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The Relationship Between ESG Disclosure and Corporate Performance

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Abstract: As the economy continues to develop and the focus on sustainable development increases, low-carbon environmental protection has become an indispensable aspect for businesses. In this context, the concept of ESG and its measurement has become a major direction for the international community to assess investment behaviors and targets. However, questions such as what exactly ESG is, how significantly it impacts businesses, and how businesses should respond, need to be studied. This paper discusses these issues from the perspective of ESG information disclosure and corporate performance, outlines the impact pathways of ESG disclosure on businesses, and suggests reasonable responses and measures.

Keywords: ESG Disclosure, Corporate Performance, Domestic and International Economic Environment

1. Introduction

After the Industrial Revolution, as economies in Western developed countries grew rapidly and faced severe environmental issues, they began to focus on environmental protection. China, starting its economic development later, has been able to integrate economic growth with environmental protection from an earlier stage. As China shifts from rapid to high-quality economic development, it demands that enterprises pay attention to long-term policy orientations and anticipate future national requirements for mandatory ESG report disclosures. Aligning with the major trends in international economic development is essential for positive corporate performance, with a focus on ESG disclosure being crucial. This article analyzes the relationship between ESG disclosure and corporate performance from the perspectives of what it is, why it matters, and how to manage it, hoping to provide insights for corporate development and better fulfillment of social responsibilities.

2. ESG Concept and Function

2.1. ESG Concept

ESG is an abbreviation of the first letters of three English words: Environmental, Social, and Governance. [1]

2.2. ESG Function

ESG is essentially a tool used to empower sustainable development in enterprises and guide capital towards sustainable investments to gain positive returns over the long term. Unlike traditional financial indicators, ESG examines a company's ability to address risks and achieve long-term development from the perspectives of environmental, social performance, and corporate governance. It is an emerging method of corporate evaluation. For enterprises, the ESG concept represents a more advanced, rational, comprehensive, and holistic approach to corporate governance. [2]

2.3. Current Status of ESG

From a global perspective, the concept and evaluation system of ESG are relatively mature. Awareness of ESG information disclosure among A-share companies in China is gradually increasing. The preparation of ESG reports by Chinese enterprises is becoming more international, diversified, standardized, and professional. However, currently, there is a lack of sufficient quantitative data in ESG reports of listed companies in China. Additionally, there is inconsistency in data statistics and a lack of effective verification, making it difficult for companies to conduct horizontal comparisons. [3]

3. Impact of ESG Information Disclosure on Corporate Performance

As an important part of the sustainable development of enterprises, ESG report is favored by leaders of many asset departments and asset management departments, and is widely used in the management of enterprise performance. Enterprise performance assessment is a key method to evaluate the overall development level of employees and enterprises, and is the key data for future company bidding and investment. Next, the impact of ESG information disclosure on enterprise performance will be introduced from the following three aspects.

3.1. Overall Impact Analysis

Firstly, let's analyze the overall impact of ESG information disclosure on corporate performance. This includes three main aspects: corporate financial performance, stock market value, employee satisfaction, as well as a comprehensive assessment of various other operational risks.

a) Improvement in Disclosure Rate and Performance

Table 1: Statistics of ESG Report Release by Listed Companies According to Listing Categories

	2022		2021		2020		2019	
Listing Category	Total	Disclosure Rate (%)	Total	Disclosure Rate (%)	Total	Disclosure Rate (%)	Total	Disclosure Rate (%)
Shanghai Main Board	849	59.50	755	46.01	646	41.62	593	40.53
Shenzhen Main Board	578	40.50	425	29.05	367	25.70	319	23.18

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Table 1: (continued).

Growth Enterprise Board	158	15.68	150	13.93	106	12.02	77	9.92
Science and Technology Innovation Board	95	24.28	87	23.32	24	11.16	8	11.43

According to Table 1, the disclosure rate of ESG information shows a proportional relationship with the market value of listed companies. The larger the market value, the higher the disclosure rate. For example, in 2022, the disclosure rate of ESG reports for companies with a market value exceeding 1 trillion was 97.7%, followed by companies with a market value between 500 billion and 1 trillion at 97.6%. Companies with market values between 200 billion and 500 billion had a disclosure rate of 82.3%, while those between 50 billion and 200 billion had a rate of 51.2%. Companies with a market value less than 50 billion had a much lower rate at 22.1%. The proportion of ESG report issuance by trillion-dollar listed companies has been increasing year by year, from 71% in 2019 to 100% in 2021. Overall, large-scale listed companies show a stronger emphasis on ESG, and issuing ESG reports increases the disclosure rate, allowing more intangible information to be presented in a report format. This gradual increase in disclosure rates enables different companies to have a better understanding of each other's relative conditions, thus exerting mutual supervision and compelling enterprises to improve their performance and reduce the risk index to avoid being targeted for mergers and acquisitions.

b) Impact on Financial Performance

Through quantitative data support, we can clarify the correlation between the level of ESG information disclosure and corporate performance and identify key influencing factors. According to relevant reports, a large-scale market research activity was conducted globally by American scholars over a ten-year period, with 3,332 listed companies selected as experimental samples. It is clear that most of the sample sizes in the U.S. market research did not exceed dozens, meaning that adopting 3,332 samples globally represents a broad demand for market data, making the survey results more persuasive. This study utilized STATA 16.0 software for multiple regressions and classification regressions. It used a large dataset containing 24,076 valid observation results, providing strong statistical power for the analysis. The research results demonstrate a positive correlation between ESG performance and corporate performance ($p < 0.01$). At the 1% significance level ($p < 0.01$), the regression coefficient of ESG far exceeds the "zero" boundary. The results show that the positive impact of ESG ratings on corporate financial performance is more pronounced under high-risk conditions than under low-risk conditions ($p < 0.01$). The results highlight the importance of ESG performance in today's world. Through data analysis, we can find that the level of ESG performance to a certain extent promotes the improvement of corporate structure. Most of today's corporate management models are mainly pyramid-shaped, showing a top-down hierarchical structure. By analyzing corporate performance, it is possible to better optimize the hierarchy, reduce redundant layers, and reduce expenses, thereby playing an indispensable role in establishing a good corporate structural level and management system. Based on this, researchers believe that effective disclosure of ESG information can help companies maintain sustainable development, establish a good reputation, increase the intrinsic core value of the company, gain the trust of stakeholders, and enhance corporate performance, contributing to solving national sustainable development issues.

c) Impact on Employee Satisfaction Value

Through previous analysis, we can see that ESG information disclosure can provide macro summaries to senior strategic departments at an overall level. Company strategic departments can set performance targets for different departmental levels reasonably and effectively, which can stimulate employees' enthusiasm and creativity, provide employees with a good corporate atmosphere, increase employee satisfaction, and effectively increase the performance levels of various departments.

3.2. Impact on Corporate Strategic Setting

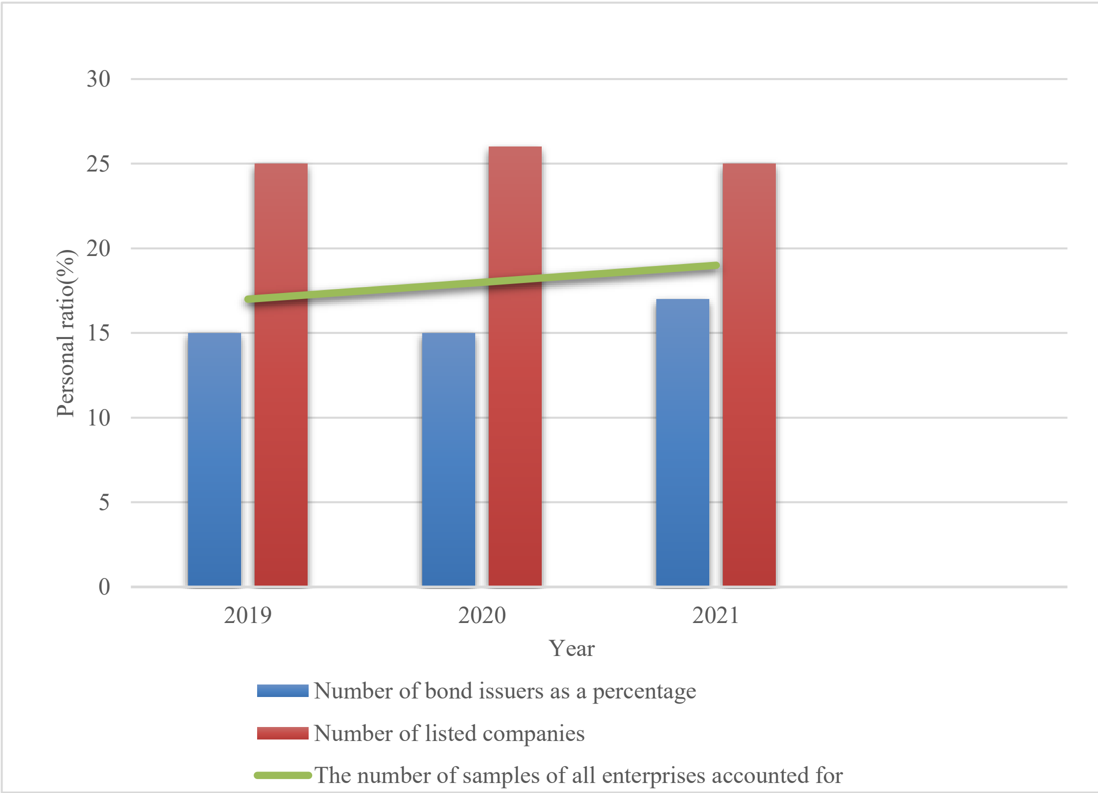

Figure 1: Percentage of Personnel Engaged in ESG Disclosure

Based on Table 1, we further explore the differential impact of ESG information disclosure on corporate performance across different industries to identify the specific mechanisms of ESG factors within specific industries [4]. This aids in formulating more targeted industry policies and corporate strategies to maximize the benefits of ESG information disclosure.

3.3. Other Relevant Findings

In addition to direct impacts, this study will also focus on the relationship between ESG information disclosure and other important variables. For example, whether ESG information disclosure has a positive impact on a company's innovation capabilities, employee recruitment, and retention. Through this aspect of the research, we can gain a more comprehensive understanding of the multifaceted impact of ESG information disclosure on corporate operations and provide more practical recommendations for corporate decision-makers.

Furthermore, this section will explore the time effect of ESG information disclosure, namely whether there is a lagged reaction in corporate performance after disclosure. By tracking companies' long-term performance, we can reveal the potential impact pathway of ESG information disclosure on corporate sustainable performance, providing more foresight for future corporate development.

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Overall, through this comprehensive and in-depth analysis, deeper and more actionable insights will be provided to relevant stakeholders, enabling further development of corporate performance, reducing financial risks, and the risk of being acquired, better attracting foreign investment, and laying a solid corporate foundation for the broader application of ESG information disclosure in enterprises.

4. Future Trends of ESG Information Disclosure under the Impact on Corporate Performance

4.1. Attention to ESG Information Disclosure

In the future, companies and markets will pay more attention to improving the level of ESG information disclosure, enhancing the transparency of corporate ESG information disclosure, and the authenticity of ESG reports [5]. The quality of ESG information disclosed by companies will affect the decisions of investors and other relevant stakeholders regarding subsequent additional investments. Companies with higher-quality ESG information disclosure are more likely to attract analysts' attention and release positive signals to the market and investors about the company's potential for sustainable development. This enhances the level of information matching between companies and investors, boosts investor confidence, attracts more attention and recognition from the market, and consequently facilitates easier access to investment and financing, meeting the daily operational needs of companies, ultimately leading to improved corporate performance.

On April 11, 2022, the China Securities Regulatory Commission issued a revised version of the "Guidelines for Investor Relations Management of Listed Companies" (hereinafter referred to as the "Guidelines"). Article 7 of the "Guidelines" explicitly states for the first time that information on corporate environmental, social, and governance issues should be included in the communication between listed companies and investors in investor relations management. The revised version of the "Guidelines" incorporates the content of ESG information disclosure into the communication and attention of investors, clearly indicating that regulators have begun to attach importance to the content and quality of ESG information disclosure. This is expected to further increase the level of attention paid by the market and investors to corporate ESG information disclosure, promoting companies to pay more attention to the authenticity and transparency of ESG information disclosure. The improved transparency and authenticity of ESG information disclosure also facilitate the market and investors in assessing whether a company has sustainable development or the possibility of sustained profitability based on the company's ESG information disclosure performance, further enhancing the attention to ESG information disclosure.

4.2. Deepening Connection between ESG Information Disclosure Performance and Assessing Corporate Risks

Some studies have found that companies with better ESG information disclosure performance have relatively lower default risks. Firstly, good ESG information disclosure performance can help companies establish a good reputation and corporate image in the market, thereby enhancing the company's credibility, ensuring the stability of the company's operational performance, and its financial stability. Secondly, good ESG information disclosure performance benefits both internal and external regulation of companies. By enhancing the transparency of ESG information disclosure, it helps regulate the relevant management of companies, reduces the risk of financial irregularities, reduces questioning from stakeholders and internal and external regulators, and ultimately reflects a decrease in default risk.

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4.3. Recommendations for Enterprise Development Based on ESG Information Disclosure

a) Enhance the Transparency and Authenticity of ESG Information Disclosure

The transparency and authenticity of ESG information disclosure reflect the level of a company's reputation. ESG information disclosure reports of high quality, authenticity, and transparency are more likely to enable companies to establish a good reputation in the investor and market within a short period. At the same time, they also help the company's management make correct decisions conducive to the company's development. Therefore, companies should enhance their attention to ESG information disclosure by employing third-party authentication to enhance the transparency and authenticity of ESG information disclosure. [5]

b) Strengthen Regulation of Enterprise ESG-related Data

High-quality ESG information disclosure reports inevitably rely on authentic data. Currently, ESG information disclosure is becoming a common trend for companies. Therefore, companies should strengthen the management and disclosure of ESG information, ensure the authenticity and reliability of data, and enable internal comparisons with past ESG information disclosure reports to make improvements. Companies should utilize existing financial control structures to manage and preserve ESG information disclosure data effectively.

5. Conclusion

ESG information disclosure is currently a hot topic in global economic markets. With the global economic recovery, ESG information disclosure is increasingly attracting attention from countries and businesses worldwide. Domestically, as the world's second-largest economy, China is still in the early stages of ESG information disclosure, but the normalization of ESG disclosures is undoubtedly the direction and trend that businesses must face in their future development. This paper attempts to study the connection between ESG information disclosure and corporate performance to emphasize the importance of ESG disclosures to businesses and the market. Companies should timely focus on ESG disclosures, prepare well, and seize the opportunities of the times.

From a forward-looking perspective, ESG information disclosure will inevitably become one of the core competitive strengths of future enterprises and align with national strategies for carbon neutrality and peak carbon emissions. This paper takes the ESG information disclosure data of current listed companies as the research subject and discusses the relationship between ESG information disclosure and corporate performance. The results show that ESG information disclosure can effectively improve the structure of the company and enhance the possibility of its long-term development, establish good business credibility, and greatly increase the likelihood of attracting investments.

Based on the above conclusions, this paper proposes the following recommendations from the perspectives of businesses, government, and investors:

For businesses: (1) In the long run, ESG information disclosure is beneficial for the stable and sustained operation of companies, but timely implementation of ESG practices and enhancing transparency in ESG disclosures are prerequisites for good ESG disclosure practices. Therefore, companies should integrate green development concepts deeply into their management processes, actively fulfill ESG responsibilities, and practice energy-saving and emission reduction to protect the legitimate rights and interests of investors, shareholders, employees, etc., providing investors with accurate and effective data reports [6]. (2) Timely improve the constraints, regulation, and planning of ESG information disclosure, which can be achieved by enhancing the transparency of ESG disclosures to increase competitiveness and improve the company's long-term development prospects in the current economic environment. (3) Pay attention to the development of ESG disclosures and timely increase the investment in ESG disclosures to improve the level of analysts.

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For the government: (1) Establish and improve the ESG regulatory mechanism, share ESG-related information of companies with relevant departments in a timely manner to encourage companies to enhance the transparency of ESG disclosures, and ensure the authenticity and authority of the companies' ESG data reports and rating results. (2) Increase support for the establishment of agencies that provide authoritative and high-quality consulting or rating services. (3) Urge heavily polluting companies to transition towards green enterprises while implementing a reward and punishment system. For companies that do not meet relevant standards or have issues like low authenticity in their ESG reports, timely rectification should be enforced; for those meeting the standards, more economic support should be provided, such as more government subsidies, tax breaks, and other preferential policies to guide companies towards green development and assist in high-quality development.

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