

The Impact of CATL's ESG Implementation on Its Enterprise Performance

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Abstract. In recent years, enterprises have gradually realized the significant influence of the Environmental, Social and Governance(ESG)on corporate performance. This article aims to explore that how ESG factors affect the performance of Contemporary Amperex Technology Co., Limited (CATL), a globally leading company in new energy innovation and technology. Based on relevant research on the relationship between ESG and corporate performance, the analysis is carried out from three perspectives: environmental, social, and corporate governance, to examine the impact of CATL's ESG practices on both its financial and non-financial performance. The results indicate that CATL's active implementation of ESG is conducive to improving the company's financial performance as well as enhancing its performance in environmental, social, and corporate governance aspects. As one of the representative enterprises in China's new energy industry, the analysis of CATL in this article provides insights for the sustainable development of other enterprises and calls for improving the national information disclosure system of ESG.

Keywords: ESG, Enterprise Performance, CATL, Environmental, Sustainable Development.

1. Introduction

Environmental, Social, and Governance is referred to as ESG. A business or investment target's sustainability and ethical effect are gauged by these three factors. Environment refers to how a business affects the natural environment and climate change, including how trash is disposed of, energy use, water management, and pollution avoidance. A company's social impact includes how it affects its workers, clients, suppliers, communities, and other stakeholders. It places a strong focus on adhering to legal requirements, upholding labor and human rights, and engaging in charitable endeavors. Corporate refers to an organization's internal governance framework and decision-making procedures, which include internal controls, accountability, transparency, and responsible management of stakeholders like as shareholders and workers.

With around 4,000 companies worldwide having ratified the UN Principles for Responsible Investment, ESG investment is currently a widely accepted investment concept abroad. By 2024, the amount of global investment adopting ESG ideas will have reached \$30.7 trillion, or around 30% of the total amount of global asset management, according to the Commodity Selection Index. The worldwide ESG asset management scale is predicted to reach over \$53 trillion by 2025, making up over one-third of the asset management scale overall. As a crucial instrument for evaluation and investment, ESG seeks to give investors and organizations a multifaceted viewpoint so they may pay attention to social and environmental factors in addition to financial success. In order to promote social progress and sustainable economic growth, this ideology pushes businesses and investors to integrate social responsibility into their development plans and operations.

Large sums of money are flowing quickly into the new energy sector as the UN promotes a reduction in carbon emissions, but the industry's current state still has problems with its industrial structure, businesses' capacity to handle risks, its management system, and other areas. New energy vehicles will bring in a chance for the sector to grow under the ESG philosophy. ESG has grown

quickly in China in recent years, and academics have actively investigated it from a variety of angles. Most of the research focuses on how ESG affects business finance and investment decisions, as well as performance and value [1]. We use Contemporary Amperex Technology Co., Limited (CATL), a remarkable company emerging in the power battery industry development process, as a representative to examine the influence of ESG on enterprise performance in China's new energy automobile industry chain. This essay will examine ESG's effects on business success from three angles. The environmental management system, resource management, and emission and waste management are the three primary development areas that are the emphasis of the first environmental layer. The development of talent and social contribution are the two primary foci of the second social level. The areas of governance structure, protection of intellectual property rights, risk management, and anti-corruption are the main concerns of the third corporate governance layer. Through an analysis of CATL's financial and non-financial performance under the ESG practice, it is possible to fully understand how ESG affects CATL's performance, unearth insights and recommendations from businesses using ESG, and contribute to the long-term, sustainable growth of the economy and society.

2. Literature Review

An organization's environmental, social, and governance aspects make up its overall ESG performance. According to widely accepted research, there are currently three factors that have a positive correlation with an enterprise's performance: the performance of the enterprise is positively correlated with the performance of the environment, the performance of society, and the performance of the governance component [2].

2.1. The Relationship between the Enterprise's Performance and the Performance of Environmental Part

As environmental protection gains popularity, a growing number of national and international organizations offer targeted subsidies to businesses that demonstrate superior environmental performance in order to support environmentally friendly growth plans. Government incentive action will have a favorable effect on financial performance by amplifying the influence of environmental performance [3]. Businesses will create new technology faster in order to perform better in the environmental aspect. Businesses may discover new possibilities and increase their competitiveness in the market by investigating innovative technologies for environmental protection and renewable energy. The most widely used environmental management system, ISO14000, may increase manufacturers' profitability over a three-year period in terms of return on assets (ROA), according to the survey [4]. According to the media, organizations that receive more attention are required to release more information. This can assist stakeholders in reducing information asymmetry regarding ESG data and avert additional expenses in order to increase yield [5].

2.2. The Relationship between the Enterprise's Performance and the Performance of Society Part

The stakeholder hypothesis states that an organization's ability to operate is directly correlated with its ability to maintain positive relationships with its stakeholders [6]. Assume that the business views social responsibility favorably. Then, impressing the public is more beneficial, and stakeholders stand to gain more from a strong social media presence in terms of lower business risk. Positive effects on company financial performance can also be attained by bringing about a more appealing business climate, improved financial stability, and increased capability to withstand crises [7]. According to the signal theory, businesses that take on greater social responsibility will be trusted by stakeholders more, increase operational efficiency, draw in more investors and customers, and better serve the interests of stakeholders [8].

2.3. The Relationship between the Enterprise's Performance and the Performance of Governance Part

The foundation of the contemporary enterprise system is an adequate and transparent corporate governance framework. After adjusting for the variable of business size, there is a positive correlation between the value of the firm and the size of the board of directors [9]. Additionally, there is a strong association between market-based corporate performance metrics and the percentage of internal directors [10]. Modern corporate governance frameworks may save needless agency expenses, enhance board oversight effectiveness, and successfully diffuse legal or financial conflicts resulting from poor management. Second, because of their vested interests, managers often act in a way that impedes the growth of innovation. Effective corporate governance may reduce management's shortsightedness and provide long-term advantages.

3. The Implications of ESG on CATL's Performance

3.1. Basic information of CATL

Established in December 2011, CATL New Energy Technology Co., Ltd. is a prominent global leader in new energy innovation and technology. Operating under a new development pattern, the company seeks to advance the realization of both global and personal sustainable development. It incorporates the concept of sustainable development into its operations and management and employs sound ESG management as a means of achieving its objective. Figure 1 shows the evolution of CATL's ESG practices from 2018 onward.

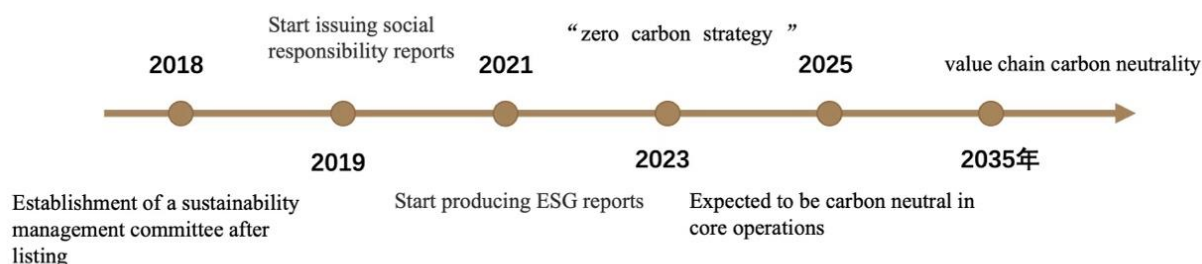


Fig. 1. Development history of ESG practices under the concept of sustainable development
(Photo/Picture credit: Original)

3.2. Sustainable Development Strategy

In order to promote the realization of both global and internal sustainable development, CATL upholds sustainable development governance. The company's operations and management are integrated with the concept of sustainable development, and the company uses solid ESG management as a means of achieving its goals. Harmonious win-win situations, innovation and achievement, moral behavior, and green recycling are considered core development policies. 2022 The business enhanced the governance framework for sustainable development and the corporate sustainable development management committee was formed, and its unique structure is shown in Figure 2. The committee will conclude its first session and begin its second one after that.



Fig. 2. Structure of CATL corporate sustainability management committee (Photo/Picture credit: Original)

3.3. Implementation Overview

3.3.1 Financial performance analysis of sustainable development under ESG concepts

This paper examines the effects of CATL's ESG implementation on financial performance indicators using enterprise growth indicators. Specifically, it compares the profitability indicators of enterprise growth and finds that a number of indicators, including return on assets, net profit margin of total assets (ROA), and return on equity (ROE), can provide insight into the enterprise's overall profitability. According to Table 1, CATL's ROA increases gradually until it reaches 23% in 2022—a notable increase from 2020. This suggests that the company's overall ability to capitalize on its assets is improving, giving it a strong competitive advantage and ample room to grow in the new energy industry, which is also growing at a rapid pace.

Table 1. Profitability analysis results

Indicator	2020	2021	2022
Accounts receivable turnover ratio (%)	5.13	7.44	8.04
Fixed asset turnover (%)	2.72	4.28	5.04
Receivable turnover days (days)	71.2	49.07	45.39
Total assets turnover (%)	0.39	0.56	0.72
Shareholders' equity turnover (%)	0.9	1.61	2.44

Source: Wind database.

Second, the enterprise's sustainable asset utilization and management are reflected in the five indicators of accounts receivable turnover days, accounts receivable turnover ratio, fixed asset turnover ratio, total asset turnover ratio, and shareholders' equity ratio that were chosen. Table 2 shows that receivable turnover days also decreased, from 71.2 days to 45.39 days. This indicates that the enterprise's ability to liquidate was improved, sales speed increased, and the turnover speed of CATL battery products accelerated. The receivable turnover rate also improved over time, indicating that the enterprise operated well and had a good flow of assets. After 2020, the total asset turnover rate also showed an upward trend. Added to the simple fact that the corporation was in a three-year ESG practices have a role in utility but possess a greater positive impact in the broader context of the epidemic market depression, essentially having no consequence. This indicates that the enterprise in the sustainable development concept of ESG practices in the management ability to continue to improve.

Table 2. Operational capacity analysis results

Indicator	2020	2021	2022
Current ratio (%)	1.97	1.53	1.31
Quick ratio (%)	1.66	1.16	0.93
Cash ratio (%)	1.35	0.81	0.77
Working capital to borrowing ratio (%)	4.65	2.1	1.19
Average gearing ratio (%)	56.82	65.15	70.34

Source: Wind database.

Third, analyze the gearing ratio and current ratio as markers for the business's economic stability and solvency. The enterprise's solvency is a security indicator demonstrating the creditor's capacity to lend money and supply investments to the company, as well as how well it can raise proceeds from the creditor to fund its operations. The current ratio can be used to gauge the company's short-term solvency. Throughout 2020, the corporation continues to be executing corresponding ESG reforms, which have caused the current ratio to keep dropping and short-term solvency to increase attributed to the increase in CATL's current liabilities. The pace with which the company's current assets could be utilized to settle its current liabilities is indicated by the quick ratio, formerly referred to as the fast assets to current obligations ratio. The quick ratio related to the CATL era has risen throughout the last three years, but it will rise to more than one by 2022, indicating that the era's solvency has been firmer. Table 3 shows that CATL's short-term solvency is still good amid a reduction following ESG practices. Its current assets are ample to meet its present liabilities, and throughout, CATL has the minimum financial and leverage risk.

Table 3. Debt service capacity analysis results

Indicator	2020	2021	2022
Total assets growth rate (%)	152.43	192.4	191.39
Net profit growth rate (%)	0.22	1.93	0.87
Growth rate of return on net assets (%)	100	50.35	11.08
Net assets per share (yuan)	29.7	39.74	72.43
Net assets per share growth rate (%)		33.78	82.27

Source: Wind database.

Fourth, the growth figures for net profit, total assets, and net assets per share were selected to reflect CATL's prospective future growth and development. While CATL is an international player in its industry, actively engaged in ESG practices, and really embraces sustainable development, the company's a brand and image are upgraded. With integrating the tenets of ESG, the organization nurtures talent development and is excited regarding social welfare, which raises investor confidence and enhances the business's long-term growth. Net profit has increased at a high pace and total assets and operational income have both expanded significantly. This indicates that the corporation is expanding consistently and that new energy offerings are genuinely competitive. Table 4 indicates that CATL has an excellent chance for development following ESG practices and is still maintaining the leading position in the industry despite the conclusion of a pandemic.

Table 4. Growth capacity analysis results.

Indicator	2020	2021	2022
Total assets growth rate (%)	152.43	192.4	191.39
Net profit growth rate (%)	0.22	1.93	0.87
Growth rate of return on net assets (%)	100	50.35	11.08
Net assets per share (yuan)	29.7	39.74	72.43
Net assets per share growth rate (%)		33.78	82.27

Source: Wind database.

3.3.2 Non-financial performance analysis of sustainability under ESG concepts

3.3.2.1 Environmental level

As it supervises the creative growth of the new energy category, CATL employs the principles of resource preservation and ecologically conscious recycling. It also continually reduces the environmental impact of its operations, primarily from the three main development areas of environmental management, resource management, emission control, and waste management: developing a sustainable company with doable steps and integrating the business's green image. In 2021, the corporation combined a digital administration platform and repurposed packaging, pouring forward effort in various fields. Since 2021, the company has been combining recycled packaging and digitalized management system to make multi-dimensional efforts to reduce its environmental footprint. By optimizing extreme and composite packaging, introducing recycled turnover apparatus, and lowering wood use by roughly 120,000 tons annually, we have achieved resource management. The company employed recycled or renewable materials in around 200 000 battery pack totes and approximately 180,000 module totes to meet the yearly packaging demand of related products. The overall recovery and recycling rate of general industrial solid waste reaches 99.87%, which improves and upgrades the enterprise's emission and waste management and enhances its own environmental management competence. The concentration of contaminants (COD, NH₃-N, NO_x, SO₂) emitted by key emission units is listed below 75% of the relevant standard limits.

3.3.2.2 Social level

The social level of CATL is mainly centered on the two major aspects of talent growth and social contribution. With the goal to introduce the best people and carry out talent cultivation, the company has signed a "School-Enterprise Talent Co-Education Agreement" with ten colleges, including Dalian University of Technology and Harbin Institute of Technology. The annually theme for CATL is "New Picture" of Multi-dimensional Integration and Rural Revitalization, which corresponds to the social contribution. In FY2022, the company put in place a sustainable development culture, accomplished 799 volunteer projects, featuring 12,893 individuals, and planted 1,306 camphor pines in cumulative forests for public benefit. The company in addition invested 183,960,000 yuan in public welfare, permitted employ approximately 2,000 impoverished people, and assisted with rural revitalization projects towards prosperity for all.

3.3.2.3 Corporate governance level

The enterprise's corporate governance focuses on anti-corruption, managing risks, property protection, and governance structure in recent years. In 2022, CATL obtained 6,583 authorized patent items and 10,054 patent items under implementation, vigorously safeguarding the rights to intellectual property and the spirit of innovation and preserving the principle that innovation is the core driving force of development. Between the same year, the company was awarded Grade A in the Shenzhen Stock Exchange's 2021 annual information disclosure appraisal; furthermore, it continues to review and revise its internal management system and adhere to effective communication between stockholders and investors. The company executes anti-fraud management in three stages: by establishing an integrity system, cultivating an integrity culture and education, and developing an integrity supervision mechanism; in addition, a comprehensive system of rules, regulations, and processes is set up. All new hires acquire training in risk control awareness, the "Big Casters Forum" is organized, and external experts are hired to deliver training to increase the management's awareness of internal control oversight and risk management. Guidelines and processes. Consolidating the entirety of the circumstances, CATL consistently utilized the concepts of green sustainable development through internal R&D improvements, actively practiced ESG and sustainable development, and swiftly and accurately disclosed its responsibility report to the public. In addition, it disclosed essential data and merged ESG concepts into each aspect of production and manufacturing. CATL has significantly enhanced its financial effectiveness and growth space, and it

has implemented modifications and enhancements in several ESG system dimensions under the guidance of appropriate policies and public accountability.

4. Conclusion

As an increasing number of enterprises recognize the importance of ESG, the question of how ESG impacts corporate performance has become widely discussed. After reviewing relevant studies, this article specifically analyzes the impact of CATL's active implementation of ESG on the company's performance.

In terms of financial performance, by the analysis and comparison of CATL's publicly available annual financial data for the past three years (2020-2022), it illustrates that the implementation of ESG has enhanced the company's financial performance. Key indicators used to reflect the corporate profitability, operating capability, solvency, and future growth potential include ROA, ROE and others.

Regarding non-financial performance, the company has also achieved notable success. Through a series of measures, including recyclable packaging and digital management systems, the company has successfully reduced its carbon footprint and effectively controlled pollutant emissions. Simultaneously, its active participation in public welfare activities and collaboration with universities underscore its emphasis on talent cultivation and social contribution. Additionally, significant progress has been made in patent protection, internal management system revision, risk management, and anti-corruption efforts.

However, the current lack of a standardized and unified measurement system for corporate ESG reporting results in a preponderance of subjective descriptive content and a scarcity of objective data analysis, posing a risk of "greenwashing." To standardize research on the impact of ESG implementation on corporate performance, the country should establish a common ESG information disclosure system tailored to the current national conditions.

Finally, due to the influence of numerous other factors on corporate performance, this analysis of CATL has certain limitations. Future research may consider incorporating mathematical models to enhance the accuracy of the correlation analysis between ESG and corporate performance.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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