The Impact of ESG on Financial Performance: Case Study of CR Power

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Abstract. With the deepening of the concept of sustainable development in the world, people gradually realize the interrelationship between economic development needs, environmental protection and social development, thus ESG rating comes into being. Through the analysis of the sustainable development case of CR Power, this paper studies the impact of ESG performance on the financial performance of enterprises, which shows that good ESG performance can improve the financial performance of enterprises through enhancing reputation and encouraging innovation. In addition, this paper studies the negative impact of ESG on financial performance by increasing costs and causing imbalance and puts forward measures for the synchronous development of ESG and performance in the future. This research not only provides a reference for promoting CR Power's pursuit of sustainable development in the future, but also provide a reference for other enterprises in the same industry to further improve ESG.

Keywords: ESG; Financial performance; CR Power.

1. Introduction

With the deepening of globalization and the concept of sustainable development, people have increasingly realized the importance of enterprises in environmental protection and social responsibility. Among them, ESG, as a tool to measure the performance of enterprises in the three aspects of environment, society and governance, has become an important consideration factor in modern enterprise management. Since the new era, with the proposal of China's "double carbon" goal, the Party Central Committee and The State Council have continued to make major deployments for enterprises to accelerate the pace of green development and fulfill social responsibilities in accordance with the law, and gradually integrate ESG evaluation into the plan of building a beautiful China. At present, scholars have done abundant research on the impact of ESG on corporate financial performance, and most of them show that ESG performance has a positive effect on financial performance. Fatemi found a positive correlation between corporate ESG performance and corporate performance through research and concluded that corporate strategy and ESG governance should be combined to improve corporate financial performance [1]. Bahadorietal studied the relationship between ESG performance and financial performance of enterprises based on the background of emerging markets and found that enterprises with better ESG performance tend to have significantly better financial performance [2]. Jia divided ESG indicators into three dimensions: enterprise ESG governance, enterprise ESG behavior and ESG report quality, thus exploring their impact on enterprise financial performance one by one and concluding that ESG performance has a certain positive impact on financial performance [3]. However, there are still few in-depth studies and analyses on the impact of ESG performance on financial performance of electric power enterprises, and there is still a gap in relevant case studies on the new performance of electric power enterprises in 2024. Based on the case study of sustainable development of CR Power, this company ranks first in the "Top 100 List of China ESG Listed Companies" in 2024. By studying the impact of ESG performance on its performance, the article provides reference for the entire industry and global enterprises and provides theoretical support for the implementation of ESG concept and carbon reduction work in the future.

2. ESG Performance of CR Power

2.1. The Meaning and Timeliness of ESG

The ESG evaluation system, which is an abbreviation of Environmental, Social and Governance, it is an investment concept and enterprise evaluation criterion that focuses on corporate environmental, social and governance performance rather than financial performance. Among them, the environmental aspect involves environmental pollution control, resource conservation and utilization, etc., the social aspect involves participation in public welfare undertakings and improvement of employee benefits, etc., and the governance aspect involves internal control and risk management of the company. Through ESG evaluation, people can better evaluate the contribution of enterprises in fulfilling social responsibility and sustainable development, which is a quantitative expression of corporate social responsibility.

Moreover, ESG evaluation system is a kind of evaluation standard that conforms to the trend of The Times and responds to the call of the country, and its importance is becoming more and more prominent in the current era. The concept of ESG was first proposed by the United Nations in 2004 and has been continuously improved and developed with the increasing attention of various countries. In recent years, with the deepening of global attention to environmental protection and social issues, the responsibility of enterprises in dealing with ESG issues has become more and more important, and the effectiveness and importance of ESG evaluation has been highlighted. At the same time, governments and organizations around the world are also accelerating the formulation and implementation of ESG related laws and policies to promote the green and sustainable development of enterprises.

2.2. Performance of ESG investment by CR Power and Corresponding Measures Taken

2.2.1 Overview of CR Power Company

CR power was founded in August 2001, which is one of the most efficient and cost-effective integrated energy companies in China, involving wind power, photovoltaic power generation, thermal power, hydropower, distributed energy, electricity sales, integrated energy services, coal and other fields [4].

CR Power ranks first in the "China ESG Listed Company Pioneer 100 List" in 2024, and its ESG rating rating is five stars +, jumping from the second place in last year's list to the first place, which highlights the further improvement of the company's ESG level and its important contribution to environmental protection and social responsibility obligations. The following is the "ESG · Pioneer 50 Index of Central Enterprises" index and rating stars of CR Power Company in the past three years, from which we can see that CR Power Company maintains a leading and continuous progress trend in ESG level.

Table 1. 2021-2023 CR Power "ESG·Pioneer 50 Index of Central Enterprises" Index and evaluation star rating

Index	2021	2022	2023
"ESG · Pioneer 50 Index of Central Enterprises" index	86.59 points	86.1 points	90.9 points
Evaluation star rating	★★★★★	★★★★★	★★★★★ +

Data Sources: ESG Blue Book of Listed Companies of Central Enterprises (2021), ESG Blue Book of Listed Companies of Central Enterprises (2022) and ESG Blue Book of Listed Companies of Central Enterprises (2023).

2.2.2 CR Power’s ESG Input Leads the Industry and Corresponding measures Taken

2.2.2.1 CR Power's ESG Input

The input of CR Power is shown in the table 2. On this basis, the ESG investment of CR Power is relatively high, diversified and comprehensive, and generally shows a good trend of progress from 2019-2023. From a micro point of view, CR Power has a lot of investment in the three aspects of ESG. Although the investment has decreased in some years, the investment level still maintains a high level [5].

Table 1. 2022 and 2023 CR Power's ESG input

Index	2019	2020	2021	2022	2023
Total investment in environmental protection funds (Billion RMB)	18.28	14.99	14.77	13.52	18.57
Investment in energy-saving and emission reduction technology transformation (Billion RMB)	15.11	12.70	10.96	10.41	14.68
Total investment in company safety production (Billion RMB)	1.12	1.43	2.08	2.86	8.19
Total research and development of the company (Billion RMB)	1.73	1.51	2.2	4.19	7.4
Total investment in employee training of the company (Million RMB)	1525	439	1.03	1878	2435

Data Source:"CR Power Holdings Limited 2019 Sustainability Report", "CR Power Holdings Limited 2020 Sustainability Report", "CR Power Holdings Limited 2021 Sustainability Report", "CR Power Holdings Limited 2022 Sustainability Report" and "CR Power Holdings Limited 2023 Sustainability Report".

2.2.2.2 Corresponding Measures Taken

First of all, in terms of environmental protection, CR Power Company is committed to the path of sustainable development and realizes green environmental protection actions by adopting diversified clean energy generation, developing innovative and cutting-edge green technologies, and improving energy utilization capacity. In addition, at the same time, the company also adopts ways to protect biodiversity, afforestation, and spread ecological and environmental protection knowledge to respond to the call for the low carbon.

Secondly, in terms of social responsibility, CR Power has the courage to undertake the mission of the Times and serve the society. It continues to carry out enthusiasm for public welfare and charity, help rural revitalization and improve employee welfare and working environment, and shoulder corporate social responsibility with practical actions.

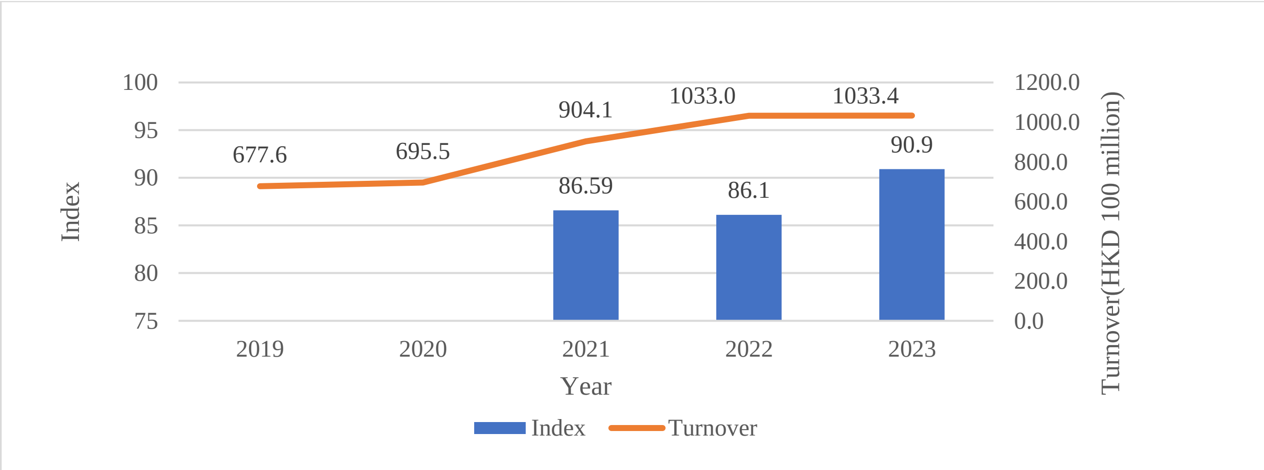
Finally, in terms of corporate governance, CR Power Company adheres to the concept of sticking to its original intention and stable operation. The company has continuously improved the corporate governance system and internal management structure, deepened the anti-corruption and audit work, and promoted the ability and level of corporate governance [6].

3. Analysis on the Impact of ESG on Financial Performance of CR Power

A high ESG rating of CR Power has a great positive effect on environmental protection and social development. From this perspective, it can also effectively improve financial performance to a certain extent.

A good ESG performance can reflect the company's strong social responsibility and environmental protection technology level. First of all, good performance is conducive to improving the visibility and reputation of the company, thus attracting more customers to cooperate with the company, thus bringing better resources and economic benefits. Secondly, the improvement of ESG will encourage enterprises to develop new energy and innovate environmental protection technologies, thus encouraging more innovative results. Thirdly, ESG's good performance helps to reduce social supervision and make information more transparent, which helps to attract customers and improve people's trust in it [7]. Through these three aspects, the financial performance of enterprises will be improved.

The positive effect of ESG improvement on financial performance can be reflected in the improvement of an enterprise's profitability, operating capacity and solvency, which is specifically reflected in the improvement of the enterprise's turnover and profit. For example, as shown in figure 1, the turnover of CR Power Company from 2019 to 2022 has a positive relationship with the "ESG · Pioneer 50 Index of Central Enterprises" index of Central enterprises. It maintained its upward trend, rising to HK $103.34 billion from HK $67.76 billion in 2019.



Data Source:"ESG Blue Book of Listed Companies of Central Enterprises (2021)", "ESG Blue Book of Listed Companies of Central Enterprises (2022)", "ESG Blue Book of Listed Companies of Central Enterprises (2023)", "CR Power 2019 Annual Report", "CR Power 2020 Annual Report", "CR Power 2021 Annual Report", "CR Power 2022 Annual Report" and "CR Power 2023 Annual Report".

Figure. 1 Data on the relationship between the turnover and ESG rating of CR Power Company (2019-2023)

4. Discussion on the Negative Effects of ESG

Although ESG performance will have a positive effect on financial performance, the defects of ESG itself and the negative performance caused by the pursuit of ESG performance will also have a certain impact on enterprise performance.

4.1. Defects of ESG Itself

On one hand, the value rationality of ESG has a certain color of political struggle. With the increasing global attention to low-carbon sustainable development and environmental protection, ESG is indeed an effective tool to protect the global environment and reduce global warming. However, some developed countries may use ESG as a means of political struggle to restrict the development of certain enterprises on the basis of the standard, and even restrict the industrial development of developing countries on the basis of the rating.

On another hand, in some countries or regions, the problem of distortion of ESG information disclosure also exists. In order to meet the standards, some enterprises adopt improper means to obtain higher ESG rating, thus bringing higher corporate performance. ESG performance will have a positive effect on financial performance, the defects of ESG itself and the negative performance caused by the pursuit of ESG performance will also have a certain impact on enterprise performance.

4.2. The Negative Effect of ESG on Enterprise Performance

4.2.1 The Improvement of ESG Rating Needs to Bear Additional Costs

In order to achieve good ESG performance, an enterprise not only needs to strengthen environmental protection and assume social responsibility, but also needs to improve its internal governance, which generates a lot of additional costs for companies that do not pursue ESG. For example, enterprises need funds to develop new energy, technological innovation, rural revitalization, charity and other works, which will consume a lot of costs for enterprises and thus affect the improvement of corporate performance [8].

4.2.2 The Pursuit of the Balance between ESG Rating and Business Operation

The pursuit of the balance between ESG rating and business operation is also an important issue for enterprises to balance ESG performance and business operation. Since protecting the environment and bearing additional costs require enterprises to spend a lot of money and energy, once enterprises pay too much attention to improving ESG level, instead of focusing on whether it can bring real development of enterprises, it will cause business operation problems, and thus affecting the performance of enterprises. At present, CR Power Company has properly handled the balance problem, and in the future expansion and development, CR Power Company should continue to maintain and further improve and improve.

5. Future Measures on Simultaneous Development of ESG and Performance

5.1. Balance the Pursuit of Economic Benefits and Social Benefits

According to current research, the impact of high ESG quality on enterprise performance is more positive than negative, but the additional cost and energy required to pursue ESG level cannot be ignored. With the further pursuit and improvement of ESG rating, CR Power should better balance ESG rating and corporate performance, so as to further promote the stability and development of corporate operations in the future.

5.2. Accelerate the Transformation of Energy structure aimed at "Dual Carbon"

As we are getting closer to the realization year of the goal of "carbon neutrality" and "carbon peak" proposed by China, CR Power Company, as an important force to promote low-carbon development, needs to further accelerate the transformation and upgrading of energy structure. At present, CR Power Company has made some progress in the utilization and efficiency improvement of new energy, but it still needs to be further transformed and upgraded.

5.3. Strengthening Scientific and Technological Innovation

Science and technology is the primary productive force and a very important means for enterprises to achieve transformation and development. CR Power Company should further strengthen scientific and technological innovation, strengthen green research and development means, increase research and development investment, so as to further realize the use of clean energy and achieve green transformation and upgrading.

6. Conclusion

This paper mainly takes CR Power Company as an example, using the company's 2019-2023 data to analyze the company's ESG performance and relevant initiatives to achieve high-quality ESG. At the same time, this paper focuses on the impact of ESG performance on the financial performance of enterprises. The results show that good ESG performance is conducive to improving the reputation and popularity of enterprises, reducing supervision costs and stimulating innovation, and thus has a positive impact on the improvement of financial performance of enterprises. However, ESG itself has certain defects, and the pursuit of ESG performance will bring additional costs and improper balance problems, so the negative impact of ESG can not be ignored. Therefore, this paper proposes that enterprises should further accelerate the green transformation and upgrading by clarifying the "dual carbon" goal and technological innovation, so as to realize the synchronous development of ESG and performance. Nowadays, with the deepening of global environmental protection awareness and social responsibility awareness, enterprises should further balance the relationship between economic and social benefits, incorporate ESG factors into their strategic planning and development goals, and realize digital and green transformation and upgrading, so as to promote the establishment of a sustainable development system. To promote the improvement of global environmental issues and social responsibility awareness.

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