

Construction of ESG Performance and Corporate Competitive Advantage: A Case Study of Poly Development Holding Group Co., Ltd.

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Abstract: In recent years, the attention to Environmental, Social, and Governance (ESG) issues has been increasing, accompanied by the enrichment and improvement of related policy systems. The advantages brought to enterprises by corresponding ESG policies have gradually become evident. Therefore, this paper takes the development of Poly Development Group from 2021 to 2023 as a sample to study the advantages that enterprises have gained in response to ESG-related policies. Through the analysis of existing data, it is found that the advantages established by ESG for enterprises mainly include: (1) enhancing corporate economic benefits, (2) reducing corporate operating risks, and (3) promoting corporate innovation and development. Based on these findings, it is proposed to accelerate the improvement of the ESG-related policy system, increase the attention of enterprises to ESG performance and disclosure, and contribute to the construction of a favorable development ecosystem for both academia and industry, thereby effectively improving production and development efficiency.

Keywords: ESG performance, ESG information disclosure, corporate advantage

1. Introduction

In 2004, the United Nations Global Compact organization formally proposed the concept of Environmental, Social, and Governance (ESG), advocating that companies should pay attention to their performance in the aspects of environment, society, and corporate governance while conducting business activities.

For enterprises, the motivation for disclosing ESG information stems not only from policies but also from the fact that their good ESG performance facilitates information exchange between the enterprise and stakeholders, enabling stakeholders to fully understand the company's operating conditions, expand resource competitive advantages, and promote the improvement of long-term performance [1]. However, there is insufficient research on the relationship between ESG performance and corporate competitive advantage construction, and the promotion role of good ESG performance in building competitive advantages for enterprises remains unclear. Therefore, studying

the role of ESG performance in helping enterprises build competitive advantages is of great significance.

Poly Development Holding Group Co., Ltd. (600048.SH), referred to as "Poly Development Holding," is a large-scale real estate listed company controlled by China Poly Group Corporation. It has certain competitive advantages in the real estate development industry. Therefore, this paper selects Poly Development Holding as a case study to explore the relationship between ESG performance and the construction of corporate competitive advantage.

2. Analysis of ESG-related Policies

From 2006 to 2008, the Shanghai Stock Exchange issued the "Guidelines for Social Responsibility of Listed Companies" and the "Notice on Strengthening the Social Responsibilities of Listed Companies and Issuing the Shanghai Stock Exchange's Guidelines for Environmental Information Disclosure by Listed Companies," encouraging listed companies to disclose social responsibility information.

In 2018, the China Securities Regulatory Commission (hereinafter referred to as the CSRC) revised the "Corporate Governance Guidelines for Listed Companies," setting up chapters on "Stakeholders, Environmental Protection, and Social Responsibility" and "Information Disclosure and Transparency," which, together with provisions in other chapters related to corporate governance, constructed an ESG information disclosure framework for listed companies. This also provided a strong legislative basis for the construction and application of the ESG information disclosure system for listed companies in China.

In 2021, the CSRC revised the "Content and Format of Annual Reports." This document covers the three major areas of environment, society, and corporate governance, making it the most important rule carrier for China's ESG information disclosure system. It also formed a mixed disclosure model that combines mandatory disclosure, explanation for non-disclosure, and encouragement for disclosure.

In terms of ESG report preparation, the Shanghai and Shenzhen Stock Exchanges (hereinafter referred to as the SSE and SZSE, respectively) have also preliminarily constructed relevant frameworks. Taking the SZSE as an example, the "Stock Listing Rules" of the SZSE clearly stipulate that listed companies should prepare and disclose ESG reports according to regulations. Furthermore, the "Regulatory Operations for Mainboard Listed Companies" of the SZSE further specifies this requirement, mandating the disclosure of ESG reports by companies included in the SZSE 100 Index and encouraging other listed companies to disclose ESG reports. In addition, the "Regulatory Operations for Mainboard Listed Companies" of the SZSE also briefly stipulate that ESG reports should include content related to employee protection, environmental pollution, and other aspects.

3. Analysis of Current Pain Points in Business Development

As China transitions from rapid growth to high-quality development, coupled with ongoing economic downturn pressures, businesses are increasingly facing significant challenges. Today's business development encounters several pain points:

3.1. Development bottlenecks and information asymmetry

The overall competitive strength of the market has weakened, and many businesses have seen varying degrees of decline in economic performance due to market saturation and reduced consumer spending capacity. Signal theory suggests that in markets with severe information asymmetry, the positive signals sent by debtors can enhance creditors' confidence in the company's future development prospects [2]. ESG performance can alleviate some of the information asymmetry between businesses

and investors [3]. Hence, ESG performance can address issues of information asymmetry, garner the preference of institutional investors, fully stimulate a company's innovative capabilities, and enhance overall competitiveness.

3.2. Challenges in recruiting workers and tech talents, and high employee turnover

Currently, the imbalance between labor supply and demand, as well as regional development disparities, have made "difficulty in hiring" a prominent issue in China's labor market [4]. With the slowing pace of labor supply and the increasingly diverse employment directions of the new generation of workers, coupled with some businesses' cost-control measures in hiring which fail to offer attractive wages and conditions, the pressure from the economic downturn has made businesses highly motivated to self-rescue. This leads to high job pressure for employees, naturally resulting in high staff turnover, recruitment difficulties, and even greater challenges in hiring skilled technological personnel. This is particularly evident in industrial enterprises. With the implementation of China's dual-carbon policy, many industrial areas have been relocated to more remote locations with inconvenient transportation and lack of life service facilities and recreational facilities. This exacerbates talent mobility, making it difficult for companies to retain technical and senior talents.

3.3. The vicious cycle of poor business management

Many enterprises today face unsatisfactory business performance due to economic downturn pressures. In an effort to cut costs and save expenses, they may reduce employee wages. Additionally, in a bid to enhance market competitiveness and push for development and technological innovation, employees face high job pressures. This causes some employees to leave, and since the enterprises cannot attract excellent talents due to low wages, the responsibilities of the departing employees are then distributed among the remaining staff, further leading to waves of resignations. This exacerbates the problem of poor business management, which, over time, can even lead to bankruptcy.

4. ESG Performance of Poly Developments Holdings Group

4.1. Overview

Since 2011, Poly Developments Holdings Group has been disclosing ESG-related information in its annual social responsibility reports. Starting from 2020, ESG has been officially mentioned in the annual social responsibility reports of Poly Developments Holdings Group. In early 2023, Poly Developments Holdings Group released the "2022 Poly Developments Holdings Group Social Responsibility Report and ESG Report," which disclosed the company's ESG information for 2022. This report covers various aspects, including green engineering, energy conservation and emission reduction, pollution prevention and control at the environmental level, employee rights, safety production, targeted assistance at the social level, and corporate governance such as company structure, responsibilities of various management departments, and stakeholder communication at the governance level.

4.2. Environmental Protection

On September 22, 2020, at the 75th session of the United Nations General Assembly, President Xi Jinping first proposed the concepts of "peak carbon dioxide emissions" and "carbon neutrality." Poly Developments Holdings Group responded to the national call for "peak carbon dioxide emissions" and "carbon neutrality" and adhered to the concept of green development. The company innovated green construction technologies, promoted energy conservation and emission reduction, and

strengthened pollution prevention and control in construction. In terms of green technology, Poly Developments Holdings Group utilized innovative technologies such as "three-dimensional modeling-based concrete structure curved node groove assembly construction technology," which reduces the input of turnover materials during the development process, and "net zero energy consumption building technology," which enhances the comprehensive energy-saving level of buildings. These initiatives reduced electricity consumption, minimized material waste, and to some extent, reduced carbon emissions.

For the real estate development industry, pollutants such as dust, noise, and solid waste at construction sites can have adverse environmental effects. Poly Developments Holdings Group implemented dust control measures such as material covering, sprinkler operations, and greening coverage to control dust emissions. They also employed noise shielding and noise reduction measures, improved construction methods, and implemented resource recycling and reuse of solid waste to effectively mitigate environmental pollution.

Against the backdrop of "dual carbon" goals, green investments, green leasing, and green supply chains have become priorities. Poly Developments Holdings Group has begun investing in the photovoltaic industry, signing environmental protection agreements with leasing tenants, and implementing the concept of green and low-carbon procurement to support the achievement of "dual carbon" goals.

4.3. Corporate Governance

In terms of corporate governance, Poly Developments Holdings has established a multilevel corporate governance structure that includes the shareholders' meeting, the board of directors and its committees, the supervisory board, and the management level. This structure is in accordance with the "Company Law", "Securities Law", and other legal regulations, as well as the rules set by the China Securities Regulatory Commission (CSRC) and the Shanghai Stock Exchange. It clearly defines the responsibilities and duties of each component, ensuring cooperation and checks and balances. The company has developed various regulations and management methods, such as the "Corporate Charter", "Rules of Procedure for the Shareholders' Meeting", and "Rules of Procedure for the Board of Directors", to ensure that all operations are standardized and compliant.

To promote internal integrity management, Poly Developments Holdings has incorporated integrity culture into its corporate propaganda, emphasizing the importance of integrity among management personnel and employees. In addition to promotional education, the company has established "Comprehensive Supervision Work Implementation Measures" and "Supervision and Discipline Work Implementation Rules (Trial)" to create a reporting mechanism and strengthen supervision and inspection. Self-discipline and external discipline have become crucial means in Poly Developments Holdings' integrity management.

At the ESG management level, the board of directors is the highest decision-making body for social responsibility and ESG management, taking overall responsibility for the company's social responsibility and ESG tasks. It is responsible for reviewing and approving the company's social responsibility and ESG reports. In addition, a Social Responsibility Report and ESG Working Group have been set up to implement the ESG plans approved by the board, review internal policies, preliminarily audit the social responsibility and ESG reports before submitting them to the board for review; they also conduct company culture and ESG management training, and guide subsidiaries in orderly ESG management. Below this, various functional departments and frontline management implementation agencies are responsible for carrying out daily management tasks related to ESG and preparing ESG reports.

Communication with stakeholders is an integral part of corporate governance. Poly Developments Holdings values communication with shareholders, employees, customers, and governments,

ensuring that stakeholders are well-informed. This helps to build good cooperative relationships and enhances cooperation between the company and its stakeholders, facilitating the improvement of ESG management tasks.

4.4. Social Aspects

On the social front, Poly Developments Holdings pays close attention to employee occupational health, implementing an Employee Assistance Program (EAP) for psychological health care and "Employee Health Promotion Actions," along with various cultural and sports activities to alleviate psychological stress and reduce the risk of occupational diseases. For employees facing difficulties, Poly Developments Holdings has set up a special fund for assistance.

As a company in the real estate development field, safety production occupies an important position in corporate governance. Poly Developments Holdings, adhering to the "Law on Safety in Production" and other relevant regulations, has formulated and implemented systems such as the "Safety Production Responsibility System for All Employees", "Safety Management System", and "Comprehensive Emergency Response Plans for Production Safety Accidents". The company focuses on inspecting safety hazards, conducting unscheduled spot checks, and urging rectification of safety issues to protect the life and property of employees.

Rural revitalization is an important means to reduce regional development disparities and achieve common prosperity. In 2022, Poly Developments Holdings hosted the "Poly Vocational Training Center", offering "training + employment" assistance to impoverished families in Wutai County, enhancing local talent quality to boost rural revitalization through talent development. In designated assistance areas such as Inner Mongolia's Kalaqin Banner, Yunnan's Ludian, Qiaojia, Ninglang areas, and Guangxi's Xincheng, the company supports local communities by purchasing agricultural products to increase villagers' incomes and conducts industrial assistance in Tibet's Nyingchi, hiring minority interns and providing local employment opportunities.

5. ESG Performance and the Construction of Competitive Advantage for Poly Developments Holdings

5.1. Enhancing Corporate Economic Benefits

Wang Bo and Yang Maojia (2022) noted that ESG contributes to improving corporate financial performance [3], and a good ESG performance is an intangible asset that helps build corporate social reputation and credit. Poly Developments Holdings has actively constructed a corporate ESG evaluation index system and promoted the ESG investment concept. For example, in 2022, Poly Developments Holdings invested 1.549 million yuan in the "Training + Employment" assistance fund and organized the "Poly Vocational Training Center" to carry out precise "Training + Employment" assistance for impoverished families in Wutai County. This initiative not only provided the company with a better reserve of talent but also actively fulfilled its corporate social responsibility, enhancing the talent quality of Wutai County and promoting rural revitalization through talent development. This approach has also brought good social reputation to Poly Developments Holdings, enhancing its brand reputation and social recognition, which helped propel its development sales to the second highest in the industry.

Simultaneously, with the increased transparency of information disclosure by Poly Developments Holdings, it has also achieved higher credit ratings, such as being included in the "Central SOE ESG Pioneer 50 Index" and the Hang Seng A-share Sustainable Enterprise Index in 2022 ^①. In 2023, it deepened its commitment to the ESG development concept, and its China Securities ESG

^① Information source: <https://www.polycn.com>, official website of Poly Development Holding

evaluation rated AAA, ranking second in the industry ^②. This enabled it to access broader financing channels, achieve lower financing costs, and promote a continuous decrease in financing costs with cash flows remaining positive for five consecutive years.

5.2. Reducing Operational Risks

Companies with strong ESG characteristics generally maintain above-average risk control and compliance standards across the company and its supply chain. Companies that consistently disclose ESG information over the long term can more easily have their operational and ethical risks monitored and corrected by governments, regulatory bodies, and the public, effectively preventing the continuous accumulation of internal risks leading to worse consequences. The following diagram illustrates the role of ESG in risk avoidance:



Figure 1: The Process of Risk Avoidance through ESG.

In 2021, Poly Developments Holdings conducted more than 50 meetings on integrity and anti-corruption construction and education, involving 710 participants in headquarters integrity education training and more than 200 times at subsidiary companies, covering all employees. The company held 21,360 routine integrity reminder talks throughout the year and conducted "one-on-one" pre-appointment discussions with 11 key persons in charge and disciplinary committee secretaries at subsidiaries, achieving full coverage of pre-appointment integrity talks within the system. This has effectively helped Poly Developments Holdings maintain internal cohesion while reducing the potential for internal corruption, and by actively making financial reports and other information public annually, it accepts public supervision and adapts to the times, thereby promoting its 2021 total revenue to reach 285.024 billion yuan, a year-on-year increase of 17.19%; its brand value reached 134.9 billion yuan, leading the "China Real Estate Industry Leader Brand" for 12 consecutive years.

5.3. Promoting Corporate Innovation Development

Poly Developments Holdings continues the "Spark Plan" by organizing the "Poly Spark Class", conducting precise "Training + Employment" assistance for impoverished families in designated assistance areas. The "Poly Spark Class" has been held for five years, benefiting 427 households. In 2021, the company invested 2.54 million yuan to conduct the sixth session of the "Spark Class", enrolling 87 students from seven counties. This initiative not only accumulates social reputation and credibility for Poly Developments Holdings, conducive to attracting more specialized and composite talents but also opens a new path and model for specialized talent training. This promotes the training of talent that meets corporate development needs, enriches the corporate talent pool, effectively improves labor efficiency, and enhances the company's innovative capability and core competitiveness.

Furthermore, attracting corresponding talents further promotes Poly Developments Holdings in the development of new green building designs and construction. From 2016 to 2021, it completed 354 certified green building projects covering 64.55 million square meters. In 2021, the built area that met the green building design standards reached 100%, with 113 projects achieving the Green Building One-Star and above design standards, covering 16.46 million square meters; 41 projects were certified as national green buildings, covering 7.81 million square meters; and 2 international

^② Information source: rise and the official web site, <https://www.csindex.com.cn>

green building and healthy building projects received U.S. LEED Gold pre-certification and U.S. WELL Gold Star pre-certification, respectively. In the same year, 93 projects used high-precision blocks or ALC wall panels for wall materials, ensuring construction quality while actively practicing ESG environmental principles, which also has a strong exemplary significance for the entire Chinese construction industry.

6. Conclusion and Implications

In recent years, with the growing influence of concepts such as "Green Waters and Green Mountains are Golden Mountains and Silver Mountains," "Carbon Circulation," and "Carbon Peak," the performance and disclosure of ESG information by companies have received increasing attention. Enterprises should shift from the narrow view that protecting the environment, assuming social responsibility, and improving corporate governance will incur significant costs and actively improve their ESG performance [5]. Based on the analysis of Poly Developments Holdings' ESG performance, operating conditions from 2021 to 2023, and its future development, this paper draws the following policy implications:

Firstly, there is a need to accelerate the improvement of the ESG-related policy system. In recent years, the disclosure rate of ESG indicators by many companies has been gradually increasing [6], but at present, China's requirements for ESG disclosure are not comprehensive enough, and the external regulatory system is not yet sound. Governments and relevant regulatory departments should accelerate the improvement of ESG disclosure requirements and rating standards, formulate regulatory policies, and create a better policy environment for the development of enterprise ESG [7]. First, improve the legal environment by incorporating corporate ESG requirements into laws and regulations, increasing the cost of false reporting and illegal behavior by companies; second, attach importance to enterprises that actively respond to ESG-related policies, provide more cooperation opportunities, and set industry benchmarks.

Secondly, there is a need to enhance enterprises' emphasis on ESG performance. Enterprises should attach importance to the strategic role of ESG and consider ESG construction as necessary investment rather than simply as a tool; they should truly integrate ESG concepts into the corporate governance mechanism, pursuing both commercial and ethical objectives simultaneously [8]. Enterprises can organically integrate ESG elements into the corporate value management system, establish corresponding assessment and reward policies, and effectively improve their ESG performance [9], thereby integrating ESG construction into the cultural and conceptual construction of the enterprise from the top down, enabling employees to deeply understand, comprehend, and agree with the development of enterprise ESG. And incorporate it into specific work content, such as: product design and production, product sales, target user search, user service, corporate image operation, etc., to achieve full penetration and coverage of ESG. Establishing a good corporate image from the inside out helps enterprises gain national attention, policy endorsement, SOE cooperation, public trust, and other advantages, helping enterprises break through the platform period and move towards broader markets.

Thirdly, there is a need to enhance enterprises' emphasis on ESG information disclosure. The "Administrative Measures for the Disclosure of Information by Listed Companies" stipulates that the obligors of information disclosure shall promptly fulfill their information disclosure obligations in accordance with the law, and the disclosed information shall be true, accurate, complete, clear, and understandable, and shall not contain false records, misleading statements, or major omissions. Overall, the higher the level of ESG information disclosure by enterprises, the lower the risk in the capital market [10]. The reduction of capital market risks helps enterprises better manage risks and also helps enterprises gain public trust, thereby achieving sustainable development.

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