Research on ESG Information Disclosure of Yili Group and Its Impact on Corporate Performance

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Abstract. Nowadays, environmental, social and governance (ESG) issues are gradually becoming the focus of attention for businesses and investors, as they can reflect the management ability and development prospects of an enterprise. Carbon emissions from animal husbandry account for an important proportion in agriculture, green emission reduction in the dairy industry is crucial for achieving sustainable development. This paper aims to study the performance of Yili Group, which is a diary product group, in ESG information disclosure and explore the impact of ESG practices on corporate performance. Research has found that Yili Group has made significant progress in ESG information disclosure, and there is a certain correlation between its ESG performance and financial indicators. Although Yili Group's ESG rating is on the rise, its financial performance is in a fluctuating downward trend. Therefore, both managers and investors should comprehensively consider the ESG performance and financial performance of the enterprise, and make reasonable judgments.

Keywords: ESG; Enterprise performance; Information disclosure; Yili Group.

1. Introduction

ESG is not only a comprehensive information disclosure and evaluation framework for corporate environmental protection, social responsibility and corporate governance, but also an important engine that leads companies beyond short-term profit considerations to pursue long-term environmental, social and governance sustainable development goals [1]. Many countries use ESG to measure corporate social responsibility and sustainable development capabilities, incorporating non-financial ESG indicators into the enterprise value evaluation system, guiding enterprises from only focusing on their own economic benefits to focusing on the interests of all stakeholders [2].In addition, some have pointed out that ESG ratings are quantitative information on the performance of listed companies in terms of environment, social responsibility and corporate governance, covering important information that may affect investment efficiency and corporate value [3]. But nowadays, the phenomenon of greenwashing is becoming increasingly serious, which means that business managers are blindly pursuing seemingly excellent ESG rating [4]. However, what managers should truly do is to integrate ESG into the corporate culture [5], establish truly effective ESG policies [6], and establish a stable and effective corporate governance system [7].

Yili Group was established in Hohhot, Inner Mongolia Autonomous Region, China in 1993 and was listed on the Shanghai Stock Exchange in 1996 (stock code 600887). After years of development, Yili Group has become the largest and most comprehensive dairy product enterprise in China. In the agricultural sector, carbon emissions from animal husbandry account for an important proportion, with the dairy industry contributing 20% of the global greenhouse gas emissions from animal husbandry [8]. Therefore, this paper aims to evaluate the performance of Yili Group in ESG information disclosure by searching its Huazheng ESG rating report as well as sustainable development report from 2018 to 2022, and analyze its annual reports from 2018 to 2022 to explore the impact of ESG practices on corporate performance.

2. ESG Performance of Yili Group

From 2015 to 2022, Yili Group has released sustainable development reports for 8 consecutive years, as well as 10 reports including biodiversity briefings, biodiversity conservation reports and zero carbon future reports, which disclose Yili Group's investment and achievements in environmental, social and governance aspects in detail.

2.1. Overall ESG Ratings of Yili Group

According to Table 1 and Table 2, Yili Group's ESG rating is BBB, with an ESG score of 82.8, ranking 6th/269th among consumer goods in the GICS first tier industry, exceeding 95% of listed companies; Ranked 9th/182nd in the GICS tertiary industry food industry, with over 95% of listed companies in the industry, it can be seen that Yili Group's overall ESG performance is at a leading level in the industry. According to the actual performance of the company in the three dimensions of environment, society and corporate governance disclosed by Huazheng ESG rating, the environmental dimension score is 77.5, ranking 14th in the industry; The social dimension score is 85.7 points, ranking 7th in the industry; The score for corporate governance dimension is 85.6, ranking 16th in the industry.

Table 1. Overall ESG ratings of Yili Group for Huazheng in 2023.

	Score	Weight	Industry ranking
Environmental (E)	77.5	35.4%	14/182
Social (S)	85.7	26.6%	7/182
Governance(G)	85.6	38.0%	16/182
Total	82.8	/	6/182

Source: Huazheng ESG rating.

Table 2. ESG ratings of Yili Group from 2019 to 2023

Year	2019	2020	2021	2022	2023
ESG rating	BB	BB	BB	BB	BBB

Source: Huazheng ESG rating.

In terms of environmental dimension, the company has performed well in green factories, but there is room for improvement in industrial emissions. In terms of environmental management, there has been no relevant penalty information or negative news in the past five years. According to Figure 1, the environmental dimension score of the GICS tertiary industry to which the company belongs is mainly distributed near CC, with 6% of enterprises (including Yili Group) scoring BB or above in the environmental dimension, indicating that Yili Group has performed well in the environmental dimension, far exceeding the average level.

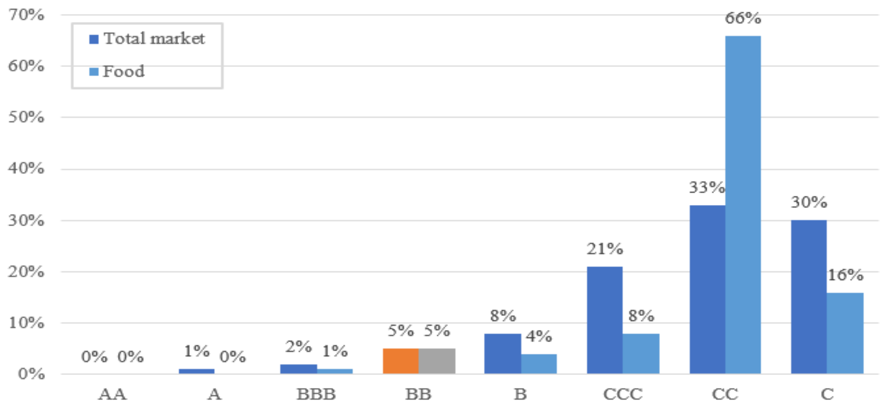

Fig 1. Rating distribution of environmental dimension for the entire market and the GICS tertiary industry to which the company belongs.

Note: The orange and grey section represents the ratings of the entire market and the third tier GICS industry to which Yili Group belongs, the same below. The data is from Huazheng ESG rating.

In terms of social dimension, the company has performed well in community investment, but there is room for improvement in employee relations. According to Figure 2, the social dimension score of the GICS tertiary industry to which the company belongs is mainly distributed near BB, with 4% of enterprises (including Yili Group) having an S dimension rating of A or above. Yili Group's rating in the social dimension is relatively good compared to the environmental dimension, and it is also at a leading level in the industry.

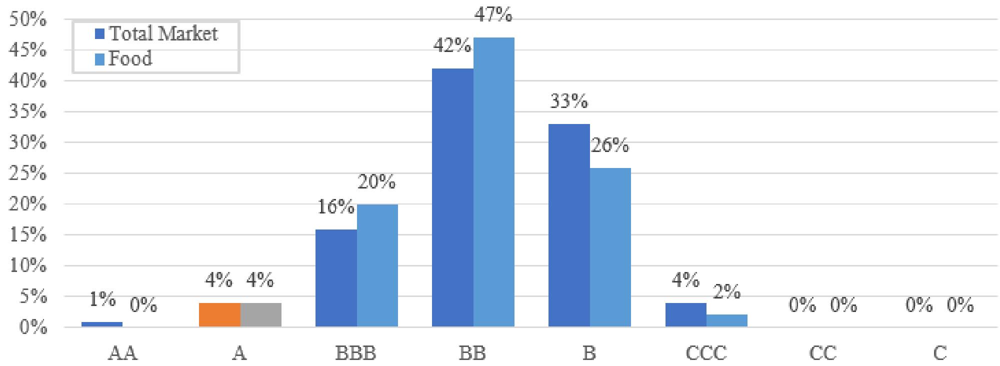

Fig 2. Rating distribution of social dimension for the entire market and the GICS tertiary industry to which the company belongs. Note: The data is from Huazheng ESG rating.

In terms of corporate governance, the company performs well in terms of information disclosure credibility, but performs poorly in terms of debt repayment ability. In addition, in terms of ESG governance and ESG communication, the company has established a sound ESG governance structure and has not yet conducted external verification of ESG reports. According to Figure 3, the corporate governance dimension score of the GICS tertiary industry to which the company belongs is mainly distributed near BBB, with 7% of enterprises (including Yili Group) having a G dimension rating of A or above. It is worth mentioning that compared with the entire market, the overall rating of the food industry in the corporate governance dimension is relatively low, while Yili Group is still in the upstream of the entire market.

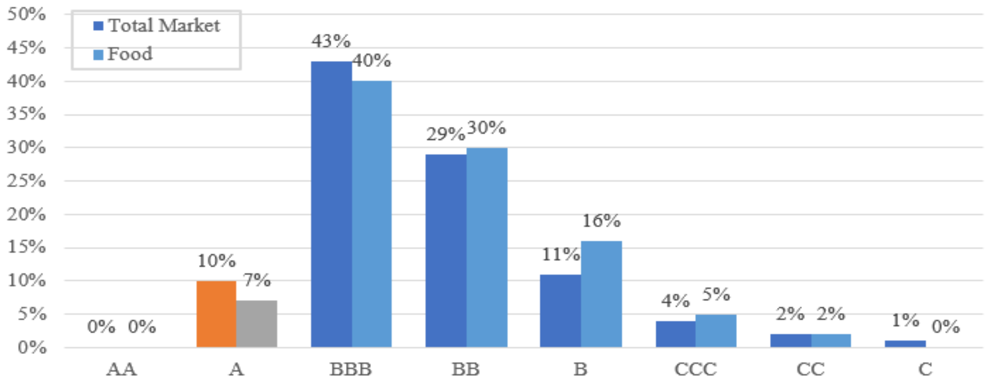

Fig 3. Rating distribution of corporate governance dimension for the entire market and the GICS tertiary industry to which the company belongs. Note: The data is from Huazheng ESG rating.

2.2. ESG Information Disclosure of Yili Group

2.2.1. Environmental Dimension

The content of environmental information disclosure in the ESG report of Yili Group is shown in table 3. From 2018 to 2022, the main environmental issues of Yili Group include improving water resource utilization efficiency, reducing carbon emissions and protecting biodiversity. In terms of improving water resource utilization, it mainly includes establishing a water resource management framework, carrying out full life cycle management of water footprint and strengthening water risk management; In terms of reducing carbon emissions, it mainly elaborates on clarifying the dual carbon goals, establishing a carbon neutrality committee, carrying out carbon reduction throughout the entire industry chain, and building a carbon management system; The protection of biodiversity has been mainly disclosed from the perspective of public welfare projects.

As shown in Table 3, Yili Group has provided detailed information on climate change; In terms of carbon reduction routes, Yili Group has gradually transitioned from its initial three-level goals to the "Yili Group Zero Carbon Future Plan Roadmap", making the route planning more reasonable. In terms of resource utilization, Yili Group focuses on disclosing information related to biodiversity conservation every year, and releases biodiversity conservation reports every year; However, in terms of water resource consumption, although Yili Group makes annual disclosures on water conservation, it did not involve absolute water consumption for the year from 2018 to 2021, and only disclosed specific water management performance from 2022 onwards. In terms of environmental pollution and environmental friendliness, industrial emissions are disclosed every year, but it does not involve the total amount of emissions for that year; from the perspective of the number of green factories, the number of green factories in Yili Group is steadily increasing.

2.2.2. Social Dimension

The information disclosure on social dimensions in the ESG report of Yili Group is shown in Table 3. From 2018 to 2022, the main social issues of Yili Group include promoting the coordinated development of the industrial chain, improving the employee care system and supporting the growth of young people. In terms of collaborative development of the industrial chain, Yili Group mainly connects the upstream, midstream and downstream of the industry, opening up a new development model of value co creation, mutual benefit and risk sharing; In terms of employee care system, Yili Group mainly focuses on safeguarding employee interests and protecting employee safety; In terms of youth growth, Yili Group continues to promote public welfare projects represented by "Yili Ark" and "Yili Nutrition 2030", providing support in the fields of child safety and nutritional health.

As shown in table 3, in terms of human capital, Yili Group has disclosed detailed information on employee health and safety, but the disclosure of employee incentive systems is relatively general; In terms of product responsibility, Yili Group mainly disclosed information on product quality maintenance and management, and also disclosed performance data on product safety and quality control in 2022, further increasing the depth of disclosure; In terms of supply chain, the proportion of suppliers signing the Sunshine Agreement disclosed by Yili Group shows a continuous increase, and the full life cycle supplier management system has also been disclosed in detail; In terms of social contribution, Yili Group discloses relevant information every year, including inclusive finance, community contribution, youth development, employment situation, etc; In terms of data security and privacy, Yili Group issues simple statements on protecting consumer data security every year, without detailed disclosure.

2.2.3. Corporate Governance Dimension

The information disclosure on corporate governance dimensions in the ESG report of Yili Group is shown in Table 3. From 2018 to 2022, the main governance issues of Yili Group include: building a sustainable development organizational framework, improving internal risk control management and innovating the technology research and development system. In terms of building a sustainable development organizational structure, a four level management structure from top to bottom should be formed, which includes the decision-making level, organizational level, management promotion level and execution level. This will deepen the understanding of sustainable development among personnel at all levels and carry out detailed work; In terms of improving internal risk control management, emphasis is placed on the digital transformation of risk management and the establishment of an intelligent risk control system, aiming to enhance the ability to identify and prevent major risks; In terms of innovative technology research and development system, we will create a three-level research and development system that includes an open innovation platform, a group innovation center and a business unit application innovation platform.

As shown in Table 3, Yili Group has been continuously disclosing its shareholder rights protection and governance structure; In terms of risk control, from the three line of defense management mechanism to the "integrated" dynamic risk management mechanism, the risk control system of Yili Group is gradually improving; The board structure of Yili Group had stabilized before 2019 and has not undergone significant adjustments since then; In terms of information disclosure quality, Yili Group has not disclosed whether there is external assurance of ESG or other information disclosure, so there can be reasonable doubts about the disclosure quality. In terms of governance risks, Yili Group has not disclosed its corporate solvency and the behavior of major shareholders, and has also rarely disclosed legal proceedings. In terms of business ethics and fraud, Yili Group has been disclosing its business ethics since 2021, and has begun to disclose the specific number of detected fraud and corrective measures. Overall, there is still room for further disclosure of corporate governance dimensions by Yili Group.

Table 3. ESG disclosures at all levels of Yili Group from 2018 to 2021.

	General disclosure level	The specific content of disclosure
Environmental (E)	Climate change	(1) Disclosed greenhouse gas emissions from 2018 to 2022; (2) Carbon emission reduction routes were disclosed in 2019 and 2022, but not in other years; (3) No disclosure related to green finance; (4) There is no disclosure related to Sponge City.
	Resource utilization	From 2018 to 2022, there were annual disclosures on land and biodiversity, water resource consumption and material consumption.
	Environmental pollution	(1) From 2018 to 2022, there are annual disclosures related to industrial emissions, but it does not involve the total number of emissions for that year; (2) There is no disclosure regarding electronic waste and hazardous waste.
	Environmentally friendly	(1) Disclosure of green buildings and green factories every year; (2) Renewable resources were disclosed in 2019, but not in other years.
	Environmental management	(1) Has annual disclosures related to sustainable certification and supply chain management; (2) There is no disclosure related to environmental penalties.
Social (S)	Human capital	Disclosed aspects such as employee health and safety, employee motivation and development, and employee relationships from 2018 to 2022, while safety performance data was disclosed in 2022.
	Product responsibility	(1) Detailed disclosure of information on product quality maintenance and management, obtaining BRCGS and QbD certification, and disclosure of product safety and quality control performance data in 2022; (2) Annual disclosure of product recall rate and complaint resolution rate.
	Supply chain	(1) Detailed disclosure of the full life cycle supplier management system and existing supplier relationships; (2) Detailed disclosure of the proportion of suppliers signing the Sunshine Agreement from 2018 to 2022.
	Social contribution	(1) Annual disclosure of upstream and downstream partners in inclusive finance; (2) Every year, community contributions and youth care are disclosed, with a focus on specific cases; (3) Except for 2021, employment information is disclosed every year, with specific disclosures of the number of people driving employment in 2019 and 2022; (4) Every year, there is a detailed disclosure of the construction of a technological innovation system and its achievements.

	Data security and privacy	Except for 2021, there are annual disclosures to protect consumer data security and privacy.
	Shareholder rights	Disclose corporate governance structure and protect shareholder rights through information disclosure.
	Governance structure	(1) From 2018 to 2022, the ESG governance structure of the "Sustainable Development Committee Secretariat Sustainable Development Liaison Officer" has be disclosed annually; (2) Every year, the enterprise risk control management system is disclosed, and the governance documents for risk control management are gradually improved; (3) Disclose the board structure annually; (4) Undisclosed management stability.
	The quality of information disclosure	Undisclosed whether there is ESG external assurance, and there is some uncertainty about the quality of information disclosure
Governance (G)	Governance risk	(1) Undisclosed corporate solvency; (2) Undisclosed behavior of major shareholders of the enterprise; (3) Except for 2020, the legal litigation and handling results of enterprises have not been disclosed; (4) The total amount of various taxes is disclosed every year, but there is no more detailed disclosure.
	External disciplinary action	Failure to disclose external disciplinary action.
	Business ethics	(1) Starting from 2021 and 2022, disclosure of business ethics, including corporate policies to enhance business ethics; (2) Corruption and fraud are disclosed annually, and the specific number of detected fraud and corrective measures will be disclosed starting from 2021.

Source: Sustainable Development Report from Yili Group.

3. The Impact of ESG Performance of Yili Group on Corporate Performance

The fulfillment of responsibilities of enterprises in environmental, social and corporate governance aspects will to some extent affect their social reputation and investment and financing activities, thereby affecting the market value and financial performance of the company.

3.1. Analysis of the Impact on the Market Value of Yili Group

The market value and Tobin's Q value changes of Yili Group from 2018 to 2021 are shown in Figure 4. Tobin's Q value is the ratio of a company's market value to its asset replacement cost, and is an important indicator for measuring the company's market value. In the past five years, the Tobin's Q value of Yili Group has shown a trend of first increasing and then decreasing, consistent with changes in market value, while the ESG rating of the enterprise remains unchanged, always maintaining a BB rating. It can be clearly seen that the changes in the overall performance of ESG are not consistent with the changes in the market value of the enterprise. The decline of Yili Group's market value and Tobin's Q value is mainly affected by the COVID-19 in 2020. Meanwhile, the ESG Key Risk Report of Yili Group provided by Huazheng pointed out that the company's negative operating event risk rating in 2022 was medium risk, which to some extent led to a significant decrease in Yili Group's market value and Tobin's Q value in 2022. Nevertheless, Yili Group's Tobin's Q value remains consistently above 1, ranking among the top in the industry, which is related to its overall good corporate social responsibility performance.

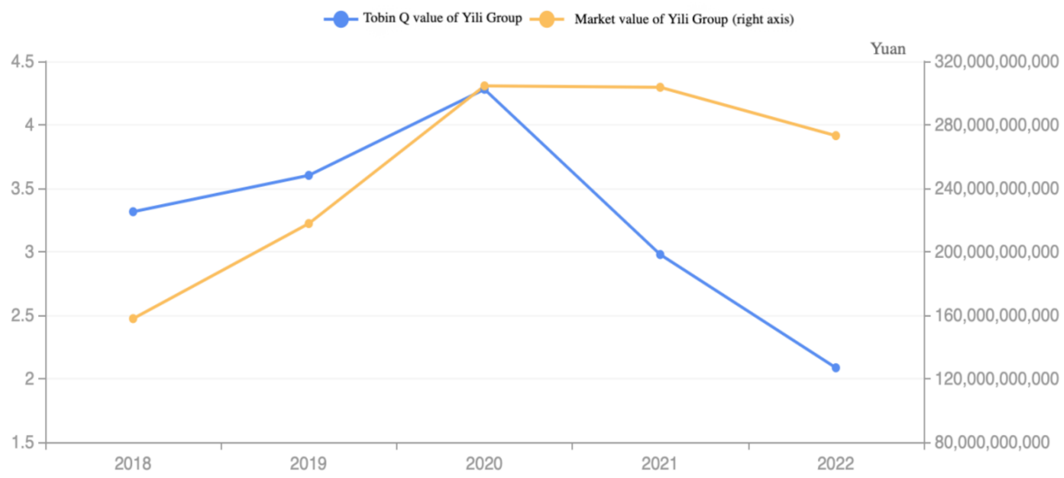

Fig 4. The relationship between Tobin's Q value and market value of Yili Group. Note: The data is from CSMAR database.

3.2. Profitability

Table 4 reflects the changes in profitability of Yili Group. The profitability and trend of Yili Group can be analyzed. The overall changes in the three indicators are consistent and all show a downward trend. Although the return on equity, which investors are more concerned about, has shown some fluctuations, the overall trend is still downward. When investing in ESG direction, especially in environmental and social aspects, it may have a certain negative impact on the profitability of the enterprise. Therefore, when considering ESG performance and corporate profitability indicators comprehensively, diversified and comprehensive analysis methods should be used to ensure more accurate and scientific evaluation results. This can help us gain a more comprehensive understanding of a company's performance in the ESG field, while also not ignoring the importance of its profitability.

3.3. Solvency

Table 4 reflects the changes in the solvency of Yili Group. The changes in the current ratio and quick ratio are basically similar, showing a trend of first decreasing and then increasing. The asset liability ratio shows a continuous upward trend. According to the annual report of Yili Group, the company acquired Westland in 2019 and borrowed a large amount of short-term loans, resulting in a sharp decrease in the current ratio and quick ratio in 2019. Through analysis, the article has drawn a conclusion consistent with the Huazheng ESG report: Yili Group does indeed have shortcomings in debt repayment ability. This deficiency is closely related to the internal governance structure of the group and requires the management to be highly vigilant.

3.4. Operational capability

Table 4 reflects the changes in the operational capacity of Yili Group. Overall, all three indicators have shown varying degrees of decline. According to the annual report of Yili Group, the company's annual operating revenue has been continuously increasing over the past five years, but the accounts receivable turnover rate has significantly decreased, from 83.70 to 48.62, indicating a slow flow of funds. Therefore, the company should evaluate its credit sales and strengthen corporate governance. The decline in inventory turnover rate is relatively mild, reaching its lowest point of 7.00 in 2021. This change is mainly due to the impact of the COVID-19, which has led to the decline of the market purchasing power and the obstruction of the logistics and transportation industry. The overall level of the industry has declined. However, from the overall trend, the changes in inventory turnover rate remain within a relatively stable range. And still significantly higher than the industry average, therefore, the overall operational capacity of Yili Group is still acceptable.

3.5. Growth ability

Table 4 reflects the growth capacity and changing trends of Yili Group. According to the analysis of data, except for the negative growth rate of net assets in 2019, all other indicators in the years have shown positive values, showing a positive overall development trend. Despite significant fluctuations during this period, Yili Group still maintained a relatively stable development state. Especially in 2021, all key indicators achieved significant growth, fully reflecting the excellent development ability and strong growth momentum of the enterprise. This is in line with the performance of Yili Group in ESG. By analyzing the sustainable development reports of the group over the years, it can be concluded that Yili Group has always maintained a positive attitude in fulfilling corporate social responsibility and conducting relevant disclosures.

Table 4. Financial indicator data of Yili Group from 2018 to 2022.

	Financial indicators	2018	2019	2020	2021	2022
Profitability	return on equity (%)	24.33	26.38	25.18	25.59	19.23
	Sales gross profit margin (%)	37.82	37.35	30.12	30.62	32.26
	Net profit margin of total assets (%)	13.29	12.83	10.76	10.06	8.10
Solvency	Current ratio	1.28	0.82	0.82	1.16	0.99
	Quick ratio	0.99	0.57	0.60	0.95	0.75
	Asset liability ratio (%)	41.11	56.54	57.09	52.15	58.66
Operational capability	Total asset turnover rate	1.64	1.67	1.47	1.28	1.06
	Accounts receivable turnover rate	83.70	66.27	59.73	61.61	48.62
	Inventory turnover rate	9.68	8.53	8.84	9.28	7.00
Growth ability	Growth rate of operating revenue (%)	16.89	13.41	7.38	14.15	11.37
	Net profit growth rate (%)	7.31	7.67	2.08	22.98	8.34
	Net asset growth rate (%)	11.20	-6.4	16.28	57.02	5.37

Source: Annual report of Yili Group.

Overall, although Yili has performed relatively well in ESG ratings, its financial performance has shown a downward trend. This indicates that investors should consider both financial and non-financial information when making decisions, rather than relying solely on ESG rating data [9]. Although ESG factors are crucial in evaluating a company's long-term value and risk, financial performance remains one of the important indicators for the healthy development of the company [10].

4. Conclusion

This study selects ESG disclosure information of Yili Group from 2018 to 2022 as the research object, aiming to explore the correlation between ESG disclosure and financial indicators, and to conduct in-depth research on the impact of ESG disclosure on corporate performance. Research has shown that there is a certain correlation between the ESG performance of Yili Group and its corporate performance. Although Yili performs relatively well in ESG ratings, its financial performance is showing a downward trend.

As an investor, it is important to consider the comprehensive performance of the enterprise, including ESG practices, financial conditions and future development strategies, in order to develop a comprehensive investment strategy. Only with a comprehensive understanding of the company's multifaceted performance can investors make wiser investment decisions.

As a business manager, one should have a correct understanding of the impact of ESG ratings on the enterprise and society, and establish a genuine ESG culture within the enterprise, rather than just pursuing a superficial green image. Secondly, managers should establish clear ESG policies and goals and incorporate them into the company's strategic planning, while strengthening internal control and supervision mechanisms to ensure the effective implementation of ESG policies within the company, thereby promoting the improvement of sustainable development performance. Finally, enterprises should establish a stable and effective corporate governance structure, and the rights of the management, size of the board of directors, and size of the supervisory board will all enhance the sustainable development performance of the enterprise.

There are still shortcomings in this study, as it simply links ESG ratings to corporate financial performance, but it is easy to overlook the impact of various other factors (such as the pandemic) on corporate performance. Therefore, modifying the data range can avoid special periods and reduce the impact of factors other than ESG on corporate performance.

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