

The Information Disclosure of Environment, Social and Governance and Its Impact on the Financial Performance of Sinolink Securities

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Abstract. In the context of China's efforts to achieve "carbon peak", "carbon neutrality" and sustainable development, companies are transitioning to low-carbon business models by reporting environment, social and governance (ESG) indicators. This research aims to explore the practice of ESG-related information disclosure in the financial industry and analyze the impact on corporate performance. This research takes Sinolink Securities Co., Ltd. as an example, the disclosure of relevant information can be realized through corporate ESG reports, and then conduct comparisons from multiple aspects based on the relevant data from 2018 to 2022 to study the correlation between ESG and corporate performance. The research found that: 1. The company's ESG rating is generally at a leading level, and its specific performance in environmental, social, and corporate governance aspects is improving year by year. 2. There is an overall positive correlation between corporate performance and ESG practices. The improvement of ESG levels will help improve corporate performance and provide a solid foundation for the sustainable development of enterprises.

Keywords: Financial industry, ESG disclosure, Corporate performance, Sinolink Securities.

1. Introduction

In recent years, the Chinese economy has been in a critical period of transition from a stage of rapid growth to a stage of high-quality development. The clarion call for the national sustainable development strategy has become increasingly louder. Green investment will surely become one of the key links in high-quality development. In the report of the 19th National Congress of the Communist Party of China, Xi Jinping pointed out "accelerating the reform of the ecological civilization system and building a beautiful China" and regarded "developing green finance" as one of the ways to promote green development. Social capital can be directed toward green businesses by green finance, which can fully utilize the role that market mechanisms play in resource allocation [1]. ESG is the abbreviation of Environment, Social and Governance. Rather of emphasizing financial performance, this corporate evaluation criterion looks at governance, social, and environmental performance. It is also a value about how companies develop healthily. Therefore, ESG assessment can guide companies to learn and implement the concept of green development, encourage companies to participate in environmental protection, social civilization and other construction, to better achieve the goals of high-quality economic development and green and low-carbon transformation [2]. Most literature shows that ESG will have a positive impact on corporate performance. Marina and Valentina examined the ESG disclosure of a large number of U.S. listed companies, which has consequences for a high and positive correlation between environmental sustainability and profitability in banks [3]. Amina conducted a study on ten years of data from 235 banks in Europe. It found that there is a significant positive correlation between ESG and bank's operational, financial and market performance [4]. Christopher investigated the relationship between corporate social responsibility and financial performance using a sample of Ghanaian listed banks in order to determine whether and how such policies impact the banks' overall financial performance. The findings demonstrate a strong positive relationship between corporate social responsibility and financial performance [5]. Based on the ESG report of Sinolink Securities, this study examined the company's ESG information disclosure and analyzed the general trend and correlation of ESG rating and financial performance based on the ESG database and financial year data in the past five years.

The correlation of performance provides strong evidence for the correlation between ESG and corporate financial performance research. Research results show that there is a positive correlation between a company's ESG and financial performance. However, due to the significant relationship between size, inflation rate, exchange rate and financial performance [6], when the above factors change, ESG and company financial performance correlation will weaken. Therefore, when studying changes in ESG and corporate financial performance, many practical and realistic factors should also be taken into account. This article is divided into two parts to discuss ESG rating and information disclosure and the impact of Sinolink Securities' ESG practices on corporate performance.

2. ESG Rating and Information Disclosure of Sinolink Securities

With permission from the People's Bank of China, Sinolink Securities was founded in December 1990. It is registered in Chengdu, Sichuan Province, and went public on the Shanghai Stock Exchange in February 2008 (stock code 600109). It is among the earliest Chinese professional securities firms to conduct securities business. Sinolink Securities adheres to the business model of "driven by research and consulting, based on brokerage business, with investment banking business as the key breakthrough, and with proprietary investment business and innovative business as important supplements", and continuously improves core competitiveness by the implementation of differentiated value-added service provider competition strategy [7].

In recent years, Sinolink Securities has actively implemented the ESG development concept and responsible investment concept, integrated ESG factors into various business processes, enhanced the social environmental value of investment, and assisted the realization of the country's "double carbon" goal. Sinolink Securities released the "Social Responsibility and Environmental, Social and Governance Report" for two consecutive years in 2021 and 2022, which disclosed the investment and results achieved by Sinolink Securities in environmental, social and governance aspects in detail.

2.1. The Specific Rating of ESG

Based on the ESG rating data of stock disclosed by SynTao Green Finance in 2023 Q4, the ESG rating of Sinolink Securities is A-, ranking 11th among 116 companies in the comprehensive financial industry, with only 0.7% of companies exceeding the national. This shows that the overall ESG performance of Sinolink Securities is at the leading level in the industry. In addition, judging from the stock ESG rating data disclosed by Sino-Securities Index Information Service (Shanghai), Sinolink Securities is rated A, ranking 14th among 109 comprehensive financial industries, ranking in the top 2.5%, so it can also be seen that the overall performance of Sinolink Securities of ESG is at a leading level. Also, it has a score of 78.57 for the company's performance in the environmental dimension, ranking 22nd in the industry, a social dimension score of 88.06, ranking 32nd in the industry, and a corporate governance dimension score of 86.19, ranking 20th in the industry. Table 1 specifically reflects the specific scores and rating differences of multiple ESG rating systems for the three ESG dimensions of Sinolink Securities in 2023 Q4.

Table 1. The overall ESG rating and rank of Sinolink Securities

Dimension	Sino-Securities Index Information Service (Shanghai)	QuantData	SynTao Green Finance	CCXI
Environment (E)	BB (22/109)	AA (32/225)	A-	A
Social (S)	A (32/109)	BBB (32/225)	A-	A
Governance (G)	A (20/109)	AAA (45/225)	A-	A
The overall	A (14/109)	AA (24/225)	A- (11/116)	A (22/141)

Source: Sina finance ESG ratings.

Through a comparison of several ESG rating systems, it was found that Sinolink Securities is at the leading level in the comprehensive financial industry. From the ESG rating of Sino-Securities

Index Information Service(Shanghai), the Environment rating is BB which is slightly lower than the overall rating; from the ESG rating of QuantData stock, the Social rating is BBB which is slightly lower than the overall rating; and the ratings of governance of the four rating systems are all higher than or equal to the overall rating, it can be seen that the corporate governance dimension of Sinolink Securities is slightly better than the environmental and social dimension governance.

2.2. The Specific Performance of ESG

2.2.1 Specific performance in the environment dimension

In recent years, Sinolink Securities has actively implemented the ESG development concept, and its environmental issues mainly include: actively responding to environmental changes, low-carbon operations, and supporting the "double carbon" goal. In terms of responding to environmental changes, it focused on governance, strategy, risk management, indicators and goals; in terms of low-carbon operations, it introduced in detail the company's various means of energy conservation and emission reduction; In terms of "double carbon" goals, the company introduced the means of providing financing support for green and environmentally friendly enterprises.

Compared with 2021, when Sinolink Securities only released a series of reports on carbon neutrality and ESG-related topics, in 2022 the company disclosed in detail the management system of Sinolink Securities in response to climate change, establishing the climate-related risk management framework from the aspects of governance, strategy, risk management, indicators and goals. Therefore, climate-related risks and opportunities were more comprehensively assessed in 2022 than in 2021, and more detailed management measures were formulated; in terms of "low-carbon operations", the company's advocacy of recycling, water conservation, and low-carbon travel continued to be implemented, and has implemented new measures such as "waste classification" and the purchase of energy-saving equipment, which further strengthened the company's fulfillment of its "low-carbon operation" responsibilities. In terms of supporting the "double carbon" goal, the financing services provided by Sinolink Securities are more detailed. In addition to green debt financing, it also provides green bond and green term loan services in 2022, reflecting a high sense of responsibility and commitment to promoting the development of green finance.

2.2.2 Specific performance in the social dimension

The information disclosure on the social dimension in the Sinolink Securities ESG report covers the following topics: employee development and training, entity economy, social welfare and quality management. In terms of employee development and training, it focuses on the diversity of the inclusiveness of employment, talent training system, employee benefits, and concern for employee health and safety; in terms of the entity economy, it discloses in detail the services provided by Sinolink Securities to the scientific and technological innovation industry, serving private enterprises, innovating financing tools and optimizing customer service. In terms of social welfare, it introduced the public welfare activities, charitable donations, assistance to needy households in the community, and the promotion of rural revitalization. In terms of quality management, it focuses on comprehensive risk management, compliance management and supplier management.

There are seven core values of Sinolink Securities, namely "Customer first, regarding talents as the company's most important capital, sincere communication with an open mind, teamwork, professional standards, continuous optimization, and pursuit of excellence", which clearly convey the company's focus on customers, talents, compliance and a stable business development outlook [8]. In 2021 and 2022, Sinolink Securities disclosed in detail its employee talent training system, welfare benefits, and employee care and concern. However, before 2022, the company did not disclose the salary and welfare mechanism in detail, and there was no democratic communication system to smoothen employee communication and feedback channels with employers. In 2022, the company optimized the extreme value control and rhythm control of salary incentives, and at the same time formulated specific management methods and binding mechanisms and clawback provisions. In terms of social welfare, Sinolink Securities has disclosed its achievements in rural revitalization and

loving assistance. At the same time, the report also introduces vividly with pictures and texts the company's public welfare project focusing on children, "Co-building Multimedia Classrooms to Help Rural Revitalization", to support national education and help our generation. It can be seen from the above that the company has not only increased information disclosure on employee welfare, but also strengthened its contribution to social welfare, reflecting the company's value of "viewing talents as the company's most important capital".

2.2.3 Specific performance in the governance dimension

The main corporate governance issues of Sinolink Securities in the past two years include: party-building leadership, risk and compliance management, anti-corruption and business ethics. In terms of party-building leadership, it detailed the company's party-building activities and learning situations. In terms of company risk and compliance management, it focused on elaborating on the comprehensive risk management system, and introduced in detail the compliance management system and intellectual property protection work; in terms of anti-corruption and business ethics, it disclosed in detail the organizational structure of Sinolink Securities' incorruptible business, reporting channels and anti-money laundering systems. In 2022, new disclosures were added to the scale and duration of anti-corruption training and the effective reporting handling rate.

Overall, Sinolink Securities' disclosures in the corporate governance dimension is more comprehensive in 2022. From the perspective of party-building leadership, Sinolink Securities insists on proactively disclosing the company's party-building activities, improving party organization building, and establishing new relevant intra-party rules and regulations, which fully reflects the company's recognition of party-building leadership; from the perspective of anti-corruption, Sinolink Securities has detailed the organizational structure of the integrity industry from the board of directors, company managers, and executive agencies, and introduced in detail the training and publicity, audit supervision, and self-examination and self-correction of anti-corruption, which to a certain extent improve the company's level of self-supervision. In addition, it can be seen from the data in the report such as the number of corruption incidents, the scale and length of anti-corruption training, and the effective reporting rate that Sinolink Securities continues to optimize and improve its anti-corruption work.

3. The Impact of Sinolink Securities' ESG Performance on Corporate Performance

The company's value and financial performance are not only affected by the market environment, business strategies, tax policies, etc., but are also inseparable from the company's environmental, social and corporate governance responsibilities. Securities companies are an important component and major participant in a country's capital market. Whether they can develop healthily, prosperously, and sustainably and better improve economic efficiency has an extremely important impact on the healthy development of the country's financial industry. By conducting research on financial performance and continuously improving inspection of management, it can be better to promote the vigorous and healthy development of the country's financial industry [9]. However, assessments and surveys of financial intermediaries' ESG performance are pertinent and distinctive due to the unique role played by the financial sector as lenders and mediators in the distribution of financial resources. As a result, the effect of ESG on financial intermediaries' performance is probably unique compared to other businesses [10].

From 2018 to 2022, SynTao Green Finance's ESG ratings for the Q2 quarter of each year for Sinolink Securities are: C+, B, B, B, B+, with an overall upward trend.

3.1. Impact on Profitability

Table 2 reflects the changes in Sinolink Securities' profitability. Judging from the net profit margin, an indicator for preliminary judgment of corporate profitability, the changes in corporate profits will first gradually and steadily increase, and then decrease sharply in 2022. Secondly, the company's return on equity (cut) fluctuates significantly between 4% and 10%, showing an upward trend before 2022 and then plummeting in 2022. The return on total assets (weighted) fluctuates slightly between 1% and 3%, and the overall trend is to increase first and then decrease. Judging from the two profit indicators that investors are most concerned about, corporate profits will decrease in 2022. The main reason is it is the year-on-year decrease in self-operated investment business income. In addition, Sinolink Securities mentioned in the report that in the first half of 2022, the escalation of the conflict between Ukraine and Russia will have a profound impact on the global economy, and global inflation continues to rise; some key domestic cities have been hit by the Omicron epidemic, which has an adverse affection on the economic growth. Subject to factors such as the economic situation and the Federal Reserve's interest rate hikes, the capital market's risk declined in the first half of the year, and the overall performance showed a downward trend. So, the overall operating performance and profitability of the securities industry were under pressure. In addition, according to the literature of this article, it can be seen that domestic securities companies have been exploring their own profit models. However, due to limited by various reasons, their profit models are seriously homogeneous. In addition, China's fierce market competition environment has become increasingly fierce. It has become increasingly severe, which has had a huge impact on the traditional profit model and has also had a great impact on the development of the entire securities industry [11]. From 2018 to 2022, the company's ESG rating has improved year by year. Therefore, judging from the trends in profitability and ESG rating of Sinolink Securities, the correlation between corporate profitability and ESG rating is weak. From the perspective of this company, the correlation between ESG indicators and the company's profit quality is affected by war, epidemics, economic conditions, etc.

Table 2. Changes in Sinolink Securities' profitability from 2018 to 2022

Year	Net profit margin (%)	Return on total assets (weighted) (%)	Return on equity (cut) (%)
2022	21.01	1.26	3.94
2021	31.86	2.96	9.67
2020	30.90	3.18	8.30
2019	29.84	2.68	6.23
2018	27.17	2.31	4.87

Source: Eastmoney data (<https://quote.eastmoney.com/sh600109.html>).

3.2. Impact on Debt Solvency

Table 3 reflects the changes in the debt to asset ratio of Sinolink Securities' debt solvency. The company's debt to asset ratio increased steadily year by year from 2018 to 2021, and then decreased in 2022. It can be seen that the company's debt level first increased and then decreased. The fluctuation is mainly affected by wars, epidemics, economic conditions, and the Federal Reserve's interest rate hikes, etc., which leads to a decrease in corporate income, thus affecting the corporate debt level; and the equity multiplier and capitalization ratio also increase first and then decrease like the debt to asset ratio. The decreasing trend shows that the company's assets and equity are also increasing when its liabilities are increasing, indicating that the company's overall debt repayment ability is strong from 2018 to 2021. When the company's debt capacity weakens in 2022, its assets and equity are decreasing. However, the ESG ratings have increased year by year, indicating that due to the impact of the international economic environment, the correlation between the company's overall solvency and ESG ratings is weak.

Table 3. Changes in the Debt Solvency of Sinolink Securities from 2018 to 2022

Year	Debt to asset ratio (%)	Equity multiplier	Capitalization ratio
2022	69.34	3.261	2.261
2021	72.18	3.594	2.594
2020	66.67	3.000	2.000
2019	58.55	2.412	1.412
2018	58.08	2.386	1.386

Source: Eastmoney data (<https://quote.eastmoney.com/sh600109.html>).

3.3. Impact on Growth Ability

Table 4 reflects the changes in the growth capabilities of Sinolink Securities. The company's net assets shows an upward trend year by year; while the changes in operating income growth rate first increase and then decrease, and the annual changes are large; the year-on-year net profit growth rate also shows a trend of first increasing and then decreasing, and the changes are also obvious, and is negative growth in 2018 and 2022. This shows that the operating income and net profit growth of Sinolink Securities have poor stability and sustainability. From the perspective of actual business operations, a large amount of money may have been invested in expansion or acquisition of other companies before 2020, resulting in an increase in total operating income and net profit, but then due to increased operating costs or intensified market competition, the total income decreased, and net profit fell. However, the company has compressed asset investment from the perspective of risk aversion and implemented conservative investments. As a result, the company's net assets have increased year by year, which is the same trend as the ESG score. It can be seen that the company's ESG score can reflect the company's ability to cope with risks and the company's true growth potential to a certain extent, and avoid false prosperity caused by blind earnings management.

Table 4. Changes in the growth capabilities of Sinolink Securities from 2018 to 2022

Year	Net assets (Billion Yuan)	Year-on-year operating income growth rate (%)	Year-on-year net profit growth rate (cut) (%)
2022	30.47	-21.04	-50.03
2021	23.89	19.76	26.43
2020	22.09	39.39	43.35
2019	20.41	15.49	34.01
2018	19.20	-14.22	-17.30

Source: Eastmoney data (<https://quote.eastmoney.com/sh600109.html>).

4. Conclusion

This article finds that the corporate disclosure of ESG information has a positive impact on corporate performance. ESG ratings are positively correlated with a company's financial performance in terms of profitability, solvency, and growth capabilities, which means that companies are expected to achieve better financial performance after paying attention to ESG issues and making relevant disclosures. However, when the economic environment is affected, the positive correlation between ESG ratings and financial performance may weaken, indicating that ESG factors are affected to some extent by external factors such as the economic environment. Therefore, ESG ratings can predict and analyze a company's financial status, earnings quality, growth capabilities and other indicators, thereby helping companies better identify and prevent financial risks and improve their operational quality. By paying attention to ESG issues, companies can better manage their own risks and improve their sustainability and competitiveness. Therefore, companies should fully consider ESG factors when formulating strategies and decisions and incorporate them into their business philosophy and

practices to achieve long-term sustainable development and value creation. In general, the disclosure of ESG information has an important impact on corporate performance. Companies should pay attention to ESG factors, which can not only improve their financial performance, but also enhance their risk management capabilities and provide a solid foundation for their sustainable development.

This study provides a reference for the impact of ESG ratings on corporate performance in the financial industry and is helpful for listed companies and unlisted companies that implement social responsibility reports to evaluate ESG rating data, thereby improving corporate performance.

Finally, the shortcoming of this study is that the disclosed reports are only for the past two years, and the data studied are only for the past five years, so the conclusions are not universal. As stated in this research literature, the relationship between ESG ratings and corporate performance is likely to be a strong positive correlation. In the future, the data on corporate performance could be further expanded to facilitate further research on this issue.

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