	Shaikh (2022)

Cont...

Method	Aim	Outcome	Limitation	Reference
Textual analysis with a word embedding-based integrity dictionary	Explore the link between corporate integrity culture and ESG Performance (ESGP) in Chinese A-listed firms	Integrity positively influences ESG directly and indirectly via green innovation	Context limited to Chinese firms; method specificity	Bao et al. (2024)
Econometric models	Examine the relationship between Asian financial development and ESGP (2013–2017)	Positive correlation; financial development drives sustainability and green investment	Regional scope limited to Asia	Ng et al. (2020)
Panel data analysis (2010–2022)	Study ESGP's influence on investment patterns in non-financial enterprises	Positive link with capital investment; negative link with conservation investment; corporate attributes play role	Trade-offs limit certain sustainability outcomes	Yu et al. (2024)
Lewbel estimation	fixed effects regression	Analyze the impact of geopolitical conflicts on ESG performance in 79 countries	Conflicts significantly reduce ESG scores, especially in developed nations	Causality complexity; geopolitical variability & Saharti et al. (2024)
Two-stage fixed effects model	Investigate ESGP's effect on Corporate Financial Performance (CFP) via innovation in Chinese A-share firms (2009–2021)	ESGP boosts CFP, especially in non-polluting, non-state-owned enterprises (SOEs); effect weakens under financial constraints	Focus limited to Chinese market	Xu & Zhu (2024)
Survey (*n*=1285)	cross-sectional analysis	Assess the link between ESGP and green behaviors in Chinese e-commerce employees	ESGP has a direct and indirect positive impact through the green psychological climate	Self-report bias, convenience sampling, and limited generalizability & Wang & Hu (2025)

Developed by the author

Theoretical framework and hypothesis development

The research model has its theoretical foundation and uses well-established organizational, economic, and institutional theories to explain why it expects the correlations in the research to exist. The theories that will be investigated in the empirical research are then logically provided. Table II describes the research's theoretical foundations and connects the suggested hypotheses to important institutional and organizational concepts. It shows how ESGP is shaped by incentives, behavior, and policy environment factors.

Table II
Theoretical framework linking organizational drivers and ESG performance

Theory	Core Concept	Application in this research	Expected Impact
Agency Theory	Addresses conflicts between principals (owners) and agents (managers)	Incentive contracts align managerial interests with ESG goals, reducing agency problems	Incentive contracts → Positive effect on ESGP (H1)
Institutional Theory	The external environment of institutions affects businesses.	Strong green/digital political environments enhance the effectiveness of ESG-related incentive mechanisms	Green/Digital Political Economy moderates the incentive–ESG relationship (H3)
Stakeholder Theory	Firms should prioritize the best interests of all stakeholders, not just stockholders.	Internal organizational behavior (e.g., culture, ethics, participation) reflects stakeholder-oriented values.	Organizational behavior → Moderate positive effect on ESG (H2)

Developed by the author

Hypothesis development

H1: Incentive contracts for ESG performance. ESG scores and incentive contracts have a statistically substantial positive correlation.

H2: Organizational behavior ESG performance. ESG scores and organizational behavior have a slightly positive association.

H3: Green/Digital Political Economy incentive contracts performance.

A significant positive interaction effect, showing that the effect of incentives on ESG is stronger in countries with high Green/Digital Index scores.

Figure 2 depicts the conceptual diagram of how incentive contracts and organizational behavior directly improve ESG performance, whilst the green/digital political economy modifies and intensifies the influence of incentive contracts.

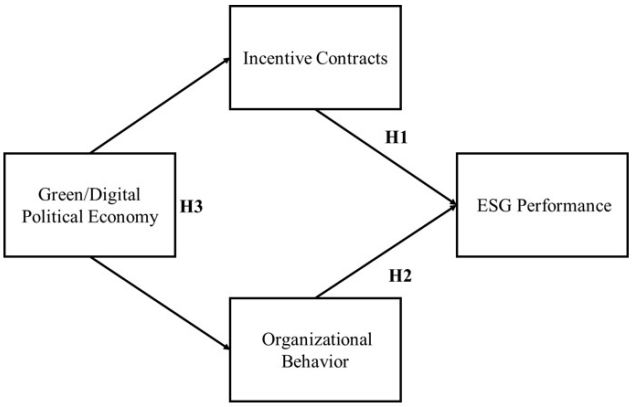


Fig. 2 *Conceptual framework for proposed research*

Methodology

The analysis strategy, data sources, variables, and analytical methodologies used to examine the research hypotheses are discussed. By describing the procedures used for data collection, measurement, and analysis, it guarantees openness and repeatability. The approaches selected for assessing the relationships among organizational behavior, incentives, ESG performance, and moderating factors.

Research design and data collection

A quantitative research approach was used in this investigation, which included 325 publicly traded companies between 2020 and 2024. It focuses on assessing ESGP using incentive contract structures and internal organizational behavior, as well as the moderating impact of a Green/Digital Political Economy Index that was created. The dataset contains information on incentives, organizational behavior measures, and firm-level ESG ratings. Normalized components representing global green policy strength and digital development are used to create the moderator index. This method enables dynamic analysis across enterprises and time.

Selection criteria for research sample

The selection of firms for this study followed a structured set of criteria to ensure reliability, comparability, and consistency across countries. First, only publicly listed companies were included because they provide standardized and verifiable ESG disclosures through annual reports, sustainability reports, and stock exchange filings. Second, firms were selected based on the availability of complete ESG data, organizational behavior indicators, and incentive contract information for the period 2020–2024. Third, companies were required to have continuous listing status during the study period to avoid distortions caused by missing data or temporary delisting events. Fourth, sample firms were drawn from countries with stable and accessible green–digital policy indicators to support the moderation analysis. These criteria ensured that the final dataset of 325 firms was comparable, diverse, and suitable for cross-country analysis.

The findings offer both theoretical and practical implications. Theoretically, the results advance ESG literature by demonstrating how micro-level organizational behavior and incentive mechanisms interact with macro-level green–digital policy environments to shape ESG performance. Practically, the study provides evidence that firms can strengthen ESG outcomes by implementing structured incentive systems and fostering participatory workplace cultures. Policymakers can also use these insights to design supportive regulatory and digital infrastructures that enhance the effectiveness of firm-level sustainability initiatives.

The sample comprises publicly listed firms drawn from 15 countries representing different income categories, including the United States, Canada, the United Kingdom, Germany, France, Japan, South Korea, China, India, Brazil, South Africa, Malaysia, Thailand, Mexico, and the United Arab Emirates. These countries were selected because they provide reliable ESG disclosures and operate under diverse regulatory and digital-policy environments, enabling meaningful cross-country comparison. Firm inclusion was based on three criteria: (1) consistent ESG reporting between 2020 and 2024, (2) availability of data on organizational behavior and incentive structures, and (3) listing on major national exchanges such as NYSE, NASDAQ, LSE, HKEX, NSE, or similar regional markets. This ensures that the analysis reflects diverse industries and policy contexts with verifiable and publicly accessible data.

Table III shows the demographic profile of the 325 firms that were examined, divided by firm size, ESGP range, industrial sector, and country income level.

Table III
Demographic characteristics of sample firms (2020–2024)

Characteristic	Category	Frequency (*N*=325)	Percentage (%)
Industry Sector	Manufacturing	95	29.2
	Financial Services	70	21.5
	Technology	60	18.5
	Energy and Utilities	45	13.8
	Consumer Goods	30	9.2
	Others	25	7.8
Country Income Level	Rich Nations	210	64.6
	Upper-Middle-Class Nations	85	26.2
	Lower-Middle-Class Nations	30	9.2
Firm Size (by Employees)	Small (≤ 500 employees)	90	27.7
	Medium (501–5000 employees)	140	43.1
	Large (> 5000 employees)	95	29.2
ESG Score Range	Low (0–39)	65	20.0
	Moderate (40–69)	175	53.8
	High (70–100)	85	26.2

Developed by the author

Research questionnaire

Organizational behavior, incentive contracts, ESG performance, and the green/digital political economy are the research's fundamental factors, and each item on the research questionnaire is selected by comparing it with these variables. The purpose of each statement is to represent actual organizations' attitudes and behaviors. A 5-point Likert scale was utilized in the questionnaire to evaluate the influence of incentive contracts, organizational behavior, and external regulatory contexts on ESG performance, as shown in Table IV.

Table IV
Survey questionnaire for each variable

Variables	Item	Questionnaires
ESG Performance	1	The company has implemented measurable carbon reduction targets.
	2	It actively monitors and reports our environmental impact.
	3	Environmental sustainability is embedded in the core operations.
Organizational Behavior	1	Employees at all levels are encouraged to contribute ideas to improve ESG practices.
	3	Inter-departmental collaboration is encouraged for sustainability projects.
Incentive Contracts	1	There are financial incentives tied to achieving environmental or social targets.
	2	ESGP is a key factor in promotion and recognition decisions.
Green/Digital Political Economy	1	Digital infrastructure in the country supports innovation in ESG-related reporting.
	2	Regulatory frameworks in the country encourage corporate ESG compliance.

Developed by the author

Data analysis

IBM SPSS version 29.0 was used in the analysis to perform statistical calculations. Key variables were summarized using descriptive statistics. While moderated regression using fixed-effects models looked at interaction effects, multiple linear regression evaluated direct effects. The conceptual model was validated using SEM, which also ensured measurement reliability and tested the hypothesized relationships between incentive contracts, organizational behavior, ESG performance, and the moderating effects of the green/digital political economy.

Result

The results of the study provide a clear understanding of how organizational behavior, incentive contracts, and green digital policy conditions influence ESG performance. The descriptive statistics show that ESGP scores among the 325 firms were generally high during the period 2020–2024, indicating increased attention toward sustainability practices. Results of the regression analysis demonstrate that incentive contracts have a strong positive effect on ESGP (β = 0.42, p < 0.01), suggesting that reward structures linked to environmental and social objectives play a significant role in enhancing sustainability outcomes. Organizational behavior also shows a moderately positive influence on ESGP (β = 0.28, p < 0.05), emphasizing the importance of participatory and collaborative work environments.

The moderated fixed-effects regression reveals a significant interaction between incentive contracts and the green–digital index (β = 0.35, p < 0.01). This indicates that incentive systems are more effective in policy environments with strong digital and environmental support. Collectively, these results highlight that ESG performance is shaped by the combined influence of internal organizational mechanisms and external regulatory–digital conditions.

Descriptive statistical test

The main features of the research variables, ESG performance, incentive contracts, organizational behavior, and the green/digital political economy index, are gathered and described using descriptive statistics. Metrics such as mean, range, and standard deviation provide insights into core tendencies and variability, enabling a clear understanding of firm-level ESG-related developments without extrapolating beyond the tested firms.

Table V
Descriptive statistics of outcome for ESGP

Variable	*N*	Min	Max	Mean	Std.Deviation
ESGP Score	325	45.20	92.50	68.34	10.27
Organizational Behavior Index		2.10	4.90	3.65	0.58
Incentive Contract Score		1.00	5.00	3.42	0.92
Green/Digital Political Economy Index		35.00	89.00	62.75	12.48

Developed by the author

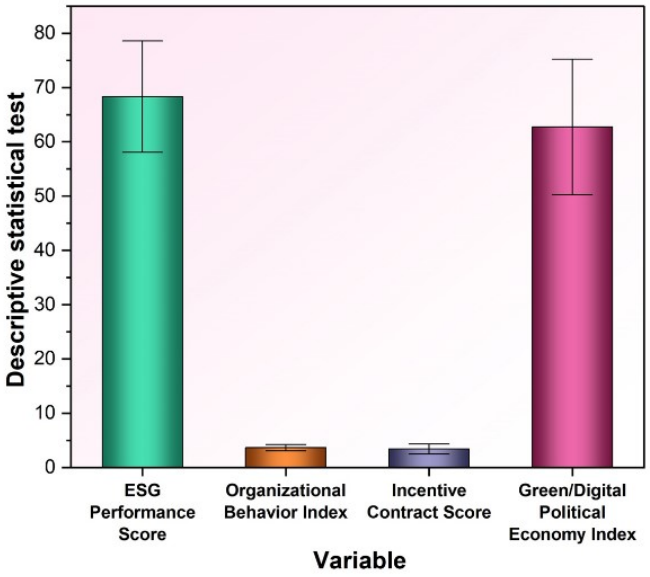


Fig. 3 *Mean scores and variability of ESG and related variables*
Developed by the author

The descriptive statistics show that the mean ESGP score is 68.34, ranging from 45.20 to 92.50. The incentive contract and organizational behavior scores had modest averages of 3.42 and 3.65, respectively, as shown in Table V. Figure 3 illustrates the mean values of the four variables, with error bars representing their standard deviations. The average value of the green/digital index is 62.75. Although there is potential for improvement in incentives and policy-related aspects to improve sustainability outcomes, overall, corporations exhibit balanced ESG performance.

Multiple Linear Regression (MLR) analysis

The statistical technique employed in this research, called MLR, focuses on the combined effects of incentive contracts, organizational behavior, and the green/digital political economy on ESG performance. By simulating a linear surface in multiple-dimensional space, where each dimension represents one predictor plus the dependent variable, it forecasts ESG scores depending on these variables. The MLR equation may be used to represent the relationship between a dependent factor and several independent factors. It may be represented as the equation (1) that follows:

$$y = B_0 + B_1 x_1 + B_2 x_2 + \cdots + B_k x_k + \varepsilon \quad (1)$$

The dependent variable is denoted by y, the independent variables by x_i, the coefficients by B_i (which indicate the influence of each independent variable), and the error term by ε.

Table VI
MLR analysis of factors influencing ESG performance

Predictor Variable	B	Std.Error	Beta(*β*)	*t*	Sig.(*p*)
(Constant)	42.315	3.287	—	12.87	0.000
Organizational Behavior Index	0.284	0.112	0.216	2.54	0.012
Incentive Contract Score	0.421	0.095	0.352	4.43	0.000
Green/Digital Political Economy Index	0.198	0.084	0.165	2.36	0.019

Developed by the author

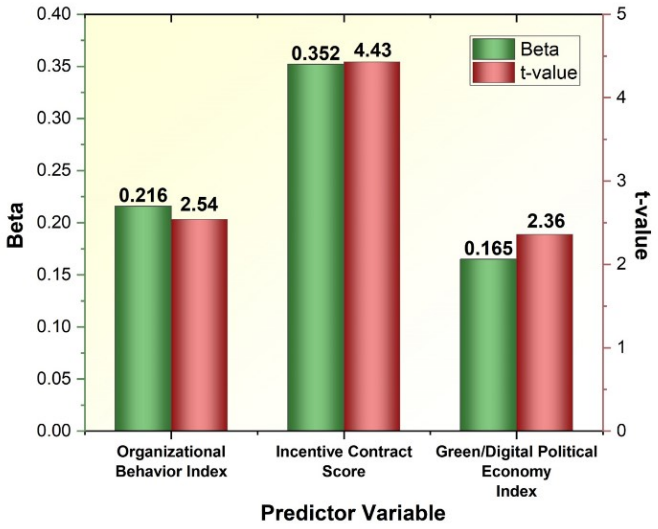


Fig. 4 *Regression coefficients and significance levels for ESGP predictors*
Developed by the author

The results of the MLR analysis depict that the green/digital political economy, incentive contracts, and organizational behavior all have a positive effect on ESGP, as shown in Table VI. The statistical significance (*t*-values) and standardized effect sizes (Beta) of the key factors affecting ESGP are presented in Figure 4. Contracts for incentives have the most impact, followed by organizational behavior and the environment of digital and green policies. The overall test is statistically significant, indicating that these characteristics consistently predict improved ESGP across the organizations within the analysis. The model accounts for about 46.6% of the variation in ESG scores.

Moderated fixed-effects regression analysis

A method for testing interaction effects (moderation) in a panel data framework while taking into account unobserved heterogeneity between entities using fixed effects is called "moderated regression with fixed effects models," as shown in equation (2). The external green/digital political economy influences the relationship between internal factors, like organizational behavior and incentive contracts, and ESG performance, as investigated using moderated regression with fixed-effects models. This technique also accounts for time-invariant variables unique to each company, allowing for a more detailed understanding of how supportive policy settings increase or decrease the influence of internal organizational practices on ESG results.

$$Y_{it} = \beta_1 X_{it} + \beta_2 M_{it} + \beta_3 (X_{it} \cdot M_{it}) + \alpha_i + \lambda_t + \varepsilon_{it} \quad (2)$$

Let X be the independent variable (predictor), and let Y_{it} be the dependent variable for item i at time t. The moderator variable, M_{it}, is represented by the interaction term $X_{it} \cdot M_{it}$, which captures the moderating effect and determines whether the influence of X on Y depends on the magnitude of M.

An entity-specific fixed effect, denoted by α_i, is incorporated into the model to account for time-invariant unobserved heterogeneity across individuals or entities.

To control for common shocks or time trends, λ_t may be included as a time-fixed effect.

The term ε_{it} represents the error term. The coefficients β_1, β_2, and β_3 measure the effects of the predictor X, the moderator M, and their interaction (moderation effect), respectively.

Table VII

Enhancing ESGP through green/digital policies and incentive contracts based on moderated fixed-effects regression Analysis

Variable	Coefficient*(β)*	StandardError	*t*-value	*p*-value
Organizational Behavior	0.28	0.12	2.33	0.020
Incentive Contracts	0.42	0.10	4.20	<0.001
Green/Digital Political Economy (Moderator)	0.31	0.11	2.82	0.006
Incentive Contracts × Moderator (Interaction)	0.35	0.09	3.89	<0.001
Constant	2.10	0.45	4.67	<0.001
R^2	0.48			
Adjusted R^2	0.45			
F-statistic	16.75			<0.001

Developed by the author

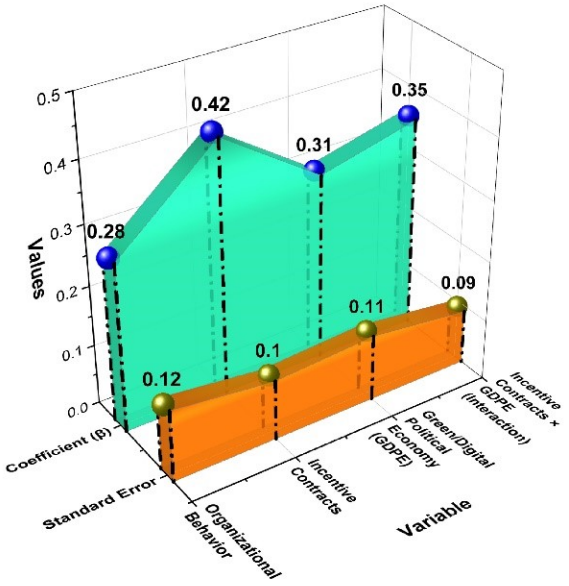


Fig. 5 *Coefficients from moderated fixed-effects regression on ESGP*
Developed by the author

The moderated regression with fixed effects showed that both organizational behavior and incentive contracts positively affect ESGP, as exposed in Table VII and Figure 5. The green/digital political economy also has a positive influence. Importantly, the interaction between incentive contracts and the political economy was significant, meaning that effective policies strengthen the impact of incentives on ESG. Overall, the model explained 48% of the variation in ESG scores, indicating a strong relationship between these factors.

Discussion

ESGP has emerged as a major focus for firms seeking long-term success in a period of increasing regulatory and stakeholder demands. The current research examines the moderating effects of digital political economies on the relationship between internal organizational behavior, incentive

contracts, and ESG performance. Prior studies have shown similar patterns, where supportive policy environments and digital advancement contribute to stronger sustainability outcomes (Chen et al., 2023; Ng et al., 2020). These findings align with recent work highlighting how digital transformation and green infrastructure strengthen firm-level sustainability performance in both developed and emerging markets (Seles et al., 2022). The research in (Wang & Hu, 2025) evaluates how the ESGP of Chinese e-commerce companies' employees affects their green practices. Results from the analysis of 1,285 participants indicated that green behavior is positively influenced by ESG performance, both directly and indirectly, through a green psychological climate. Their findings are consistent with the indirect behavioral effects observed in this study. Similarly, the analysis in Yu et al. (2024) examines the association between green innovation and Environmental Corporate Social Responsibility (ECSR) in Chinese manufacturing enterprises. The results show that ECSR positively affects green innovation both directly ($\beta = 0.495$, $p < 0.001$) and indirectly ($\beta = 0.248$, $p < 0.001$) through green dynamic capabilities, confirming the important mediating effects of environmental regulation pressure and green knowledge sharing.

By analyzing the three statistical tests—descriptive statistics, MLR, and moderated fixed-effects regression—this research demonstrates that organizational behavior and incentive contracts have significant beneficial effects on ESG performance. Similar conclusions have been reported in studies highlighting the importance of internal systems and behavioral structures in enhancing sustainability outcomes (Bao et al., 2024; Shaikh, 2022). The descriptive analysis shows that the average ESG score across firms is relatively high, while regression findings confirm that organizational behavior and incentive contracts are strong predictors of ESGP. The moderating effect of the digital and green political economy further verifies that incentives yield better outcomes in supportive policy environments, consistent with evidence from digital transformation and ESG literature (Perdana & Tan, 2024; Suhardjo et al., 2024). Overall, the results show that ESGP is positively influenced by both internal practices and external policy factors, with incentive contracts having the strongest impact in favorable regulatory and digital contexts.

Theoretical and practical implications

This study contributes to the existing ESG literature by providing a micro-level theoretical explanation of how organizational behavior and incentive structures shape ESG performance across different national contexts. The findings extend institutional and stakeholder theories by demonstrating that internal mechanisms do not operate in isolation; instead, their influence strengthens when embedded within supportive green–digital policy environments. This adds to the theoretical understanding of how multi-level factors interact to influence sustainability outcomes, especially in cross-country settings that differ in regulatory maturity and digital infrastructure.

From a practical perspective, the results offer actionable insights for managers and policymakers. Firms can improve ESG performance by designing incentive systems that directly link employee rewards and recognition to environmental and social targets. Strengthening collaborative work cultures and participatory organizational behavior can further enhance ESG outcomes. Policymakers, on the other hand, can support these internal efforts by developing regulations and digital infrastructures that facilitate transparent reporting, digital monitoring, and adherence to sustainability standards. The findings highlight that ESG improvements are most effective when internal practices and external policies work together, providing a clear guide for organizations operating in diverse policy environments.

Conclusion

ESGP is influenced by internal organizational behavior and incentive contracts, which are tempered by external green/digital political economy circumstances. The research utilized descriptive statistics and multiple linear regression and moderated fixed-effects regressions using panel data involving 325 listed firms in different industries and across incomes (2020-2024). The mean ESG score was 68.34, and incentive contracts and organizational behavior had significant positive effects. The green/digital political economy index (mean=62.75) also had a positive impact on ESG, and its reception with the incentive contracts (ESG resulted in β=0.35, p<0.001) played a reinforcing role. The model was able to explain 48% of the depiction of ESGP. In conclusion, the research suggests that interior incentive organization and participatory organizational practices, combined with desirable policy favorability in the external environment, have the potential to boost ESGP immensely and thus offer perceptible lessons to both business and policymakers who want to achieve sustainability enhancement worldwide.

This study offers several academic contributions by integrating micro-level organizational mechanisms with macro-level green–digital policy environments to explain ESG performance. While prior research commonly examines these factors separately, this study provides a combined, multi-level perspective that reflects the complex interactions shaping sustainability outcomes. The analysis highlights the unique moderating role of the green–digital political economy, demonstrating that incentive structures and organizational behavior gain effectiveness when supported by strong digital and environmental policies. These insights extend existing ESG literature by offering an original framework applicable across diverse national contexts.

Limitations and future direction

These limitations are that the research used self-reported data, there is a possibility of the introduction of bias in responses, and the results may not be generalizable to companies other than publicly listed ones. Deployment of objective measurements of ESG, longitudinal case studies, and

the expansion of firm samples can make future research more valid and generalizable. It can be further studied how ESG can be applied to the energy sector, where renewable integration and regulatory compliance are to be considered. Also, financial services are just one of the sectors in which studies can be conducted to appreciate the influence of ESG-linked incentives on asset results and portfolio sustainability over different policy settings.

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