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Corporate ESG Investment: Factors Affecting the Economic Sustainability

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Abstract: ESG investing has gained prominence in sustainable development, yet its widespread adoption remains an evolving process. This paper comprehensively analyzes the factors influencing corporate ESG investment, considering technology, policy, investor performance, and social responsibility. The paper explores the definition and evolution of ESG, emphasizing its importance in promoting responsible business practices. It assesses the impact of emerging technologies like AI, blockchain, and renewable energy solutions on ESG practices. Industry-specific technologies in manufacturing, finance, and transportation sectors are also considered. The role of policies in shaping ESG investment practices is evaluated, examining regulatory frameworks, tax incentives, and reporting requirements worldwide. The effectiveness of these policies in encouraging ESG integration within corporate strategies is assessed. Investor performance is analyzed in relation to ESG, highlighting empirical evidence of its positive impact on financial performance and risk management. The growing demand for ESG-focused investments from institutional investors and its influence on corporate ESG practices are explored. The importance of social responsibility in driving ESG investment is emphasized, showcasing successful case studies of companies aligning their strategies with societal needs, enhancing brand reputation and stakeholder engagement. This analysis provides a holistic understanding of the dynamics surrounding corporate ESG investment. It underscores the need for technological advancements, supportive policies, investor demand, and social responsibility to foster widespread adoption of ESG practices. Ultimately, this paper emphasizes the collective consideration of these factors to promote sustainable development and a resilient global economy.

Keywords: corporate ESG investment, technology, regulatory polices, investor performance

1. Introduction

Nowadays ESG investment is more and more popular. ESG stands for environmental, social, and governance. It is an assessment model applied to companies to better measure their level of sustainability. ESG measures focus on issues such as workforce diversity, wage gaps, health and safety, CO2 emissions, human rights, ethics and compliance, water management, and community development [1]. The idea of ESG investing emerged from the emergence of religious ethical investing, in which people refused to participate in sectors that went against their doctrinal convictions, such as not making money from the slave trade, cigarettes, or the production of weaponry. In the 1990s, socially conscious investing evolved from a moral and ethical viewpoint to an investment strategy that takes into account a company's ESG performance when making investment decisions and assesses the effects of ESG investment methods on investment risk and return. One of the most frequently used sustainability reporting standards was created in 1997 with the founding of GRI, the first independent international organization in the world [2]. ESG investing is a notion that is evolving in the new millennium.

With the boosting economy and global trading, global population growth, increasing aging, and climate change are emerging issues. It is critically important for individuals and businesses to notice these problems and get solutions, and people have realized that sustainability goals and climate change require worldwide action. For instance, in response to climate change, the Paris Agreement was agreed at the Conference of the Parties to the United Nations Framework Convention on Climate Change's 21st session on December 12, 2015, and it went into effect on November 4, 2016. Therefore, the goal of today's companies is not only to make a profit. Public companies will engage in certain ESG behaviors and investments out of a sense of corporate responsibility to society and various factors, so there are research-based factors that influence ESG investments.

Until now, according to GSIA, the ESG investment scale in the five major markets (US, Canada, Japan, Oceania, and Europe) will reach USD 35.3 trillion by the beginning of 2020 [2]. ESG investing can be understood as investment institutions aiming to reduce negative social externalities by incorporating non-financial environmental, social, and corporate governance information into investment decisions and promoting changes in investor and company behavior; while increasing the sustainability of long-term investments. With that trend, more and more industries change their investment methods. For instance, the energy sector, listed as an organization in the oil and gas industry, is one sector that is directly involved in the ESG dialogue. Public and regulatory organizations are more worried than ever about the actions of the energy sector and how effectively they are preparing for sustainability. Investors are aware that the sustainability of the energy industry affects the overall safety of their investments. However, businesses in the energy industry are aware of how these developments may affect their industry and are turning to ESG initiatives to win over investors. There is no doubt that the energy sector is transforming and those organizations that are better able to adapt to this change will survive better than others [3]. This article will briefly introduce factors that impact corporate ESG Investment in four parts: technology, policies, investor performance, and social responsibility.

2. Technology

Technology has a great impact on ESG investment. The development of ESG commitments will be aided by the use of innovative products, procedures, and practices that are supported by emerging technology. Additionally, they will serve as the foundation for brand-new interactions with staff members and customers that will make pledges to ethical behavior more tangible. Knowing how energy-efficient hardware and software assets are would help with measuring and reporting environmental impact, which is something that is becoming a major expectation. Many businesses will get insight into how to streamline operations and promote consistency from their digital transformation plans, which can help other corporate goals mature [4].

Therefore, when there are more emerging technology operating in an industry, there are more chances to receive ESG investment. More companies in industries of blockchain, artificial intelligence, and the Internet of Things are taking into account the process of digital transformation. For example, Starbucks sells coffee from the store counter to its app in China. In the intensely competitive express logistics sector, Shunfeng, a Chinese courier company, has an advantage over rivals due to its technological prowess in areas like handheld devices, QR codes, electronic face sheets, and artificial intelligence techniques.

The technology (and IT) industry as a whole is also collectively re-emphasizing components of ESG, with some major technology suppliers "recommitting" or upgrading their ESG mandates over the previous year. Women still make up only one in five CEOs and board members of technology companies, according to a 2020 research by S&P Global, despite a rise over the previous ten years. Economic models show that greater gender diversity is linked to better financial success, and the survey found that businesses with more women in IT departments typically had advanced digital transformation. In addition, the IT sector contributes significantly to the world's carbon footprint. Companies will increasingly seek to know if ESG decisions are consistent with a long-term strategy as they organize around their ESG commitments. In addition, vendors will need to have a clearer understanding of the business returns their customers can expect from using their technology. Customers who care about sustainability will see more attempts to "greenwash" goods and services. Along the ESG journey, suppliers must collaborate with their clients and meet their needs. For the examination of ESG investments, this is especially crucial [4].

Besides, the industries that are related to technology and social impact are more related to ESG investment. ESG focuses more on green and sustainable energy industries, such as the industry of solar energy, wind energy, and electricity may gain more ESG investment. Energy is one of the most crucial bases of a country's economic growth. During the last three decades, various national, regional, and worldwide organizations have focused on sustainable energy measures. A report on the emissions gap published by the UNEP states that the majority of global greenhouse gas emissions are consumed and generated by energy, and therefore, energy investments should focus more on creating value while solving global problems [5]. Recent research by KPMG's China ESG research team concluded that electrification and smart grids, photovoltaic and wind power generation, hydrogen, energy storage, CCUS, and other carbon-negative technologies will be the priority development areas for achieving carbon neutrality globally and in China in 2023. Investment in these areas is expected to account for more than 70% of the total global and Chinese investment in addressing climate change. Also, industries that have negative social, environmental, and governance, may receive some regulation and less investment due to consideration of its negative impacts.

3. Policies

Policies in different countries also have a huge impact on ESG investment. As the birthplace of ESG investing, Europe has been a leader and promoter of ESG investing. In Europe, ESG investment has already become a mature concept. The policies in Europe are well-established [6]. As the impact of ESG rises, in March 2021, the EU Sustainable Financial Disclosure Regulation (SFDR) comes into force across the EU. The implementation of the SFDR harmonizes the statutory standards for sustainable financial disclosure in the EU, helping to improve the transparency of sustainable investments in the EU and directing market capital to truly sustainable financial products. In addition, the SFDR will have a broad impact on global financial institutions, including Chinese institutions, that raise capital, issue products or provide services to financial institutions and investors in the EU, as well as sounding the alarm on "greenwashing" practices. In conclusion, policies regarding ESG investment are transparent and regulated, which enables local companies to follow rules to develop.

For the US, in 2022 ESG information disclosure is not yet mandatory for public companies in the United States. However, U.S. companies operating globally have voluntarily undertaken ESG disclosures to respond to stakeholder concerns. New U.S. Department of Labor regulations has also begun to allow retirement account fiduciaries to consider ESG investment options. Some investors and business leaders have made strong calls for the U.S. to bring climate risk, human capital, and corporate governance disclosures into regulation. However, there is growing social pressure on boards and CEOs to commit significantly to ESG goals. The U.S. Securities and Exchange Commission (SEC) has created the position of Senior Policy Advisor for Climate and ESG and

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strengthened its inspection of whether businesses' business continuity and disaster recovery plans take into consideration extreme weather hazards. A assessment of financial disclosures made by corporations relating to climate change has also been started by the SEC, which is increasingly indicating that a new standard for corporate disclosure of ESG and climate risk is imminent. The SEC is crucial in defining which disclosures are required and how businesses interact with their shareholders because it is Wall Street's main regulator [7].

For China, ESG investment is still in the early stage, but the development of ESG investment in China will accelerate in the context of carbon neutrality. Regarding the size of asset management and ESG investments in Europe, the US, and Japan, we anticipate that in 2025, ESG investments in China would equal 20–30 trillion yuan, or 20%–30% of the total size of the asset management sector. In 2025, China's ESG public fund size is expected to increase by more than two times its current level, based on the rate of growth of worldwide ESG public funds [8]. For China, ESG regulation not only chooses a policy of mandatory disclosure but also a top-down model.

4. Investor Performance

Investor performance is always a direct factor to influence ESG investment decisions. Some investors may focus more on profits and stock value when they make ESG investments.

A good ESG performance for a company implies a better information disclosure, As a result, financing restrictions will loosen and the required rate of return will drop, which will lower the company's costs [9]. Also, the company may gain competitive advantages due to the enhancing social reputation. Though the ESG actions may cost a lot and the investment has some risks, because companies with higher ESG ratings are more competitive, companies will have higher dividends. Therefore, according to the degree of the company benefits that the investor desires, the investor may do different decisions in ESG investment and the company will do more actions for sustainability.

There are three types of investors: personal investors, angel investors, and venture capitalists. Personal investors may focus more on stock interest when they take ESG investments. Some people prefer risk aversion, hence they may even would not willing to take risks in ESG investment. Hence, the amount that they invest will be less. Venture capitalists are investors who provide capital to startups that are considered to have long-term growth potential. They may be more willing to take risks and invest in industries that have high risks to fall in the ESG investment. Therefore, most of them invest relying on their social responsibility and personal hobbies.

5. Social Responsibility

Social responsibility is an important part of ESG investment. The value of social responsibility is stronger among millennials, and they have a progressive propensity to support businesses that are concerned with social concerns, fair trade, sustainability, etc. [10]. Enhancing education and social awareness enables a large number of companies to attend to ESG investment. For example, Microsoft takes social responsibility in communities, it desires to contribute to local communities through economic development and job creation programs [11].

Social responsibility taken into consideration is for brand effect and the company’s reputation as well. A company demonstrates how CSR is advantageous for future growth. Companies, especially multinational giants, have a duty to practice CSR in order to lessen their negative effects on the environment and improve society as a whole. It is a means for a business to be accountable to the public, its stakeholders, and not only to itself. If a large company does not do its share of corporate responsibility, its reputation is bound to have a negative impact, which in turn will affect long-term investment and development.

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There are four types of social responsibilities.: Philanthropy, labor ethics, environmental conservations, and volunteerism. Companies can follow these two types to take responsibility for investment, also can follow them to invest. Nowadays some companies have already done CSR. In vitro diagnostics, medical imaging, and life information and support are only a few of the major areas in which Mindray, for instance, provides medical device products. Since 2018 the company is keeping publish its sustainability report and social responsibilities reports, which include Quantitative indicators to measure environmental performance, integration of ecological and environmental protection requirements into development strategies and corporate governance processes, types, quantities, and concentrations of pollutant emissions, specific measures taken by the company to promote green and low-carbon transformation, and the effectiveness of implementation and sustainable supply chains.

6. Conclusion

In conclusion, factors that influence corporate ESG investment are Technology, policies, investor performance, and social responsibilities. In the current situation, ESG investments are generally based on investor performance, with companies investing and acting in their interest and position. At the same time, national policies have helped ESG investments in some way. The policy helps to change some industries that are harmful to ESG and also regulates the investment market environment, even if the policy in individual regions is not completely perfect. In the future, the author predicts that technology will be the main factor of ESG investment, when the policy, investor performance, and social responsibilities have matured to a certain degree, the limitation of the technology is the key to ESG investment. Only technology can help ESG investment to further expand and achieve.

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