

The Impact of ESG Performance on Chinese Enterprises' Overseas Operations

Tianyi Chen

Academy of Information Engineering, Zhongnan University of Economics and Law, Wuhan, China
Chentianyi@stu.zuel.edu.cn

Abstract. At present, developed countries and regions have adopted more cautious policies and set more environmental trade barriers for foreign environmental investment and trading. Under this background, ESG concept, which is in line with the current economic development background, has attracted more attention from the academic and practical circles. Based on the integration of existing literature, this study believes that there is a significant positive correlation between ESG performance and the overseas operation ability of enterprises, and the transformation efficiency of Chinese enterprises' ESG advantages in overseas operations shows obvious heterogeneity at the two levels of enterprises and the host country markets, so this study divides the mechanism of ESG performance on the overseas operation of Chinese enterprises into external and internal levels to explore and clarify, so as to advocate the vigorous development of ESG and promote Chinese enterprises to go to the world with high standards.

Keywords: ESG, Overseas markets, Corporate revenue.

1. Introduction

Due to global warming, the frequent occurrence of COVID-19 and public risk accidents, the worldwide macroeconomic turns down, and the international situation is becoming more severe. In recent years, developed countries and regions, such as Europe and the United States, have adopted more cautious policies for foreign environmental investment and trading, represented by the low carbon tariffs being implemented in Europe. Many developed countries have also set more environmental trade barriers in the name of environmental investment and reducing carbon emissions, and strengthen the corresponding regulatory review. In this context, Chinese enterprises are facing great uncertain risks and challenges in "going global." In addition to the influence of external factors in the international environment, Chinese enterprises themselves also have many problems that hinder their international operations. For example, when Chinese enterprises participate in business activities in the international market, problems such as weak environmental awareness and doubts about sustainable development are prominent, which makes Chinese enterprises lose their competitiveness in international business. Therefore, how to build a harmonious relationship between Chinese enterprises and stakeholders of various countries is urgent.

In recent years, as the phenomena of environmental pollution, financial data fraud and corporate responsibility of listed companies continue to intensify, the concept of ESG (environment, social and governance), which is in line with the current economic development background, has attracted more and more attention from the academic and practical circles, including the performance of enterprises in the above three dimensions. It was first proposed in the UN initiative report "Who Cares Wins" in 2004. With the popularity of the concept of sustainable development, the international community pays more attention to the disclosure of ESG information. The United Nations Global Compact (UNGC) requires companies within the organization to submit a Communication on Progress (CoP) report on ESG performance every year. Companies that fail to file reports are even flagged as not communicating. China officially introduced the ESG system relatively late, but in recent years, policy documents on ESG have been constantly improving. In 2018, the China Securities Regulatory Commission revised and issued the Code of Governance for Listed Companies, which clearly requires listed companies to disclose relevant information such as stakeholders, environmental protection and

social responsibility. Obviously, ESG performance has become an important indicator of concern to the outside world, and has a profound impact on the business activities of enterprises.

Compared with other indicators to measure "sustainable development", the ESG evaluation system has the characteristics of more comprehensive, clearer, extensible and industry-wide. Because of the "double substance" of ESG, which emphasizes the external economic, social and environmental impact of enterprises, it has become a consensus in the industry to consider ESG factors in business models to create sustainable business opportunities. Some vivid examples provide evidence of the utility of ESG transformation in enterprises. For example, Contemporary Amperex Technology Co., Limited was excluded from the Hang Seng A-Share Sustainable Development Enterprise Index due to its low ESG composite score; Tesla was removed from the S&P 500ESG index for not publishing details on its low-carbon strategy or code of business conduct. These industry practices show that simply focusing on profit maximization and refusing to address ESG challenges will hinder an enterprises' internationalization.

According to these characteristics, most scholars currently believe that the international development of Chinese enterprises, no matter private enterprises or state-owned enterprises, needs to start and improve ESG compliance as the basic conditions. Only by comprehensively improving ESG performance can Chinese enterprises show a professional image, establish an international reputation, eliminate the alert doubts of international partners, realize sustainable development and enhance international competitiveness under the new situation of globalization.

However, due to the late development of the ESG system in China, the existing academic research is still in the preliminary stage of the ESG field, and the research perspective is relatively simple. Although many scholars have explored the mechanism of ESG performance affecting the overseas operation of Chinese enterprises, few scholars have combed the role of ESG performance on the overseas operation of Chinese enterprises from a holistic perspective. Therefore, by combing the existing literature, this paper integrates the mechanism of ESG performance on Chinese enterprises from the internal and external aspects, and focuses on the external role path of ESG performance on Chinese enterprises' overseas operations, so as to advocate the development of ESG and promote Chinese enterprises to go to the world with high standards.

2. Overview of Standardization Construction in ESG Rating System

2.1. ESG Concept

ESG is the first enterprise management concept and investment concept proposed by the United Nations, which is highly consistent with the sustainable development strategy proposed by the world's major economies and the goal of "carbon neutrality". Its standard is also a unified measurement standard of the company's environmental responsibility, social responsibility and enterprise management ability based on the sustainable development management idea.

Enterprise is the main body of economic development, and the introduction of enterprise ESG proves that ESG has expanded from governance structure to economic governance tool and means, and governance structure is also the key to achieve sustainable development of enterprises. Therefore, ESG is not only a measure of sustainable development of enterprises, but also a guidance and management tool to transform the production mode of enterprises [1]. As a rating-based measurement tool, ESG ratings are not limited to ratings themselves: companies see them as a "golden brand" to attract investors, so they strive for better ESG rating results. Although a high ESG rating reflects a company's outstanding performance in environmental, social and corporate governance, it is difficult to create stakeholder value if ESG is equated with a rating and pursued for a higher grade without effectively controlling the associated risks. Although there are many different ESG rating systems at home and abroad, they have not yet formed a unified standard, and they are still in a state of "different opinions" at this stage. Since a company cannot easily score high or high in all ratings, choosing one to "test" ESG work will not take the rest into account. Only when ESG concepts are integrated into development strategies and operations, guided by management and employees, and promoted to

industry standards, can they stay true to their original intentions and achieve results in a rapidly changing environment. Only by following the path of identifying and managing risks and information disclosure can we build a healthy model for ESG work and win the favor of investors. Therefore, while ESG can be assessed, it cannot simply be tied to a score, but to realize that what really matters in the field of sustainability is to drive change in thinking and perception.

2.2. Standardization construction of ESG

At present, China's ESG-related standards have begun to take shape. In the field of environment, the National Technical Committee for Standardization of Environmental Management and other ESG-related standardization technical committees have organized and formulated hundreds of ESG-related national standards, covering 190 mandatory national standards such as energy efficiency and energy consumption. It also includes standards on energy and environmental management systems, energy and environmental performance evaluation, energy and environmental auditing, corporate greenhouse gas accounting and reporting, project emission reduction accounting and verification, carbon emission information disclosure, solar energy, hydrogen energy, biomass and other new energy utilization; In the field of social responsibility, China has formulated and published national standards such as the Guide to Social Responsibility (GB/T 36000). In the field of organizational governance, China has formulated and issued national standards such as the Requirements and Guidelines for the Use of Compliance Management System (GB/T 35770), covering compliance management, risk management, and organizational governance. In the field of green finance, the People's Bank has issued the Technical Guide on Carbon Accounting for Financial Institutions (Trial), applied it on a pilot basis in the Green Finance innovation pilot Zone, and established national standards. It is also developing standards such as environmental standards for the activities of green project assets and guidelines for the implementation of sustainable principles for financial institutions. It provides important technical support for financial institutions to carry out green investment and participate in the carbon emission trading market [2].

3. The Impact of ESG Performance on Chinese Enterprises' Overseas Operations and Its Mechanism

3.1. The Impact of ESG Performance on Chinese Enterprises' Overseas Operations

Good ESG performance will have a positive impact on the overseas business of Chinese enterprises. According to the research of Zhou Zejiang and Zhao Shuman, there is a significant positive correlation between ESG performance and enterprise internationalization, in other words, good ESG performance can promote the improvement of enterprises' overseas operation ability. They selected A-share listed companies from 2009 to 2021 as research samples to empirically test the impact of ESG performance on enterprise internationalization [3]. After a series of robustness tests, such as instrumental variable method, one stage lag of explanatory variables, changing the measurement of key variables, company - year dual dimensional cluster analysis, etc., the research conclusion is still valid. Similarly, studies have shown that ESG performance contributes to improving firm profitability, with firm internationalization playing a partially mediating role. Liu Jiangtao et al. also believed that the ESG transformation of Chinese enterprises is beneficial to the international operation of enterprises in general, and the ESG advantages of enterprises will significantly improve the overseas operation performance of enterprises. At the same time, they found that the transformation efficiency of Chinese enterprises' ESG advantages in overseas operation shows obvious heterogeneity at the level of enterprises and the host country market. This prompts this study to divide the mechanism of ESG performance on Chinese enterprises' overseas operations into two levels: external and internal [4].

3.2. The External Mechanism of ESG Performance on Chinese Enterprises' Overseas Operations

Lu Renjing believes that the external effects of ESG performance on overseas operations of enterprises can be realized through four paths. Based on this, this study reviews existing literature on the external effects of ESG performance on overseas operations of Chinese enterprises and finds that most of the existing mechanisms have been included in the following four paths [5].

First path is to enhance ESG performance to promote its sustainable development, thereby enhancing its competitiveness in the international market. Based on the theory of sustainable development, the Enterprises' improvement of ESG performance is equivalent to improving their ability of sustainable development, which is conducive to gaining the trust of investors, partners and consumers in the international market, thus promoting the robustness and long-term development of enterprises in the international market. According to research, only when enterprises perform well in ESG can they achieve cooperation for mutual benefit among economic benefits, social benefits and ecological benefits, and enhance the core competitive advantages of sustainable development of the company. Xiao Deyun and Tan Yiyang also believe that the publication of ESG rating can significantly promote the internationalization of R&D of enterprises, thus improving the competitiveness of enterprises in overseas markets [6].

The second path is that enterprises can improve their ESG performance so as to gain the recognition and support of stakeholders, which is more conducive to their business in overseas markets. By actively fulfilling ESG responsibilities, enterprises can win the trust of investors, thereby reducing financing costs and easing the financing constraints of enterprises. Better ESG performance of enterprises can convey positive signals to creditors, reduce agency problems with managers, and improve investment efficiency of enterprises [7]. After meeting the social expectations of the above stakeholders, establishing a good interactive relationship with the government, society, investors and other stakeholders, the company will further expand its pace in the global field, making it more convenient to obtain the resource support of stakeholders when developing overseas business, and easier to go to the world, so as to increase the company's overseas market share.

The third path is that the improvement of ESG performance can improve agency problems and reduce international business risks, thus promoting international business. Based on the principal-agent theory, when enterprises are conducting international operations, the degree of information asymmetry they face will increase significantly due to the complex and changeable international situation. For example, Thailand, one of the main destinations of Chinese investment in ASEAN, has the highest social security risk, while the Philippines and Myanmar are not the main investment destinations of China at present, but they also have higher social security risks. As a result, the principal-agent cost has also increased significantly [8]. The improvement of ESG performance of enterprises can effectively alleviate agency problems, thus reducing agency costs, effectively supervise international business behaviors, reduce international business risks caused by information asymmetry, and thus promote international business of enterprises.

It will help enterprises to meet the strict regulatory and compliance requirements in overseas markets, reduce the impact of external stakeholders on the environmental management and laws and regulations of the company's export trade and operation, and reduce the risks of international operation brought about by trade barriers, thus facilitating the development of overseas markets for enterprises [4].

3.3. The Internal Mechanism of ESG Performance on Chinese Enterprises' Overseas Operations

Good ESG performance also has a positive effect within the organization. After reviewing the existing literature on the intrinsic role path of ESG performance on Chinese enterprises' overseas operations, this study believes that most of the existing mechanisms are reflected in the following two perspectives:

From the perspective of finance, the ESG performance of an enterprise is negatively correlated with audit costs. The better the ESG performance of the enterprise, the lower the audit cost, which indicates that excellent ESG performance will promote the steady improvement of financial performance, greatly improve the company's net profit rate on sales and return on net assets with good stability, which also enables the enterprise to have long-term sustainable development [9].

From the perspective of innovation, excellent ESG performance can reduce the agency cost and financing cost of enterprises, and improve the human capital of enterprises, thus affecting the innovation performance and enterprise value of enterprises. In the post-epidemic era, excellent ESG performance plays a significant role in promoting the profitability and long-term solvency of enterprises. At this time, the innovation motivation of employees is further stimulated through the improvement of human capital, thus enhancing the value of enterprises [10].

4. Conclusion

The core concept of ESG is based on the further exploration of sustainable business model. On this basis, most scholars believe that ESG performance has a significant positive role in promoting enterprises' overseas business. This study first briefly describes the concept of ESG rating, emphasizing that rating is only an important activity, and the concept of sustainable development is an important core of the ESG ecosystem. Then, this study briefly analyzes the current scale of ESG standardization in China, and shows that the rapid progress of ESG standardization in China is mainly due to the European and American countries of ESG rating tougher disclosure requirements. Based on this, this study believes that there is a significant positive correlation between ESG performance and the overseas operation ability of enterprises. The transformation efficiency of Chinese enterprises' ESG advantages in overseas operations shows obvious heterogeneity at the two levels of enterprises and the host country market, so this study divides the functional mechanism of ESG performance on Chinese enterprises' overseas operations into two levels: external and internal. From the perspective of host country markets, this study mainly summarizes four ways that ESG performance plays an external role in the overseas operations of Chinese enterprises, namely, improving ESG performance to promote sustainable development, gaining recognition and support from stakeholders, reducing international business risks, and improving the legitimacy of external operations. From the perspective of enterprises, this study mainly combs the internal mechanism of ESG performance reflected in the perspective of finance and innovation for Chinese enterprises' overseas operation.

This study discusses in more detail on the impact of ESG performance of the overseas business performance of Chinese enterprises, but it still has some shortcomings that can promote future research prospects: For example, although this study discusses the impact of ESG on the overseas operations of Chinese enterprises respectively at two levels of enterprises and the host country market, it does not distinguish Chinese enterprises of different natures, mainly due to the lack of literature in this aspect, which may lead to the incomprehensive analysis of ESG performance on the internal path of Chinese enterprises' overseas operations. This can also be the direction of future research in this fields. Overall, the implication of this study is to integrate the mechanism of ESG performance on Chinese enterprises from the inside and outside earlier, so as to advocate the vigorous development of ESG and expect Chinese enterprises to go to the world with high standards.

References

- [1] Zhou Hongchun. Suggestions on ESG connotation evolution, international promotion and China's development. *Exploration of Financial Theory*, 2023, (05): 3-12.
- [2] Ding Qing, Zhang Xiaoxin, Lin Ling. Progress and thinking on standardization of environmental and social governance (ESG) at home and abroad. *Chinese Standardization*, 2023, (21): 50-55.
- [3] Zhou Zejiang, Zhao Shuman. ESG performance and internationalization. *Financial Research*, 2023, (02): 47-58.

- [4] Liu Jiangtao, Zhang Yi, Tan Lin. Responsible for internationalization: ESG advantages and Chinese companies operating overseas. *World Economic Research*, 2023, (11): 60-77+136.
- [5] Lu Renjing. The impact of ESG performance on enterprises' international operation. Shanghai International Studies University 2023.
- [6] Xiao Deyun, Tan Yiyang. The impact of ESG rating announcement on R&D internationalization of Chinese enterprises. *Industrial Technical Economics*, 2019, 42 (10): 151-160.
- [7] Zhang Chen, Gu Chenkai, Zhu Weidong, et al. Value impact mechanism test of listed companies' ESG responsibility performance. *Journal of Finance and Accounting*, 2019, 45 (01): 40-45.
- [8] Zhang Qi, Zhang Shanshan. International ESG investment policy and its enlightenment to China. *Overseas Investment and export credit*, 2023, (06): 25-29+41.
- [9] Cao Zhipeng, Hou Yunyun. ESG performance, financial restatement and audit fees. *Friends of Accounting*, 2024, (03): 121-127.
- [10] Zhang Tianu. The impact of ESG performance on firm value: A case study of Vinda International. *Modern Business*, 2023, (24): 180-183.