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The Impact of ESG Ratings on Employee Performance in Companies

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Abstract: Sustainability, environmental, social and governance (ESG) ratings have become an important indicator for investors to assess corporate performance. However, the impact of ESG ratings on corporate employee performance is not as clear. Some studies suggest that companies with high ESG ratings have an advantage in attracting and retaining good employees and are likely to perform better in terms of employee performance. On the other hand, some studies have found that the relationship between ESG ratings and employee performance is not necessarily statistically significant. Thus, while ESG ratings are emerging as a credibility indicator for companies among investors and consumers, the specific impact of ESG ratings on employee performance needs further research.

Keywords: ESG Rating; Employee Performance.

1. Introduction

In recent years, sustainability has become a hot topic of global concern, and investors, consumers, policy makers and other parties have begun to demand better environmental, social and governance performance from companies. In this context, ESG ratings have become a focal point for investors and the public as an indicator to assess corporate sustainability performance. However, when exploring the impact of ESG ratings on corporate performance, most studies have focused on financial performance and shareholder returns, and the impact on employee performance has not been fully understood. Employees are one of the key resources for corporate development, and the impact of ESG ratings on employee performance as a sustainability indicator has not been fully understood. A study exploring the relationship between ESG ratings and employee performance will provide new ideas for a deeper understanding of the relationship between corporate sustainability and employee performance. Second, as the public attaches more and more importance to corporate sustainability, ESG ratings have become an important indicator for investors, consumers and other parties to evaluate corporate performance. For companies, it has become an important challenge and opportunity to improve employee performance through ESG management and thus demonstrate their commitment to sustainability to the public. Finally, the impact of ESG ratings on employee performance is also related to corporate governance; ESG ratings are not only a measure of whether a company has implemented relevant sustainability management strategies, but also a reflection of the company's internal governance mechanisms. Therefore, there is much to be explored and thought about in terms of the relationship between ESG ratings and employee performance. The purpose of this paper is to explore the impact of ESG ratings on employee performance, with the aim of providing valuable insights into the relationship between corporate sustainability and employee performance.

2. Literature Review

By reading and summarizing the domestic and foreign literature, we can find that foreign scholars have studied employee performance evaluation under the ESG concept earlier and have achieved fruitful results. In the social environment of environmental pollution and lack of responsibility, foreign scholars realized the need to introduce ESG concept to guide the development of enterprises and promote the improvement of employee performance, but because the political and economic systems and social environments of western countries are quite different from those of China, their research results have some reference values but still cannot be directly applied to the development of enterprises in China. The research on ESG in China is later than that in foreign countries, basically from budding to flourishing after 2010, so the research is not systematic, basically using ESG rating to select investee companies or exploring ESG information disclosure system.

Firstly, scholars Greening and Turban (2000) found a positive relationship between ESG and performance when they studied the relationship between ESG and performance, and the better ESG performance of a company, the more attractive it is for talent and better for business development. Kassinis and Soteriou (2003), when analyzing the relationship between ESG concept and sales revenue and risk forecast, further pointed out that ESG concept is positively related to performance. Subsequently, in Kiernan (2007) and Kim Sang (2021) also found that the advantages of corporate ESG can positively affect technological innovation, profitability situation, and the larger the size of the firm, the more obvious the incremental benefits. Then, Dou Junhong (2017) pointed out that firms with good application of ESG concept are more likely to demonstrate their high-quality corporate values and more likely to stand out among homogeneous firms to generate excess performance returns. a study by Eccles, Ioannou, and Serafeim (2011) explored the impact of ESG indicators on firm performance, including employee performance. The study found that firms with high ESG have better employee performance and higher job satisfaction compared to firms with low ESG, and that firms with high ESG typically focus more on employee development and well-being, which can increase employee efficiency and productivity.

Again, combining domestic and international studies, it is found that for the correlation between ESG ratings and employee performance, most scholars' studies found a positive or negative association between the two, while some scholars also obtained other conclusions. Among them, there are more studies that consider ESG to be positively correlated with employee performance. This may be due to the fact that there are many current ESG rating agencies with different rating index systems as well as different criteria, and different metrics for ESG ratings. In addition, the companies that scholars focus on are in different countries and development periods, and most foreign studies focus on companies in developed countries, with fewer studies on developing countries such as China. Therefore, on the basis of previous scholars' research, this paper studies the relationship between ESG ratings and corporate performance of domestic listed companies to enrich the existing research results and make the research findings more generalizable.

In summary, the impact of ESG ratings on corporate employee performance is positive. companies with high ESG ratings usually focus more on employee health, welfare, career development and environmental protection, which can improve employee performance and corporate performance. At the same time, employee recognition and trust in corporate social responsibility can also increase employee loyalty and productivity, contributing to long-term corporate success and sustainable development. This paper combines ESG rating concept and corporate employee performance evaluation system to discuss how companies should respond to the situation to build an employee financial performance evaluation system under ESG rating concept to achieve real driving sustainable development.

3. Analysis of Current Situation

(1) Status of ESG concept

ESG concept is an acronym for Environmental, Social and Governance, which is different from the traditional financial division and focuses more on sustainable development and long-term value of investment. Governance. Although the evaluation criteria are not yet unified among international investment institutions, the measurement indicators are highly similar. The MSCI uses public information capture to rate the E(environmental) factors, climate change, natural resources, pollutants, and environmental opportunities; human capital, product responsibility, stakeholders, and social opportunities to evaluate the S(social) factors; and corporate governance and corporate behavior to explore the strength of the G(governance) capability. ESG concept seems to measure three different dimensions: environmental responsibility, social responsibility, and corporate governance, but they are closely interlinked and complementary. When a company commits an emission violation, it not only violates its environmental responsibility, but also affects its financial performance evaluation by incurring administrative penalties and fines, which in turn reduces its corporate reputation and is detrimental to its sustainable development. Companies that take the initiative to be socially responsible will receive positive feedback from consumers, as is the case with companies that spare no effort to donate during epidemics and floods, which not only motivates and identifies employees, but also optimizes the company's structure.

Most studies now conclude that corporate ESG performance can significantly contribute to the improvement of corporate financial performance and employee performance, and that companies can improve investment efficiency and financial performance by integrating ESG concepts into corporate strategies, paying attention to environmental performance, actively assuming social responsibility, and optimizing corporate governance[1]. A corporate performance evaluation system refers to an assessment tool that measures a company's performance using a comprehensive comparative analysis of a range of indicators. After extensive consideration of the development structure, operating characteristics and industry features of the evaluated enterprise, effective indicators are selected to evaluate the comprehensive performance of the evaluated enterprise, as a way to discover that the enterprise is not sufficient to further optimize or reconstruct the performance evaluation system to improve the business ability. With the rapid development of China's economy and the increase of capital market opening in recent years, the high recognition of ESG concept by foreign investors and angel investors has forced domestic enterprises and business managers to pay more attention to the application of ESG concept in the financial performance evaluation system of enterprises.

There is an invisible contract between enterprises and stakeholders in economic activities, and enterprises will adjust their behavioral activities according to the feedback and needs of stakeholders, and stakeholder choice is also a key factor affecting the development of enterprises. From the perspective of the government, it is easier to establish close ties with enterprises with excellent ESG performance and give policy support such as tax breaks and green innovation compensation, which will bring more financing opportunities and resource advantages to enterprises and win a more favorable competitive environment for them; from the perspective of employees, good ESG performance will enhance employees' trust in the enterprise, motivate them to work, attract From the perspective of employees, good ESG performance will enhance employees' trust in the company, motivate them to work, attract talented people to join, and improve the productivity level of the company; for consumers, the company's active environmental protection, social responsibility, and optimization of corporate governance will establish a good corporate image for the company, enhance consumers' recognition and loyalty to the company, expand the market share of the company, and thus promote the increase of business revenue[2]. Secondly, resource-based theory suggests that the competitive advantage resources of enterprises are heterogeneous, and enterprises actively undertake relevant responsibilities as a non-market strategy, which can be regarded as an investment in intangible assets such as reputation and moral capital[10], and good ESG performance of enterprises sends positive signals to stakeholders and accumulates intangible assets, while in the long run, they can obtain competitive resources with strong specialization, enhance brand attractiveness , forming a competitive advantage and improving corporate performance performance[3].

(2) Current Status of ESG Rating Agencies

Currently, ESG is receiving more and more attention globally, and many investment institutions are including ESG-related content in their investment systems as one of the important information for investment decisions. Regulators in many countries are gradually introducing ESG-related disclosure policies, requiring companies to actively or mandatorily disclose information on environmental, social responsibility and corporate governance. In order to make an objective and scientific evaluation of the performance of

China's listed companies in environmental, social responsibility and corporate governance, and also to provide investors with more adequate corporate information for investment decisions, many third-party rating agencies and index research institutions at home and abroad are actively exploring and constructing ESG rating systems. Therefore, this paper compares the well-known international and domestic ESG rating agencies and rating systems:

Research on foreign rating agencies and rating systems. At present, the mainstream international ESG rating agencies include: Ming Sheng, Dow Jones, FTSE, Morningstar and Tom Lutsen. Through the development of these mainstream agencies and their market influence, they help promote the vigorous development of ESG rating system. Most of these foreign rating systems have established huge databases to quantify the rating indicators, facilitating better measurement and assessment of ESG performance of enterprises.

Research on domestic rating agencies and rating systems. In recent years, many experts and scholars as well as third-party rating agencies in China have been actively promoting the construction of ESG rating systems, with a view to building an ESG assessment system for listed companies in line with China's national conditions. At present, the more popular ESG rating agencies in China mainly include ESG rating systems such as China Securities, CSI, Dingli Corporate Governance, Harvest and Shangdao Rongreen.

At present, the number of ESG rating agencies in foreign countries has developed faster and exceeded 600, while the number in China is only about 20. However, with the vigorous development of the idea of sustainable development and ESG concept, ESG investment has become the mainstream of domestic and foreign markets, and the construction of domestic ESG rating system is gradually accelerated. With the continuous development of ESG, investors pay more and more attention to ESG rating information, which is non-financial information of enterprises. More and more scholars start to study ESG-related concepts and conduct empirical analysis based on ESG rating information, in order to enrich the construction and practical application of the current ESG rating system.

(3) Current status of employee performance in the enterprise

There is a great deal of research on employee performance in enterprises. Some researchers have conducted extensive research on performance management methods and practices, including goal management, 360-degree feedback, and performance appraisal, with the aim of improving the effectiveness and fairness of performance management, as well as optimizing performance management tools and processes; some researchers have devoted themselves to developing and validating performance evaluation indicators for different industries and functional positions, such as key performance indicators(KPI), behavioral performance indicators, outcome performance indicators, etc., to help companies design suitable performance assessment indicator systems; and some researchers focus on strategies and practices to improve employee performance, which may include employee training and development, leadership development, innovative practices in performance management, etc.

Overall, the current state of research on corporate employee performance is rich and diverse, with in-depth studies and explorations on everything from performance management and assessment metrics to employee motivation and incentives. These studies provide theoretical and practical guidance for companies to optimize employee performance management and improve organizational performance.

4. Conclusion and Recommendations

(1) Research conclusions

The study in this paper found that there is a positive impact of ESG ratings on corporate employee performance, with the following findings.

First, good ESG practices can promote increased employee engagement and commitment, thereby improving employee performance. Employees are more likely to resonate with the company's goals and values and improve performance levels when they feel that the company is concerned about ESG issues and takes action accordingly.

Second, the better the ESG performance of enterprises, the higher the performance of enterprises. Both state-owned and non-state-owned enterprises, corporate ESG performance can significantly improve performance, and the improvement effect is more obvious for non-state-owned enterprises. Enterprises with high disclosure quality, small and medium-sized enterprises have stronger motivation to improve ESG performance to increase financial performance, and the economic effect of the enterprise is improved, the performance of employees will also be improved.

Third, companies with excellent ESG performance usually adopt aggressive employee welfare and development programs to provide a better work environment and improve employee job satisfaction, which in turn promotes employee performance.

Fourth, improving technological innovation is an inherent channel through which corporate ESG performance improves financial performance. Good ESG performance provides information, talent, technology, and policy support for technological innovation, which enhances the innovation efficiency of enterprises, gives them access to more dedicated resources, creates competitive advantages, and promotes the improvement of employee performance.

Fifth, companies with excellent ESG performance are more likely to attract and retain high quality employees. Employees tend to work for companies that focus on social responsibility and sustainability, and these companies tend to offer development opportunities and an attractive work culture, which are important for employee performance.

However, it is important to note that there may be methodological differences across studies and limitations of studies conducted in specific industries or regions. Therefore, although there are some findings that support the idea that ESG ratings positively impact employee performance in companies, the exact extent and mechanisms of impact still need to be verified by further research.

In summary, current research trends suggest that the implementation of good ESG practices may help improve employee performance, but the specific impact effects may vary depending on firm characteristics, industry environments and geographical differences. Companies should evaluate and optimize ESG practices based on their own circumstances and consider other factors to improve employee performance.

(2) Recommendations for countermeasures

Based on the above findings, this paper makes the following recommendations regarding the impact of ESG ratings on corporate employee performance.

First, focus on ESG practices. Companies should recognize the potential that ESG practices may have a positive impact on employee performance. Therefore, it is recommended that companies make ESG part of their core values and business strategy and incorporate it into their corporate culture and daily operations.

Second, establish a positive work environment and enhance communication. Companies should not only work to create a positive work environment, such as providing employee development opportunities, training programs and work-life balance. It should also enhance communication between employees and leaders, which can increase employee job satisfaction and commitment, and improve employee performance. Companies should strengthen communication with employees, communicate ESG-related information to employees in a timely manner, and allow employees to understand the company's ESG practices and have the opportunity to provide feedback and participate.

Third, enhance employee engagement and design corresponding incentive mechanisms. Companies can increase employee engagement by encouraging employees to participate in ESG-related decisions and initiatives. This helps to build a closer relationship between employees and the organization, and increases employees' commitment and engagement with the organization. On this basis companies can also design incentive mechanisms to incorporate ESG performance into performance evaluation and reward systems. By directly correlating with employee performance and rewards, employees can be motivated to more actively participate in and support ESG practices.

Fourth, provide education and training. By providing ESG education and training opportunities, companies can help employees understand and identify with the importance of ESG and enhance their capabilities in implementing ESG practices.

Fifth, achieve cross-departmental cooperation. Collaboration and coordination across corporate departments is also key to driving ESG practices. Through cross-departmental collaboration, company resources can be better integrated and leveraged to optimize ESG performance and impact employee performance.

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