

# ***The Impact of ESG on Corporate Performance: A Case Study of Yunnan Baiyao***

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**Abstract:** With the deepening integration of the global economy and the widespread acceptance of sustainable development principles, Environmental, Social, and Governance (ESG) factors have become critical elements influencing long-term value and financial performance of enterprises. Globally, an increasing number of companies are paying attention to ESG factors and integrating them into their strategic planning and operational management. This paper employs case study analysis and accounting-related indicators analysis to evaluate the ESG practices of selected enterprises from the dimensions of environment, society, and governance. It then combines financial indicators to analyze the impact of ESG on their financial performance and the reasons behind it. Finally, suggestions are made on how to achieve sustainable development through improved ESG management.

**Keywords:** ESG, Corporate Financial Performance, Sustainable Development

## **1. Introduction**

In recent years, Environmental, Social, and Governance (ESG) issues have become a topic of widespread concern in the global financial markets. With increasing investor attention to sustainable development and social responsibility, ESG has been widely recognized for its role in assessing long-term corporate performance and risk management. Yunnan Baiyao Group, founded in 1902, is a century-old Chinese brand in the traditional Chinese medicine industry. As a leading enterprise in the Chinese traditional medicine industry, its performance in promoting the modernization of traditional Chinese medicine not only concerns the development of the enterprise itself but also reflects the innovation and transformation of the Chinese pharmaceutical industry. In this context, a thorough exploration of how ESG factors affect the financial performance of Yunnan Baiyao Group is of significant importance to investors, managers, and policymakers alike. This paper aims to analyze the practices of Yunnan Baiyao Group in environmental protection, social responsibility, and corporate governance, and their potential impact on financial performance, providing valuable insights and guidance for corporate sustainable development.

## **2. Overview of ESG**

### **2.1. ESG Concept**

ESG is a comprehensive assessment framework used to measure the performance of companies in three key areas: environmental protection, social responsibility, and corporate governance. This concept was first proposed by Goldman Sachs in a research report in 2006. It encourages investors and corporate managers to go beyond the traditional core objective of profit maximization and instead focus on achieving long-term sustainability goals. ESG is not only an investment strategy but also an important component of modern corporate management. It requires companies to balance economic benefits with environmental protection and social responsibility to achieve comprehensive and sustainable development.

### **2.2. The Relationship between ESG and Corporate Performance**

With the widespread acceptance of the concept of sustainable development and the increasing maturity of capital markets, more and more scholars have begun to pay attention to and explore the relationship between ESG and corporate performance. According to Friede et al., based on an analysis of over 2,200 studies on the correlation between ESG performance and financial performance since the 1970s, 90% of the literature shows a non-negative correlation between ESG performance and financial performance [1]. Zhu Aiping and Wei Hongshan's study of Chinese A-share listed companies from 2016 to 2021 found that good ESG performance in companies, as well as performance in the environmental, social, and governance dimensions, promotes the improvement of corporate performance, and this promoting effect is sustainable [2]. According to Liu Lu and Yu Wentao's research, ESG evaluation can assess the long-term trends of the subject's sustainability. There is a correlation between ESG performance and financial performance such as financing costs, asset prices, and the profitability of the subject [3]. The study by Chen Lingfang et al. found that financing constraints have a negative moderating effect on the relationship between ESG performance and corporate performance [4]. The research by Sheng Yanmei et al. found that fulfilling ESG obligations can significantly improve financial performance of pharmaceutical manufacturing companies, and there is a lag effect [5]. Therefore, research on the relationship between ESG and corporate performance is essential to reveal the important role of ESG in enhancing corporate financial performance and provide scientific basis and strategic support for the long-term development of enterprises.

## **3. Analysis of ESG Implementation in Yunnan Baiyao Group**

### **3.1. Case Study: Yunnan Baiyao Group Co., Ltd.**

Yunnan Baiyao Group Co., Ltd. (hereinafter referred to as "Yunnan Baiyao") is a well-known Chinese pharmaceutical enterprise established in 1971, headquartered in Kunming, Yunnan Province. The company is mainly engaged in the production and sale of chemical raw materials, chemical pharmaceutical preparations, traditional Chinese medicines, medicinal herbs, biological products, and more. Its products, including the Yunnan Baiyao series, Sanqi series, and Yunnan ethnic characteristic medicinal products series, encompass over 17 formulations and 200 products. These products are not only popular in the domestic market but also exported to Southeast Asia and gradually entering markets in Japan, Europe, the United States, and other developed countries. As a leading enterprise in the Chinese traditional medicine industry, Yunnan Baiyao has always attached importance to fulfilling its social responsibilities.

Yunnan Baiyao has released its "Social Responsibility Report" for 14 consecutive years, and in March 2021, it also published its first ESG and Social Responsibility Report, comprehensively showcasing the company's ESG management and performance to investors and stakeholders. Internationally, Yunnan Baiyao Group has been rated as grade A by MSCI ESG Ratings for three consecutive years, the best rating achieved among over 300 listed pharmaceutical companies on the Shenzhen Stock Exchange. The company has actively practiced and achieved results in energy conservation and emission reduction, environmental compliance, poverty alleviation, rural revitalization, and more. Moreover, in terms of corporate governance efficiency and governance structure improvement, Yunnan Baiyao Group has consistently complied with the Company Law, regulations of the China Securities Regulatory Commission, and the rules of the stock exchange, receiving an A-level rating for information disclosure from the Shenzhen Stock Exchange for 16 consecutive years.

### **3.2. Implementation of ESG in Yunnan Baiyao**

This paper analyzes and evaluates the implementation status of ESG in Yunnan Baiyao Group Co., Ltd. based on the "most significant environmental and social indicators" from the Reporting Exchange database, combined with Yunnan Baiyao's 2022 Sustainable Development Report. The analysis is conducted from three dimensions, evaluating the substantive issues of Yunnan Baiyao's ESG implementation.

#### **3.2.1. Environmental (E) Dimension**

Yunnan Baiyao's environmental issues primarily focus on environmental management, emission management, and green low-carbon development.

In terms of environmental management, Yunnan Baiyao adheres to relevant environmental laws such as the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on the Prevention and Control of Water Pollution, and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes. Internally, it has established and implemented environmental management policies such as the "Environmental Protection Management System," "Environmental Protection Responsibility System," and "Hazardous Waste Management System." In 2022, Yunnan Baiyao signed an "Environmental Responsibility Agreement," clarifying the primary person responsible for environmental work and continuously optimizing the environmental management system.

Regarding emission management, Yunnan Baiyao integrates the concept of green development into various stages of production and operation, strictly controlling the generation and emission of wastewater, waste gas, and waste during the production process. It has set up sewage treatment facilities at various factories to treat wastewater harmlessly, and real-time monitoring of pollutant data is conducted and uploaded to environmental departments to ensure compliance before discharge into the municipal sewage network or reuse. Dust collection equipment is installed at dust generation points in factories to prevent dust emissions. Drug residues are organically composted by professional organizations for resource utilization, while hazardous waste is safely handled by qualified institutions.

In terms of green low-carbon development, as a key energy consumption monitoring unit, Yunnan Baiyao has made efforts in carbon emission management. The company actively responds to the national "dual-carbon" strategy, further improving the construction of energy online monitoring systems, implementing energy-saving target responsibility systems, continuously improving energy management systems, actively applying energy-saving transformation technologies, strengthening

energy-saving publicity, and enhancing the awareness of "dual-carbon" for all employees. Meanwhile, it is exploring digital energy management to improve energy management levels through digital and intelligent technologies, further tapping into energy-saving potentials.

Regarding resource utilization, in 2022, Yunnan Baiyao followed the "Law of the People's Republic of China on Energy Conservation" and implemented the "Energy Management Measures" and other energy management policies, strengthening the energy management system, implementing energy-saving responsibility systems, and linking energy consumption with employee performance. The company also explores new technologies to improve energy efficiency, with annual energy expenses of 110,646,000 yuan, energy consumption per 10,000 yuan of output value at 30.47 yuan, and 0.00839 tons of standard coal.

Regarding packaging material usage, Yunnan Baiyao actively promotes green and environmentally friendly packaging materials, implements a circular production mode, continuously improves product packaging design to achieve packaging reduction, and implements orderly packaging recycling and reuse plans to reduce the consumption of packaging materials and their negative environmental impacts. In 2022, Yunnan Baiyao conducted comprehensive exploration of packaging material reduction for its toothpaste series products across all scenarios.

### 3.2.2. Social (S) Dimension

In terms of employee care, Yunnan Baiyao closely monitors its employees, establishes a humanized management system, offers targeted training, and enhances care for model workers through consolation and support activities. The company assists employees facing hardships according to internal regulations, with 44 households helped in 2022, involving a total of 129,223 yuan. Regarding corporate culture, Yunnan Baiyao organizes numerous commemorative events such as Labor Day and Dragon Boat Festival competitions, "Children's Day" parent-child activities, youth social events, and sports like broadcast exercises and basketball matches to promote employees' physical and mental health. Moreover, the company places high importance on talent development, establishing the Baiyao Academy and creating a systematic training system for employees at various levels. Yunnan Baiyao values employee rights, strictly adheres to laws and regulations, supports employee development, and corporate culture through democratic communication platforms and volunteer activities. The company enhances its communication systems by holding staff representative meetings to listen to employee opinions and ensuring participation in management and supervision. Real-time communication mechanisms like WeChat groups are established to quickly respond to employees' concerns, protect their rights, and increase satisfaction.

In rural revitalization, Yunnan Baiyao has established medicinal herb trial and demonstration planting sites, guiding farmers to invest and shift traditional farming concepts actively integrating into industrial development. In November 2022, Yunnan Baiyao conducted a "Rural Revitalization Health Assistance" medicine donation event, donating medicines worth 593,000 yuan to alleviate the economic pressure of sick villagers. Recognizing the power of education, the company focuses heavily on youth educational assistance, launching the "Autumn Assistance for Rural Students" in November 2022, supporting 85 college students from rural areas with a total of 138,000 yuan in aid.

In philanthropy, Yunnan Baiyao is committed to corporate responsibility, conducting multiple public welfare activities, and actively implementing community co-construction efforts to give back to society. In 2022, Yunnan Baiyao participated in 17 projects involving material donations and medical training, donating a total of 14.0349 million yuan.

### 3.2.3. Governance (G) Dimension

Yunnan Baiyao continuously improves its corporate governance structure. According to the digital transformation development plan, the company has developed a comprehensive construction plan covering organizational structure, management systems, business processes, technological means, and oversight mechanisms to help achieve sustainable long-term development.

The company advances the diversification of its board of directors, currently composed of 7 directors and 4 independent directors, who bring diverse professional backgrounds and expertise to the company.

Yunnan Baiyao insists on protecting the legal rights of shareholders and investors, taking effective measures to ensure reasonable investment returns. In 2022, the company plans to distribute a cash dividend of 15.2 yuan per 10 shares (including tax) to all shareholders based on a base of 1,784,262,603 shares, excluding treasury shares, totaling 2,712,079,157 yuan in cash dividends, making it one of the highest dividend-paying listed companies among A-shareholders.

In terms of business ethics, the company strives to win business through honest market competition. On 2022-04-28, it released the "Code of Business Ethics Conduct" and established the "Compilation of Yunnan Baiyao Discipline Inspection and Supervision Work Systems." In 2022, the group's discipline inspection secretary delivered two integrity and anti-corruption political lessons.

## 4. Impact of Yunnan Baiyao's ESG Implementation on Corporate Performance

### 4.1. Debt-paying Ability

As shown in Table 1, the equity ratio is an indicator of the relationship between a company's owner's equity and liabilities, reflecting the company's ability to repay debts with owner's equity. Yunnan Baiyao's equity ratio has decreased, indicating an enhancement in the company's long-term debt-paying ability. The asset-liability ratio measures the proportion of liabilities in a company's assets, indicating the company's ability to repay debts with assets. Yunnan Baiyao's asset-liability ratio has been declining year by year, suggesting an improvement in its long-term debt-paying ability. Although the current ratio and quick ratio have decreased, they remain around reasonable values, indicating the company's sound debt-paying ability. The implementation of environmental protection measures and fulfillment of social responsibilities may lead to increased trust from creditors, enabling the company to obtain more favorable loan conditions and higher credit ratings. A higher credit rating implies lower credit risk in the market, allowing the company to finance at lower interest rates, thereby reducing financing costs and enhancing debt-paying ability.

Table 1: Relevant indicators of Yunnan Baiyao's debt-paying ability from 2020 to 2022.

Debt-paying Ability Indicators	2022	2021	2020
Asset-liability ratio	27.75%	26.50%	30.56%
Current ratio	2.63%	3.58%	3.15%
Quick ratio	2.04%	2.92%	2.45%
Equity ratio	0.38%	0.36%	0.44%

### 4.2. Operational Capacity

As shown in Table 2, Yunnan Baiyao's inventory turnover rate has shown a gradually increasing trend, and the days of inventory turnover have decreased. This is mainly due to the increasing scale and proportion of its pharmaceutical wholesale business in recent years, indicating that the company's inventory is staying in the company for a shorter time. This suggests adjustments and improvements



in inventory management and sales, enabling the company to sell and consume inventory faster, thereby improving asset utilization efficiency. The total asset turnover rate has shown a stable growth trend over the three years, indicating that the company can convert assets into sales revenue faster over a certain period, which undoubtedly has a positive impact on the company's operational capacity. Through environmental protection measures and social responsibility fulfillment, the company can effectively reduce production risks due to environmental changes. Furthermore, environmentally friendly products align with market trends and help the company address policy risks associated with increasingly stringent environmental regulations. Additionally, by fulfilling social responsibilities such as employee training, improving working environments, and employee welfare, the company can increase employee satisfaction and loyalty, reduce employee turnover rates, and enhance teamwork efficiency. A positive social responsibility image can also attract excellent talents to join the company.

Table 2: Relevant indicators of Yunnan Baiyao's operational capacity from 2020 to 2022.

Operational Capacity Indicators	2022	2021	2020
Inventory turnover rate (times)	3.28	2.74	2.08
Days of inventory turnover (days)	109.62	131.57	173.01
Accounts receivable turnover rate (times)	4.20	5.16	6.28
Fixed asset turnover rate (times)	12.82	11.99	12.83
Total asset turnover rate (times)	0.69	0.68	0.62

### 4.3. Profitability

As shown in Table 3, operating income has steadily increased year by year, while the sales net profit margin has slightly decreased, indicating a stable trend. Despite the increase in research and development costs (R&D) (from 1.81 billion yuan in 2020 to 2.19 billion yuan in 2022), the company's revenue growth process did not rely excessively on sacrificing gross profit margins. Although the sales net profit margin has declined, Yunnan Baiyao's profitability has shown a downward trend in recent years but still maintains a relatively high level. The heavy investment in environmental protection may increase the company's financial burden in the short term, affecting its profitability. However, in the long run, good environmental performance can help the company reduce compliance risks, enhance corporate reputation, and potentially improve profitability.

Table 3: Relevant indicators of profitability of Yunnan Baiyao from 2020 to 2022.

Profitability Indicators	2022	2021	2020
Operating income (billion yuan)	364.88	363.74	327.43
Sales net profit margin	7.78%	7.69%	16.83%
Sales gross profit margin	26.32%	27.15%	27.75%
R&D expenses / Total operating income	0.92	0.91	0.55

## 5. Conclusion and Implications

This paper thoroughly analyzes Yunnan Baiyao Group's ESG practices and financial indicators to examine the relationship between ESG performance and corporate financial performance. The conclusion drawn is that ESG factors play a crucial role in long-term corporate value and financial performance. Additionally, the ESG practices of Yunnan Baiyao Group have positively impacted its financial performance. This conclusion aligns with existing research literature, which suggests a positive correlation between ESG performance and corporate financial performance. Therefore, it is

imperative for companies to prioritize ESG factors and integrate them into strategic planning and operational management to achieve sustainable development and long-term value enhancement.

Based on the research findings, this paper proposes the following implications:

Firstly, the path to corporate sustainable development no longer relies solely on economic benefits but requires profound consideration of environmental, social, and governance (ESG) factors. Guided by long-term interests, companies should actively respond to policy guidance, integrate ESG concepts into business practices, shape a more robust and responsible corporate image, and thereby gain the trust and support of investors and customers. Meanwhile, while pursuing their own growth, companies should actively assume social responsibilities by participating in public welfare charities, supporting rural revitalization, and other means to give back to society.

Secondly, establishing comprehensive ESG evaluation criteria and disclosure systems is crucial. Unified evaluation criteria help companies clarify the direction of ESG practices and improve the accuracy and reliability of information disclosure. Additionally, supervision and evaluation of corporate ESG performance should be strengthened, and sound reward and accountability mechanisms should be established to promote continuous improvement in ESG practices.

Thirdly, state-owned enterprises should play a leading role in ESG practices. As an important pillar of China's economy, state-owned enterprises should actively shoulder social responsibilities and promote the widespread implementation of ESG across various industries. Through the leading role of state-owned enterprises, a good demonstration effect can be formed to encourage more companies to join the ranks of ESG practices.

Fourthly, ESG practices require the participation of companies, governments, and investors. Companies should proactively disclose ESG information, showcasing their efforts in environmental protection, social responsibility, and corporate governance. Governments should formulate relevant policies and regulations to guide companies in practicing ESG concepts. Investors should pay attention to the ESG performance of companies and consider ESG as an important basis for investment decisions.

In conclusion, ESG practices are crucial for companies to achieve sustainable development. All parties should work together to promote the widespread implementation of ESG in China, contributing to the green and sustainable development of the country's economy.

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