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Analysis of the Financial Performance Management Path of Enterprises under Green Tax Policy

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Abstract: Under the backdrop of green tax policies, companies face new challenges and opportunities in financial performance management. This paper explores the direct and indirect impacts of green tax policies on corporate financial performance management, highlighting the main issues companies encounter during their green transformation from three aspects: performance evaluation systems, information disclosure supervision, and green investment. In response to these issues, the paper further proposes optimization paths for corporate financial performance management. The aim is to provide guidance for companies to promote green transformation through economic means and to offer decision-making support for governments in formulating relevant green development policies.

Keywords: Green Tax Policy; Financial Performance Management; Environmental Information Disclosure

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1.Introduction

Industrialization and urbanization are accelerating, leading to increasingly severe environmental pollution, which poses a significant threat to human survival and development. Driven by global environmental protection trends, environmental conservation has become an urgent social issue in China today. Environmental protection is not only the responsibility of the government and environmental organizations but also an inescapable social duty for enterprises. To achieve sustainable development goals, companies need to transform their strategies towards greener practices. As consumer awareness of environmental issues grows, the demand for green products and services is increasing. By adopting green transformation strategies, companies can meet market demands, gain policy support and incentives, and enhance their economic benefits and social impact. Among these measures, the introduction of green tax policies, which impose higher taxes on high-polluting and high-energy-consuming enterprises, encourages companies to reduce pollutant emissions and improve resource efficiency, guiding and incentivizing them to focus more on environmental protection during operations. Financial performance management is a crucial aspect of corporate strategy implementation. Under green tax policies, financial performance management must pay greater attention to the relationship between the company and the environment, incorporating environmental costs and benefits into the evaluation criteria. This helps companies adapt to the requirements of green tax policies, enabling them to achieve economic benefits while also considering social and environmental impacts. In this context, exploring the management paths of corporate financial performance under green tax policies becomes particularly important.

2.The necessity of financial performance management under green tax policy

2.1 Direct impact

Companies should attach importance to the direct impact of green tax policies on their development. On one hand, the implementation of green tax policies is a means for government to regulate environmental protection actions, aiming to encourage companies to reduce pollutant emissions and adopt more environmentally friendly production technologies[1] through economic incentives. It also presents an opportunity for companies to enhance their environmental awareness and sense of social responsibility. For companies, improving environmental awareness and social responsibility is a necessary choice to adapt to green tax policies. Under the backdrop of green tax policies, companies face additional financial pressures from environmental taxes and carbon taxes. If internal management lacks environmental awareness and fails to timely adjust its operational model according to green tax policies, it will face high tax burdens and other fines, negatively impacting its financial performance. On the other hand, enhancing social responsibility can boost a company's market competitiveness and brand value[2]. As consumers and investors increasingly focus on environmental and social responsibilities, a company's performance in these areas becomes a concrete manifestation of its market competitiveness. Companies with a strong sense of social responsibility are more likely to win consumer trust and loyalty, attracting more green investments. At the same time, actively participating in environmental protection and public welfare not only secures more market opportunities but also wins the favor of investors in the capital market, directly reflected in increased sales growth and reduced financing costs, thereby improving the company's financial condition. Moreover, in the modern economic environment, short-term financial performance is no longer the sole pursuit of companies; long-term sustainable development has become a new strategic focus. By enhancing environmental awareness and social responsibility, companies can more effectively manage their environmental costs, continuously optimize resource allocation, improve production efficiency, and reduce long-term operational risks. At the same time, a strategic mindset for sustainable development can influence the company's development costs and revenue in a highly competitive market environment, directly impacting the management and continuous improvement of financial performance.

2.2 Indirect effects

Currently, green tax policies are being gradually promoted globally. In line with these policies, the government has implemented mandatory regulations for corporate environmental behavior. Companies should pay more attention to the indirect impact of green tax policies on their internal development and financial performance management. On one hand, as green tax policies are rolled out nationwide, a well-established green tax system can provide clearer guidance and support to companies, helping them better understand and respond to changes in the market environment, thereby optimizing financial management[3]. Optimizing financial performance management not only reduces environmental risks but also enhances overall financial performance, achieving a win-win situation for economic and environmental benefits[4]. On the other hand, green tax policies not only require companies to comply with environmental laws but also encourage them to take proactive environmental measures to reduce environmental risks. By establishing an environmental cost accounting system, companies can accurately calculate and manage environmental costs, reduce environmental tax burdens, and improve financial transparency and management efficiency. Further strengthening environmental risk assessment and management can minimize fines and compensation due to environmental violations, thus ensuring financial health[5]. Moreover, an innovation-driven development model aligns with the requirements of green tax policies, promoting long-term sustainable development for companies. Through research and application of green technologies, companies continuously innovate and upgrade green technologies, reducing pollutant emissions and energy consumption during production processes, achieving clean production and recycling. This not only lowers environmental costs but also optimizes resource allocation, impacting financial performance management[6].

3.Problems existing in financial performance management of enterprises under green tax policy

3.1 The performance evaluation system is not perfect

The compensation of business operators is linked to corporate financial indicators, leading them to prioritize short-term benefits and downplay the importance of non-financial metrics such as energy conservation and emissions reduction. To break this deadlock, “Chinese-style performance management” must shift from an excessive focus on outcomes to greater emphasis on processes, and from short-term to long-term considerations. The imperfections in China’s green financial performance evaluation system are mainly reflected in three aspects: First, the setup of non-financial indicators in the corporate performance evaluation system is inadequate; these indicators account for too little or are difficult to quantify, causing ambiguity in performance evaluations. When assessing overall performance levels, most companies prioritize financial indicators, but an evaluation system heavily weighted towards financial metrics can foster short-term profit motives, which not only contradicts China’s green development philosophy but also leads to one-sided evaluation results, hindering sustainable corporate growth. Second, performance evaluation indicators fail to fully reflect the principles of green development and social responsibility. The lack of standardized non-financial indicators makes it difficult for companies to promptly identify shortcomings in environmental and social performance, thus making it hard to adjust their development paths in a timely manner. An evaluation system dominated by financial performance also discourages employees from practicing green development concepts, neglecting the company’s long-term goals and social responsibilities, ultimately preventing the company from achieving sustained positive development. Third, differences across industries pose another challenge in corporate performance evaluation. Significant variations exist between different industries and even among companies within the same industry, making a generalized evaluation system unsuitable for all enterprises. When performing performance evaluation, enterprises must combine their own business characteristics and comprehensively consider the norms of green tax policies to construct an applicable green financial performance evaluation index system.

3.2 Insufficient disclosure and external supervision

Information disclosure serves as a vital bridge for communication between companies and the external environment. However, incomplete and inaccurate information disclosure hinders external oversight. On one hand, information asymmetry makes it difficult for outsiders to assess a company’s environmental performance. Many companies focus on traditional financial data such as revenue, profit, and costs when disclosing financial information, while neglecting crucial environmental protection-related details. The lack of detailed green financial information, including pollutant emissions, resource consumption, environmental investments, and emission reduction effects, prevents investors, regulatory bodies, and the public from fully understanding a company’s performance in environmental protection. Even if companies disclose some green financial information, the authenticity and accuracy of this information cannot be guaranteed. If companies exaggerate their environmental achievements or conceal shortcomings and violations in environmental protection, the true state of their environmental performance can be obscured, making it difficult for outsiders to evaluate their environmental performance and further complicating external oversight. In such cases, external supervision loses its effectiveness and fails to effectively monitor and assess a company’s environmental performance. On the other hand, there is no uniform standard for green financial information disclosure at the global and national levels. There are significant differences among companies in terms of content, format, and frequency of disclosure. The absence of a standardized mechanism makes it challenging for companies to ensure the completeness and consistency of their information, leading external stakeholders to struggle in comparing different companies’ green financial information and thus failing to form a comprehensive understanding of the industry’s overall environmental performance. In addition, due to the incompleteness and opacity of green financial information, it is difficult for enterprises to form a scientific decision support system internally. Business operators may pay more attention to short-term financial indicators, which may encourage short-term speculative behavior to gain short-term benefits, neglecting long-term environmental protection and sustainable development goals. This could lead to environmental pollution and resource waste, contradicting the original intentions of green development and social responsibility.

3.3 Green investment expenditure is too heavy

The implementation of green tax policies requires companies to strictly adhere to environmental standards; otherwise, they will face hefty fines, making their pollution emissions more costly. On one hand, to comply with the relevant provisions of green tax policies, companies need to invest substantial funds in environmental facilities and pollution control, as well as regular maintenance to ensure proper functionality. The high initial capital expenditure and subsequent maintenance costs directly increase operational expenses. Moreover, cost shifts force companies to pay more taxes, reducing funds available for other areas, which limits corporate development space and negatively impacts long-term growth. On the other hand, when facing increased environmental costs, companies often find themselves in a dilemma. They need to invest heavily in environmental equipment and technology upgrades while also maintaining sufficient funds for daily operations and market expansion. If companies fail to balance environmental protection and economic benefits, short-term financial pressure will severely affect their profitability. Additionally, although green investment is a necessary means for companies to meet environmental standards, purchasing more environmentally friendly equipment, implementing more energy-efficient manufacturing processes, or upgrading or rebuilding production lines does not always bring immediate economic returns. Green technological changes and equipment modernization often require significant capital investment, but the operating costs of green technologies and equipment are high, and companies need a considerable amount of time to recoup their investment. At the same time, the market prices of green products may not be higher than those of traditional products in the short term, making it difficult for companies to quickly cover their investment costs through product sales, further increasing their financial pressure. If the enterprise can not effectively manage these financial risks, it may lead to the enterprise into financial difficulties, or even face the risk of bankruptcy.

4.Analysis of the management path of enterprise financial performance under green tax policy

4.1 Formulate diversified development strategies

Companies should attach importance to the direct and indirect impacts of green tax policies on their development. Whether in the growth stage or mature, companies should seize this opportunity to adjust their development strategies, tackle key technologies, ensure stability in development, and adopt long-term strategic planning to form a foundation for diversified development, thereby exploring the space for corporate green transformation. First, when managing financial performance, companies need to integrate green concepts into their development strategies and enhance performance management levels by establishing a green performance indicator system and developing green financial management tools. They must also fully consider the impact of green tax policies on operating costs, investment decisions, and market positioning, incorporating environmental factors into their considerations to formulate strategic plans that align with policy guidance and the company's long-term development. Second, companies should strengthen green technology innovation and R&D investment to achieve diversified technological innovation. They should continuously improve their environmental standards in areas such as energy conservation, emission reduction, global and green energy production, pollution reduction, and production environment technology improvements. Emphasis should be placed on cultivating and attracting high-quality talent and establishing industry-university-research cooperation mechanisms with schools to continuously enhance employees' professional skills and innovative capabilities. Third, companies should actively explore diversified financing channels in the green financial market. Under green tax policies, the environmental costs faced by companies increase, leading to greater financial pressure. Companies should actively seek support from green bonds and green credit products to reduce financing costs and provide financial security for their green transformation. Fourth, companies should focus on expanding into diversified markets. With the increasing demand of consumers for green products, enterprises should actively adjust the product structure, develop green products in line with market demand, and expand the international market to improve the competitiveness of enterprises in the global market.

4.2 Improve the quality of information disclosure

Environmental information disclosure is not only a social responsibility but also an internal management task for companies. As the public and corporate stakeholders increasingly focus on environmental protection, companies must not only disclose their environmental information internally but also seek a balance between public environmental awareness and economic interests. On one hand, companies should proactively disclose environmental information, enhancing the transparency of non-financial data, especially regarding their social responsibility and green practices, to send positive environmental signals to the public, thereby improving their social image and market value. Moreover, during the process of environmental information disclosure, companies can better align with green tax policies by organizing green financial information, enriching their green financial databases, and addressing any gaps in financial data. On the other hand, companies should strengthen communication with stakeholders on environmental information, improve the information disclosure system, and ensure the reliability and timeliness of environmental information. Currently, the third-party service market has developed quite maturely, and leveraging the power of third-party institutions can enhance the quality of corporate environmental information disclosure. By utilizing these institutions, companies can promote the provision of specialized information disclosure services, indirectly improving the standardization and professionalism of their disclosures. Additionally, the role of the government is to regulate corporate behavior through the formulation and enforcement of environmental laws. Government environmental supervision not only encourages companies to pay attention to environmental issues but also requires them to assume environmental responsibilities, thus driving companies to improve their environmental governance and information disclosure. These measures will not harm the fundamental interests of enterprises, but force them to better manage and reduce environmental emissions, so as to meet the social demand for sustainable development.

4.3 Optimize financial management process

Under the backdrop of green tax policies, companies need to integrate green concepts into their financial decision-making and budget management. First, adjust financial planning. Companies should conduct in-depth study and analysis of green tax policies to understand their impact on financial performance metrics such as cost, profit, and cash flow. To meet the requirements of green tax policies, companies should consider environmental factors at the initial stage of financial planning, develop a dedicated green budget to support projects that reduce environmental pollution, and seek and utilize diversified financing channels during the mid-term. By collaborating with banks and other financial institutions, they can leverage green credit and other financial products to provide necessary funding for their environmental projects. Second, establish a green investment evaluation system. For investments and risk management in green projects, companies should adopt more systematic and scientific methods. By establishing a comprehensive green investment evaluation system, companies can accurately analyze the potential environmental benefits and economic returns of each investment project, and comprehensively assess the environmental impact, potential environmental tax incentives, and long-term economic benefits of the projects. Third, improve the financial risk management system. Companies should strengthen risk management for green projects, identify and evaluate potential environmental risks, and pay greater attention to uncertain factors such as the failure of green technology implementation or changes in market demand, ensuring the robustness of investment decisions. Fourth, introduce advanced financial management technologies. By leveraging advanced information technology, using automated accounting systems and intelligent financial analysis software, companies can better integrate green financial information and manage finances more efficiently.

Conclusion

The original intention of implementing green tax policies is to protect the ecological environment and thereby achieve sustainable development. If companies can actively respond to these policies by innovating in green technology and optimizing management, they can not only reduce environmental costs but also enhance market competitiveness and brand value. However, due to the lack of non-financial indicators in corporate green performance evaluation systems, insufficient environmental information disclosure, and high capital expenditures resulting from green investments, the associated green tax costs and management costs pose challenges for corporate development. To address these challenges, a strategic green transformation is needed. By formulating diversified development strategies, improving the quality of information disclosure, and optimizing financial management processes, companies can not only lower environmental risks and meet environmental protection goals but also better manage their financial performance to improve overall financial outcomes. In the future, companies should continue to explore green development paths to achieve a win-win situation for economic and environmental benefits, driving continuous progress on the path of sustainable development.

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Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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