A Study of LYFEN's ESG Disclosure and Its Impact on Corporate Performance

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Abstract. Environmental, social and governance (ESG) is an important criterion for evaluating non-financial indicators of corporate performance, which provides substantial support for promoting corporate's green transformation. This paper investigates the impact of ESG disclosure on corporate performance by using the social responsibility report issued by Shanghai Laiyifen Co., Ltd and the company's financial data from 2019 to 2022, as well as data up to the end of September 2023 as the basis for analysis. The results show that there is a high correlation between ESG rating scores and corporate performance. Companies that score higher on ESG indicators tend to perform better financially, indicating that a focus on sustainability and responsible business practices can drive value creation. In addition, detailed and in-depth disclosure of ESG information helps to enhance corporate value. These findings deepen the understanding of how ESG disclosure affects corporate performance and provide theoretical support for companies and investors who seek valuable guidance.

Keywords: ESG disclosure, corporate performance, LYFEN.

1. Introduction

With the increased attention to sustainable development, the ESG investment concept has caught the public's attention [1]. ESG, an acronym for Environment, Society, and Corporate Governance, where E is the harmonious relationship between people and nature, S is the good interaction between people and society, and G is the governance structure between people and people [2]. This concept was first introduced by the United Nations, which is committed to assisting sustainable economic and social development from a long-term perspective [3]. ESG ratings have now become an important consideration for corporate development, which affects a company's ability to raise capital and attract investors, thus influencing corporate performance [4].

Scholars from various countries have inconsistent research results on the impact of ESG performance on corporate performance. Some scholars believed that good ESG performance helps to improve corporate performance [5], and perfect ESG disclosure helps companies to earn debt financing at a lower cost, which improves the ability of corporate solvency [6]. For example, companies with higher transparency of ESG information can obtain third party funding grants under better conditions [7]. While other scholars indicated that the correlation between ESG disclosure and corporate Tobin's Q value and ROE is not significant [8], and that enterprises may harm financial interests if they neglect the allocation and protection of economic resources when implementing ESG policy [9]. For listed companies in China, is ESG performance conducive to promoting corporate performance? This question still needs to be further explored.

Taking Shanghai Laiyifen Co., Ltd (LYFEN), a leading company in the distribution & retail of consumer everyday goods industry in China, as an example, this paper discusses its ESG disclosure practices and their impact on corporate performance, aiming to provide experiences and references for other companies in the same industry regarding the effective implementation of ESG strategies.

2. LYFEN's ESG Rating and Information Disclosure

Shanghai Laiyifen Co., Ltd (LYFEN) has a history of more than 20 years since it first founded in Shanghai in 2002 and was listed on the Shanghai Stock Exchange in 2016 (stock code: 603777).

Through development, LYFEN’s nearly 1, 000 snacks are loved by consumers, which makes it become one of the leaders in the distribution & retail of consumer everyday goods industry. By the end of September 2023, the-company’s total revenue has reached 30.02 billion yuan, ranking eighth in the industry. For a long time, LYFEN has been implementing the corporate spirit of “with Love, Excellence in Quality, Diligence in Business, dare to be the First” and the development strategy of “Chinese Brand, World Manufacturing, Global Sharing".

From 2018 to 2021, LYFEN issued social responsibility reports for four consecutive years. in 2022, LYFEN published its first “Environmental, Social and Governance Report”, which detailed the company’s scientific concepts for sustainable development and its ESG strategic outlook.

2.1. Overall ESG Rating

Combined with the ESG rating and score data disclosed by Sino-Securities Index Information Service (Shanghai) Co., Ltd on October 31, 2023, LYFEN’s total ESG rating is B, with a score of 73.1, ranking 3063/5297 in the whole market, which is inferior to 55% of listed companies, and its performance is in the middle and lower reaches of the whole market. In addition, LYFEN’s ESG score ranks 38/45 in the global industry classification standard (GICS): distribution & retail of consumer everyday goods, with 82.22% of companies in the industry rated better than LYFEN. Based on the ESG performance in each quarter of 2023, LYFEN’s ESG level remains stable. Table 1 reflects LYFEN’s four-quarter 2023 ESG specific scores, rankings, and rating changes across the three dimensions.

Table 1. ESG Rating for LYFEN in 2023

Dimension	Jan.-Mar.		Apr.-Jun.		Jul.-Sep.		Oct.-Dec.	
	Grade	Ranking	Grade	Ranking	Grade	Ranking	Grade	Ranking
E	CCC	12/36	CCC	3/31	CCC	9/37	CCC	9/37
S	BB	16/36	BB	20/31	BB	27/37	BB	27/37
G	B	31/36	B	28/31	B	32/37	B	31/37

(Source: Sino-Securities Index Information Service (Shanghai) Co., Ltd)

Overall, the ESG rating of the entire distribution & retail of consumer everyday goods industry is on the low side, in which the development of LYFEN’s E, S and G dimensions is even at the lower-middle level of the industry, and the governance of all dimensions needs to be improved. Although the company has constructed a complete ESG governance framework, it has not yet made in-depth disclosure of ESG data in terms of information disclosure, which is slightly passive and negative.

In terms of the environmental dimension, the distribution & retail of consumer everyday goods industry is under focused in this dimension. LYFEN is rated CCC (69.03 points), ranking in the top 10 of the industry. The company has made achievements in sustainability and environmental protection, especially in material consumption. But there is still room for improvement in environmental protection. In the past three years, the company has not received any environmental management penalties or negative press, which demonstrates the company’s good attitude towards compliance.

In terms of social responsibility dimension, 50% of the companies in the distribution & retail of consumer everyday goods industry are rated BB and above, which shows that the industry attaches great importance to social responsibility dimension. LYFEN is at an average level in the industry, with a rating of BB (74.18 points). And the company has been deeply involved in the “tainted preserves” controversy, with food safety issue being a concern.

In terms of corporate governance dimension, 53% of companies in the whole market have ESG ratings of BBB and above, while 59% of companies in the distribution & retail of consumer everyday goods industry have ESG ratings of BB and below, which is in the lower-middle level of the whole market, of which LYFEN has a rating of B (74.36 points) in this dimension. The report issued by Sino-Securities Index Information Service (Shanghai) Co., Ltd pointed out that LYFEN’s performance in anti-corruption and bribery aspects needs to be improved.

2.2. Specific performance in ESG area

Since LYFEN issued its first ESG report in 2022, which is abbreviated, without data disclosure, and like the content of its "2021 Social Responsibility Report", this paper will take LYFEN's "2021 Corporate Social Responsibility Report" as an example to elaborate on the company's specific performance in the environmental, social, and corporate governance dimensions.

Table 2. LYFEN's specific performance in ESG

ESG	General disclosure level	Disclosure of specifics
E	Environmental protection	(1) Change of store self-sealing bags from composite material to recyclable single material (2) Saving of printing ink on corrugated outer boxes (3) Specific measures taken by the company to encourage employees to take environmental actions‹
S	Human resources	(1) Systematic talent training system (2) Curriculum system (3) Creation of the company's cultural atmosphere (4) Selection of talents for the youth-professional program
	Social contribution	(1) Details of public welfare activities from 2006 to present (2) Establishment of "Lai Welfare Agricultural Development Co."
G	Anti-fraud construction	(1) Separate the quality control team and the procurement team (2) Develop the "Integrity Management System" and the "Reward and Punishment Management System" (3) Set up an internal reporting system (4) Join the Anti-fraud Coalition
	Chain management	(1) Upgrade of end-to-end quality management system (2) In October 2017, LYFEN's testing center received CNAS national certification (3) Star rating process (4) Supervisory of suppliers (5) Food safety and health (6) Reasonless return of goods on all platforms (7) "Artificial plus Intelligent" customer service system (8) Consumer Care
	Risk control system construction	(1) Establishing a linkage and closed-loop mechanism with customer satisfaction data (2) Strengthening cooperation and synergy with partners (3) Developing the resilience of employee teams

(Source: LYFEN's Social Responsibility Report)

2.2.1 Environmental Dimension

LYFEN discloses less on the environmental dimension, only disclosing the company's approach to food and transportation packaging and the way it encourages its employees to act in an environmental-friendly manner. Table 2 summarizes LYFEN's specific measures on this dimension.

In terms of packaging, store self-sealing bags are upgraded to environmental-friendly matte PE recyclable material, and laminating glue is eliminated to reduce solvent emissions. In addition, LYFEN optimize the design of the outer box to reduce the consumption of raw and auxiliary materials, reducing the amount of printing ink by about 37.22 tons in 2021.

LYFEN encourages its employees to act in an environmental-friendly way, both in production and administration process. In production process, large paper bags are used to replace plastic self-sealing bags, and electronic records are kept of recycled cardboard boxes. At the same time, LYFEN has taken the lead in the use of small paper bags to reduce the use of plastic. Administratively, the company use energy-saving printing equipment and double-sided printing method. Senior leaders also set a good example of saving water and electricity.

2.2.2 Social Responsibility Dimension

In recent years, the social responsibility dimension has been the focus of LYFEN's attention. The company's social responsibility report has devoted a great deal of attention to this dimension and has been divided into two main sections accordingly: human resources and social contribution. Table 2 shows the main disclosures of LYFEN in this dimension.

In terms of human resources, LYFEN has established a systematic talent training system, dividing positions according to responsibilities and providing professional courses. For young employees, the company has launched the "Youth Professional Program" to attract and select talents and enhance their abilities through special training. At the same time, the company advocates the "family" culture, with friendly and win-win values to lead employees towards success.

LYFEN continues to make great efforts in social contribution, participating in public welfare projects almost every year from 2006 to 2021, and was awarded the honor of "Shanghai AAAA Social Organization" in 2021. The company has been actively engaged in poverty alleviation, with 1.4 billion agricultural and sideline products and 30% of its suppliers coming from impoverished areas in the past ten years. Meanwhile, the company has developed an online APP "New Rural Revitalization Zone" to provide professional guidance to farmers and improve their living standards.

2.2.3 Corporate Governance Dimension

The disclosure of information on corporate governance in LYFEN's social responsibility report is shown in Table 2. In recent years, LYFEN's corporate governance issues mainly focus on anti-fraud construction and the construction of risk control system.

In terms of anti-fraud, LYFEN has taken a number of measures, like separating the quality control and purchasing teams, setting up a system of self-discipline, rewards and punishment management, implementing scenarios of risk control rules, establishing an internal reporting system, asking the judicial power for help to deal with non-compliant employees and suppliers, and joining the anti-fraud alliance to set up a blacklist management mechanism.

In terms of supply chain management, LYFEN has set 31 control points and introduced SAP-ERP system to ensure the freshness of goods. As can be seen from Table 3, as a food enterprise adopting OEM production mode, LYFEN adopts the winner-and-loser mode to select its suppliers, with the final purchasing ratio of 100% to achieve 100% supplier quality compliance. In addition, the company launches a quality management traceability program to achieve full transparency of product quality, introduces artificial intelligence technology to improve customer service efficiency, and creates an independent shopping APP to enhance consumer shopping experience.

Table 3. 2019-2021 LYFEN's supplier data

Title	2019	2020	2021
Total number of suppliers	273	255	267
Total number of newly added suppliers annually	19	29	59
Total number of suppliers screened using ESG criteria in the additions	19	29	59
Final procurement ratio (%)	100	100	100

(Source: LYFEN's Social Responsibility Report)

In terms of the construction of risk control system, LYFEN focuses on customer experience to optimize the operation. The company develops cooperation resources to expand the scale of operation and cultivates employees' risk awareness to achieve the goal of risk control in all.

3. Impact of LYFEN's ESG Performance on Corporate Finance

As the world's mainstream has increased its emphasis on ESG, LYFEN's specific performance in the environmental, social and governance dimensions has also received external assessment, which is ultimately reflected in the company's financial data.

3.1. Impact on Solvency

From the perspective of short-term solvency (see Table 4), the current ratio of LYFEN shows a significant decline followed by a steady increase. The quick ratio is low, mainly due to the company's current assets include a large proportion of inventory. In the cycle of food research and development and supplier selection, LYFEN invests a lot in equipment procurement and food quality inspection. In addition, the company has repeatedly upgraded the store, so the inventory in the current assets accounted for a large proportion. From the long-term solvency indicators, the company's asset liability ratio shows a fluctuating trend. And all of them are located around 0.5, indicating that the company has sufficient ability to repay long-term debts, and that asset liability ratio greater than 0.3 indicates the company makes full use of financial leverage. Overall, the changes in LYFEN's ESG scores are basically consistent with the changes in solvency indicators, revealing there's a correlation between ESG performance and the shift in corporate financing strategy [10].

Table 4. Solvency indicators

Title	2019	2020	2021	2022	Sep. 2023
Current ratio (times)	1.81	1.74	1.30	1.32	1.33
Quick ratio (times)	1.41	1.43	1.07	1.09	1.14
Asset liability ratio (%)	38.48	38.50	49.90	50.89	44.79

(Source: Business Alerts website)

3.2. Impact on Profitability

According to Table 5, LYFEN's average return on equity shows a significant fluctuation trend and is negative in 2020. Return on total assets fluctuates within the range of -3% to 3%, with an overall upward trend. Total profit and net profit are also in climbing states. From the above indicators, the changes in corporate profitability coincide with the changes in ESG ratings, which are all in a rising state. As a result, there is a high correlation between the ESG rating and the profitability level of enterprises [10].

Table 5. Profitability indicators

Title	2019	2020	2021	2022	Sep. 2023
Operating income (billion yuan)	40.02	40.26	41.72	43.82	30.02
Operating cost (billion yuan)	40.28	41.29	42.46	43.01	30.20
Total profit (billion yuan)	0.28	-0.56	0.52	1.14	0.30
Net profit (billion yuan)	0.10	-0.65	0.31	1.02	0.05
Average return on equity (%)	0.57	-3.80	1.84	5.82	0.25
Return on total assets (%)	0.36	-2.34	1.02	2.89	0.13

(Source: Business Alerts website)

3.3. Impact on Operational Capacity

Table 6 reflects LYFEN's operating capacity indicators. From 2019-2022, net cash flow from operating shows an increasing trend. Inventory turnover, accounts receivable turnover and total asset turnover show a continuous downward trend. Although the ability to withdraw cash in the process of corporate asset turnover is strong, the ability to connect with downstream enterprises is weak. The main reasons are that the loose credit policy of LYFEN makes the surge in the amount of accounts receivable, which leads the company to face the risk of shortage of capital chain. Besides, the company's low cash-collection ability is also affecting the company's profitability and operational efficiency. Overall, the changes in ESG scores are generally consistent with the changes in the company's operating capacity indicators, indicating that ESG performance reflects the company's operating efficiency to a certain extent [10].

Table 6. Operational capacity indicators

Title	2019	2020	2021	2022	Sep. 2023
Inventory turnover (times)	5.54	6.21	7.14	6.93	5.55
Accounts receivable turnover (times)	107.54	125.33	109.16	71.49	41.00
Total asset turnover (times)	1.40	1.44	1.37	1.24	0.86
Net cash flow from operating (billion yuan)	1.02	0.96	5.75	6.64	2.37

(Source: Business Alerts website)

3.4. Impact on Growth Capacity

Table 7 shows the growth capacity indicators of LYFEN. From 2020 to 2022, the year-on-year growth rate of total asset fluctuates slightly, but the overall trend is up. The year-on-year growth rate of net profit also shows a significant upward trend, and even high up to 229.14% in 2022. The steady growth of the growth capacity indicators is mainly due to LYFEN’s focus on corporate governance. The rating of the ESG governance part of the enterprise reflects the real operation ability of the enterprise to certain extent, which can effectively help investors to make investment choices [10].

Table 7. Growth capacity indicators

Title	2019	2020	2021	2022	Sep. 2023
Year-on-year growth rate of total asset (%)	0.88	-5.54	25.00	8.99	-11.39
Year-on-year growth rate of operating income (%)	2.86	0.59	3.63	5.03	-7.61
Net profit year-on-year growth rate (%)	2.59	-728.65	147.55	229.14	-93.54
Year-on-year growth rate of total asset (%)	0.88	-5.54	25.00	8.99	-11.39

(Source: Business Alerts website)

4. Conclusion

This paper takes LYFEN's ESG disclosure as the research object, investigates and researches the specific performance of the enterprise in each dimension, and studies the impact of ESG disclosure on the enterprise's financial indexes. The study draws the following conclusions. First, although LYFEN's ESG performance generally lags behind the average performance in the industry, it focuses on energy saving and emission reduction in the environmental dimension, employee skill training and improvement in the social responsibility dimension, and supplier management and production information transparency in the corporate governance dimension. Second, there is a high correlation between ESG disclosure and corporate performance, and the better the ESG disclosure, the stronger the governance level and risk management ability of the enterprise are. Through comprehensive disclosure of the environmental, social and governance dimensions, enterprises can formulate targeted response strategies to improve their overall competitiveness and achieve better revenue generation.

However, this study has its limitations. First, LYFEN's ESG data are disclosed only for a limited number of years. Second, this study is limited to listed companies only in China and covers a limited number of regions. Third, future studies may include other emerging or developed countries for better comparison. Lastly, a separate study of LYFEN to understand the impact of ESG initiatives on companies’ performance could not be fully explored. Future studies may consider innovative measures of ESG.

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