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Research on the ESG Investment from the Perspective of Corporate Social Responsibilities

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Abstract: Nowadays, ESG investment, which involves environmental (E), social (S) and governance (G) elements, become a hit. Not only the leader of companies but also the public were attracted by such investments aimed at long-term benefits. However, at present, there exist many problems with ESG investment, such as, lack of standard, return, and supervision for it. At the same time, with the development of economy and social concept, corporations increasingly play a greater role in society. As a result, corporations are expected to assume a series of social responsibilities by the public. ESG investment and corporate social responsibilities, obviously the two concepts have something in common. Therefore, the paper focuses on the two concepts and tries to answer ESG-related problems from the perspective of corporate social responsibilities. First, through the analysis and summary of relevant research, the paper concludes the relationship between the two. Second, through data analysis and case studies, the paper explores the benefits of ESG investment if it embodies the assumption of corporate social responsibility. Last, the paper concludes with what and how we should do to promote ESG investment for the purpose of making companies assume more social responsibility.

Keywords: ESG investment, corporate social responsibilities, social welfare, economic law, insurance

1. Introduction

The concept of ESG dates back to the 1950s, when some religious organizations proposed ethical investment and banned investment in religiously guilty industries such as gambling, tobacco and arms. Later, the civil rights movement and the environmental protection movement promoted that investment should protect labor welfare and achieve sustainable development [1]. Stepping into the 21st century, pursuing economic merits regardless of environmental and social impact is no longer accepted. In 2004, Kofi Atta Annan, United Nations Secretary General, together with CEOs of the world's top investment institutions, made a proposal that investors consider environment (E), society (S) and governance (G) as important factors in investment. This has become the direct origin of ESG investment. In 2006, the United Nations issued the Principles for Responsible Investment (PRI). It requires that ESG be considered when companies are analyzing and deciding where to invest, calls for the disclosure of an ESG report, and urges the improvement of the effectiveness of related investments. After all these proposals, movements and actions, ESG becomes mainstream investment factors [2]. Now, a lot of companies care about not only financial indicators such as profits and sales,

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but also non-financial indicators such as environmental protection, social equality and corporate governance.

However, ESG is still not perfect. The concept of ESG is challenged and questioned because of its unclear standards, uncertain returns and immature supervision system. This paper is aimed at solving the problems from the perspective of corporate social responsibilities. The two concepts are not equal but substantially linked. Through the research on the link between the two, this paper explores the underlying logic, intrinsic benefits, and possible improvements of ESG investment, expecting to support future work on it.

2. The Relationship between ESG Investment and Corporate Social Responsibility

2.1. Social Responsibility of a Company

Companies are profit-oriented economic organizations. Companies were born to earn money as much as possible for the owners and it was seen as a company’s only responsibility for a long time. However, with the development of economy, companies are playing an increasingly crucial role in society. The action of a company affects not only the benefits of the owners but also those of the environment and its employees. As a result, besides its responsibility for its owners, a company is required to assume a new kind of responsibility: social responsibility.

A lot of theories elaborate on such responsibilities.

A.Oliver Sheldon

The concept of Corporate Social Responsibility (CSR) was first proposed by Oliver Sheldon in 1924. He pointed out three social standards for companies. First, industrial policies, conditions, and approaches contribute to the public welfare; second, companies’ governance meets the highest standards of social ethics and applies social justice to industrial practice; third, companies’ governance promotes ethics and social justice [3].

B. American Law Institute

American Law Institute indicates that besides economic purposes, a company can invest for ethical reasons related to business such as public welfare, humanitarianism, education and charity [4]. Obviously it is another kind of requirement for corporate social responsibility. It reveals the essence of corporate social responsibility— ethical consideration in business.

C. The theory of “Corporate citizen”

As a "legal person", a company is also a part of society. So, naturally, a company should follow legal and moral requirements of the society and act as an ethical citizen just like a natural person would. Based on the theory above, the team “Corporate Citizen Assessment and Evaluation Standards for Outstanding Enterprises" organized by Tsinghua University in China investigated a lot of citizens and concluded standards of 10 aspects that a qualified corporate citizen should follow [5]. We can compare the 10 aspects with ESG elements.

Table 1: Corporate Social Responsiblities and ESG elements.

Corporate Social Responsibility		ESG elements
Owners	Remain good management and economic situations	G
Employees	Ensure employees’ number, wage and working hours to be reasonable and improving labor conditions and employee’ welfare such as job training and promotion chances, etc	S

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Table 1:(continued).

Consumers	Improve the quality of its products or service and reduce their, promote after-sales service and provide social consulting services, etc.	S
Suppliers	Do not default on accounts, and establish a good cooperative relationship with suppliers.	S
Government	In addition to paying taxes to the state, enterprises should also provide employment opportunities for the society, especially equal employment opportunities for the unemployed, laid-off and disabled people.	S
Community	Participate in community activities and services.	S
Environment	Reduce energy consumption and pollutant emissions, use clean energy and recycle waste, etc.	E
Charity	Participate in charity activities, encourage emplyees to do volunteer work and make regular donations.	S
Intellectual Property Rights	Respect and protect the intellectual property rights of others, and at the same time innovate to create more intellectual property.	S
The Public	Expose their situations to the society the performance timely, actively communicate with stakeholders and accept social supervision.	S

2.2. Relationships between ESG Investment & Corporate Social Responsibility

According to the table above, obviously there is a close correspondence between the requirements of corporate social responsibilities and elements in ESG investment. The corporate social responsibilities can be classified into three dimensions E, S, and G. The concept of ESG investment is specifically embodied in corporate social responsibilities.

On one hand, ESG investment can be seen as an act of assuming social responsibility to the company. Besides the pursue of future economic benefits in the long term, a company invests in ESG for its current need of disguising itself as a socially responsible company. Corporate social responsibilities provides a direct motivation for ESG investment. Moreover, it can be deduced that ESG investment sometimes may become compulsory if the corresponding social responsibility becomes a legal duty to companies.

On the other hand, corporate social responsibilities provide the moral basis for ESG investment. ESG investment is valued and awarded by the whole society because it meets social morality and benefits the public. ESG investment improves the company’s image as a social citizen. Insisting on ESG investment, although it is uncertain whether a company can catch a new business chance, will definitely help the company's social reputation. ESG investment is worthwhile. In addition, after understanding the social responsibility, companies can know where to invest among all the ESG related areas. The requirements of corporate social responsibilities are just like some specific advice on ESG investment.

3. Return of ESG Investment from the Perspective of Corporate Social Responsibilities

Companies are merit-oriented, so it is difficult to imagine that enterprises have motivation to invest in ESG since it means higher costs. Still, ESG investment becomes a hit. It must be due to the return on ESG investment towering over its cost. In fact, as an act of assuming social responsibilities, ESG investments are awarded and promoted by the whole society.

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3.1. Priorities in Law or Policy

Law and policy values the equality of society. As a powerful subject in the market, companies have greater ability than ordinary people to achieve social justice. Therefore, law encourages companies to assume more social responsibilities. ESG investment is awarded by law if it contains the assumption of corporate social responsibilities.

Take China's Enterprise Income Tax Law as an example. According to Article 9, public welfare donation expenditures of enterprises shall be deducted when calculating the amount of taxable income within 12% of the total annual profit; according to Article 27, income from qualified projects of environmental protection, energy conservation and water-saving may be exempted or reduced from enterprise income tax; according to Article 34, the tax of enterprises' investment in the purchase of special equipment for environmental protection, energy conservation, water conservation, safety production and so on may be deducted in a certain proportion.

According to the law above, companies will get a tax priority if they make E investments in facilities and projects of environmental protection and resource conservation or S investments in charity and the promotion of labor safety. Such ESG investments are awarded by law because they reflect the responsibilities of companies to promote social justice.

Besides the law, public policies committed to the improvement of citizen welfare also encourage ESG investment for similar reasons.

For example, China's "Carbon peak" and "Carbon neutral" Strategies are aimed at reducing air pollution. Based on *Opinions on Completely and Accurately Implementing the New Development Concept and Doing a Good Job in Carbon Peak and Carbon Neutralization* issued by the central government of China, local governments of China are entitled to make local policies on the emission of CO_2. Companies will be awarded if their E investment is helpful in the reduction of CO_2 emission during production. Otherwise, they would be punished.

3.2. An Increase of Sales Because of Improved Brand Image and Core Competitiveness

As is illustrated in the first part, ESG investment will win reputation because it accords with people's expectations of a corporate citizen and has a positive influence on the public. Therefore, in the long run, the improvement of corporate reputation can be transformed into brand image. Moreover, ESG investment distinguishes the company from other similar ones, forming their own unique core competitiveness. People tend to buy products from people they think are famous and reliable, even though the products themselves offer no advantages. The fame and edges brought by ESG investment significantly increase the sales of products. With the establishment of brand and the increase of core competitiveness, economic benefits of the company are ensured.

This can be proved from the case of Baixiang Instant Noodle. In 2022, China's 315 consumers' Gala revealed a serious food problem of instant noodles. "Master Kong," the most well-known brand of instant noodles, as well as many other well-known brands, used sauerkraut made by bare feet without any disinfection measures. People were astonished by such disgusting "foot sauerkraut" and expected a replacement. When people looked for another reliable brand, the brand "Baixiang" unexpectedly stood out. Besides the fact that it never uses "foot sauerkraut", its S investment that it continuously offers work opportunities to the disabled really touched people. "Baixiang, Great Brand" became a hit on the Internet. Baixiang made it a household name in almost one night. Before the 315 Gala, the daily sales of the official flagship store of Baixiang in the Douyin live broadcast room were below 100,000 yuan. However, on March 16 and 17, after the "foot sauerkraut" event, the live broadcast sales of the official flagship store of White Elephant exceeded 2 million yuan in a single day.

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In fact, Baixiang's success is not surprising. After the revelation of "foot sauerkraut" problems, people's belief in instant noodle companies collapsed. They could not afford another betrayal, so when they sought a replacement, what they expected most was the reputation of a company. They expected a company that seemed to be responsible and reliable enough not to let them down. That's where Baixiang's S investment worked. It was easy for people to think that a company willing to be kind to the disabled must also be responsible to their consumers. Baixiang's S investment "hiring and training the disabled" became the best advertisement and made itself one of the most famous instant noodle brand over just one night.

What's more, its S investment distinguishes it from other instant noodles company. "The company who hire the disabled" becomes the unique impression people have on Baixiang. It increases Baixiang's core competitiveness since it is attractive to people who are disabled or who want to help the disabled. The S investment of Baixiang finally has been creating significant economic benefits to the company.

3.3. Higher Ability Against Risk

A large number of studies have shown that ESG and corporate financial performance are positively correlated. In 2015, Friede conducted an analysis of more than 2,000 literatures about management, accounting, finance, and economics. The result shows that about 90% of the literatures reveal a non-negative relationship between ESG and corporate financial performance, and more importantly, the vast majority of studies reported positive results [6].

There may be two main mechanisms for ESG to improve a company's financial performance. First, as is illustrated above, ESG accumulates reputation for the company. People love and support companies with high ESG points compared with ordinary ones. Therefore, if they undertake commercial risks, people tend to help them out of risk instead of watching them down. Also, people's positive view to the company because of ESG investment can offset their scandal to some degree. People are more likely to give them another chance. That is what can be called a ethical edge of ESG companies [7]. The edge increases these companies ability to possible commercial risks.

The other reason is really simple. ESG investors attract each other. Companies with outstanding ESG performance are favord by other ESG investors and promoters. When an ESG investor faces commercial risk, other companies who do ESG investment come to help. They are also able to win the support of the government and bank if ESG is always promoted in society [8].

4. Conclusion

ESG investment, meeting the requirements of corporate social responsibilities, benefits the public. Promoting ESG investment is important to achieve social justice and create a more environmentally friendly economy. Because of all these positive impacts on society, ESG investment are promoted by the government. Laws and policies have been released to help. ESG investors gain an edge in the market.

However, what we have done is still not enough. More attention should be paid to the supervision of these companies. It is not rare that a company gains an ESG bonus by cheating, such as these green-washed companies. Therefore, the supervision system for ESG investment should be improved.A future study may focus on the role insurance companies may play in ESG supervision. On the one hand, companies have motivation to buy insurance because ESG is highly risky, and they need insurance to shift their risk to the insurance company. On the other hand, insurance companies are powerful supervisors of ESG investment. Compared with the government's ability but insufficient motivation and the general public's motivation but insufficient ability, an insurance company has both ability and motivation. As part of the financial system, they can directly take reasonable and

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effective financial measures to impose sanctions when companies violate their ESG commitment. At the same time, they also have an incentive to supervise enterprises. They are under "economic pressure," and they will lose money if they do not do their job well.That’s why they will be more active in ESG supervision, and it is wise to let them join in the promotion of ESG investment. Afterward, economic development is bound to focus on quality. Companies that have a high ESG score may be the pillars of the economy. The paper, Research on ESG Investment from the Perspective of Corporate Social Responsibility, guides the company in understanding the deep meaning and return of ESG.

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