

The Impact of Environmental, Social and Governance (ESG) on Corporate Value Enhancement

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Abstract. Environmental, Social and Governance (ESG) refers to the aspects of environmental protection, social responsibility and good governance that enterprises should consider in the course of their operations. These factors have an important impact on the long-term sustainable development and value enhancement of enterprises, especially in recent years, when enterprises pay more attention to the ecological environment in the process of development and take all kinds of measures to repair it, enterprises will incorporate ESG into their investment decisions, which is an extension and enrichment of the concept of responsible investment. Staying committed to ESG principles, enterprises can realize long-term sustainable development, improve their brand value, market position and competitiveness, and attract more investors and resource support. This paper analyzes the impact of environmental, social and governance factors on enterprise value enhancement respectively, hoping to provide suggestions for enterprise development and realize win-win of social value and market value.

Keywords: environmental; social; governance; corporate value.

1. Introduction

In recent years, as the concept of ESG as a whole has gradually been accepted by all sectors of society, enterprises will also take the major elements of ESG into account in the process of formulating development plans and making investment decisions, so as to realize green development and actively assume the corresponding social responsibility. The data shows that the number of entrepreneurs reporting on the ESG category in 2022 as a whole has increased significantly, and the increase has amounted to 18.47% compared with 2021. (See figure 1) Meanwhile, in order to prompt listed companies to value and improve their ESG performance, government departments, regulators and industry associations have launched a series of policies aimed at strengthening ESG information disclosure of listed companies, improving corporate ESG performance, and guiding investors to stay true to the concept of ESG investment. However, In the context of the market economy, the guidance of policy encouragement and regulatory rules is certainly important, but it is more crucial to stimulate the intrinsic motivation of enterprises, so that they can obtain higher economic returns and stronger sustainable development ability from better ESG performance, and realize the “win-win” of social value and market value. So, does good ESG performance help to enhance corporate value? This paper analyzes this issue.^[1]

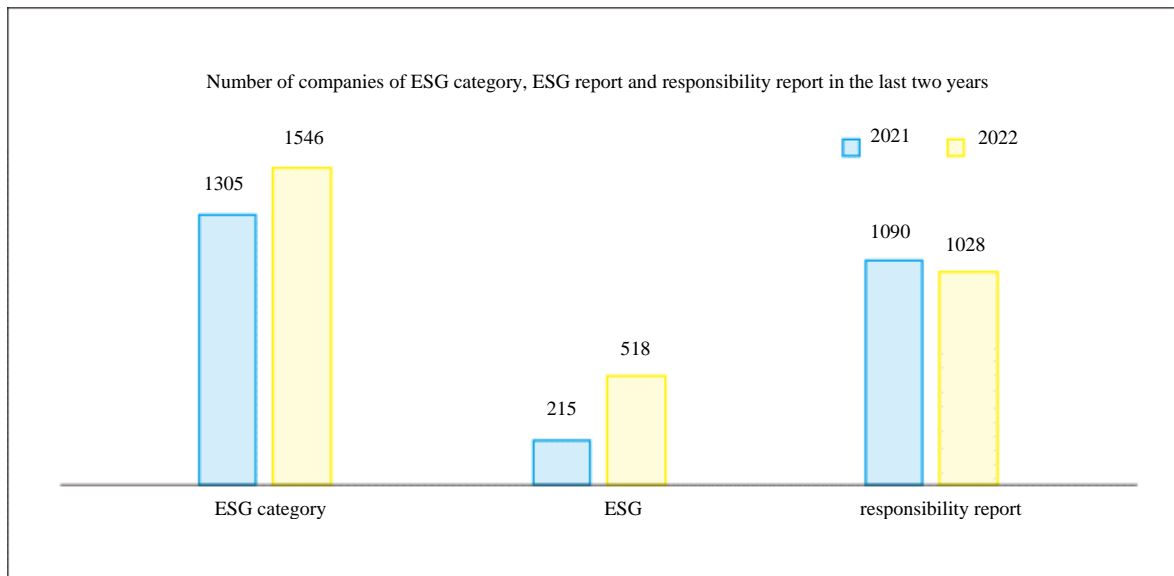


Figure 1: Number of companies of ESG category, ESG report and responsibility report in the last two years

2. The concept of ESG

ESG stands for Environmental, Social, and Governance, and is a comprehensive system of indicators that considers environmental protection, social responsibility, and good governance in business operations. Environmental indicators focus on a company's impact on the natural environment, including resource utilization efficiency, energy consumption, waste management, and emissions control. Environmental issues are receiving increasing attention, and by actively adopting environmental protection measures, enterprises can reduce negative impacts on the environment, lower environmental risks, and improve corporate reputation and brand image. Social indicators focus on the relationship between enterprises and the society, including employee rights, employee welfare, employee diversity, human rights protection, supply chain management, and community development.^[2] Enterprises should fulfill their social responsibilities, actively contribute to the society, pay attention to employee welfare, and establish good employee and social relations in order to enhance employee satisfaction, consumer loyalty and social recognition. Governance indicators focus on an enterprise's decision-making process, internal control and corporate governance structure, including independence of board of directors, oversight mechanism, financial reporting transparency, risk management, etc. Good governance can improve decision-making efficiency and execution, reduce manipulation, enhance investors' trust, and attract more investment and resource support. ESG is comprehensive, long-term, multi-stakeholder, and quantifiable in corporate development, which has a huge impact on corporate development and value enhancement.

First, it is comprehensive. ESG takes into account environmental, social and governance aspects, comprehensively assesses the level of sustainable development and performance of enterprises, and comprehensively reflects the value and risk of enterprises.

Second, it is long-term. ESG focuses on the long-term sustainable development of enterprises, not just short-term economic benefits. By actively practicing ESG principles, companies can gain lasting competitive advantages and benefits.

Third, it is multi-stakeholder. ESG takes into account the stakeholders of an organization, including investors, consumers, employees, and communities. By focusing on ESG, companies can build good stakeholder relationships and increase overall corporate value.

Fourth, it is quantifiable. ESG indicators can be quantified and measured, and by analyzing and evaluating the indicators, investors and stakeholders can be provided with visualized references and decision-making bases.

3. Emphasizing the significance of ESG to the long-term development of enterprises

3.1. Good ESG performance contributes to long-term business growth

ESG is one of the key factors for long-term value creation of an enterprise. By establishing transparent, fair and standardized governance structures and processes, such as the development of an effective internal control mechanism, a sound risk management system and a good board of directors' supervision mechanism, an enterprise can enhance its decision-making efficiency and execution. This helps to improve the overall business performance of the enterprise, attract more attention from investors and the capital market, and provide stable support for the development of the enterprise. The data reveal that enterprises with good ESG performance have more robust profit growth and fewer significant performance declines and losses, as shown in Figure 2. By comparing the three types of companies that have published ESG reports, responsibility reports, and unreleased reports. In 2022, 57.34% of the enterprises that published ESG reports went up in net profit belonging to the owner of the parent company, and 45.50% of the enterprises that unreleased ESG reports went up in net profit belonging to the owner of the parent company. The decline in net profit belonging to the owner of the parent company accounted for 42.66% and 54.47% respectively. It can be seen that companies that publish ESG reports are more likely to stay in business.^[3]

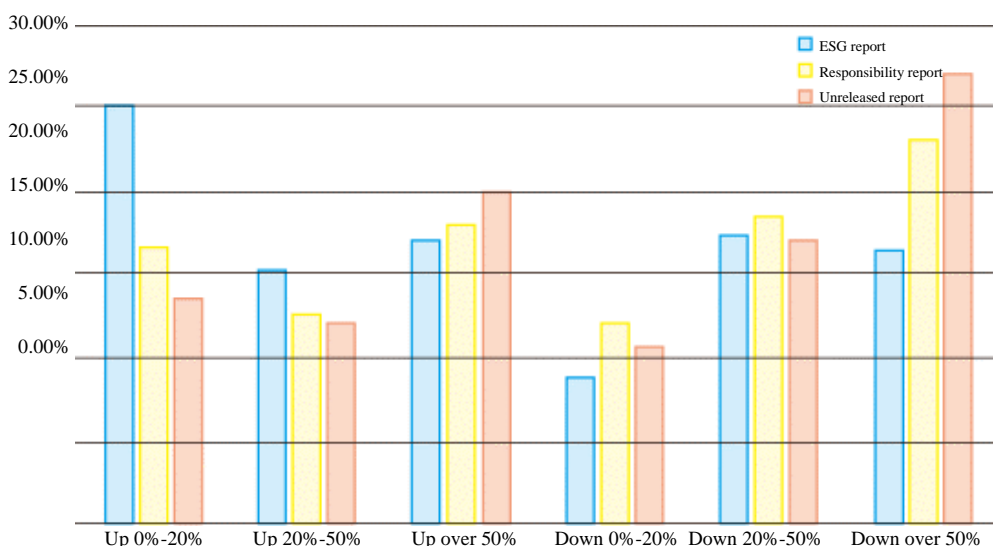


Figure 2: Analysis of the 2022 growth rate range of net profit belonging to the owner of the parent company for three types of disclosure companies

3.2. Good ESG performance contributes to corporate efficiency

By fulfilling their social responsibilities, such as actively giving back to the society, supporting charitable causes and providing excellent working conditions and employee benefits, enterprises can build a good corporate citizenship image and enhance their relationships with consumers, employees and investors. This good relationship helps to increase consumer loyalty, employee satisfaction and investor trust, which in turn enhances the market position and competitiveness of the enterprise, giving it unique advantages such as human resources, resources and other competitive advantages in operation and production, thus realizing an improvement of operating efficiency.

3.3. Good ESG performance helps reduce corporate risks

Focusing on ESG can help companies identify and mitigate potential risks, boost innovation and efficiency, and improve their competitiveness and sustainability. By adopting environmentally-friendly measures, such as reducing emissions, recycling resources, and improving energy efficiency, companies can reduce their dependence on natural resources and minimize negative impacts on the

environment. This not only helps to protect the ecological environment, but also reduces the environmental risks faced by enterprises and improves their reputation and brand value. The risk of business deterioration of ESG reporting enterprises is relatively small, as shown in Figure 3. For enterprises with three consecutive years of losses, only 7 out of 518 enterprises disclosing their ESG reports accounted for 1.35% of the total number of enterprises, while 125 out of 2,831 enterprises that did not publish a report amounted to 4.42% of the total number of enterprises.^[4]

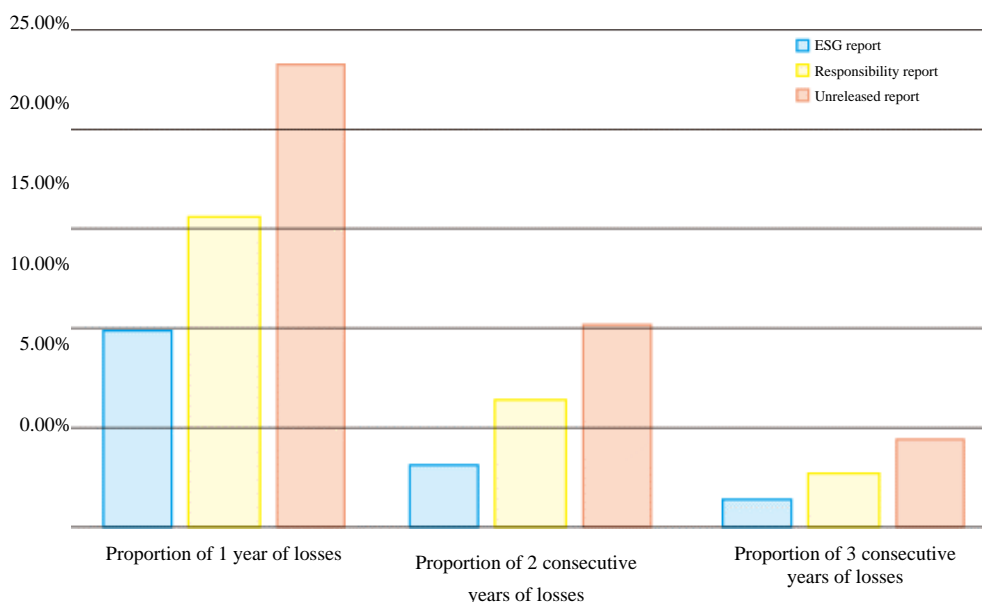


Figure 3: Analysis of the proportion of loss-making companies in 2022 across the three disclosure types

4. The Impact of Environmental, Social and Governance (ESG) on Corporate Value Enhancement

4.1. The impact of the environment on the enhancement of corporate value

4.1.1 Enhancement of corporate value

Companies that focus on environmental sustainability are more likely to build a favorable brand image in the minds of consumers. Nowadays, consumers are increasingly concerned about environmentally-friendly products and companies, and they are more inclined to choose companies that are environmentally responsible and adopt sustainable operations. Therefore, by adopting environmentally-friendly measures, reducing carbon emissions and promoting a circular economy, enterprises can enhance their brand image and increase consumer recognition of their products and services, thus improving their market competitiveness and brand value.

4.1.2 Long-term risk management

Focusing on environmental issues can help companies identify and manage potential environmental risks. For example, tighter environmental regulations, resource scarcity, and climate change may have a negative impact on business operations. Through environmental management and environmental pollution reduction, companies can reduce environmental risks, avoid the risk of fines, lawsuits, or reputational damage due to non-compliance with regulatory requirements, and protect the stability of their long-term interests.

4.1.3 Efficient utilization of resources and cost savings

Environmental awareness has prompted enterprises to pay more attention to the effective utilization and conservation of resources. By embracing a low-carbon economy, promoting energy efficiency and optimizing production processes, enterprises can reduce energy and resource

consumption, lower production costs and improve their economic efficiency. At the same time, the application of environmental technologies can also bring innovative opportunities and new business models, further enhancing the market competitiveness and profitability of enterprises.

4.1.4 Sustainable investor relations

Environmental issues are also receiving attention from investors and have an impact on the valuation of companies. Increasing number of investors take ESG indicators as one of the important basis for investment decisions and focus on investing in enterprises that perform well on environmental issues. Therefore, by focusing on environmental issues, improving environmental transparency and developing sustainable development strategies, enterprises can attract more attention from investors, thus receiving more financial support, increasing their financing channels and reducing capital costs.^[5]

4.2. The impact of social responsibility on the enhancement of corporate value

4.2.1 Maintaining a good corporate reputation

Enterprises that actively fulfill their social responsibilities and care about employee welfare, community development, public welfare and charity can establish a good corporate image and reputation. This corporate image builds trust and goodwill among consumers, employees, partners and other stakeholders, thus increasing consumer recognition of the enterprise's products and services, attracting talents to join the enterprise, and promoting good cooperative relationships with partners. It is conducive to attracting and retaining core customers, increase market share, and create favorable conditions for the long-term development of the enterprise.

4.2.2 Long-term sound operations

Awareness of social responsibility helps enterprises establish a long-term and sound business model. By paying attention to employees' rights and interests, caring for the community environment, and safeguarding consumers' rights and interests, enterprises can enhance employees' sense of belonging and loyalty, and improve their efficiency and innovation. At the same time, active participation in community development and public welfare activities can also gain support and recognition from all sectors of society. All these initiatives help enterprises establish stable stakeholder relationships and improve their long-term competitiveness and profitability.

4.2.3 Increased acceptance and attractiveness

Investors and consumers are increasingly emphasizing the social responsibility performance of enterprises as one of the important factors in decision-making and selection. By fulfilling their social responsibility, actively participating in social problem solving and promoting sustainable development, enterprises can enhance their image and reputation in the minds of investors and consumers. This not only helps enterprises to attract more investment and financing opportunities, but also enables them to gain the trust and support of consumers and increase product sales and market share. At the same time, governments and regulatory bodies tend to support enterprises with good social responsibility and give them more policy support and preferential treatment.

4.2.4 Potential risk management

Emphasizing social responsibility helps enterprises identify and manage potential social risks. Enterprises that violate social ethics and morals, neglect employees' rights and interests, or disregard the interests of the community may face reputational damage, litigation risks, and business disruption. By establishing a sound social responsibility management system, enterprises can better prevent and respond to these risks and maintain a favorable business environment and sustainable development.

4.3. The impact of corporate governance on the enhancement of corporate value

4.3.1 Improving transparency and efficiency in decision-making

A good corporate governance mechanism can ensure that the decision-making process of an enterprise is more transparent, fair and efficient. Through the establishment of sound legal compliance, information disclosure and internal control mechanisms, enterprises are able to provide accurate and timely financial and non-financial information, so that investors and stakeholders have a clear understanding of the operation and potential risks caused by information asymmetry are reduced.

4.3.2 Enhancing investor confidence and access to financing

Good corporate governance enhances investors' trust in enterprises. Investors are more inclined to invest capital in enterprises that have transparency, efficient decision-making and risk management capabilities. Through fair and equitable corporate governance mechanisms, enterprises can improve their reputation and image in the financial market, attract more investor capital, reduce financing costs and expand financing channels.

4.3.3 Improving enterprise management effectiveness and competitiveness

Effective corporate governance can optimize the management structure and processes of an enterprise and improve the management effectiveness and competitiveness of the organization. By clarifying powers and responsibilities, and establishing scientific and perfect decision-making levels and processes, enterprises can strengthen their strategic planning and execution capabilities, and improve the efficiency and flexibility of resource allocation.

5. Conclusion

In the long-term development of enterprises, through environmentally friendly operation, enterprises can not only increase brand value, reduce risks and costs, but also obtain investors' favor and opportunities for sustainable development, and achieve long-term stable growth; by paying attention to the interests of employees, communities and consumers, and actively participating in social public welfare activities, enterprises can build up a good corporate image and reputation, maintain long-term sound operation, and attract investors' and consumers' attention and support, so as to realize the long-term sustainable development of enterprises.

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