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Managerial Short-Term Orientation and Corporate ESG Performance: The Mechanism of Strategic Deviation

Mengmeng Wei^{1,*} ¹Department of Sociology and Ecological Civilisation, The Party School of Hebei Provincial Committee of C.P.C (Hebei Academy of Governance), 050000 Shijiazhuang, Hebei, China*Correspondence: wei.mengmeng@foxmail.com (Mengmeng Wei)

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Abstract

This study draws on time orientation theory and employs panel data from manufacturing firms listed on the Shanghai and Shenzhen Stock Exchanges between 2013 and 2023 to investigate the mechanisms and contextual boundaries through which managerial short-term orientation affects corporate environmental, social, and governance (ESG) performance. Empirical analysis reveals the following: (1) managerial short-term orientation has a significantly negative effect on corporate ESG performance, with strategic deviation playing a mediating role; (2) increases in both managerial and institutional ownership positively moderate this negative relationship; And (3) the negative effect of managerial short-term orientation on ESG performance is more pronounced in non-state-owned enterprises than in state-owned enterprises. The research uncovers the underlying logic through which managerial short-term orientation influences ESG performance through strategic decision-making pathways, thereby enriching the literature on managerial time orientation and sustainable development. The study also provides practical recommendations for firms seeking to improve their ESG performance by addressing cognitive biases, optimising governance mechanisms, and implementing differentiated strategies.

Keywords: managerial short-term orientation; ESG performance; strategic deviation; managerial ownership; institutional ownership**JEL:** G30, G34, M14

1. Introduction

As the global economy approaches 2026, the strategic importance of Environmental, Social, and Governance (ESG) practices has intensified, evolving from a supplementary metric into a cornerstone of organizational legitimacy and competitive advantage. ESG refers to the tripartite framework of environmental stewardship, social responsibility, and governance quality, serving as a comprehensive measure of corporate sustainability and stakeholder orientation (Eccles et al., 2014; Gillan et al., 2021). For both scholars and practitioners, prioritizing ESG is no longer optional but essential, as it determines a firm's capacity to secure capital, navigate regulatory complexities, and satisfy the escalating demands of diverse stakeholders in the post-pandemic era (Zumante and Bistрова, 2021). However, despite its growing prominence, the field faces significant challenges, including inconsistent ESG performance across firms and regions, often driven by short-term pressures that undermine sustainable investments. Enhancing ESG performance requires sustained strategic commitments, yet the effectiveness of such efforts is heavily influenced by managerial decision-making paradigms. To address this issue, we draw on upper echelons theory (Hambrick, 2007) and Time Orientation Theory (Zimbardo and Boyd, 1999) to introduce managers' short-term orientation as a key independent variable. These theories highlight that managerial cognitive biases, particularly in temporal per-

ception, systematically shape corporate strategies. Specifically, managerial myopia—defined as an excessive focus on short-term financial gains at the expense of long-term goals (Schuster et al., 2020)—creates a fundamental tension with the inherently long-term nature of ESG initiatives. This tension arises because short-term-oriented managers, driven by cognitive predispositions such as low tolerance for delayed gratification (Holman and Zimbardo, 2009), tend to deprioritize ESG investments, which involve extended timelines and uncertainties, in favor of immediate returns.

Globally, the detrimental impact of managerial short-term orientation on ESG is evident across diverse markets. In mature economies such as Europe and North America, despite the broad acceptance of ESG principles, short-term performance pressures often lead firms to reduce long-term commitments in areas such as environmental stewardship and social engagement (Narayanan, 1985). In emerging economies, this effect is even more pronounced because of factors such as investor short-termism and weaker governance frameworks. Strategic deviation, reflecting a firm's departure from industry-normal resource allocation patterns, is particularly susceptible to managerial short-term orientation because it can disrupt strategic consistency and stakeholder expectations, thereby undermining sustainable value creation (Tang et al., 2011; Ranasinghe and Habib, 2024). While principal-agent theory (Fama,



1980) has been widely used to explain managerial short-termism by attributing it to interest misalignment between shareholders and managers, this theoretical perspective is insufficient for fully explaining short-termism in ESG contexts. The fundamental limitation lies in its explanatory scope: agency theory predicts that myopic behavior stems primarily from flawed incentive structures and inadequate monitoring. Crucially, this perspective overlooks the cognitive dimension of decision-making and therefore cannot fully explain why managers operating under identical external incentives and governance structures still make divergent strategic decisions regarding ESG investments. This is where Time Orientation Theory and upper echelons theory provide a more comprehensive explanation by delineating distinct yet complementary roles. Upper echelons theory provides the overarching framework, positing that strategic choices regarding ESG reflect managers' cognitive bases. Complementing this, Time Orientation Theory functions as the specific psychological mechanism, explaining how cognitive traits—particularly temporal perception—shape resource allocation decisions. While agency theory explains the opportunity for short-termism, this theoretical integration explains the predisposition toward it. Upper echelons theory legitimizes the influence of managerial traits on firm strategy, whereas Time Orientation Theory explains the process through which managers with a short-term focus cognitively discount the future value of ESG, leading them to sacrifice long-term sustainability investments even when external incentives for long-term thinking exist.

Existing studies have explored links between managerial short-term orientation and corporate strategic decisions, but critical gaps remain regarding its ESG implications. Theoretical integration is lacking, as prior research has predominantly relied on principal-agent theory while overlooking the cognitive mechanisms emphasized in time orientation theory. Moreover, the mediating role of strategic deviation and the moderating effects of governance variables (e.g., executive stock holdings and institutional ownership) remain underexamined. This study addresses these gaps and advances the literature through three theoretical contributions. First, we move beyond the dominant agency theory perspective by integrating upper echelons theory and time orientation theory to provide a cognitive explanation for ESG heterogeneity. We demonstrate that managerial short-term orientation is not merely a result of incentive misalignment but also reflects a cognitive predisposition that fundamentally shapes strategic horizons. Second, we clarify the transmission mechanism by identifying strategic deviation as a critical mediator. We provide empirical evidence showing how short-term-oriented managers disrupt industry-normative resource allocation and thereby undermine the stability required for sustained ESG commitments. Third, we contribute to the literature on transitional economies by clarifying the boundary conditions of governance mechanisms. We use data from Chinese listed man-

ufacturing firms as a representative context sharing structural similarities with Eastern European economies such as Poland and Hungary, particularly with respect to transitions from planned to market systems and the prevalence of market imperfections. Within this setting, we reveal how governance factors such as executive stock holdings moderate the relationship between managerial time orientation and ESG performance, specifically addressing the tension between interest alignment and potential entrenchment effects.

This paper is structured as follows. Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 presents the research data and methodologies employed. Section 4 analyses the empirical findings. Finally, Section 5 discusses the results while Section 6 presents the conclusions.

2. Theoretical Background and Hypotheses

2.1 Theoretical Background

Upper Echelons Theory serves as the overarching theoretical framework for this study. Originating from Hambrick and Mason (1984), it posits that organizational outcomes, including strategic choices and performance levels, are partially predicted by managerial background characteristics. The core premise is that executives operate under bounded rationality. When confronted with complex and information-overloaded situations, they do not scan all environments objectively but instead interpret strategic realities through cognitive lenses shaped by their experiences, values, and personalities (Hambrick, 2007; Chen et al., 2020). This theory is particularly relevant to ESG research because ESG strategies involve long investment horizons, high causal ambiguity, and conflicting stakeholder demands. In such high-discretion contexts, objective financial calculations are often insufficient, compelling managers to rely heavily on their personalized cognitive bases when making resource allocation decisions. Consequently, a firm's ESG performance is not merely a technical outcome but also a reflection of its top managers' values and cognitive structures. Within this framework, Time Orientation Theory functions as the specific micro-cognitive mechanism. Rooted in the psychological study of temporal perception, it posits that subconscious biases in processing time fundamentally shape individual decision-making logic and behavioral patterns. This theoretical lens is indispensable for understanding ESG outcomes because it addresses the cognitive alignment between managers and strategy. ESG initiatives inherently require tolerance for delayed gratification and commitment to long-term value creation. However, managers with a short-term orientation are cognitively predisposed to prioritize immediate stimulation and financial returns over uncertain future gains (Holman and Zimbardo, 2009). Importantly, this perspective offers a more fundamental explanation than Agency Theory. Whereas Agency Theory treats short-termism as a rational response to external incentive structures, Time Orientation

Theory argues that short-termism is often a stable cognitive trait. This distinction helps explain why managers may continue to underinvest in ESG even when external governance structures are sound, as they may lack the cognitive inclination to value long-term sustainability outcomes effectively.

To clearly position our theoretical contribution, it is essential to distinguish psychological time orientation from economic short-termism. Economic short-termism, rooted primarily in agency theory (Jensen and Meckling, 1976), conceptualizes myopic behavior as a rational response to misaligned external incentives—such as performance-based compensation and capital market pressures—that prioritize immediate payoffs over long-term value (Cao et al., 2024; Narayanan, 1985). In contrast, psychological time orientation theory posits that short-termism may stem from an inherent and relatively stable cognitive trait: a manager's enduring predisposition to prioritize the immediate future regardless of external incentive structures (Zimbardo and Boyd, 1999; Bergadaà, 1990). While economic short-termism is often viewed as a calculated choice, psychological short-term orientation is theorized as a fundamental lens through which managers perceive and evaluate strategic options. For example, managers with a stable short-term orientation may reinforce immediate decision-making tendencies because of inherent cognitive biases, whereas situational factors such as performance pressures or compensation designs tied to short-term financial indicators can induce short-termism even among long-term-oriented managers (Narayanan, 1985). This distinction highlights the dual nature of time orientation and provides theoretical space for explaining dynamic changes in managerial behaviour. From a trait perspective, managers with a stable short-term orientation are more prone to path dependency repeatedly favoring low-risk and short-cycle decision-making patterns. From a situational perspective, even managers with a long-term orientation may alter their decision-making horizons in response to external pressures, such as short-term performance demands from institutional investors (Wang et al., 2023; Wen et al., 2023).

In management research, time orientation theory offers a micro-level cognitive foundation for understanding managerial short-term orientation. Whereas traditional agency theory explains short-sighted behaviour primarily through interest misalignment between shareholders and managers (Fama, 1980), it does not fully explore the cognitive origins of such biases. Time orientation theory, however, argues that managers' subjective perceptions of time directly shape their strategic choices. Moreover, short-term orientation represents a distinctive upper-echelon bias rather than a generic behavioral limitation, because it arises from the cognitive frameworks of top managers that uniquely influence strategic outcomes through temporal distortions. Short-term-oriented managers focus more heavily on immediate decision feedback, leading them to pursue activities that rapidly improve finan-

cial metrics while deviating from established strategic paths (Narayanan, 1985). This cognitive bias inherently conflicts with the long-term nature of ESG practices, which require sustained resource commitment and strategic consistency (Zumente and Bistrova, 2021). In transitional economies, this tension is intensified by institutional challenges such as policy volatility and imperfect markets. For example, frequent revisions of environmental standards in Eastern European countries during European Union (EU) integration may heighten risk perceptions associated with long-term ESG investments, making short-term-oriented behaviour appear more rational to managers. Additionally, immature ESG ecosystems in these economies make it more difficult to quantify ESG's long-term value, further reinforcing managerial preferences for short-term performance over strategic consistency.

The integration of time orientation theory with upper echelons theory provides a novel lens for analysing how managerial background characteristics shape decision-making logic (Hambrick and Mason, 1984). Upper echelons theory highlights the role of demographic traits (e.g., age and education) in shaping cognitive frameworks, while time orientation theory clarifies that temporal perception is a core component of these frameworks. Specifically, short-term orientation functions as a distinctive upper-echelon bias by distorting the temporal horizon of strategic decisions, distinguishing it from broader cognitive limitations that may affect individuals across organizational levels. For instance, younger managers may exhibit stronger short-term orientation because of career advancement pressures, whereas older managers may favor long-term sustainability because of greater risk aversion (Zhang et al., 2023). Furthermore, integrating time orientation theory with strategic conformity theory helps explain how managerial short-term orientation leads to strategic deviation. Short-term-oriented managers are more likely to depart from industry-standard strategic patterns in pursuit of immediate gains, thereby creating inconsistency in strategic positioning that ultimately impairs ESG performance (Tang et al., 2011). Importantly, time orientation theory also provides a foundation for introducing governance variables as moderators. It suggests that external governance mechanisms can interact with managers' inherent time orientations by altering the situational context. Specifically, managerial ownership and institutional ownership are not merely control mechanisms in the agency-theory sense but may actively reshape the decision-making environment that activates or suppresses certain time orientations. For example, managerial ownership may align interests and reduce short-termism (Tsang et al., 2021), but its effect depends on managers' preexisting time orientation: for long-term-oriented managers, it may enhance strategic patience, whereas for short-term-oriented managers, it may reinforce "entrenchment effects" (Liu and Zhang, 2023). Similarly, the impact of institutional ownership varies with investors' time horizons. Long-term in-

vestors, such as pension funds, may foster a future-oriented context through monitoring and support, whereas short-term investors, such as hedge funds, may amplify present-focused pressures.

Current ESG research largely focuses on external pressures (e.g., regulations) and internal resources (e.g., firm size) (Martínez-Ferrero and García-Sánchez, 2017), with limited attention to micro-cognitive foundations such as managerial time orientation. Although some studies link managerial short-term orientation to ESG outcomes, their frameworks remain confined to principal-agent theory and therefore fail to fully explain the mechanisms of time orientation. For example, Zhang et al. (2023) suggested that ESG ratings can reduce managerial short-term orientation by easing financing constraints, but they did not address why some firms continue to engage in myopic behaviour despite strong ESG ratings. Time orientation theory offers a possible explanation: managers with stable short-term orientations may neglect ESG's long-term benefits because of cognitive inertia. Accordingly, this study integrates time orientation theory into research on managerial short-term orientation and ESG performance by establishing a mediation pathway of "time orientation - strategic deviation - ESG performance" and examining the moderating roles of governance variables derived from the theory.

2.2 Hypotheses

Managerial short-term orientation describes a cognitive bias rooted in a distorted perception of time value, leading to an overemphasis on immediate financial results and a systematic undervaluation of long-term commitments (Zimbardo and Boyd, 1999). Building on Time Orientation Theory and Upper Echelons Theory, we propose that this cognitive bias manifests through a coherent sequence of strategic consequences that collectively undermine ESG performance. The translation from time perception to strategic outcomes begins with fundamental shifts in managerial judgment and culminates in systematic organizational failure.

First, the cognitive foundation of short-term time perception directly distorts managerial judgment in resource valuation. According to upper echelons theory, managers operating under bounded rationality rely on cognitive shortcuts to interpret information. Time Orientation Theory specifically suggests that short-term-oriented managers possess a psychological predisposition to process information through a present-focused lens. Consequently, they exhibit severe temporal discounting in their decision calculus, systematically overweighing immediate payoffs while dramatically discounting future benefits. This cognitive framing leads them to categorize ESG investments—with their inherently long gestation periods and uncertain returns—as prohibitively costly compared with projects offering rapid financial returns (Fan et al., 2024). This is not merely a rational economic calculation but a fundamental cognitive

distortion predicted by these theories, in which future value is subjectively minimized in present decisions.

Second, this distorted valuation naturally propagates throughout the organization through consequential resource allocation decisions. Upper echelons theory emphasizes that managerial cognitive traits are ultimately translated into organizational actions. This cognitive bias materializes as systematic underinvestment in ESG-related initiatives, as resources are diverted toward activities generating visible short-term results. Furthermore, as Tekutev (2023) highlights, the status quo effect reinforces this pattern by making managers resistant to reallocating resources toward long-term ESG projects requiring structural change. Thus, the personal cognitive preference identified by Time Orientation Theory becomes institutionalized through patterned resource flows that deprive ESG initiatives of necessary funding.

Third, these cognitive and resource constraints create self-reinforcing dynamics in strategic execution. The inherent trait of low tolerance for delayed gratification (Zimbardo and Boyd, 1999) ensures that even when ESG strategies are formally adopted, they often suffer from implementation failure. Managers apprehensive about short-term profit volatility may postpone or fragment essential multi-year plans, such as technological upgrades for carbon neutrality. Pan et al. (2026) demonstrate that managerial myopia systematically erodes strategic commitment, as decisions that appear optimal in the short term often prove suboptimal over the long run. Their analysis of corporate governance mechanisms further reveals how government intervention and governance reforms can effectively counteract such myopic tendencies. Finally, completing this coherent pattern, managers engage in legitimizing practices through strategic information disclosure. They accentuate short-term financial results while obscuring details regarding long-term ESG strategies (Brochet et al., 2015). This selective disclosure rationalizes prior strategic choices and creates a feedback loop that perpetuates the focus on short-term metrics, thereby reducing stakeholder pressure for ESG improvement and allowing the suboptimal emphasis on immediate results to persist (Fan et al., 2024).

Therefore, we propose the following research hypothesis:

Hypothesis 1: Managerial short-term orientation negatively affects corporate ESG performance.

Drawing on time orientation theory, managerial ownership can moderate this relationship by altering the situational context that activates time orientations. Although high ownership may theoretically trigger entrenchment effects, whereby managers protect control rights at the expense of firm value, we argue that in the context of ESG decisions, the interest-alignment mechanism plays a more decisive role. This is because the long-term value destruction caused by neglecting ESG creates costs for high-ownership

managers that outweigh the private benefits associated with short-term entrenchment.

From the perspective of benefit alignment, increased managerial ownership strengthens the connection between managers and the firm's long-term value. Managers with a short-term orientation tend to direct resources toward projects with immediate effects, thereby crowding out long-term ESG investments. However, when the shareholding ratio is high, managers shift from being agents to residual claimants. This identity shift implies that short-sighted behavior directly harms their own wealth accumulation, prompting them to reassess the long-term value of ESG investments. Improved internal control quality is an important manifestation of this alignment effect, as managerial ownership encourages decisions that better reflect the broader interests of stakeholders, naturally aligning with the diverse goals of ESG practices (Chen et al., 2020). This benefit-binding mechanism weakens the incentive to focus excessively on short-term performance and encourages managers to view ESG as a necessary driver of long-term value creation.

The risk-sharing mechanism further strengthens this moderating effect and ensures that alignment outweighs entrenchment. ESG practices, such as environmental governance and social responsibility initiatives, often involve substantial upfront investments and uncertainty. While short-term oriented managers typically exhibit low risk tolerance, a high shareholding ratio makes managers major bearers of enterprise risk. Consequently, reputational losses and regulatory penalties arising from ESG neglect would directly erode their personal wealth. Improvements in ESG performance can reduce such long-term risk exposure, particularly in areas such as environmental compliance and governance optimisation (Jia et al., 2022). Therefore, self-interest motivates managers with higher ownership stakes to balance short-term costs against long-term risks, thereby reducing myopic cuts to ESG investment.

Enhanced strategic autonomy also provides behavioural space for long-term alignment. The suppressive effect of short-term orientation on ESG performance often stems from external short-term pressures, whereas greater managerial ownership increases managers' ability to resist these pressures. Managers with higher ownership stakes possess stronger influence over strategic decision-making and are therefore more likely to resist short-term capital market demands, thereby preserving the continuity of ESG strategies (Ma et al., 2024). For example, in long-cycle ESG projects such as green innovation, managers with high ownership stakes may use their strategic autonomy to withstand temporary profit fluctuations rather than succumb to short-termism. In addition, research on the relationship between ownership structure and ESG performance suggests that improved internal governance mechanisms can effectively transmit long-term-oriented decision-making logic. As managerial ownership increases, internal agency costs

decline and decisions become more strongly oriented toward maximizing long-term value. At the same time, evidence that strong ESG performance attracts institutional investors and alleviates financing constraints may further reinforce high-ownership managers' recognition of ESG investment, thereby creating a positive feedback loop (Bai et al., 2022).

Therefore, we propose the following research hypothesis:

Hypothesis 2: Managerial ownership mitigates the negative effect of managerial short-term orientation on corporate ESG performance.

Time orientation theory further suggests that institutional investors' time horizons create external situational cues that influence managerial time perceptions. Long-term institutional investors (e.g., pension funds) foster future-oriented contexts through active monitoring and resource support, thereby mitigating the negative impact of short-term orientation on green innovation. Conversely, short-term investors (e.g., hedge funds) amplify present-focused pressures, exacerbating myopic behaviour.

From the standpoint of supervision and intervention, higher institutional ownership strengthens oversight of managerial decisions. Managers focused on short-term gains may reduce ESG-related long-term investments to improve immediate financial returns. Institutional investors, however, can use their substantial ownership stakes and professional expertise to exert influence through mechanisms such as management changes or participation in board voting (Jia et al., 2022). For example, substantial institutional holdings may enable investors to nominate directors or oppose myopic strategies, thereby compelling management to balance short-term profits with ESG commitments and preventing excessive emphasis on immediate results at the expense of long-term environmental stewardship or social responsibility. This oversight is particularly relevant in the ESG domain because institutional investors frequently use ESG metrics as indicators of a firm's long-term risks and overall value.

Furthermore, a strategic-guidance mechanism reinforces this moderating effect. Institutional investors generally maintain longer investment horizons than individual investors, and their decision-making processes tend to prioritise sustainable corporate growth, aligning closely with the long-term nature of ESG initiatives. When institutional ownership is substantial, this long-term orientation is transmitted through the ownership structure to the strategic level, reducing the disincentive for ESG investment caused by short-term performance pressures. Prior research indicates a positive relationship between institutional ownership and the consistency of firms' ESG strategies, thereby reducing the likelihood that managers will abandon projects such as green innovation or community engagement because of temporary performance fluctuations (Wu et al., 2022). For instance, with respect to environmental initiatives, institu-

tional investors are more likely to support the multi-year development of emission-reduction technologies, thereby counteracting short-sighted managerial tendencies and preserving the continuity of ESG investments. Beyond supervision, institutional investors may also provide important resource support for ESG practices, including access to green financing channels and the sharing of industry best practices. Higher institutional ownership often translates into more direct resource support, lowering the marginal costs of ESG investment and sustaining managerial commitment to such projects even under short-term financial pressure. Research further suggests that firms with substantial institutional ownership are more likely to obtain ESG-related policy support and preferential financing, thereby easing the constraints imposed by short-term financial pressures on ESG expenditures (Song and Deng, 2023). This resource integration capability becomes more pronounced as ownership concentration increases, further weakening the inhibitory effect of managerial short-term orientation on ESG performance.

Therefore, we propose the following research hypothesis:

Hypothesis 3: Institutional ownership mitigates the negative effect of managerial short-term orientation on corporate ESG performance.

As a key mechanism linking immediate operational demands with long-term sustainable growth, strategic deviation significantly influences environmental ESG metrics (e.g., emission reductions and resource efficiency), improves social ESG outcomes (e.g., stakeholder trust and employee relations), and strengthens governance ESG frameworks (e.g., strategic consistency and accountability). However, persistent managerial short-term orientation tends to trigger strategic deviation through systematic cognitive-behavioral patterns, ultimately generating indirect negative effects on overall ESG performance.

From a behavioural perspective, the defining characteristic of short-term-oriented managers is an excessive emphasis on immediate financial gains. Strategic consistency, by contrast, depends on long-term orientation, stable resource allocation, and alignment with industry norms, creating a fundamental conflict with short-term performance objectives. Managers favouring a short-term perspective are more likely to pursue unconventional strategic paths promising rapid returns, such as aggressive market expansion or financial engineering. Simultaneously, they tend to deviate from established strategic patterns necessary for long-term value creation (Zhang et al., 2024). Such strategic inconsistency can directly impede ESG integration, creating stakeholder confusion and eroding legitimacy because of unpredictable strategic direction. For example, maintaining consistent environmental commitments in heavily polluting industries requires stable strategic orientation. However, managers focused on short-term performance may frequently shift strategic priorities because of concerns about

immediate profit fluctuations, thereby undermining environmental management systems (Zheng et al., 2025).

The close relationship between strategic deviation and ESG performance further reinforces this mediating effect. Improvements in governance-related ESG metrics, such as board accountability and stakeholder engagement, depend heavily on strategic consistency and predictable decision-making patterns. Firms maintaining alignment with industry norms are better positioned to satisfy regulatory expectations and build stakeholder trust through stable strategic conduct, thereby enhancing ESG ratings. Conversely, if managerial short-term orientation induces strategic deviation, firms may struggle to maintain transparent governance practices and may even face penalties arising from strategic unpredictability, directly lowering ESG scores (Elamer and Boulhaga, 2024). In addition, stakeholder confidence and organizational legitimacy derived from strategic consistency strengthen firms' ability to fulfill social responsibilities, such as maintaining community relationships and employment stability. However, when short-term orientation drives strategic deviation, this foundation is weakened, thereby hindering ESG improvement.

Furthermore, managerial short-term orientation may lead to excessive strategic experimentation that undermines ESG fundamentals. In attempting to satisfy short-term financial targets, managers may favor dramatic strategic shifts and unconventional resource allocation patterns over stable and predictable strategic development. Such approaches to strategy are insufficient to support sustained ESG improvement because they generate uncertainty and weaken stakeholder confidence (Zhang et al., 2024).

Therefore, we propose the following research hypothesis:

Hypothesis 4: Managerial short-term orientation negatively impacts firm ESG performance by increasing strategic deviation.

Overall, the theoretical framework of this study is shown in Fig. 1.

3. Data and Methods

Since 2012, China has promoted the requirement that listed companies have their social responsibility reports reviewed by the board of directors and published separately. Accordingly, the present study focuses on manufacturing enterprises listed on the Shanghai and Shenzhen stock exchanges between 2013 and 2023. Manufacturing enterprises were selected because manufacturing, as a core domain of corporate strategic operations, exhibits a more direct relationship between strategic decision-making patterns and ESG performance. Furthermore, in transitional economies, institutional constraints in the manufacturing sector exert a stronger influence on managerial short-term orientation and its manifestation through strategic deviation. Meanwhile, the Shanghai and Shenzhen A-share markets include enterprises with varying ownership structures

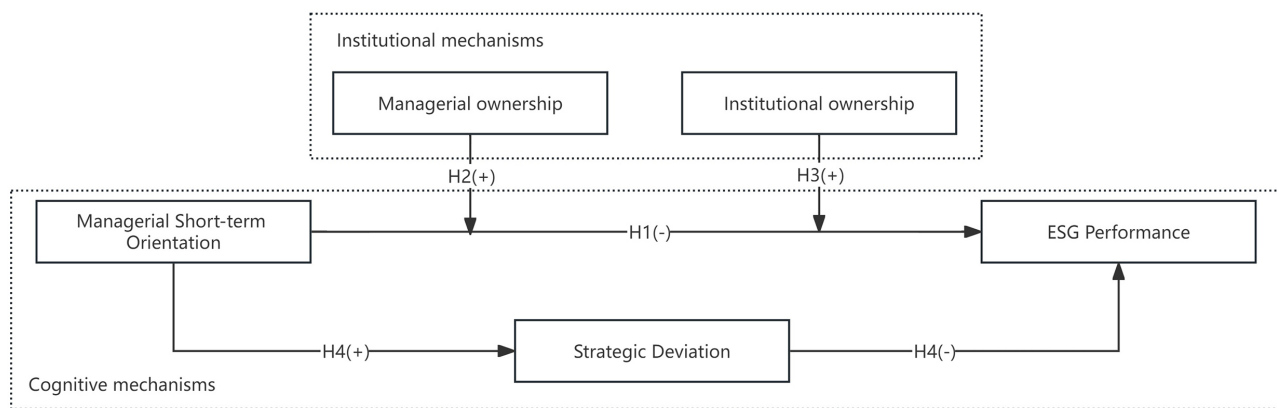


Fig. 1. Theoretical framework. ESG: Environmental, Social, and Governance.

and sizes, allowing the sample structure to reflect the typical characteristics of firms in transitional economies, particularly with respect to strategic consistency and the stability of resource allocation.

The dataset is drawn from the China Securities Market and Accounting Research (CSMAR) database, the Wind Information database, listed companies' annual reports, and the Huazheng ESG rating database. Financial and corporate governance data were obtained from CSMAR and Wind, while ESG data were sourced from the Huazheng ESG rating database. The initial dataset contained 25,576 observations from 3772 companies. To ensure the robustness of the findings, the sample underwent the following treatments: (1) exclusion of companies subject to other risk warnings (ST) or delisting risk warnings (*ST), as the ESG performance of these firms may be distorted by non-operational factors, thereby compromising comparability; (2) removal of samples with missing data for key variables to prevent estimation bias; and (3) winsorization of continuous variables at the 1% level to mitigate the influence of extreme values. The final sample comprised 16,038 valid observations from 2262 companies (Wu et al., 2024).

The following variables were selected for the model based on theoretical foundations, established models, literature reviews, and current research on the relationship between managerial short-term orientation and corporate ESG performance:

ESG Performance. We use the Huazheng ESG rating to measure ESG performance (Wang and Sarkis, 2017). The Huazheng ESG rating methodology is structured as follows: the system categorises corporate ESG performance into nine tiers, ranging from C (representing the weakest ESG performance) to AAA (representing the strongest). Each listed enterprise is assigned both a rating and a corresponding numerical score, with higher ratings receiving higher values. For example, an enterprise with an AAA rating is awarded 9 points, while an enterprise with a C rating receives 1 point. These derived ESG scores serve as the primary basis for constructing the dependent variable in

this study. Our choice of the Huazheng ESG rating system is based on two key considerations. First, its methodology is closely tailored to the specific conditions of China. While incorporating the design principles and practical experience of established international rating systems, it continuously refines the application of ESG concepts within the Chinese context. The system integrates China's current information disclosure practices and the distinct characteristics of the Chinese market, excluding metrics that are less relevant to the domestic environment. Crucially, it has developed a comprehensive evaluation framework grounded in fundamental ESG principles that reflects both Chinese domestic market regulations and local particularities, thereby ensuring local relevance and practical applicability. Second, the Huazheng rating system provides broad and practical coverage of companies listed on the A-share market. Essentially, all Chinese companies listed on the A-share market are included in the Huazheng system. Furthermore, the system dynamically adapts its indicators and rating criteria to reflect the diversity and heterogeneity among these listed companies. It specifically considers companies facing corporate governance challenges stemming from related-party transactions, which are often associated with state-owned enterprises. This is the dependent variable.

Managerial Short-term Orientation. This indicator measures the degree to which corporate executives prioritize immediate outcomes over long-term strategic goals, reflecting a cognitive bias toward short-termism. The variable is quantified through textual analysis of corporate annual reports, based on the established linguistic principle that "language reflects cognition" (Pennebaker et al., 2003). The measurement employs a specialized lexicon developed through a rigorous multi-stage process. Initial vocabulary selection drew on existing research on managerial myopia and corporate disclosure text analysis (Hu et al., 2021), followed by a systematic literature review to identify validated terms associated with temporal urgency and short-term pressure. Lexicon development involved two key phases: first, machine-learning screening using Jieba word seg-

mentation on the Management's Discussion and Analysis (MD&A) sections of annual reports with term frequency-inverse document frequency (TF-IDF) analysis to identify high-frequency n-grams; second, semantic filtering based on inclusion in established Chinese sentiment dictionaries under "urgency" or "pressure" categories and high co-occurrence with seed words. The final lexicon comprises 43 standardized terms across two conceptual categories: a temporal dimension including terms such as "within days", "several months", "within the year", "as soon as possible", "immediately", "promptly", "swiftly", and "expedite"; and a pressure dimension including terms such as "predicament", "challenge", "risk", "critical", "bottleneck", "severe test", "volatility", and "difficulty". The lexicon's validity was confirmed through a structured expert-validation process involving three financial experts with more than five years of experience in equity research or corporate financial analysis. The validation procedure included independent assessments of term relevance followed by consensus discussions, achieving substantial inter-coder reliability (Fleiss' Kappa = 0.78). Validation studies have demonstrated the measure's predictive validity for significant reductions in corporate long-term investment. The final metric is calculated as follows: Short-term Orientation = (Total Frequency of Short-term Vocabulary / Total Word Count in MD&A) × 100, with appropriate textual preprocessing and industry-year median adjustments to control for heterogeneity. This is a continuous independent variable.

Managerial Ownership. Managerial ownership is expressed as the proportion of common shares directly or indirectly held by senior management (including board members, the general manager, and core management personnel) relative to the enterprise's total share capital, calculated as: Managerial ownership = Number of shares held by senior management / Total share capital. This indicator reflects the mitigating effect of agency costs by quantifying the alignment of interests between management and shareholders (Wu et al., 2022). It's a moderating variable.

Institutional Ownership. Institutional ownership is represented by the proportion of common stock shares held by institutional investors (including mutual funds, pension funds, and insurance companies) relative to the enterprise's total share capital. It is calculated as follows: Institutional ownership = Number of Shares Held by Institutional Investors / enterprise's Total Share Capital. This indicator reflects the intensity of oversight by external professional investors and is generally positively associated with corporate governance quality (Bai et al., 2022). It is a moderating variable.

Strategic Deviation. This indicator measures the degree to which a firm's strategic resource allocation deviates from the industry central tendency, reflecting the uniqueness or nonconformity of its strategic posture. It is calculated based on deviations from the industry median across six strategic resource allocation dimensions: advertising in-

tensity (selling expenses/revenue), research and development (R&D) intensity (R&D expenses/revenue), plant and equipment newness (net fixed assets/gross fixed assets), administrative intensity (administrative expenses/revenue), inventory efficiency (inventory/revenue), and financial leverage (total debt/total assets) (Tang et al., 2011; Chen et al., 2020). The calculation involves: (1) computing each dimension's deviation as the absolute difference between the firm's value and the industry-year median, divided by the industry-year interquartile range; and (2) averaging these six standardized deviations. It is a mediator variable.

The following were selected as control variables:

Firm Size. This indicator measures the operational scale of a firm, primarily reflecting its overall asset level. It is calculated as the natural logarithm of total assets at the end of the period, a transformation that effectively mitigates data skewness. The calculation formula is Firm Size = $\ln$ (Total Assets at Period End). It is a continuous variable ().

Growth Rate. This indicator measures the growth trend in a firm's operating revenue, reflecting the speed of business expansion. It is calculated as the year-on-year growth rate of operating revenue relative to the previous period, expressed as a percentage: Growth Rate = (Current Period Operating Revenue – Previous Period Operating Revenue) / Previous Period Operating Revenue. It is a continuous variable.

Board Size. This indicator measures the scale of a firm's board governance structure, reflecting the number of participants involved in decision-making. It is measured directly as the total number of board members: Board Size = $\ln$ (Total Number of Board Members). It's a continuous variable.

Independent Director Ratio. This indicator measures board independence and reflects the effectiveness of supervisory mechanisms. It is calculated as the proportion of independent directors relative to total board membership: Independent Director Ratio = (Number of Independent Directors / Total Number of Board Members) × 100%. It is a continuous variable (Fama and Jensen, 1983).

Proportion of Female Executives. This indicator measures gender diversity within the top management team, reflecting the level of inclusive representation in corporate decision-making. It is calculated as the percentage of female executives among total senior management members: The calculation formula is Proportion of Female Executives = Number of Female Executives / Total Number of Senior Management Team Members. Higher values indicate greater gender diversity in leadership positions. It is a continuous variable (Post and Byron, 2015).

Industry Concentration. This indicator measures the degree of market concentration within a firm's industry and is calculated using the Herfindahl–Hirschman Index (HHI). Specifically, it is defined as the sum of the squared market shares of all firms in the industry based on sales revenue: Industry Concentration = $\sum (\text{Marketshare}_i)^2$, where Mar-

Table 1. Descriptive statistics of the variables.

	(1)	(2)	(3)	(4)	(5)
Variable	Obs	Mean	Std.	Min	Max
ESG performance	16,038	4.094	1.039	1	8
Managerial short-term orientation	16,038	0.042	0.038	0	0.634
Managerial ownership	16,038	0.127	0.193	0	0.9
Institutional ownership	16,038	0.431	0.24	0	0.895
Strategic deviation	16,038	0.633	0.351	0.094	4.899
Firm size	16,038	22.33	1.185	20.07	25.86
Growth rate	16,038	0.133	0.329	−0.472	2.028
Board size	16,038	2.115	0.190	1.386	2.890
Independent Director Ratio	16,038	0.376	0.056	0.143	0.800
Proportion of Female Executives	16,038	0.193	0.114	0	0.733
Industry Concentration	16,038	0.921	0.062	0	0.982

Table footnotes: Obs, number of observations; Mean, arithmetic mean; Std., standard deviation; Min, minimum; Max, maximum.

ketshare_i represents each firm's sales revenue as a percentage of total industry sales revenue. A higher HHI indicates greater industry concentration and, correspondingly, lower competitive intensity, whereas a lower HHI reflects a more dispersed market structure and stronger competition. It is a continuous control variable. It is a continuous variable (Chen et al., 2020).

The Hausman test was used to determine whether fixed or random effects were more appropriate for the panel data analysis. The estimation and diagnostic results indicate that the panel model with fixed effects is the most appropriate specification (Prob > chi-square (9) > 502.97 = 0.0000). Therefore, to more accurately evaluate the effect of managerial short-term orientation on corporate ESG performance, this study employs an industry-time dual fixed-effects model to control for confounding factors that remain constant over time or across firms. The specific measurement model is presented in Eqn. 1.

$$ESGPerf_{i,t} = \beta_0 + \beta_1 ShortOrient_{i,t} + \beta_k \sum_k Control_{i,t} + Ind_t + Year_i + \varepsilon_{i,t} \quad (1)$$

Where β_0 is the intercept term, $ESGPerf_{i,t}$ is the ESG transformation of enterprises i in t years, β_1 is the impact of managerial short-term orientation on ESG performance, the analysis of influence coefficients. $\sum_k Control_{i,t}$ is the variable under control. $\varepsilon_{i,t}$ is a random error term, Ind_t is the effect of industry fixed effects, and $Year_i$ is the time fixed effect.

4. Results and Interpretation

4.1 Descriptive Statistics and Correlation Analysis

This research applies descriptive statistics and correlation analysis to each variable, and the results are shown in Tables 1,2.

The mean ESG performance is 4.094, with a standard deviation of 1.039 and an observed range of 1–8. Although the Huazheng rating system is coded from 1 to 9, no firm-year observation in the final sample received an AAA rating corresponding to a score of 9. Manufacturing enterprises have established a certain foundation in ESG practices, but consistently high-level performance has not yet emerged, leaving room for further improvement. The mean managerial short-term orientation is 0.042, with a standard deviation of 0.038 and a maximum value of 0.634, indicating that the degree of managerial short-term orientation is generally low, although some enterprises exhibit relatively high levels. The mean managerial ownership is 0.127, with a standard deviation of 0.193 and a maximum value of 0.9, indicating that average managerial ownership in the sample enterprises is 0.127 (12.7%), though substantial individual differences exist, with some enterprises exhibiting high managerial ownership. The mean institutional ownership is 0.431 (43.1%), with a standard deviation of 0.24 (24%), reflecting considerable variation in institutional investor participation across enterprises. The mean strategic deviation is 0.633, with a standard deviation of 0.351, suggesting considerable heterogeneity in firms' strategic positioning relative to industry norms.

The correlation analysis shows that the correlation coefficients of all variables are below 0.7, indicating no significant multicollinearity problem in the dataset. To ensure the robustness of the regression analysis, we further conducted Variance Inflation Factor (VIF) tests to assess potential multicollinearity more rigorously. The results show that the maximum VIF among all variables is 1.19, well below the conservative threshold of 5.0, while the mean VIF

Table 2. Correlation matrix.

	1	2	3	4	5	6
1. ESG performance	1					
2. Managerial short-term orientation	−0.061***	1				
3. Managerial ownership	0.083***	−0.124***	1			
4. Institutional ownership	0.087***	0.052***	−0.622***	1		
5. Strategic deviation	−0.137***	0.027***	−0.120***	0.065***	1	
6. Firm size	0.225***	−0.005	−0.262***	0.377***	0.089***	1
7. Growth rate	−0.012	−0.081***	0.053***	0.043***	−0.025***	0.077***
8. Board size	0.028***	0.045***	−0.179***	0.181***	0.001	0.247***
9. Independent Director Ratio	0.064***	−0.022***	0.064***	−0.047***	0.038***	−0.011
10. Proportion of Female Executives	−0.007	−0.078***	0.195***	−0.150***	0.019**	−0.187***
11. Industry Concentration	0.034***	−0.047***	0.026***	−0.077***	0.015*	−0.021***
	7	8	9	10	11	
7. Growth rate	1					
8. Board size	−0.003	1				
9. Independent Director Ratio	−0.004	−0.555***	1			
10. Proportion of Female Executives	−0.004	−0.171***	0.067***	1		
11. Industry Concentration	0.019**	−0.038***	0.023***	0.059***	1	

Table footnotes: ***, **, and * are significant at the significance level of 1%, 5%, and 10%, respectively.

is substantially lower than the commonly accepted limit of 10. These findings provide strong evidence that multicollinearity does not pose a significant concern in the empirical models and will not unduly affect the stability or interpretation of the regression estimates. ESG performance is significantly negatively correlated with managerial short-term orientation (coefficient = -0.061 , $p < 0.01$), indicating that companies with a stronger managerial short-term orientation may exhibit weaker ESG performance. This finding supports the main conclusion of this study: managerial short-term orientation affects corporate ESG performance. ESG performance is significantly positively correlated with managerial ownership (coefficient = 0.083 , $p < 0.01$), institutional ownership (coefficient = 0.087 , $p < 0.01$), and firm size (coefficient = 0.225 , $p < 0.01$), while being significantly negatively correlated with strategic deviation (coefficient = -0.137 , $p < 0.01$). These relationships suggest that larger firms with greater managerial and institutional ownership, and those following more conventional strategies, tend to demonstrate better ESG performance.

4.2 Regression Results

This study uses a regression analysis based on an industry-time dual fixed-effects model to empirically test the research hypotheses. Tables 3,4 present the results.

Table 3 reports the regression analysis and moderating mechanism tests of managerial short-term orientation on ESG performance. The empirical results show that the relationships between the control variables and the dependent variable in Model (1) are consistent with the theoretical expectations presented in the literature review in terms of both significance and effect size.

The regression results of Model (2) show that managerial short-term orientation has a significant negative impact on corporate ESG performance, with a regression coefficient of -1.205 ($p < 0.01$), passing the significance test at the 1% statistical level. This result provides direct empirical support for Hypothesis 1. From the perspective of theoretical mechanisms, this finding is consistent with the predictions of short-sighted behaviour theory: when management focuses excessively on short-term financial performance (such as quarterly revenue and current profit), it tends to reduce investment in environmental governance, social responsibility projects, and other ESG-related activities with long-term returns, thereby lowering the overall level of corporate ESG performance. This conclusion is consistent with the findings of Cui and Zhu (2024), who showed that managers' short-sighted behaviour significantly negatively affects long-term corporate performance by reducing investment in sustainable development. The present study further extends this logic to ESG performance.

The regression results of Model (3) show that the coefficient of the interaction term between managerial short-term orientation and managerial ownership (Managerial Short-term Orientation $\times$ Managerial Ownership) is 3.084 ($p < 0.05$), passing the significance test at the 5% level. This indicates that managerial ownership has a significant moderating effect on the relationship between managerial short-term orientation and ESG performance. Furthermore, this moderating effect is positive, meaning that managerial ownership significantly weakens the negative impact of managerial short-term orientation on corporate ESG performance, directly supporting Hypothesis 2. As illustrated in Fig. 2, the marginal effect of managerial short-term orientation on ESG performance becomes less negative as man-

Table 3. Regression analysis and moderating mechanism test of managerial short-term orientation on ESG performance.

	(1)	(2)	(3)	(4)
VARIABLES	ESG Performance	ESG Performance	ESG Performance	ESG Performance
Managerial short-term orientation		−1.205*** (−5.39)	−1.086*** (−4.30)	−2.634*** (−5.24)
Managerial ownership			0.641*** (10.62)	
Managerial short-term orientation × managerial ownership			3.084** (2.41)	
Institutional ownership				−0.022 (−0.43)
Managerial short-term orientation × institutional ownership				3.180*** (3.30)
Firm size	0.214*** (28.10)	0.213*** (28.01)	0.240*** (31.06)	0.205*** (25.46)
Growth rate	−0.059** (−2.20)	−0.069*** (−2.61)	−0.098*** (−3.78)	−0.071*** (−2.67)
Board size	0.170*** (3.06)	0.172*** (3.10)	0.234*** (4.24)	0.163*** (2.93)
Independent Director Ratio	1.357*** (7.70)	1.357*** (7.71)	1.362*** (7.78)	1.338*** (7.61)
Proportion of Female Executives	0.148** (1.99)	0.135* (1.81)	−0.022 (−0.30)	0.149** (2.00)
Industry Concentration	−0.163 (−0.52)	−0.166 (−0.53)	−0.150 (−0.47)	−0.161 (−0.51)
Industry fixed effects	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Constant	−1.417*** (−3.97)	−1.346*** (−3.77)	−2.158*** (−6.03)	−1.133*** (−3.14)
Observations	16,038	16,038	16,038	16,038
R-squared	0.087	0.089	0.106	0.090
R-squared adjusted	0.0846	0.0863	0.103	0.0873
F	163.7	143.5	147.0	113.4

Table footnotes: ***, **, and * are significant at the significance level of 1%, 5%, and 10%, respectively.

agerial ownership increases. From a practical perspective, when managers hold a higher proportion of shares, their personal wealth becomes more closely tied to the enterprise's long-term performance, making them more likely to balance short-term gains with long-term responsibilities. For example, they may consider both quarterly profits and ESG-related expenditures such as environmental governance investment and employee welfare, in contrast to managers with lower ownership stakes who solely pursue short-term performance.

The regression results of Model (4) show that the coefficient of the interaction term between managerial short-term orientation and institutional ownership (Managerial Short-term Orientation×Institutional Ownership) is 3.180 ($p < 0.01$), passing the significance test at the 1% level. This indicates that institutional ownership also has a significant moderating effect on the relationship between managerial short-term orientation and ESG performance, and that this moderating effect is positive. In other words, insti-

tutional ownership significantly weakens the negative impact of managerial short-term orientation on corporate ESG performance, directly supporting Hypothesis 3. As illustrated in Fig. 3, the marginal effect of managerial short-term orientation on ESG performance becomes less negative as institutional ownership increases. From a practical perspective, institutional investors generally possess stronger professional analytical capabilities and greater incentives to monitor management. Higher institutional ownership can therefore constrain managerial short-term orientation through participation in corporate governance and encourage firms to incorporate ESG goals into long-term strategic planning. Institutional investors pay more attention to sustainability and, through regular communication and post-investment management, encourage management to balance short-term gains with long-term social responsibility, thereby weakening the negative effect of managerial short-term orientation on ESG performance.

Table 4. Mechanism testing of managerial short-term orientation on ESG performance.

	(5)	(6)
VARIABLES	Strategic Deviation	ESG Performance
Managerial short-term orientation	0.154* (1.90)	-1.133*** (-5.19)
Strategic deviation		-0.469*** (-19.68)
Firm size	0.018*** (6.07)	0.221*** (29.78)
Growth rate	-0.034** (-2.56)	-0.085*** (-3.37)
Board size	-0.008 (-0.41)	0.169*** (3.07)
Independent Director Ratio	0.193*** (3.28)	1.447*** (8.30)
Proportion of Female Executives	0.113*** (4.46)	0.188** (2.55)
Industry Concentration	0.040 (0.37)	-0.147 (-0.47)
Constant	0.121 (0.97)	-1.290*** (-3.65)
Observations	16,038	16,038
R-squared	0.071	0.112
R-squared adjusted	0.0688	0.110
F	12.15	186.3

Table footnotes: ***, **, and * are significant at the significance levels of 1%, 5%, and 10%, respectively.

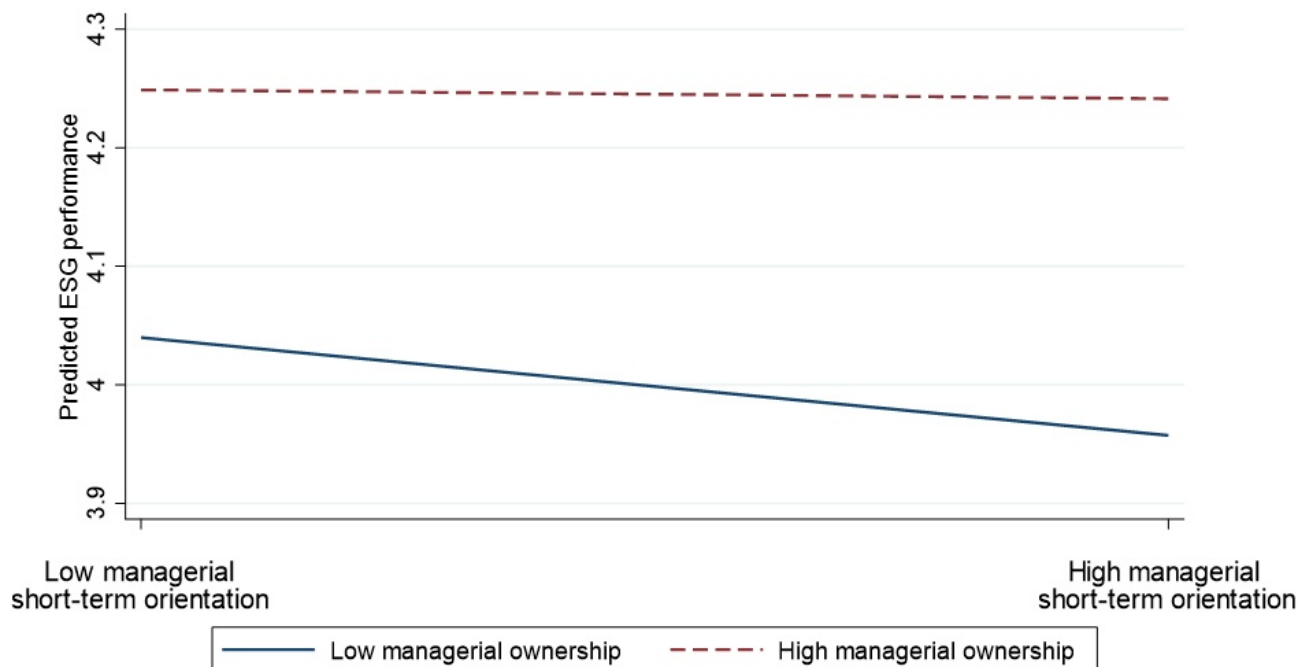


Fig. 2. Moderating effect of managerial ownership. The figure plots predicted ESG performance at low (−1 SD) and high (+1 SD) levels of managerial short-term orientation. The two lines represent low (−1 SD) and high (+1 SD) managerial ownership. All other covariates are held at their sample means.

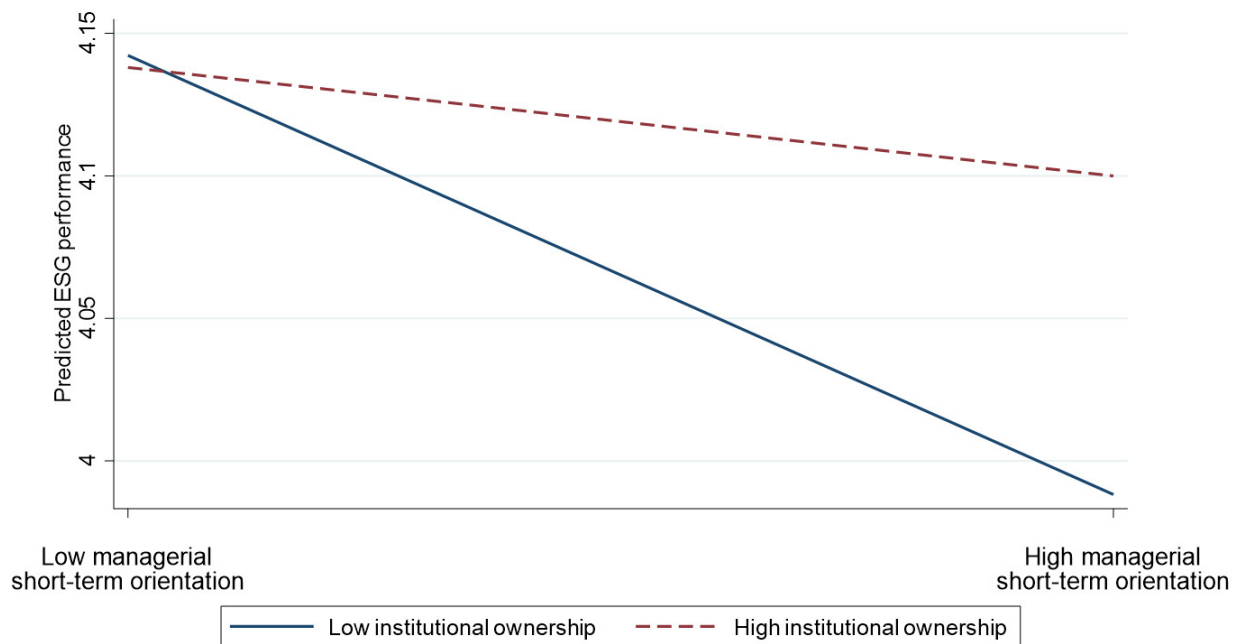


Fig. 3. Moderating impact of institutional ownership. The figure plots predicted ESG performance at low (−1 SD) and high (+1 SD) levels of managerial short-term orientation. The two lines represent low (−1 SD) and high (+1 SD) institutional ownership. All other covariates are held at their sample means.

The Baron and Kenny (1986) causal-steps procedure for mediation comprises three stages. First, the outcome variable Y is regressed on the predictor X to assess the total effect of X on Y . Second, the mediator M is regressed on X to examine whether X significantly predicts M . Third, Y is regressed simultaneously on X and M to assess the effect of M on Y and the remaining direct effect of X on Y . Tables 3,4 report the corresponding mediation tests. Model (2) serves as the first step of the mediation test. The regression results of Model (5) indicate that the coefficient of managerial short-term orientation on strategic deviation is 0.154, statistically significant at the 10% level ($p < 0.10$). This finding suggests that managerial short-term orientation has a significant positive effect on strategic deviation. The regression results of Model (6) show that the coefficient of managerial short-term orientation on ESG performance is -1.133 ($p < 0.01$). It is worth noting that the absolute value of this coefficient differs from that in Model (2) (-1.205), indicating that strategic deviation serves as a mediating factor in the relationship between managerial short-term orientation and ESG performance, thereby supporting Hypothesis 4. The Bootstrap method was further used to test the mediating role of strategic deviation, with 5000 Bootstrap samples selected through repeated random sampling. The results show that the 95% confidence interval for the indirect effect coefficient $[-0.158, -0.009]$ does not include 0 ($p < 0.05$), further supporting Hypothesis 4.

4.3 Robustness Test

The China Securities Regulatory Commission's (CSRC) "Guidelines on Investor Relations Management of Listed Companies" introduced in 2022 strengthened ESG information disclosure requirements. This policy intervention may introduce potential endogeneity by altering the relationship between managerial short-term orientation and corporate ESG performance. Specifically, the policy may simultaneously influence managerial decision-making and firms' ESG performance, thereby creating a confounding effect in the observed causal relationship. To alleviate concerns about such policy interference, this study conducts a robustness test by excluding sample data from 2022 onward. This approach assumes that the core relationship between managerial short-term orientation and ESG performance prior to the policy implementation (before 2022) was unaffected by the subsequent regulatory intervention, thereby reducing bias caused by exogenous policy shocks. Furthermore, in practice, the effects of managerial short-term orientation on ESG practices often take time to emerge. Excluding post-2022 samples therefore helps isolate the intrinsic relationship from external regulatory interference. Table 5 presents the results. Regression results based on the adjusted sample show that the negative effect of managerial short-term orientation on ESG performance, as well as the moderating effects of managerial ownership and institutional ownership, remain consistent with the original conclusions, confirming the robustness of the findings.

Table 5. Robustness test: before the implementation of ESG policies (2013–2021).

	(7)	(8)	(9)
VARIABLES	ESG Performance	ESG Performance	ESG Performance
Managerial short-term orientation	−1.162*** (−4.61)	−1.003*** (−3.56)	−2.698*** (−4.67)
Managerial ownership		0.676*** (9.25)	
Managerial short-term orientation×managerial ownership		2.947** (2.00)	
Institutional ownership			−0.071 (−1.18)
Managerial short-term orientation×institutional ownership			3.413*** (3.12)
Firm size	0.206*** (22.84)	0.235*** (25.52)	0.200*** (20.75)
Growth rate	−0.073** (−2.39)	−0.106*** (−3.56)	−0.074** (−2.42)
Board size	0.230*** (3.50)	0.279*** (4.27)	0.222*** (3.38)
Independent Director Ratio	1.590*** (7.74)	1.559*** (7.61)	1.568*** (7.63)
Proportion of Female Executives	−0.015 (−0.16)	−0.177* (−1.96)	−0.005 (−0.05)
Industry Concentration	−0.049 (−0.13)	−0.015 (−0.04)	−0.048 (−0.13)
Constant	−1.514*** (−3.58)	−2.337*** (−5.51)	−1.320*** (−3.09)
Observations	12,622	12,622	12,622
R-squared	0.079	0.096	0.080
R-squared adjusted	0.076	0.092	0.077
F	103.5	107.0	81.93

Table footnotes: ***, **, and * are significant at the significance level of 1%, 5%, and 10%, respectively.

To address potential endogeneity concerns more rigorously, we also employed an instrumental variable (IV) approach using analyst forecast dispersion as the instrument. The selection of this IV is grounded in theoretical considerations satisfying both the relevance and exclusion restriction conditions. Analyst forecast dispersion, measured as the standard deviation of earnings-per-share forecasts scaled by the mean forecast, captures the extent of disagreement among market participants regarding a firm's future prospects. Such disagreement alters the external information environment and the capital-market pressures faced by managers, thereby affecting their temporal decision horizons and creating a systematic association with managerial short-term orientation. More importantly, the exclusion restriction is theoretically justified through several mechanisms. First, analyst forecast dispersion primarily reflects how capital market participants interpret financial information and differs across analysts because of heterogeneous beliefs and modeling approaches. This market-driven variable is unlikely to directly affect a firm's ESG performance, which is primarily determined by internal strategic deci-

sions, resource allocations, and operational practices related to environmental, social, and governance issues. Second, the information environment captured by forecast dispersion operates mainly through capital market channels rather than directly influencing the processes underlying ESG implementation.

The results of the IV analysis are presented in Table 6. The Cragg-Donald Wald F statistic is 9.169, significantly exceeding the Stock-Yogo critical value at the 15% maximal IV bias level (8.96), allowing us to reject the null hypothesis of a weak instrument. The first-stage regression shows that analyst forecast dispersion is statistically associated with managerial short-term orientation (coefficient = 0.001, $p < 0.01$), satisfying the relevance condition. Most importantly, the second-stage estimation continues to show a significantly negative coefficient for instrumented managerial short-term orientation on ESG performance ($p < 0.01$). These results provide robust evidence that the negative impact of managerial short-term orientation on ESG performance remains significant even after accounting for potential endogeneity through the IV approach.

Table 6. Robustness test: using the instrumental variable (IV) method.

VARIABLES	(10)	(11)
	Managerial Short-term Orientation	ESG Performance
Instrumental variable (IV)	0.001*** (3.13)	
Managerial short-term orientation		-75.534*** (-3.03)
Firm size	-0.001** (-2.30)	0.161*** (5.48)
Growth rate	-0.009*** (-10.15)	-0.739*** (-3.14)
Board size	0.002 (0.94)	0.311* (1.91)
Independent Director Ratio	0.000 (0.03)	0.014*** (2.77)
Proportion of Female Executives	-0.011*** (-4.18)	-0.679** (-1.96)
Industry Concentration	-0.002 (-0.16)	-0.334 (-0.30)
Industry fixed effects	YES	YES
Year fixed effects	YES	YES
Observations	16,038	16,038
R-squared		-1.032
R-squared adjusted		-1.038
F	56.97	72.65

Table footnotes: ***, **, and * are significant at the significance level of 1%, 5%, and 10%, respectively.

4.4 Heterogeneity Test

In the context of China's transitional economy, the nature of enterprise ownership, as a key dimension of the institutional environment and governance structure, may exert differing influences on the relationship between managerial short-term orientation and ESG performance. Therefore, it is necessary to conduct heterogeneity tests through grouped regression, and the results are shown in Table 7.

To explicitly address structural differences in ownership, we divided the full sample into two sub-samples: State-Owned Enterprises (SOEs) and Non-State-Owned Enterprises (Non-SOEs). The classification is strictly based on the nature of the ultimate controller as disclosed in the CSMAR database. Specifically, firms whose ultimate controller is the State-owned Assets Supervision and Administration Commission (SASAC), a government agency, or another state-owned entity are defined as SOEs, while firms controlled by natural persons, private entities, or foreign capital are classified as Non-SOEs. The grouped regression results show that, managerial short-term orientation is negatively associated with ESG performance in both sub-samples, but the magnitude is substantially larger for non-state-owned enterprises. Specifically, the coefficient is ($\beta = -1.431, p < 0.01$) for non-state-owned enterprises and ($\beta = -0.616, p < 0.10$) for state-owned enterprises, indicating that ownership structure significantly alters the strength or magnitude of the core relationship. From the perspective of

governance mechanisms, state-owned enterprises are constrained by government regulation and multiple principal-agent relationships. Their ESG practices are embedded in policy implementation objectives, forming a rigid counterweight to managers' short-sighted behaviour (Yang et al., 2023). Even if management exhibits a short-term orientation, it is difficult to reduce policy-driven ESG investment. In contrast, the governance of non-state-owned enterprises centres on the logic of shareholder value maximisation. Managers face stronger short-term performance pressure and are therefore more likely to reduce ESG investment to improve short-term financial indicators, lacking policy-buffering mechanisms comparable to those of state-owned enterprises. Differences in organisational objectives further reinforce this distinction: state-owned enterprises' performance evaluation systems include non-market dimensions such as social responsibility and policy compliance. ESG performance is directly incorporated into managerial assessment indicators, reducing managers' incentives to sacrifice long-term ESG value for short-term gains (Yang et al., 2023). Due to the profit-seeking nature of capital, managers in non-state-owned enterprises are more inclined toward a "short-term optimal" logic. When ESG investment conflicts with current profits, short-term orientation is more likely to translate into substantive resource reallocation (Dai, 2024). At the level of resource constraints, state-owned enterprises, relying on implicit government guaran-

Table 7. Empirical regression results by ownership type.

	(12)	(13)
	Non-state-owned enterprises	State-owned enterprises
VARIABLES	ESG Performance	ESG Performance
Managerial short-term orientation	−1.431*** (−4.94)	−0.616* (−1.72)
Firm size	0.207*** (20.69)	0.234*** (18.68)
Growth rate	−0.021 (−0.66)	−0.173*** (−3.81)
Board size	0.141* (1.90)	0.258*** (2.85)
Independent Director Ratio	0.014*** (5.80)	0.011*** (3.93)
Proportion of Female Executives	0.164* (1.90)	−0.24 (−1.54)
Industry Concentration	−0.402 (−1.07)	0.515 (0.89)
Constant	−0.939** (−2.08)	−2.546*** (−4.05)
Industry fixed effects	YES	YES
Year fixed effects	YES	YES
Observations	10,741	5297
R-squared	0.083	0.135
R-squared adjusted	0.079	0.128
F	72.78	69.71

Table footnotes: ***, **, and * are significant at the significance level of 1%, 5%, and 10%, respectively.

tees and financing advantages, can maintain ESG projects through stable cash flow even under short-term managerial orientation. Non-state-owned enterprises, by contrast, face stricter financing constraints, and insufficient ESG investment caused by short-term orientation cannot easily be offset through external resources, further amplifying the negative effect on ESG performance.

5. Discussion

This study extends the theoretical understanding of managerial short-term orientation by clarifying its cognitive foundations and consequences for corporate sustainability. Our findings offer three key theoretical contributions.

First, ESG performance, as a crucial indicator of an enterprise's capacity for sustainable development, is enhanced not solely through resource allocation but also through management's commitment to long-term strategic consistency. This research examines the detrimental impact of managerial short-term orientation on corporate ESG performance, identifying strategic deviation as a key mediating factor. Our findings indicate that managers with a short-term focus tend to deviate from industry-normative strategic paths, prioritizing immediate financial returns over consistent strategic development. This behaviour directly undermines ESG performance by eroding stakeholder trust and organizational legitimacy. Furthermore, our analysis

highlights the pivotal role of strategic deviation in this process: short-term orientation prompts departures from established strategic patterns, disrupting the operational consistency and stakeholder alignment necessary for strong ESG performance (Tang et al., 2011). For instance, short-sighted managers may frequently shift strategic priorities or adopt unconventional resource allocation patterns that compromise governance transparency and social commitments, thereby indirectly hindering ESG progress through increased strategic inconsistency. This finding aligns with existing literature. Tekutev (2023), for example, argues that cognitive biases within boards, such as hyperbolic discounting and status quo bias, foster short-sighted decision-making and lead firms to neglect long-term sustainability goals. Our study extends this argument by demonstrating, at the individual managerial level, how short-termism impedes ESG outcomes through increased strategic deviation. Similarly, Brochet et al. (2015), in their research on managerial myopia and disclosure, observed that managers with a short-term outlook are more likely to conceal long-term risks, reinforcing our finding that short-term orientation encourages strategic choices that compromise ESG integrity.

Second, our research contextualizes and extends upper echelons theory by integrating insights from Time Orientation Theory. We move beyond upper echelons theory's (UET) general premise that managerial character-

istics influence strategy by specifying a core cognitive dimension—time perception—that systematically biases strategic choices toward or away from industry-consistent patterns that support long-term sustainability goals. Crucially, this theoretical extension provides a framework applicable beyond China, particularly for understanding managerial behavior in other transitional economies, including those in Eastern Europe. Within the Chinese context, this principal effect exhibits distinctive characteristics. Chen et al. (2020), for example, found that the strategic decisions of Chinese firms are significantly shaped by the institutional environment. Non-state-owned enterprises, facing more intense market competition, experience a stronger effect of managerial short-term orientation on strategic deviation and, consequently, ESG performance. This finding corroborates our observation of heterogeneity among non-state-owned firms and suggests parallels with the challenges faced by privatized firms in Eastern Europe, where tensions between market pressures and legacy institutional structures may similarly intensify strategic inconsistency. The interaction between market competition and ownership structures in amplifying the negative effects of managerial short-term orientation through strategic deviation appears to be a broader feature of transitional economies.

Third, the study refines the theoretical understanding of governance mechanisms by unpacking their nuanced moderating roles. From a corporate governance perspective, internal and external governance mechanisms exert significant moderating effects on the relationship between managerial short-term orientation and strategic deviation in ESG contexts. Moreover, these moderating effects exhibit multidimensional and context-specific characteristics, deepening our understanding of the interaction between governance and sustainable development. The governance dynamics observed in the Chinese sample also provide comparative insights for Eastern European contexts, where the roles of managerial ownership and institutional investors continue to evolve amid post-privatization governance reforms. In terms of internal governance, the moderating effect of managerial ownership supports the core logic of agency theory while also revealing its complexity. As managerial ownership increases, the alignment between managers' personal interests and the firm's long-term value is strengthened, potentially reducing strategic deviation and supporting sustained ESG investment (Jensen and Meckling, 1976). This finding is consistent with Tekutev's (2023) conclusion that "changing incentive mechanisms can alleviate cognitive biases", indicating that balancing short-term and long-term objectives through equity design can mitigate strategic inconsistency in ESG implementation. In external governance, the moderating role of institutional ownership reflects the monitoring effect of external governance. Empirical research by Chen et al. (2020) suggests that institutional investors can indirectly promote ESG performance by improving strategic oversight. This study

further finds that institutional ownership can help correct managers' tendency toward strategic deviation, for example, by encouraging firms to maintain strategic consistency through shareholder proposals or by opposing unconventional strategic moves that undermine long-term sustainability. Additionally, the professional capabilities of institutional investors, such as industry analysis and strategic assessment, can reduce information asymmetry, making it more difficult for managers to justify excessive strategic deviations that compromise ESG objectives (Pucheta-Martinez and Chiva-Ortells, 2018).

Building on the theoretical contributions outlined above, this study also offers important practical implications, particularly for enterprises and policymakers in transitional economies such as China and Eastern Europe. The findings demonstrate that addressing managerial short-term orientation is not merely a technical matter but requires confronting deep-seated cognitive biases and their manifestation in strategic inconsistency. For Eastern European managers, the results underscore the importance of cultivating long-term temporal perspectives and implementing governance structures, such as carefully calibrated equity incentives, that can counterbalance pressures toward short-termism in emerging capital markets. For policymakers across transitional economies, the findings highlight the importance of fostering a patient institutional investor base and refining regulatory frameworks to encourage strategic consistency, thereby creating an environment in which ESG can flourish through stable and predictable corporate behavior.

6. Conclusion

6.1 Conclusions

Based on time orientation theory, this paper explores the impact mechanism of managerial short-term orientation on corporate ESG performance. The main conclusions are as follows:

Managerial short-term orientation suppresses corporate ESG performance through strategic deviation. Excessive focus on immediate financial metrics systematically drives short-term-oriented managers away from industry-normative strategic paths. This preference for unconventional resource allocation stems not only from concerns about short-term performance evaluations but also from an underestimation of the long-term value of strategic consistency for stakeholder confidence and sustainable value creation. Strategic deviation serves as a critical transmission mechanism through legitimacy erosion: short-term-oriented decisions disrupt internal operational consistency and external stakeholder expectations, thereby undermining the stability necessary for strong ESG performance. Specifically, this suppression weakens firms' capacity to maintain transparent governance practices, fulfil long-term social commitments, and build reliable environmental management systems. This study extends traditional research

on managerial short-term orientation from a static resource-allocation perspective to a dynamic framework of strategic conformity, clarifying how misaligned time orientation propagates through strategic inconsistency to hinder sustainable development.

Corporate governance mechanisms exert a key moderating effect. Internal and external governance factors mitigate the negative impact of managerial short-term orientation on ESG performance through distinct pathways, thereby playing a governance-buffering role. Internal governance, represented by managerial shareholding, operates through “interest alignment”: higher managerial ownership ties managers’ personal wealth more closely to the long-term value of the enterprise, increasing the opportunity cost of strategic deviation and encouraging managers to balance short-term profits with long-term strategic consistency, since they must bear the consequences of poor ESG performance for both enterprise valuation and their own equity returns. For example, when managerial ownership exceeds a certain threshold, managers are more likely to maintain strategic alignment with industry norms to preserve long-term competitiveness. External governance, represented by institutional ownership, operates through “supervision and guidance”: institutional investors, drawing on their professional expertise and shareholder influence, constrain short-term-oriented decision-making that promotes strategic deviation. They encourage ESG improvement by submitting shareholder proposals related to sustainable development, demanding greater disclosure of strategic consistency, and participating in long-term strategic planning.

The nature of property rights exhibits an “institutional boundary” effect, leading to heterogeneity in the impact of managerial short-term orientation on ESG performance between state-owned and non-state-owned enterprises. This phenomenon reflects the dual mechanisms of policy constraints and resource guarantees in transitional economies, through which institutions correct managers’ cognitive biases. In state-owned enterprises, the negative relationship between managerial short-term orientation and ESG performance is relatively weak. This stems from institutional correction mechanisms such as policy constraints and resource guarantees. Rigid policy objectives and administrative evaluations emphasizing social benefits impose mandatory requirements for strategic consistency, thereby limiting the scope for strategic deviation. At the same time, state-owned enterprises benefit from easier access to low-cost resources and greater tolerance for strategic experimentation, providing a “resource buffer” that supports stable strategic development. By contrast, non-state-owned enterprises face fiercer market competition and tighter financing constraints, making managers more sensitive to short-term performance pressures. In the absence of strong institutional guarantees, short-term orientation is more likely to translate into strategic deviation, producing a stronger negative effect on ESG performance. These findings high-

light the importance of the interaction between property-rights systems and market mechanisms in ESG governance: the “institutional resilience” of state-owned enterprises can offset short-termism, though its effectiveness depends on avoiding excessive administrative intervention that distorts market-based ESG incentives.

6.2 Managerial Suggestions

Given these findings, this study offers the following managerial and policy recommendations:

Correcting managers’ short-term cognitive biases and reshape long-term value orientation. The core problem of managerial short-term orientation lies in cognitive bias regarding the long-term value of ESG and excessive responsiveness to short-term performance pressure. This shortsightedness can be addressed through systematic cognitive intervention. Firms can periodically organise ESG risk and value simulations to help managers understand the long-term consequences of strategic deviation through scenario analysis. At the same time, external sustainable-development experts can be invited to participate in strategic discussions, clarifying the relationship between strategic consistency and long-term competitiveness from multiple perspectives and weakening the assumption that short-term financial returns should always take priority. Firms should also redesign performance evaluation systems to encourage behavioural change. The weight assigned to short-term financial indicators should be reduced, while strategic consistency indicators should be incorporated into core performance evaluations and linked to long-term incentives, encouraging managers to treat strategic stability as a long-term investment rather than as a constraint on flexibility.

Strengthen mechanisms of strategic consistency and safeguard the core pathway to ESG improvement. Since strategic deviation is a key intermediary through which managerial short-term orientation affects ESG performance, it should be managed institutionally to avoid the erosion of strategic coherence. On the one hand, firms should establish mechanisms for monitoring strategic consistency. A dedicated strategic oversight committee could review major strategic decisions against industry norms and long-term objectives, specifically evaluating potential deviations from established strategic paths while remaining insulated from short-term profit fluctuations. On the other hand, firms should directly link strategic consistency outcomes to departmental and managerial performance evaluations, while rewarding teams that maintain strategic alignment and achieve significant ESG improvements. At the same time, firms should establish mechanisms for evaluating strategic trade-offs, clarify reasonable thresholds for strategic experimentation, and reduce incentives for managers to pursue excessively unconventional strategies.

Optimise the corporate governance coordination system to establish an ESG-oriented balance of constraints and incentives. Coordination between internal and external

governance mechanisms is central to mitigating managerial short-term orientation. Companies should design governance tools that strengthen both “interest alignment” and “supervision and guidance”. Internally, firms should appropriately increase the ownership stakes of core managers to deepen their commitment to long-term corporate value. Conditions for equity vesting should include not only financial targets but also strategic consistency standards, thereby encouraging managers to balance short-term gains with long-term strategic stability. Externally, firms should prioritise attracting long-term-oriented institutional investors and establish regular interaction mechanisms. This includes periodically disclosing progress on strategic alignment and ESG outcomes, inviting institutional investors to participate in strategic goal-setting and evaluation and leveraging their professional oversight to curb strategic deviation. Firms can also use shareholder proposals and strategic communication to integrate institutional investors’ long-term perspectives into internal decision-making.

Adapt to differences in ownership structure and implement differentiated ESG strategies. Differences in institutional context between state-owned enterprises (SOEs) and non-state-owned enterprises (Non-SOEs) produce heterogeneous pathways for ESG improvement, requiring tailored strategies. SOEs should make full use of policy resources and institutional resilience by integrating ESG objectives with national strategic priorities through rigid policy constraints that counteract strategic deviation. Non-SOEs, by contrast, should strengthen internal governance and industry collaboration to compensate for institutional disadvantages. They can adopt aspects of the SOE “strategic stability” approach by collaborating with industry peers to establish ESG benchmarking platforms and reduce strategic uncertainty through knowledge sharing. In addition, publicising strategic commitments and disclosing transparent consistency metrics can help attract long-term capital, alleviate financing constraints on ESG projects, and promote strategic alignment through industry associations, thereby reducing compliance and operational costs for individual firms.

6.3 Limitations and Future Research

Although this study provides a new theoretical framework for understanding the relationship between managerial short-term orientation and ESG performance, several limitations remain and warrant future investigation.

First, in terms of sample selection, this study focuses on China A-share listed companies. As representative transitional economies, China and Eastern European countries face common challenges such as tensions between short-term performance pressures and long-term ESG investment, as well as constraints on strategic flexibility during institutional transition. However, China’s distinctive property-rights system and policy environment may make the findings context dependent. Future research could ex-

pand the sample to include major global economies, including mature markets in Europe and the United States and emerging markets in Southeast Asia. Cross-national comparative analysis could then examine how institutional environments, such as legal systems and levels of marketisation, shape the relationship between managerial short-term orientation and ESG performance, thereby testing the cross-cultural applicability of the findings. Future studies could also focus on specific industries to explore how industry characteristics, such as competitive intensity and strategic conventionality, constrain this relationship.

Second, regarding variable measurement, managerial short-term orientation is primarily measured through textual analysis, which may not fully capture managers’ underlying cognitive myopia. ESG performance also relies on third-party ratings, and differences among assessment frameworks may introduce measurement bias. A particularly important limitation concerns the textual-analysis method itself. The linguistic markers of short-term orientation identified in Chinese corporate disclosures may reflect cultural bias and may not correspond directly to those found in English-language contexts. Concepts of time and their emotional connotations can vary substantially across cultures, potentially affecting the cross-linguistic validity of the dictionary approach. Future research should therefore integrate multi-source data to improve measurement accuracy. For example, managerial short-term orientation could be assessed more directly through interviews or psychological experiments; strategic deviation could be measured using more objective indicators of divergence from industry norms; and ESG performance could be evaluated by combining ratings from multiple agencies (such as MSCI and S&P Global) or through text mining of corporate ESG disclosures, thereby reducing single-source bias. Methodologically, future studies could also employ approaches such as difference-in-differences (DID) and regression discontinuity design (RDD), using exogenous shocks to strengthen causal inference. Finally, future work should explicitly address the potential for cultural bias in text-based measures, for example by developing a culture-sensitive dictionary of short-termism through comparative linguistics or by systematically comparing linguistic markers of temporal focus in Chinese and English corporate texts to improve the cross-cultural validity of this measurement approach.

Availability of Data and Materials

The data sets generated and/or analysed during the current study are available in the CSMAR repository, <https://www.csmar.com/>. Wind repository, <https://www.wind.com.cn/> and GitHub website, <https://github.com/aimeewei/MengmengWei/blob/main/Data.xlsx>.

Author Contributions

MW confirms sole responsibility for the conception and design of the study, data collection, analysis and in-

terpretation, drafting and revising the manuscript, and approval of the final version. The author has read and approved the final manuscript and agrees to be accountable for all aspects of the work.

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Conflicts of Interest

The author declares no conflicts of interest.

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