Research on ESG Report from the Perspective of Sustainable Development

-- Taking Fuyao Group as an example

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Abstract: China's economy has entered a stage of high-quality development, and sustainable, green and low-carbon are becoming important keywords for economic development. The "dual carbon" goal proposed by China in 2020 has further promoted the society's attention to green and low-carbon development. At the same time, more people and enterprises are gradually realizing the importance of assuming social responsibility for the sustainable development of enterprises. ESG includes environmental, social and governance aspects, and advocates that enterprises should not only pay attention to the growth of their own financial performance in the process of business development, but also pay attention to the coordinated development of non-financial performance, and promote sustainable development of enterprises through active ESG practices to help enterprises transform green. Moreover, as an important driving force for economic and social development, ESG practice can promote the high-quality development of China's economy. In recent years, ESG has gradually become a hot social issue, and how to achieve sustainable development has attracted extensive discussion and research, so the research of ESG report has become more and more important. This paper takes Fuyao Group's ESG report as the research object to explore its ESG reporting practice and its impact on the sustainable development of enterprises. Through the study of this paper, it is found that the practice of ESG reporting carried out by Fuyao Group first achieves energy conservation and emission reduction in environmental aspects, responds to the national strategy, and reduces energy costs; Secondly, in terms of society, improve employee efficiency by protecting the rights and interests of employees, participate in philanthropy to enhance corporate visibility, cooperate with all parties in the supply chain, and obtain government recognition; Thirdly, in terms of governance, we continue to promote the improvement of governance mechanisms and improve the efficiency of enterprise management; Finally, ESG practices affect corporate performance from two aspects: promoting R&D innovation and helping enterprises alleviate information asymmetry. ESG practices have a positive impact on corporate sustainable development, non-financial performance is most directly reflected in product added value, overseas revenue proportion increase, accumulated reputation and promote corporate green and sustainable development. In the process of business development, financial performance has also been better long-term promotion, at the same time, the release of ESG practice report has achieved good market response, promoting the growth of corporate value. In conclusion, this paper argues that ESG practices can help improve corporate performance and promote sustainable development, and enterprises should attach importance to the coordinated development of environmental protection, social responsibility and corporate governance in the process of operation, and participate in ESG practices to promote the sustainable development of society.

Keywords: ESG Reporting; Sustainable Development; Fuyao Group.

1. Introduction

ESG refers to Environmental, Social and Corporate Governance. Carbon emission refers to the greenhouse gases emitted by enterprises into the natural environment during production and operation. Environmental information disclosure refers to the disclosure of environment-related information by enterprises in their business processes. The sustainability report or ESG report refers to the company's environmental, social and governance disclosure report. The evolution from traditional financial reports to CSR and then to ESG reports indicates that the financial information reflected in traditional financial reports can no longer meet the needs of social development and stakeholders. Traditional financial reports and ESG reports need to form complementary information to reflect the business situation of enterprises and provide financial and non-financial information to corporate stakeholders. Reduce the occurrence of information asymmetry among stakeholders and guide the allocation of market resources. At present, the formulation process of sustainable development reporting standards is accelerating at home and abroad, but China has not yet issued a clear sustainable development reporting standard system ESG to guide listed enterprises to disclose environmental information. In the context of the urgent need to develop an ESG standard system at home and abroad, it is necessary to study ESG reports from the perspective of sustainable development and explore the contents that still need to be further developed, so as to provide references for the development of ESG reports.

2. International and Domestic Development of ESG

In 1997, at the third Conference of the Parties to the United Nations Framework Convention on Climate Change, the Kyoto Protocol was signed, proposing to strengthen global cooperation to reduce carbon emissions. In 2000, the GRI published G1 guidelines. In 2004, the concept of ESG was first proposed in the UN Global Compact's "Who Cares Who Wins" report. The concept of ESG appeared earlier in foreign countries, and the regulations on the disclosure requirements of enterprises' ESG reports have also formed a relatively complete development pattern, and the relevant regulations...
are mainly compulsory laws and regulations, and thus put pressure on Chinese enterprises. However, the development of ESG in China started relatively late. In 2012, the Hong Kong Stock Exchange issued the Guidelines on Environmental, Social and Governance (ESG) Reporting, advocating listed companies to disclose ESG information, forming a pattern that Hong Kong leads the development of ESG in inland enterprises, and the relevant regulations are mainly based on initiative requirements. The third edition of ESG Guidelines issued by the Stock Exchange of Hong Kong Limited in 2020 requires disclosure of significant climate issues that have affected and are likely to affect issuers. As a result, more and more domestic enterprises have joined the ranks of ESG report disclosure, and the release of ESG report of listed companies shows an upward trend by year. With the acceleration of the green transformation of China's economy, the volume of green credit is also growing rapidly.

3. Literature Review of ESG

3.1. Researches on ESG Motivation

Jia Yiqing (2022) found that the ESG practice of Fuyao Glass had a positive impact on corporate performance from three aspects: non-financial performance, financial performance and market response. Wang Precious (2022) found that ESG plays an important role in the sustainable development of enterprises, and ESG can optimize resource allocation to support the sustainable development of enterprises. Zhang Wenhe (2023) believes that the practice of ESG concept by enterprises and financial institutions can contribute to the high-quality sustainable development of our country.

3.2. Researches on ESG Development Trend

Li Shi and Huang Shizhong (2022) believe that ESG is evolved under the influence of external factors after the development of CSR to a certain stage, and ESG and CSR are closely related. Ba Shusong et al. (2023) explained the application of ESG concept in investment and financial management. Yang Yiqi (2023) studied the development trend of ESG reports in China. The disclosure requirements of ESG reports in China are gradually stricter, based on national conditions and converging with the international market.

3.3. Researches on ESG Information Disclosure

Bai Murong and Zhang Jiaxin (2022) believe that a semi-mandatory ESG information disclosure system should be implemented at this stage, complete and unified ESG evaluation standards and procedures should be established, the core status of directors should be defined, the obligations and responsibilities of directors, senior executives and intermediaries should be detailed in ESG information disclosure, and relatively standardized reporting content and reporting procedures should be established. Establish an ESG information disclosure regulatory system, and clarify and implement the ESG information disclosure responsibilities of relevant entities. Ni Xiaonan and LAN Xinyang (2023) found that although the information disclosure status of ESG in China has been improved, there are significant differences in the disclosure ratio of companies, and the quantification level of ESG data is not enough, and the information disclosure of ESG in Chinese enterprises needs to be further improved.

4. ESG Reporting Practice of Fuyao Group

4.1. Introduction of Fuyao Group

Fuyao Glass Industry Group Co., LTD., referred to as Fuyao Group (or Fuyao Glass), was listed in A shares in 1993 (600660) and in H shares in 2015 (3606). The main business includes all kinds of transportation vehicles safety glass, automotive trim solutions. Fuyao Glass is a global production enterprise, is a leading enterprise in the field of automotive glass. Fuyao Group is a global leading enterprise with high energy consumption and pollution, and it has a global MSCI rating of BBB. Its environmental responsibility requirements are more significant than other industries, and it has a close upstream and downstream industrial chain relationship. Therefore, taking Fuyao Group as a research object can better study the relationship between ESG report and enterprise development. The practice content of ESG report of Fuyao Group summarizes the relationship between ESG report content and enterprise development.

4.2. Fuyao Group's Environment

4.2.1 Actively Respond to Climate Change

Fuyao Group attaches great importance to the impact of climate change on the development of enterprises, actively carries out the identification of climate change risks and opportunities, and conducts systematic assessments of enterprise management and upstream and downstream of the value chain, formulating climate change plans and actions, and continuously improving its own climate adaptation capability. Fuyao Group makes disclosures as required by the Stock Exchange in accordance with the relevant recommendations issued by the Working Group on Climate-Related Financial Disclosure ("TCFD ") in 2017. Fuyao Group explains its climate change risks and opportunities, climate targets and measures, and resource and energy use. Climate change is one of the biggest challenges facing humanity, and Fuyao Group hopes to reduce its carbon footprint through its own efforts to help build a more sustainable future. In 2022, Fuyao Glass will further adjust its climate change strategy, formulate more ambitious climate goals, clarify the company's carbon neutral target year and the supply chain's carbon neutral target year, and strive to drive the industry as a whole to a more low-carbon and sustainable road. The manuscript should include a conclusion.

4.2.2 Strengthen the Management of Environment

Fuyao Group adheres to the ecological development concept that green mountains are gold and silver mountains, and is committed to promoting sustainable economic development through its own actions. In the process of company development, it implements national policies, establishes and improves environmental management system, regularly carries out environmental impact risk assessment, conducts waste management, constantly improves environmental management level, and effectively avoids adverse environmental impacts.

4.2.3 Develop Green Products

Fuyao Group responds to the national 2030-2060 dual-carbon goal and actively helps carbon neutrality reach its peak. Fuyao Group develops green products, continuously increases investment in R&D and innovation, and strives to reduce the carbon footprint and environmental impact of its products. The company prioritizes environmental sustainability in the product design process and develops
products that are efficient and environmentally friendly by improving the production process and product design level. Through the active promotion and promotion of green products, improve customers and consumers' awareness of environmental and ecological protection, but also help upstream and downstream enterprises to save energy and reduce emissions.

4.3. Fuyao Group Social Practice

Fuyao Group protects the rights and interests of employees, takes the interests and needs of employees as the starting point, protects the health and safety of employees, also pays attention to talent development, and engages in charity.

4.4. Governance Practices of Fuyao Group

Fuyao Group focuses on corporate compliance governance, taking national laws and regulations and domestic and foreign regulatory requirements as the criterion, improving the risk prevention mechanism and control measures, strengthening internal management and product quality control, and constantly improving and improving the company's modern governance system and governance capacity.

4.5. Fuyao Group ESG Report Changing Trends

The content of the ESG report of Fuyao Group extends from green products to climate change, constantly updates and improves the climate section, identifies climate subdivision risks and puts forward specific countermeasures.

5. ESG Report Disclosure

5.1. Expand Overseas Markets Through ESG Construction

5.1.1. Supply Chain

Fuyao Group's customers have high requirements for environmental protection, if the environmental protection is not up to standard, it will lead to the downstream export of its products to the supply chain is blocked. Therefore, Fuyao Group integrates the concept of sustainable development into the requirements of supplier management, carries out communication with suppliers to ensure supply efficiency and quality, and collaborates with suppliers to build a stable and reliable supply chain. Fuyao Group demands itself with higher standards, accelerates the construction of ESG, and thus expands overseas markets.

5.1.2. Local Integration

Through ESG practice, Fuyao Group in the United States has improved the sense of belonging of employees, enhanced the local reputation of the company, and helped the company achieve good business results.

5.2. Expand Overseas Markets Through ESG Construction

Fuyao Group conducts ESG practices, attaches importance to employees' rights and interests, and makes external donations, etc., which helps the company win the trust of the government, the community and employees, and expands the channels for obtaining external financing.

5.3. Establish Good Corporate Image Through ESG Disclosure

With the advancement of enterprise ESG practice, Fuyao Group has improved the number and quality of honors in recent years. With its high-quality products and services of the whole industrial chain, Fuyao Group has won recognition from global customers, which can convey the information of stable business condition and good performance to the outside world, and also release the signal that the enterprise attaches importance to sustainable development, thus promoting the long-term value of the enterprise.

6. Challenges to Development from ESG reports

6.1. Conflict Between Corporate Profitability Goals and Sustainability Goals

From a profit-driven perspective: E has more impact on sustainability, but less impact on stakeholders. Therefore, in Section E, there is a contradiction between the social needs reported by ESG and the enterprise's sustainability and profit-making goals. There is an incentive for companies to delay reporting ESG reports and not report bad news. The lack of driving force is one of the main reasons why the ESG market in China is still small.

6.2. Internal Coordination Cost of ESG Report Preparation

The company disclosed that ESG requires the participation of multiple internal departments, resulting in increased coordination costs. Different from the financial reports issued by enterprises, enterprises have special financial departments responsible for accounting and preparing financial reports, while the disclosure of ESG involves energy, environmental protection, finance, management and other levels. In reality, the rights of allocation, supervision and performance evaluation of relevant funds are scattered in different departments, and the collection and sorting of their data also need multi-department integration.

It is difficult to reduce the cost of enterprise information disclosure and promote the disclosure of enterprise information under the reality of the high cost of enterprise preparation. Relevant data show that from 2018 to 2021, the number of Chinese enterprises that disclosed ESG information increased year by year, but the proportion was still low, only increasing from 16% in 2018 to 19% in 2021. In 2021, 27.87% of listed companies will disclose ESG information, while only 16.41% of bond issuers will disclose ESG information.

The disclosure standards and quantitative indicators applicable to China's national conditions have not yet been formed. Most listed companies still release CSR reports in the form of ESG reports, lacking clear and unified standards for ESG reports. Generally speaking, the proportion of ESG information disclosure of Chinese companies is relatively low, which is related to the fact that the practice of ESG in China is still in its infancy, and the information disclosure standards of ESG of Chinese enterprises need to be further improved. China's quantitative indicators have not been fully formed, and it is difficult to measure non-financial risks in ESG reports. Compared with qualitative indicators, quantitative indicators need sufficient data support, and disclosure is more difficult. Moreover, foreign ESG rating standards cannot reflect the real value of Chinese enterprises.
6.3. Lack of Institutional Oversight

The disclosure content is incomplete and the data is incomplete. The authenticity and reliability of Fuyao Group’s ESG report, which is calculated and disclosed by the group itself, is questionable. At present, there is no special third-party organization to investigate and audit the data in Fuyao ESG report.

The standard of disclosure is not high. The caliber of ESG disclosure of the same index by different listed companies is very inconsistent, and even the index, scope and calculation method disclosed by the same listed company in different years are also inconsistent, resulting in poor comparability of data and poor application effect. Companies have problems such as insufficient data update and lack of timeliness in the use of annual disclosure data for their stakeholders.

7. Future Directions for ESG Reporting

7.1. Relevant Policies

The Annual Report Format Guidelines (2021) and Semi-Annual Report Format Guidelines (2021) issued on June 28, 2021 further improve the ESG information disclosure framework for listed companies and put forward specific requirements for ESG information disclosure. The Administrative Measures for the Disclosure of Enterprise Environmental Information according to Law issued on December 11, 2021 clearly defines the subject of the disclosure of environmental information according to law and the content of the disclosure of enterprise environmental information according to law. The Guidance on Investor Relations Management of Listed Companies (2022), issued on April 15, 2022, includes ESG for the first time in the communication content of investor relations management. It is predicted that in the future, the government policy level and policy subsidies will strongly promote the development of ESG.

7.2. Green Investment

On November 10, 2018, the Asset Management Association of China officially issued the "Green Investment Guidelines (Trial)", guiding more and more asset managers to consider green factors in investment, encouraging all kinds of professional institutional investors to carry out green investment, and the "Guidelines" through the form of self-evaluation supervision, gradually enhance the importance of various professional institutional investors to the concept of green investment. Although there is a certain conflict between the goal of corporate profitability and the goal of sustainability, with the intervention of relevant national policies and the promotion of green finance, investors are likely to increase their investment in enterprises based on their future safe development and long-term good profits, and promote the further development of enterprises. Under the dual promotion of the state and investors, enterprises will better promote the implementation of ESG reports in order to establish their own good corporate image, reduce their compliance risks and attract investors. The careful implementation of ESG by enterprises will bring good social benefits, which are linked together to form a virtuous circle. It is predicted that in the future, green credit will grow rapidly, the demand for green and low-carbon investment will be high, and green investment will promote the development of ESG report.

7.3. ESG Rating System

The ESG evaluation system and method suitable for Chinese characteristics and reality should be launched to provide guarantee for ESG information disclosure in China, and unified information disclosure standards should be established. The government should guide market players to actively expand the application scope of ESG assessment. Regulators should take ESG as the basis to improve the indicator system of risk monitoring and regulators should apply relevant indicators of ESG assessment. The information disclosure of ESG can be improved. Financial regulators can use ESG evaluation indicators to introduce non-financial information indicators into risk monitoring indicators, which can not only strengthen the company's ESG information disclosure, but also carry out risk monitoring from more angles, so as to improve the prevention ability of financial risks.

7.4. ESG Governance Framework

In accordance with the requirements of the State-owned Assets Supervision and Administration Commission of the State Council, it is necessary to promote the disclosure of ESG special reports by more listed companies holding central enterprises in the future, and strive to achieve "full coverage" of relevant special reports by 2023. The Board of Directors of the Company may set up an ESG committee to carry out the company's ESG strategic planning and deployment, and set up an ESG work leading group at the management level to be responsible for the overall leadership and coordination of ESG work at the executive level. The members of the group shall include the heads of all functional departments related to ESG work. Set up functional departments in charge of ESG work. According to the actual situation of the company, the functional departments in charge of ESG work can be set up separately or combined with other similar comprehensive management functions to take the lead and focus on all ESG-related work.

8. Research Conclusion and Enlightenment

Through the case analysis of Fuyao Group, it can be seen that traditional corporate financial reports can provide investors with information about corporate profits and financial performance. However, under the overall background of the global implementation of sustainable development, China's implementation of carbon peak and carbon neutral development goals, traditional financial reports mainly provide financial information. Information such as energy consumption, pollutant emission, friendliness to communities and employees, and position in the value chain cannot be provided for a more comprehensive assessment of the sustainable development of enterprises. Therefore, it is very necessary to expand non-financial reports such as ESG report, which is in line with the national development strategy and conducive to the sustainable development of enterprises. However, the development of ESG is still in the early stage. Its development in China still faces some challenges. The practice of ESG needs reasonable guidance from the government and relevant departments. The government and relevant regulatory departments such as China Securities Regulatory Commission should establish
and improve the ESG information disclosure system, promote the reasonable construction of ESG evaluation system, and then guide the capital market such as green finance to allocate better resources for enterprises with broader responsibilities. Improve the enthusiasm of enterprise ESG practice, and promote the green and high-quality development of the entire social economy. Enterprises should realize that the investment in ESG practice does not increase the cost of business operation, which is conducive to the sustainable development of enterprises in the long run. In the process of ESG practice, enterprises may face problems such as investing a large amount of funds in the short term and affecting current profits, which may deter some enterprises. However, in the pursuit of long-term survival, enterprises must take a long-term view and pay attention to the sustainability of enterprise development. ESG practice can help enterprises reduce energy costs, promote green innovation research and development, promote the increase in the use of green environmental protection technology, help enterprises improve employee efficiency, maintain good cooperative relations with customers and suppliers, and alleviate principal-agent problems by carrying out work in ecological environmental protection, social responsibility, and corporate governance. Coordinate the relationship with employees, customers, suppliers and other stakeholders, improve the innovation willingness and participation ability of enterprises, enhance the core competitiveness of enterprises, and promote sustainable development. At the same time, enterprises should pay attention to process management when carrying out practice. Since the amount of investment may be large, enterprises need to strengthen supervision on the use of funds, establish a clear assessment system, and promote ESG practice to achieve good results.

References