

# Analysis of ESG Information Disclosure

-- Taking Yili Group as an Example

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**Abstract:** Currently, a significant number of listed companies around the globe publish ESG reports. However, a comprehensive, perfect and systematic disclosure standard has yet to be established in China. Yili Group proactively implements ESG concepts to enhance the company's reputation and garner support. This paper analyses the framework requirements and contents of Yili Group's ESG reports, providing a reference for enterprises to prepare and publish these reports.

**Keywords:** ESG Reporting, Sustainable Development, Information Disclosure.

## 1. Introduction

The abbreviation E,S,G stands for Environment, Society, and Governance. In recent years, as the concept of sustainable development continues to develop in China and enterprises face numerous challenges, including rural revitalization, green finance, digital transformation, and others, ESG disclosure has received significant attention from all sectors of society. On 27 May 2024, the Ministry of Finance issued the Corporate Sustainability Disclosure Guidelines – Basic Guidelines (Draft for Public Comments), marking the beginning of the construction of a unified national system of sustainability disclosure guidelines.

Currently, dairy products occupy a significant position in the national dietary structure, with the proportion of dairy products consumed continuing to rise as the economy develops and the national standard of living improves. However, food safety issues persist, particularly in light of the recent influx of imported dairy products into the Chinese consumer market. This has placed significant challenges on established dairy enterprises. This necessitates that companies assume social responsibility effectively, maintain a long-term perspective, and realize the robust enhancement of commercial and social values together, finally in order to promote the sustainable development of the entire industry.

Yili is one of the earliest companies to practice the ESG concept. In accordance with the establishment of the ESG "three reports" system (i.e., Sustainability Report, Zero-Carbon Future Report, and Biodiversity Conservation Report), Yili has also formally released the inaugural ESG value accounting report of the global food industry. The report will present the results of Yili's ESG practices in 2023 in a visual and monetized format.

## 2. Yili Group ESG Disclosure Case Study

### 2.1. Overview of the Yili Group

Yili ranks among the Global Dairy Top 5 and has sustained an undisputable position of No. 1 in Asia for ten successive years. Yili is also China's largest dairy producer, offering the largest number of products. As a leading enterprise in China's dairy industry, Yili Group is one of the earliest enterprises in

the industry to engage in ESG practices, and has achieved outstanding results. In August 2023, Yili was awarded an A grade in ESG by Morgan Stanley Capital International (MSCI), an authoritative international indexing organization, on the basis of its achievements in ESG. In addition, Yili was rated A for its information disclosure performance in 2022-2023 by the Shanghai Stock Exchange [1]. Yili has developed a systematic and innovative approach to ESG. The ESG report published by Yili provides clear evidence of the company's commitment to the full implementation of the ESG concept and its role as a Chinese dairy company. Furthermore, it serves as an excellent source of inspiration for the sustainable development of other industries.

### 2.2. Motivations for ESG Disclosure Reporting in Yili Group

#### 2.2.1. For regulatory and control requirements

In terms of government pressure and regulatory requirements, the Guidelines for the Preparation of Corporate ESG Reports were formally released in November 2022. Together with the Guidelines for Corporate ESG Disclosure and the Corporate ESG Evaluation System, these constitute a series of group standards to support the development of corporate ESG in China. In April 2024, the Guidelines for Sustainability Reporting for Listed Companies of the three major exchanges were formally released. Yili Group is included in the SSE 180 constituent stocks and is the only company on the ESG mandatory disclosure list.

#### 2.2.2. Improve communication with stakeholders

The ESG report is not merely a report, it also aims to create long-term value and serve as an illustration of the "soft power" of the enterprise's sustainable development. According to stakeholder theory and information transfer theory, companies should not only focus on financial information but also attach importance to the implementation status of corporate environmental protection, corporate governance, and social responsibility [2]. The sustainability report serves to convey both financial and non-financial information and strengthen communication with stakeholders, including employees, consumers, suppliers, and others, as a path to broaden communication channels with stakeholders, reduce information asymmetry, create sustainable value through interaction with stakeholders, and safeguard the

rights and interests of them.

### **2.3. Analysis of the Content of ESG Disclosure of Yili Group**

This paper selects Yili Group's ESG reports for 2021-2023 for analysis. The reports are a comprehensive document that presents the company's environmental, social, and corporate governance performance. It is structured to align with the principles of materiality, quantifiability, consistency, clarity, accuracy, timeliness, and comparability.

#### **2.3.1. Environmental Aspects**

The Yili Group made pivotal disclosures pertaining to climate transition, zero-carbon development, water resource protection, biodiversity conservation, and responsible sourcing. As a pioneer in the practice of ESG concepts in the dairy industry, the Yili Group assumed a leading role in publishing the Zero Carbon Future Report in 2021, with carbon disclosure continuously refined. The number of pages in the report has increased from 15 pages in 2021 to 30 pages in 2023. The content has been enriched from a broad framework of plans and outlooks to specific actions across the industry chain. Furthermore, the target has been extended from focusing on "carbon neutrality" to "double footprint" across the industry chain. This represents a shift towards a more holistic approach to green development. However, Yili discloses fewer specific measures in the categories of Scope 1 and Scope 2 of carbon emissions, and primarily focuses on the carbon emissions of the entire industrial chain, namely Scope 3, which still requires improvement. In terms of responsible purchasing, Yili has established rigorous quality standards for the products and services provided by its partners. It has also implemented a supply chain purchasing policy with illustrative examples and sufficient case studies to enhance its prominence. With regard to water resource protection, the company has made significant disclosures on water footprint management, water risk management, and evaluation criteria and tools. Furthermore, it has disclosed the current year's water consumption and water reuse rate in each of the past years, and has also made special efforts to annotate the figures. The overall disclosure effect is satisfactory. Quantitative indicators and vertical comparisons, accompanied by images and tables, enable the public to discern the improvement effect compared with the previous year and to identify the impact of each task throughout the year [3].

#### **2.3.2. Social Aspects**

In recent years, Yili has faced a number of significant social issues, including those related to supplier information, stakeholders' win-win situation, employee rights and interests, social welfare, and so forth. With regard to employee rights and interests, Yili has placed particular emphasis on employee composition, safety performance data, and risk prevention measures, as well as on employee welfare. In terms of employee health and safety, Yili conducts a detailed longitudinal comparison and explains the negative situation of the Lost time injury frequency rate (LTIFR) per 1 million manhours worked, among other factors. However, in terms of employee remuneration, the report does not disclose any specific figures on the employee's salary and benefits, average number of holidays, and so forth. Instead, it is mainly presented in the form of initiatives and cases. In terms of social welfare, the report primarily presents the company's contributions to rural revitalisation, child development and

education, and disaster relief. It not only discloses the amount of donations to society and the awards won in public welfare, but also introduces the company's public welfare projects focusing on children in illustrations, thus portraying the image of a responsible and committed company. With regard to reciprocal ecology, the 2021 report provides only a brief introduction to the supply chain, global innovation system, financial inclusion in the industry chain, and so forth. It contains fewer actual data and specific programme steps. In contrast, the 2023 report will include supplier risk management, whole industry chain management, protection of animal welfare, sustainable procurement of raw materials, and other matters. It will also increase the length of disclosure as a whole.

#### **2.3.3. Corporate Governance**

The disclosure of information on the governance dimension in Yili's ESG report primarily concerns the governance structure, internal risk control, and the protection of shareholders' rights and interests. With regard to the governance structure, the Yili Group establishes an efficient board of directors and supervisory board, and attaches importance to board diversity. In terms of anti-fraud, the 2023 report has increased in length from the 2021 report, with clearer disclosure. This incorporates business ethics into anti-fraud measures, adding specific measures such as anti-fraud monitoring and control governance systems, anti-fraud and business ethics training, and demonstrating the results of anti-fraud measures in practice with concrete data. In terms of internal control and risk management, the Yili Group's robust internal control system and risk management framework are presented in the form of flow charts and figures, which demonstrate that the company is continuously enhancing the risk prevention awareness of all employees and providing a robust guarantee for the healthy and orderly development of its business operations.

## **3. Deficiencies in ESG Disclosure at Yili Group**

### **3.1. Lack of a professional ESG Management Department and Personnel**

An analysis of the sustainability report published by Yili Group reveals the existence of a working mechanism for sustainable development that is tailored to the specific circumstances of the enterprise. Yili has established a Board of Directors' Strategy and Sustainable Development Committee at the Decision-Making Level, which is supported by a Sustainable Development Management Office. Additionally, a total of working groups on key issues of sustainable development have been established at the "Implementation Level". This structure enables the board of directors to fulfil its ESG leadership role in corporate decision-making and communication, and to integrate ESG strategy and business to a higher degree. However, the field of ESG is characterized by a multitude of regulations, a high degree of temporal urgency, and a complex set of interrelated factors. In the long term, the absence of a professional committee impairs the board's capacity for systematic and professional decision-making on matters pertaining to ESG. At the same time, the ESG committee is tasked with conducting professional ESG data analysis and report preparation in order to enhance transparency and credibility in the disclosure of information. Furthermore, the committee

is responsible for supervising the implementation of corporate ESG work, reviewing the progress of ESG goals, and making recommendations for improvement.

### **3.2. Incomplete Disclosure of Some ESG Indicators**

Although the Yili Group's Environmental, Social and Governance (ESG) report is already relatively comprehensive, it still lacks disclosure of certain information. In terms of the nature of the disclosed information, the Yili Group discloses information in a variety of forms, but in some areas, there is less quantitative information disclosure. ESG disclosure is distinct from financial indicators, which are more challenging to quantify. A-shares are primarily qualitative in terms of ESG requirements, as evidenced by Yili Group's less quantitative disclosure of the first and second scopes of pollution emissions in terms of environmental performance. Besides, certain information is lacking, including quantitative data on tax payments, employee satisfaction, training costs, debt and contract default rates.

### **3.3. Insufficient Reliability of ESG Information and Lack of Third Party Certification**

The reliability of information disclosure refers to the degree of objectivity of the information disclosed by an enterprise. As enterprises are concerned that disclosing too much negative information may affect their corporate image, they often choose to hide negative information, which affects stakeholders' judgement of the authenticity and reliability of the information reported by enterprises. Secondly, the food industry has a complex industrial chain, and it is difficult to unify the quantitative indicators in the international arena. The food industry primarily discloses and accounts for its own ESG performance. While Yili cites a third-party organisation to certify it, certain limitations exist due to the fact that the majority of the data obtained originates from the enterprises themselves and is not officially certified by the regulatory bodies.

## **4. Yili Group ESG Disclosure Optimisation Suggestions and Implications**

### **4.1. Third-party Forensics Needs to be Promoted with the Utmost Urgency**

Currently, ESG reports encompass a diverse array of topics, a multitude of indicators, and a lack of completeness [4], comparability, and authenticity. Third-party certification of ESG reports is becoming increasingly crucial. Due to the intricacy of the certification process and the fact that third-party certification agency measures are not mandatory, the majority of corporate disclosures lack third-party certification, which may result in a significant discrepancy between data disclosed in the report and actual facts. As a means of providing assurance beyond that provided by enterprises and the government, companies should introduce the services of third-party agencies to publish objective and fair third-party validation opinions. This will help to reduce the related risks and ensure the objectivity and authenticity of the report, thereby increasing the trust of report users in the report.

### **4.2. Raise Awareness of their Own Disclosure and Cultivate ESG Talents**

Firstly, it is imperative that enterprises establish professional ESG organizations. Rather than merely espoused as a slogan, ESG must be quantified. In the current era, it is evident that numerous enterprises have not integrated their ESG concepts with specific company strategies. It is therefore recommended that enterprises endeavour to establish specialised ESG departments and teams to oversee ESG governance and enhance employees' understanding of ESG at all levels. Secondly, the standards for disclosing ESG information are diverse and highly specialised. Domestic standards for disclosing ESG information have yet to become mature and unified, so enterprises must absorb and cultivate ESG professionals, continuously improve the collection, processing and preparation of ESG-related information, and promote the construction of corporate ESG brand communication platforms.

### **4.3. Accelerate the Standardisation of ESG Reporting Disclosure Guidelines**

There are numerous standards for ESG disclosure, and China is still in the early stage of developing standards, with each regulatory body having its own set of standards. These issues have increased the probability for enterprises to deliberately operate in ESG information disclosure, weakened the consistency and comparability of information, and made it difficult to comprehensively and truly reflect the fulfilment of corporate ESG responsibilities. Concurrently, as some information is not required to be disclosed on a mandatory basis, enterprises tend to conceal negative information disclosure from their own interests. This not only causes significant economic losses to them but also reduces customer loyalty and impairs corporate reputation. Consequently, it is imperative that the government maintains a constant focus on optimising the sustainable development information disclosure system [5]. This should be accompanied by a refinement of the formulation and disclosure of performance in accordance with the characteristics of the industry. Furthermore, it is necessary to implement a procedure of continuous rating retrospectively, with the objective of improving the comparability of information. This will enhance the depth and persuasiveness of the report.

## **5. Conclusion**

In the process of high-quality development, China's dairy industry must also improve its ESG performance in order to establish a new type of competitive advantage. This paper analyses the motivation for disclosure in the case of the Yili Group, describes the specific disclosure contents, points out the disclosure deficiencies and puts forward suggestions for improvement based on the characteristics of the industry. The analysis of the current situation of Yili Group's ESG disclosure contributes to the enrichment of the cases of enterprise ESG disclosure, provides reference and inspiration for other domestic dairy enterprises, and is conducive to promoting enterprises to improve the quality of ESG disclosure and deepen cooperation with more enterprises to achieve sustainable development.

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