

# Optimizing Human Capital for ESG Success: A Social Cognitive Theory Perspective on Multinational Corporations in China

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**Abstract:** Multinational corporations (MNCs) play a pivotal role in driving sustainable development by effectively implementing Environmental, Social, and Governance (ESG) strategies. This study adopts the lens of Social Cognitive Theory to analyze how MNCs operating in China can optimize human capital to enhance ESG outcomes. By exploring the interplay between individual cognition, organizational culture, and incentive mechanisms, the research establishes a human capital-driven framework for ESG implementation. Key findings emphasize the importance of cultivating ESG awareness among employees, fostering an ESG-centric organizational culture, and designing robust incentive structures to align individual behaviors with corporate sustainability goals. This comprehensive approach offers practical insights for MNCs striving to balance profitability with social responsibility and environmental stewardship in a rapidly evolving global landscape.

**Keywords:** ESG; Environmental protection; Social responsibility; MNCs governance; Social Cognitive Theory

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## 1. Introduction

In the era of deepening global economic integration, multinational corporations (MNCs), who are pivotal players in global economic activities, shape not only their own sustainable development but also exert profound impacts on the global environment, social well-being, and corporate governance structures through their operational conduct. Recently, ESG factors have garnered unprecedented global attention as crucial indicators for assessing non-financial corporate performance. In China particularly, the government's heightened focus on green development and corporate social responsibility (CSR), coupled with investors' and consumers' strong demand for ESG information, has placed MNCs under unprecedented pressure and presented them with unique opportunities, necessitating substantial advancements in ESG implementation. However, achieving this is no easy feat as it demands profound transformations across various levels, including strategy formulation, operational management, and supply chain integration. In this endeavor, the significance of human capital as the core driving force for corporate growth cannot be overstated. The knowledge, skills, attitudes, and leadership capabilities of employees

are crucial for a company's ability to recognize and address ESG (Environmental, Social, and Governance) challenges effectively. These factors also play a significant role in integrating ESG principles into daily operations, helping to create a culture of continuous improvement.

Social cognitive theory offers robust theoretical support for understanding the role of human capital in ESG implementation. According to this theory, individuals' cognitions, emotions, and behaviors are influenced not only by the external environment but also by their cognitive structures and experiences. In the context of ESG implementation by MNCs, this implies that employees' perceptions and attitudes towards ESG, as well as their behavioral habits formed through practice, will directly influence the effectiveness of corporate ESG strategies. Thus, exploring ways to effectively promote ESG implementation among MNCs in China's unique cultural and social context, by optimizing human capital allocation and enhancing employees' ESG awareness and capabilities, holds significant theoretical and practical importance.

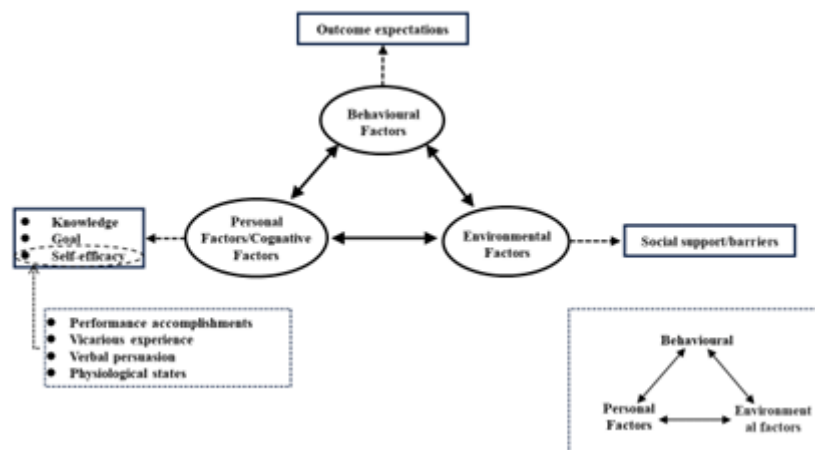
## 2. Literature review

In recent years, with the escalating global focus on sustainable development and corporate social responsibility, ESG criteria have emerged as pivotal benchmarks for assessing the comprehensive performance of enterprises. Many multinational corporations worldwide have integrated ESG into their strategic frameworks, actively showcasing their commitment to environmental protection, social responsibility, and corporate governance by creating ESG policies, publishing ESG reports, and setting ESG targets. In China, the government's focus on the green economy and ecological civilization construction, along with a strong demand for ESG information from investors and consumers, places unprecedented pressure on MNCs to achieve substantial progress in ESG implementation <sup>[1]</sup>. However, despite the widespread dissemination of the ESG concept globally, MNCs still face numerous challenges in implementing ESG in China. Multinational corporations (MNCs) must take into account the unique characteristics of the Chinese market, including its policy environment, cultural customs, and consumer preferences when developing ESG strategies that emphasize localization. However, MNCs often face challenges such as information asymmetry, resource constraints, and conflicts of interest in implementing these ESG strategies. Therefore, it is essential to identify effective pathways to overcome these obstacles <sup>[2]</sup>.

Human capital, as the core driving force for enterprise development, plays a crucial role in ESG implementation. The components of human capital, including employees' knowledge, skills, attitudes, and leadership, play a crucial role in determining how well companies can identify and tackle ESG challenges. Additionally, these elements influence a company's ability to incorporate ESG principles into its daily operations, promoting a culture of continuous improvement. Research shows that human capital plays a crucial role in the implementation of ESG practices in several ways. Firstly, it is essential to employee training and education, which enhances awareness and understanding of ESG issues, enabling employees to engage actively in related practices. Secondly, designing incentive mechanisms encourages employees to embody ESG principles in their work—such as energy conservation, emission reduction, and protecting consumer rights. Lastly, effective leadership is vital, as senior managers must incorporate ESG considerations into strategic decision-making to drive significant progress in ESG initiatives within the organization.

Social Cognitive Theory (SCT), as one of the important theories in psychology and organizational behavior, provides a foundational framework for exploring the factors influencing individual behavior. Originating from Alber Bandura's Social Learning Theory and later incorporating cognitive components, SCT forms the "Triadic Reciprocal Determinism," emphasizing the interaction between individuals, their environment, and behavior. SCT posits that the best predictor of behavior is an individual's intention to perform a particular behavior, i.e.,

their willingness to participate, which is influenced by self-efficacy, outcome expectations, and satisfaction with the external environment. Individual behavior is the result of the interaction between personal factors and the environment, shaped by intrinsic traits, experiences, and the external social environment [3-5]. The theory suggests that an individual's cognitions, emotions, and behaviors are not only influenced by the external environment but also by their own cognitive structures and experiences. In the context of ESG implementation by MNCs, this means that employees' cognitions, attitudes, and behavioral habits formed through practice will directly impact the effectiveness of the enterprise's ESG strategy implementation [6].



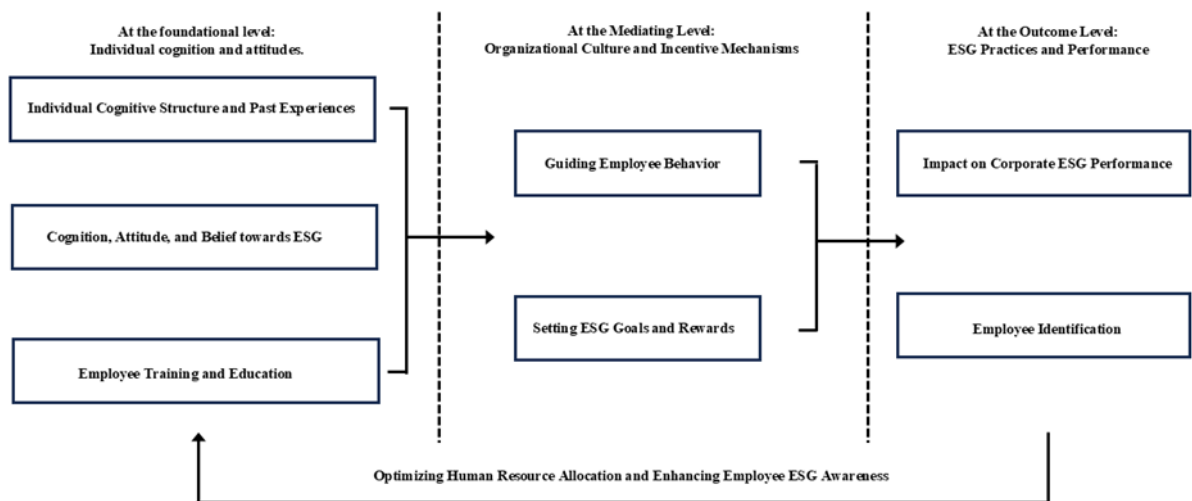
**Figure 1.** The Social Cognitive Theory model

Human capital plays a vital role in the ESG implementation of MNCs, and Social Cognitive Theory provides robust theoretical support for understanding this process. However, current research on how MNCs in China utilize human capital to enhance ESG implementation is limited, highlighting the need for further research and theoretical exploration to address this gap. Building on this foundation, this study will delve into the pathways through which MNCs in China can harness human capital to drive ESG implementation by constructing a theoretical framework based on Social Cognitive Theory.

### 3. Research framework

Using Social Cognitive Theory, this study creates a theoretical framework for multinational corporations to utilize human capital in enhancing ESG implementation in China. This framework comprises three core components: individual cognition and attitudes, organizational culture and incentive mechanisms, and ESG practices and performance. These components are interconnected and interdependent, collectively forming a dynamic system that drives ESG implementation within MNCs operating in China.

Individual cognition and attitudes form the solid foundation of the theoretical framework. According to the core tenets of Social Cognitive Theory, an individual's cognitive structure and past experiences play a pivotal role in shaping their behavioral patterns. In the context of MNCs' commitment to ESG strategy implementation, employees' ESG cognition, attitudes, and deep-seated belief systems become critical factors determining their job performance. Employees who have a deep understanding of ESG principles, maintain a positive attitude towards them, and firmly believe in their significance are more likely to take proactive steps that align with these principles in their daily work. This, in turn, contributes to the overall ESG strategy of the company.



**Figure 2.** Diagram of theoretical models for multinational enterprises

Organizational culture and incentive mechanisms serve as the intermediary bridge within the theoretical framework. Organizational culture, as a widely shared system of values and behavioral norms within a company, not only provides behavioral guidance for employees but also influences and constrains their behavior through invisible forces. An organizational culture with ESG as its core values can stimulate employees' internal identification and external actions towards ESG practices. Simultaneously, incentive mechanisms, as important external drivers of employee behavior, further reinforce employees' motivation to embrace ESG principles by setting clear and specific ESG goals and corresponding reward measures. This combination of internal and external factors encourages employees to actively engage in ESG practices while pursuing their personal career development.

ESG practices and performance constitute the outcome level of the theoretical framework and are crucial for validating its effectiveness. As direct outcomes of employee behavior, the quality and effectiveness of ESG practices not only reflect employees' level of ESG cognition and their efforts in implementation but also directly impact a company's ESG performance. A successful ESG practice project can enhance a company's environmental and social benefits, while also improving its brand image and market competitiveness, ultimately leading to economic growth. Continuous improvement in ESG performance further reinforces employees' sense of identification and belonging towards ESG practices, fostering a virtuous cycle from individuals to organizations and back to individuals. This cycle not only helps consolidate and deepen a company's ESG culture but also lays a solid foundation for achieving sustainable development.

The current state of human capital in China shows continuous growth in total volume, although the rate of growth is slowing. According to the China Human Capital Report 2023, the total human capital in China, valued at current prices, has reached RMB 337.83 trillion, with a significant proportion coming from urban areas<sup>[7]</sup>. However, the growth rate has declined compared to the past decade, reflecting the gradual maturity and stabilization of the labor market. Additionally, the average age of the workforce is rising, and educational attainment is generally improving, which brings more highly skilled talent to the market but also poses new challenges for human resource management.

The human resource development dynamics for MNCs in China show that, due to China's rapid economic growth, an increasing amount of MNCs are focusing on localization strategies, with human resource localization being a key element. MNCs not only recruit local employees for the Chinese market but also increase the percentage of Chinese nationals in senior management positions to better integrate into the Chinese market and

enhance their competitiveness. However, the localization process also faces issues such as cultural differences, regulatory compliance, and understanding of employee values.

## 4. Conclusions and recommendations

We investigated the relationships between individual cognition and attitudes, organizational culture and incentives, and ESG (Environmental, Social, and Governance) practices and performance. This analysis highlighted key factors that influence the implementation of ESG strategies, providing a framework for multinational companies (MNCs) operating in China. Our study focused on employees across various industries and job levels. However, the emphasis on ESG varies by industry. For instance, service sectors such as catering and retail, along with IT and tech firms, often prioritize social responsibility and corporate governance over carbon reduction. In contrast, manufacturing industries tend to concentrate on carbon-related issues. Employees' efforts and intentions are aligned with these strategic focuses as well as with the strategies and governance set by senior executives. Future research should explore specific industries and job levels within MNCs to gain a deeper understanding of employees' behavioral intentions regarding ESG initiatives.

## Disclosure statement

The authors declare no conflict of interest.

## Author contributions

Conceptualization: Lu Xu

Methodology: Lu Xu

Formal analysis: Lu Xu

Writing—original draft preparation: Lu Xu

Writing—review and editing: Yunhai Dai

Supervision: Yunhai Dai

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