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# *Review on the Impact of Corporate ESG Practices on China's Economy and Society*

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***Abstract:*** ESG has become a popular topic in the current international community, and it is also an important direction and perspective for academic research at home and abroad. There are many empirical studies on ESG, but few review literatures. Based on the methods of literature research, comparative analysis, and historical research, this paper sorts out and summarizes the existing Chinese literature on ESG and its connotation, corporate performance, corporate governance, macroeconomic transformation, and ESG localization. The results show that ESG practices positively correlate with corporate financial performance, and good corporate governance helps improve corporate management. In addition, ESG is conducive to improving corporate resource utilization efficiency, promoting corporate green transformation, helping enterprises cope with economic transformation challenges, promoting China's social transformation, and building a localized ESG system.

***Keywords:*** ESG, Sustainability, Chinese Economy, Literature Review, Corporate Performance.

## 1. Introduction

ESG theory was first proposed in 2004, and was first put forward in the report "Who Cares Wins" by the United Nations Global Compact organization; in 2006, the United Nations Principles for Responsible Investment (UNPRI) was released, which further integrated ESG internationally. ESG is an abbreviation for Environment, Social Responsibility, and Corporate Governance, and requires companies to assume social responsibility while pursuing profit. It embodies the sustainable development concept of the trinity of economic development, environmental protection and social justice, and plays an important role in the decision-making process of the government's regulatory departments to formulate corresponding policies, pro-social managers who adhere to the ESG concept and investors, helping countries better respond to the multiple challenges of the new Coronavirus, climate change, and economic recession, and is becoming a new signpost for corporate development[1-3].

"ESG" is in line with the requirement of "companies should assume the social responsibility" in the Company Law passed by China in 1993. The development of ESG in China began in 2018. The CSRC revised the "Corporate Governance Guidelines for Listed Companies", and added the chapter of "Stakeholders, Environmental Protection and Social Responsibility". It stipulated: that listed

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companies should disclose environmental information (E), fulfil social responsibilities such as poverty alleviation (S), and corporate governance-related information (G), and officially establish China's basic framework for disclosure of environmental, social responsibility and corporate governance (ESG) information. Combined with China’s basic national conditions, in 2022, the relevant departments of The State Council formulated and issued an “Action Plan”, which raised the domestic environmental, social and governance (ESG) management and information disclosure requirements to a higher level. It proposed to "implement the new development concept, explore the establishment of a sound ESG system, and strive to achieve 'full coverage' of the disclosure of relevant special reports by 2023."

At present, many listed companies in China are writing corporate ESG reports. ESG concepts have developed initially in China and presented a rising development trend, but most of them are empirical studies, and there are few review articles [4]. This article summarizes the existing Chinese literature by using the methods of literature research, comparative analysis and historical research, and attempts to construct a relatively complete research framework by focusing on the influence of ESG on the financial performance of Chinese enterprises, the role of corporate governance, the impact on the transformation of China's macro-economy, the role in promoting corporate social responsibility, and the ideas and general principles of Chinese ESG practices in existing literature, to provide some theoretical support for the study of ESG in the academic community and contribute to the sustainable and high-quality development of China's economy.

## 2. ESG Implementation of Enterprises

### 2.1. ESG Concept

As mentioned above, ESG represents Environment (E), Social Responsibility (S), and Governance (G), which originated from the United Nations Global Compact's 2004 report "Who Cares Wins: Connecting Financial Markets to a Changing World". However, the definition and application of ESG concepts have not yet formed a clear and fully recognized unified definition worldwide [5-6]. There are currently three main categories of disagreement. The first category is the expression of "ESG" as "Environment, Social and Governance"; the second category of scholars expresses "S" as "Social Responsibility"; the third category of scholars expresses "G" as "Corporate Governance". This article follows the earliest definition of the United Nations Global Compact and defines ESG as "Environment, Social and Governance".

Several scholars have pointed out that the concept of ESG performance is substantively related to socially responsible investing (SRI), corporate social responsibility (CSR), and the concept of sustainability [7]. CSR, namely Corporate Social Responsibility, emphasizes that while creating profits, enterprises need to assume Stakeholder Theory responsibility, and stakeholders refer to employees, consumers, and society. However, compared with CSR, ESG focuses more on striking a balance between justice and profit, emphasizing that in addition to managing enterprises well, assuming responsibility to shareholders or stakeholders, and ensuring sustainable development of the enterprises, attention shall also be paid to the interactive influence between the enterprises, the environment, and the society. In comparison of ESG with SRI, namely socially responsible investment, ESG focuses more on comprehensive consideration of relevant risks and opportunities.

ESG is currently often used as an adjective. ESG refers not only to ESG ratings or scores but also to ESG practices, ESG policies, ESG information disclosure, etc [8]. The ESG rating process abroad is divided into three steps. First, the listed company publishes an ESG report according to the relevant framework and requirements. Second, a professional rating company rates the company's ESG performance. Third, the company adjusts and improves its governance structure based on the rating. At the same time, it is worth mentioning that investment institutions in the

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capital market complete ESG investment decisions for listed companies based on ESG ratings [9]. However, due to the lack of a unified ESG evaluation standard, China's ESG development still faces many challenges. Some scholars have studied the ratings and scores of three listed companies in different rating agencies (Wind, SynTao Green Finance, Mio Tech, Sino-Securities) and found that direct horizontal comparison of the results of different rating agencies is not directly comparable, which greatly weakens the reference value of the rating results for investment decisions, and at the same time increases the risks and uncertainties of the investment market [10].

### 2.2. Corporate Implementation of ESG Progress

According to the data of "ESG Rating Analysis Report of A-share Listed Companies" released by SynTao Green Finance, the number of listed companies issuing ESG reports on the A-stock market has experienced significant growth, from 371 in 2009 to 1,439 in 2022. The ESG report release ratio in 2022 exceeded 31%, of which the ESG report release ratio of Shanghai and Shenzhen 300 companies in 2022 was close to 90%, reaching the highest in nearly 14 years; in 2022, a total of 1245 A-share listed companies had ESG ratings of B (inclusive) or above, accounting for 28.4%. Comparing the companies that belong to the CSI 800 constituent stocks in 2022 and 2023, 46.7% of the companies have upgraded their ESG ratings, 49.6% of the companies have maintained their ratings, and only 3.7% of the companies have downgraded their ratings; while the rating change structure of CSI 800 constituent stocks from 2021 to 2022 was 38.5% upgraded, 48.5% remained the same, and 13% downgraded. It can be seen from this that the ESG management level of the vast majority of listed companies is improving or maintaining a stable level, and the proportion is increasing. Fewer and fewer companies are experiencing a decline in ESG performance.

## 3. Research on the Influence of Corporate ESG Practices on China's Economic Transformation and Upgrading

### 3.1. ESG Practices and Corporate Financial Performance

Literature generally holds that there is a positive correlation between enterprises' ESG practices and corporate performance[11]. Some studies have found that enterprises with high ESG scores tend to have higher financial performance, are regarded as low-risk investments, and help to attract more long-term investors. In the context of China, enterprises that attach greater importance to ESG usually enjoy higher market value and better stock price performance.

Specifically, the transmission path is that corporate ESG performance will have an innovation effect on enterprises, and it will improve corporate innovation performance by promoting effects such as optimizing fund liquidity and enhancing employees' innovation efficiency and risk-taking level [12]. It is worth mentioning that Zhang Lin, Yan Weixiang and Liang Biming all found that ESG performance has a significant heterogeneous impact on the financial performance of state-owned and non-state-owned enterprises, large and medium-sized enterprises, and manufacturing and non-manufacturing enterprises. Among them, non-state-owned enterprises, small and medium-sized enterprises, and manufacturing enterprises have a stronger positive promotion effect [13-15]. However, Yang Ruibo found that the relationship between ESG performance and corporate performance is affected by corporate pollution level, corporate nature, regional economic development level, and low pollution, non-state-owned, eastern region, and non-provincial capital cities. The ESG rating of enterprises can significantly improve corporate performance [16].

As a result, to win the favor of investors and the wide recognition of stakeholders, companies with ESG advantages should strive to build a comprehensive and sound ESG ecosystem and continuously improve their ESG performance [17]. This includes demonstrating greater responsibility and contribution in terms of environmental practices, social responsibility, and corporate governance optimization, so as to demonstrate the company's firm commitment to sustainable development.

## 3.2. Corporate Governance and Its Role in ESG Practices

Research on the dimension of governance shows that a sound corporate governance structure and high transparency can improve the level of corporate management, reduce corruption and management risks, promote efficiency and innovation, and lay a solid corporate foundation for economic transformation. Lei Lei pointed out that the data of 2371 A-share listed companies in China from 2007 to 2019 were used to verify two opposing mechanisms, namely, corporate collaborative governance and collusive fraud, proposed from the micro perspective of common institutional shareholding [18]. The results show that common institutional shareholding will significantly reduce the ESG performance of enterprises. The reason is that it will enhance the market monopoly position of enterprises and weaken the internal motivation and pressure of enterprises' ESG investment.

Other studies have also found that the governance performance of corporate party organizations plays a positive role in promoting ESG performance. [19]. Based on the empirical test of corporate ESG practices, Wang Jiayue conducted a heterogeneity analysis on the corporate environment, natural environment, and social environment and found that: The promoting effect of chain shareholders is more significant on the ESG performance of mature corporate enterprises, corporates with party organizations participating in corporate governance, and enterprises in regions with higher carbon emissions [20]. Liu Xuexin further pointed out that compared with state-owned enterprises, the governance of party organizations in non-state-owned enterprises has a more obvious impact on ESG; ESG performance positively affects enterprise value, but has a long lag effect [21]. To effectively promote the in-depth construction of China's ESG system, the leadership of the party should penetrate deeply into the two-way governance model of state-owned enterprises, and organically integrate economic indicators into its long-term governance mechanism, to achieve more stable and sustainable development.

## 3.3. ESG and the Impact on Corporate Resource Efficiency

Some studies focus on the impact of the environmental dimension of ESG on resource efficiency, arguing that the implementation of ESG helps green innovation of enterprises [22]. Sheng Mingquan believes that enterprises actively assume environmental responsibilities, which can alleviate the environmental regulation and industry norm pressure on enterprises from organizations such as governments, reduce the risk of violations, create a good corporate image, enhance the trust of stakeholders in all aspects, and achieve the purpose of accumulating reputation capital [23]. Liu Shangshu pointed out that the good ESG performance of heavily polluting enterprises has a positive impact on enterprise upgrading because good ESG performance can bring good reputation and external investment to enterprises, thereby reducing their agency costs, obtaining resources for green innovation technology research and development, carrying out low-carbon emission reduction, improving production efficiency, and realizing enterprise upgrading [24]. Peng Baichuan took China's A-share listed companies as samples, and found through empirical research that when enterprises implement green innovation strategies, their ESG performance has a positive impact on green innovation efficiency through two core channels: strengthening risk response capabilities and enhancing supply chain influence [25]. At the same time, the advancement of digital transformation provides a positive regulatory effect on the relationship between corporate ESG performance and green innovation efficiency. In particular, for non-heavily polluting industries and enterprises that actively implement voluntary information disclosure, their excellent ESG performance has a more significant role in promoting green innovation efficiency.

Overall, enterprises' efforts in energy saving, emission reduction, waste disposal and recycling might improve operational efficiency, reduce production costs, and promote technological progress through innovation, digital transformation, and improvement of ESG performance, which will help the development of green technology innovation in enterprises.

### 3.4. ESG and Macroeconomic Transformation

Regarding the relationship between ESG practices and the macroeconomy, the literature points out that ESG helps to promote China's transformation from an investment- and export-oriented economy to a consumption- and innovation-oriented economy. Chen Hong pointed out that while implementing the ESG development concept, enterprises should also attach importance to the role of social digital transformation and promote the coordinated development of ESG and digital transformation [26].

In the aspect of environmental protection, the green development strategies of enterprises are coordinated with the national policies and work together to promote the green transformation of the economy. The wide acceptance and extensive adoption of the ESG investment concept, not only can effectively enhance our strength and level of responding to the challenges from global climate change through guiding the behavior models of enterprises, financial institutes and regulatory authorities in China but also promote the economy to transform to the direction of greener and lower carbon, ensuring the smoothness and high efficiency of the transformation process [27].

### 3.5. ESG Practices with Chinese Characteristics

ESG practices in China have different characteristics from those in the West. In the West, ESG is often driven by market and social forces, while in China, the government plays a more prominent role in guiding companies to practice ESG. Chen Honghui pointed out that foreign institutions' low ESG ratings of Chinese state-owned enterprises are affected by the "evaluator effect". Florian Berg explains the so-called "evaluator effect" as "the evaluator's overall view of the company will affect the measurement results of specific categories". In other words, the evaluators of all ESG rating agencies first evaluate a specific company based on the firm's overall information, which is mixed with the influence of factors such as the rating agency's geographical culture and the personal values of the raters. There are obvious differences between China and European and American countries in terms of national governance, economic development stage, economic development model, and socioeconomic and cultural backgrounds. Therefore, Western countries cannot accurately grasp the ESG performance evaluation of Chinese state-owned enterprises [28].

Scholars pointed out that, China should combine the new development concept, in the current context of the "14th Five-Year Plan", based on the existing domestic and foreign ESG information disclosure standards, combined with the basic national conditions, specifically analyze the characteristics of various industries in China, and build a Chinese characteristic ESG information. The disclosure standard includes but is not limited to the implementation of mandatory disclosure full coverage and appropriate inclusion, intelligent upgrade of information disclosure model and supervision model, and the inclusion of special modules such as state-owned enterprises, small and medium-sized enterprises, biodiversity, climate change, and dual carbon into the formulation reference of special standards. Ways to make ESG "localized" [29-30].

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## 4. Conclusion

In conclusion, ESG practices not only enhance the financial performance and sustainability of an enterprise itself, but also play an important role in promoting transformation and upgrading of China's economy, addressing the challenge of global climate change, and achieving sustainable and high-quality development for society as a whole.

Although this article explores methods such as literature research, it lacks empirical research to support its conclusions. In addition, while the author has summarized a large amount of existing literature, there are few references and comparisons to advanced international research, failing to comprehensively summarize the latest developments in ESG research internationally. While the study emphasizes the importance of ESG localization, specific application examples and operational suggestions are lacking.

The prospects for future research are as follows: First, future research can explore the impact of ESG practices on corporate financial performance and social responsibility more deeply through empirical analysis, especially the differentiated performance in different industries and business scales. Secondly, we can strengthen the research on international ESG practices, combine China's national conditions, deeply explore the characteristics and challenges of Chinese enterprises' ESG practices, and propose more targeted localized strategies. Third, we can explore establishing an evaluation system that includes environmental protection, social responsibility, and corporate governance, more accurately evaluate the application effect of ESG in Chinese enterprises, and promote the further improvement of ESG standards and practices.

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