

Dual-Edged Sustainability: Navigating the Complex Nexus of Green Innovation and Corporate Value in Global Markets

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ABSTRACT

The interplay between green innovation and corporate value is critical in contemporary business research, due to environmental challenges and market shifts toward sustainability. A review of 10 years of studies across industries identifies three dimensions: green innovation's dual role, ESG integration, and regional/stakeholder factors. Key findings show green innovation enhances competitive advantage, but overinvestment risks exist. Hybrid innovation portfolios balance value creation. The review reconciles Porter Hypothesis with resource-based critiques, suggesting future research on longitudinal analyses and digital technologies.

KEYWORDS

Corporate Value; Green Innovation; Literature Review

1. INTRODUCTION

In an era marked by climate urgency and the global pursuit of the Sustainable Development Goals (SDGs), green innovation has transitioned from a peripheral corporate responsibility to a strategic imperative. Defined as the development and implementation of products, processes, or organizational practices that reduce environmental footprints, green innovation is increasingly recognized as a dual-edged sword: a potential source of competitive differentiation and a catalyst for financial trade-offs. While prior research has extensively explored individual facets of this relationship—such as regulatory compliance (Aguilera-Caracuel et al., 2013), ESG synergies (Zheng et al., 2022), and innovation crowding-out (Arslan-Ayaydin et al., 2018)—a holistic understanding remains fragmented. This paper addresses this gap by systematically integrating disparate theoretical perspectives and empirical evidence to answer two pivotal questions: Under what conditions does green innovation enhance or erode corporate value? and How can firms and policymakers navigate these contingencies to achieve sustainable growth?

The urgency of these inquiries is underscored by three global trends. First, the rapid expansion of green financial instruments (e.g., green bonds) has reshaped capital allocation, with \$1.5 trillion annually flowing into sustainable projects (World Bank, 2023). Second, regulatory frameworks like the EU Carbon Border Adjustment Mechanism (CBAM) are redefining competitive landscapes, compelling firms to innovate or risk obsolescence. Third, stakeholder activism—from ESG-focused investors to environmentally conscious consumers—has elevated sustainability performance as a key determinant of market valuation. Despite these pressures, firms face persistent dilemmas: heavy upfront investments in green technologies often strain short-term profitability, while delayed action risks regulatory penalties and reputational damage.

This study advances the literature in three ways. First, it synthesizes conflicting findings into a coherent framework, distinguishing between value-enabling (e.g., ESG integration, hybrid innovation) and value-constraining (e.g., resource diversion, institutional voids) mechanisms. Second, it introduces a temporal lens, contrasting immediate financial trade-offs with long-term resilience gains.

2. CONCEPTUAL FOUNDATIONS OF GREEN INNOVATION

The relationship between green innovation and corporate value creation exhibits both synergistic potential and complex trade-offs, as evidenced by multifaceted empirical findings. Chen et al. (2006) establish a foundational linkage between green innovation types—specifically product and process innovations—and enhanced corporate competitive advantage. Their analysis demonstrates that investments in eco-friendly product designs (e.g., energy-efficient appliances) and sustainable production methods (e.g., waste-reducing manufacturing systems) enable firms to differentiate themselves in saturated markets, thereby capturing premium pricing power and customer loyalty. This aligns with resource-based view theory, positioning green innovation as a strategic capability that generates inimitable market advantages.

Building on this, Lampikoski et al. (2014) expand this perspective through their concept of "green innovation games" which categorizes corporate strategies into compliance-driven, differentiation-focused, and ecosystem-leadership approaches. They emphasize that successful adoption requires organizational transformation, including the integration of sustainability into corporate culture and decision-making frameworks. By systematically addressing internal barriers—such as resistance to change or misaligned incentives—firms can unlock the full potential of green innovation, translating ecological commitments into tangible market value.

3. CORPORATE PERFORMANCE AND GREEN INNOVATION

The relationship between green innovation and financial performance has been extensively investigated across diverse institutional and industrial contexts, yielding nuanced insights. Aguilera-Caracuel et al. (2013) revealed that firms pursuing green innovation tend to operate in environments characterized by stringent environmental regulations and elevated normative expectations for sustainability. Paradoxically, however, their analysis demonstrated that such firms do not consistently achieve superior financial performance compared to non-green innovators, suggesting that regulatory compliance alone may not suffice to translate ecological commitments into economic gains.

Conversely, Zhang et al. (2020) and Yan et al. (2021) present evidence supporting the Porter Hypothesis, which posits that well-designed environmental regulations stimulate innovation and competitiveness. Their studies show that firms integrating green innovation with robust environmental management systems (e.g., ISO 14001 certification) experience improved operational efficiency and stock market performance. Yan et al. (2021) further note that the value-enhancing effects are amplified in industries with high consumer environmental awareness, such as renewable energy and electric vehicles. These findings challenge the crowding-out narrative, emphasizing synergistic outcomes when green innovation aligns with market demand and organizational capabilities.

Przychodzen et al. (2018) further complicated this discourse by examining first-mover advantages in green innovation. Their findings indicated that high levels of green innovation activism, when synergistically combined with concurrent investments in non-green technological advancements, do not detrimentally affect short-term financial outcomes. This implies that firms adopting a balanced innovation portfolio—integrating green and traditional R&D—can mitigate potential trade-offs between sustainability objectives and profitability.

Table 1. Summary of Corporate Performance and Green Innovation

Author (s) (Year)	Key Findings	Main Conclusions	Impact Dimensions
Aguilera-Caracuel et al. (2013)	Green innovators typically operate under strict environmental regulations and high sustainability norms, yet show no consistent financial superiority over non-green peers.	Regulatory compliance alone cannot guarantee economic returns; requires strategic integration of ecological and economic goals.	Regulatory Intensity vs. Financial Performance
Zhang et al. (2020)	Supports Porter Hypothesis: Green innovation combined with environmental management systems (e.g., ISO 14001) enhances operational efficiency and stock performance.	Policy design and organizational implementation determine green innovation's value realization.	Policy Incentives & Competitiveness
Yan et al. (2021)	Value-enhancing effects of green innovation intensify in environmentally conscious industries (e.g., renewables, EVs).	Market demand serves as a critical moderator of green innovation's financial returns.	Industry Characteristics & Consumer Preferences
Przychodzen et al. (2018)	First-mover green innovators maintaining parallel non-green R&D avoid short-term financial deterioration.	Hybrid innovation strategies balance sustainability and profitability.	Innovation Portfolio Strategy
Yi et al. (2021)	Industry sector and geographic location significantly moderate green innovation-financial performance linkages.	Contextual factors shape green innovation's economic outcomes.	Regional & Industry Heterogeneity
Vasileiou et al. (2022)	Italian firms' green innovation outcomes depend on national institutional frameworks and green financing access.	Regional institutional support is crucial for green innovation success.	Institutional Environment & Financing Mechanisms
Zheng et al. (2022)	Positive correlation between green innovation, ESG ratings, and financial performance in Chinese GEM-listed firms.	ESG transparency amplifies green innovation value creation.	ESG Integration & Value Enhancement
Khanchel et al. (2023)	Concurrent ESG disclosure and green innovation drive financial gains in S&P 500 firms via investor confidence and operational efficiency.	Synergy between ESG practices and green innovation generates measurable financial improvements.	Stakeholder Trust & Efficiency Gains
Casciello et al. (2024)	Financial returns of green innovation in EU non-financial firms depend on strategic alignment of innovation types (product/process), supply chains, and governance systems.	Integrated frameworks are essential for evaluating green innovation outcomes.	Strategic Alignment & System Integration

The meta-analytic work of Yi et al. (2021) synthesized global evidence, identifying moderating variables such as industry sector and geographic location that influence the strength of the green innovation–financial performance linkage. Complementing this macro perspective, Vasileiou et al.

(2022) provided granular insights through their study of Italian firms, highlighting how national institutional frameworks and access to green financing mechanisms shape outcomes.

Regional specificities were further explored by Zheng et al. (2022) in their analysis of Chinese GEM-listed companies. Their research established a positive correlation between green innovation, enhanced ESG ratings, and financial performance, thereby underscoring the amplifying role of ESG transparency in value creation. This theme was reinforced by Khanchel et al. (2023), whose investigation of S&P 500 firms demonstrated that the concurrent implementation of robust ESG disclosure practices and green innovation initiatives generates measurable financial improvements, particularly through investor confidence and operational efficiency gains.

Most recently, Casciello et al. (2024) examined EU-listed non-financial firms, advocating for an integrated analytical framework that accounts for interdependencies between green innovation types (product vs. process), supply chain configurations, and stakeholder engagement strategies. Their work emphasized that the financial returns on green innovation are contingent upon strategic alignment with broader corporate governance systems and market positioning.

Collectively, these studies illuminate three critical insights:

Contextual Dependency: The financial implications of green innovation are mediated by regulatory intensity, industry characteristics, and regional institutional support mechanisms.

Complementarity Principle: Green innovation achieves optimal financial outcomes when embedded within hybrid innovation strategies and coupled with ESG transparency.

Temporal Dynamics: Short-term performance trade-offs may arise during transition phases but tend to dissipate as firms develop organizational capabilities for sustainable value capture.

This body of research underscores the need for multidimensional evaluation frameworks that reconcile ecological and economic performance metrics while accounting for heterogeneous implementation contexts.

4. GREEN INNOVATION AND CORPORATE VALUE

Several studies have consistently demonstrated that green innovation plays a pivotal role in bolstering corporate value and sustainability. Yue et al. (2022) conducted empirical research specifically on energy-based enterprises, revealing that corporate technological innovation, coupled with robust ESG (Environmental, Social, and Governance) information disclosure, has a positive influence on value creation. Their findings underscore the importance of integrating green strategies into corporate operations to enhance overall worth.

Furthermore, Khurram et al. (2023) explored the intricate relationship between green bond issuance, innovation performance, and corporate value within the Chinese context. Their study sheds light on how financing through green bonds can facilitate innovation, ultimately contributing to higher corporate value. Similarly, Lei et al. (2023) focused on China's chemical industries, investigating the impact of green technology innovation on energy consumption and corporate value. Their results emphasize the significance of green technology innovation in not only reducing environmental footprints but also in elevating corporate value.

Additionally, Zheng et al. (2024) examined the interplay between ESG performance, dual green innovation (encompassing both explorative and exploitative innovations), and corporate value among listed companies in China. Their analysis provides insights into how a balanced approach to green innovation can maximize corporate value. Meanwhile, Helmina et al. (2025) zeroed in on the coal industry, studying the combined impact of green innovation, environmental management systems, and research & development on firm value, with corporate financial performance serving as a

moderating factor. Their findings offer valuable perspectives on how green strategies can be effectively integrated into industries traditionally reliant on fossil fuels.

Table 2. Impacts of Green Innovation on Corporate Value

Impact Type	Author (s) (Year)	Key Findings	Main Conclusions	Influencing Factors
Positive	Yue et al. (2022)	Technological innovation + ESG disclosure enhances value creation in energy-based enterprises.	Integration of green strategies and transparency drives corporate worth.	ESG transparency, sector-specific strategies
	Khurram et al. (2023)	Green bond issuance in China facilitates innovation, leading to higher corporate value.	Green financing mechanisms enable innovation and value growth.	Green financing, institutional context
	Lei et al. (2023)	Green tech innovation reduces energy consumption and elevates value in chemical industries.	Green innovation improves sustainability and profitability simultaneously.	Industry-specific adoption, energy efficiency
	Zheng et al. (2024)	Dual green innovation (explorative + exploitative) maximizes value in Chinese listed firms.	Balanced innovation strategies optimize long-term value creation.	Innovation portfolio management
	Helmina et al. (2024)	Green innovation + environmental management systems enhance value in the coal industry.	Even fossil fuel-reliant industries can leverage green strategies for value creation.	Environmental governance, R&D integration
	Li et al. (2022)	Regional happiness and strong social networks positively correlate with green innovation.	Social and cultural contexts shape innovation capacity and value outcomes.	Regional social dynamics
	Li et al. (2017) & Chen et al. (2018)	Legitimacy pressures drive green innovation in competitive markets.	Proactive responses to stakeholder demands enhance reputation and value.	Stakeholder pressures, market competition
	Yan et al. (2021)	Green innovation + environmental management improves environmental and financial performance.	Strategic alignment of innovation and governance yields dual benefits.	Environmental governance, operational synergy
Negative	Arslan-Ayaydin et al. (2018)	"Crowding-out effect": Green energy investments may divert resources from profitable non-green projects.	Overemphasis on green innovation risks short-term profitability losses.	Resource allocation trade-offs
	Li et al. (2022)	Regional disparities in social cohesion limit green innovation effectiveness.	Fragmented social contexts weaken the link between green innovation and value.	Regional institutional barriers

Despite these positive aspects, some studies caution against potential drawbacks associated with green innovation. Arslan-Ayaydin et al. (2018) introduced the concept of the "crowding-out effect," suggesting that investments in green energy innovation might divert resources away from more profitable non-green projects, potentially leading to a decrease in firm value. This paradox underscores the necessity for companies to strike a delicate balance in their innovation portfolios to optimize overall performance.

Regional factors also emerge as significant in shaping corporate green innovation strategies. Li et al. (2022) found that regional happiness can influence the level of green innovation among firms, particularly in areas characterized by strong social networks. This finding implies that local social and cultural contexts can substantially impact a company's capacity for sustainable innovation, thereby influencing its overall value.

Moreover, the influence of external pressures on green innovation cannot be overlooked. Li et al. (2017) and Chen et al. (2018) presented evidence that legitimacy pressures from stakeholders can drive corporate green innovation, especially in highly competitive markets. This suggests that proactive responses to such pressures can bolster a company's reputation and, consequently, its corporate value. Additionally, Yan et al. (2021) revealed that effective environmental management, when paired with green innovation, leads to improved environmental performance, which in turn positively impacts firm value. These findings reinforce the notion that a strategic approach to environmental management can yield substantial financial benefits, further underpinning the importance of green innovation in enhancing corporate sustainability and value.

5. CONCLUSIONS AND FUTURE DIRECTIONS

5.1. Conclusions

This review elucidates the complex, context-dependent relationship between green innovation and corporate value, offering three overarching conclusions. First, green innovation is neither universally beneficial nor detrimental; its impact hinges on strategic alignment with organizational capabilities, market positioning, and external institutional environments. Firms that integrate green initiatives with core business models—such as through hybrid innovation portfolios (Przychodzen et al., 2018) or ESG-driven governance (Khanchel et al., 2023)—consistently outperform peers in both sustainability and financial metrics. Conversely, firms treating green innovation as a compliance-driven cost center often face the "crowding-out effect" where resource misallocation erodes short-term profitability (Arslan-Ayaydin et al., 2018). Second, regional and sectoral heterogeneities critically shape outcomes. In socially cohesive regions with robust institutional support (Li et al., 2022), green innovation thrives as collaborative networks and access to green financing mitigate implementation risks. Conversely, fragmented regulatory landscapes—common in emerging markets—stifle innovation by amplifying uncertainty. Sectorally, industries with high consumer environmental awareness (e.g., renewables, EVs) reap disproportionate rewards from green differentiation (Yan et al., 2021), while capital-intensive sectors (e.g., coal, heavy manufacturing) require tailored strategies to offset transition costs (Helmina et al., 2024). Third, temporal dynamics underscore the importance of patience and adaptive governance. While green innovation often entails upfront costs, longitudinal studies (Yi et al., 2021) confirm that value materializes over 3–5 years as firms build organizational capabilities and market recognition. Policymakers can accelerate this process through phased subsidies, tax incentives for R&D, and standardized ESG reporting protocols to reduce information asymmetries.

5.2. Theoretical Implications and Practical Recommendations

This study offers theoretical implications and practical recommendations that bridge several divides. It reconciles the resource-based view and institutional theory by demonstrating how green innovation transforms regulatory constraints into strategic assets. The framework validates the Porter Hypothesis

in contexts where innovation aligns with market demand, while cautioning against its blanket applicability in resource-constrained settings, thereby addressing trade-off critiques. Additionally, the study positions ESG not just as a reporting tool but as a governance mechanism that can either amplify or undermine innovation efficacy. For firms, practical recommendations include adopting ambidextrous innovation strategies by allocating 30-40% of R&D budgets to green technologies while maintaining core competencies, leveraging ESG disclosures as strategic communication tools, and engaging in regional partnerships to navigate institutional complexities. For policymakers, recommendations include designing sector-specific incentive schemes, strengthening green financing infrastructure, particularly for SMEs, and harmonizing international ESG standards to reduce compliance burdens for multinational firms.

5.3. Future Research Directions

- (1) Temporal Analyses: Longitudinal studies tracking green innovation's lifecycle impacts across industries.
- (2) Digital-Green Synergies: Exploring how AI, blockchain, and IoT can optimize green supply chains and innovation scalability.
- (3) Cross-Cultural Comparisons: Comparative studies of green innovation efficacy in collectivist vs. individualist societies.
- (4) Behavioral Insights: Investigating managerial cognitive biases in green investment decisions.

In conclusion, green innovation represents a pivotal yet perilous pathway to sustainable value creation. By embracing complexity and contextuality, firms and societies can transform environmental challenges into engines of inclusive growth.

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