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Literature review on the impact of corporate ESG performance on corporate value

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Abstract: This paper sorts out the relevant research on the impact of corporate ESG performance on corporate value by domestic and foreign scholars in recent years through a literature review, and finds that scholars have studied the channels and effects of corporate ESG performance on corporate value from both qualitative and quantitative aspects, and respectively Combined with the factors of heavily polluting industries, internal corporate governance and market feedback effects, these research results not only provide a theoretical basis for improving corporate ESG construction and development, but also provide ESG investors with a decision to optimize their investment portfolios further accordingly. However, only some research papers analyze the reasons and limiting conditions for the insignificant impact of corporate ESG performance on corporate value. More in-depth research will be required on the limiting conditions of the current ESG role and quantitative corporate ESG performance standards.

Keywords: ESG performance; Corporate social responsibility; Company value; Literature review.

1. Introduction

Recently, environmental resource protection and sustainable development issues have received global attention. Series of derivative financial products represented by green finance in domestic and foreign financial markets have been widely favored by investors. Under China's "double carbon" target, national companies in various industries have begun to pay attention to their sustainability. As far as the traditional evaluation of sustainable development is concerned, its main content lies in the fulfillment of corporate social responsibilities, and the channels for investors to obtain information mainly lie in the part of sustainable development disclosed in the financial reports issued by listed companies, and the social issues disclosed separately by some listed companies.

Currently, ESG is developing rapidly in China, and the abundance of resulting ESG index products has broad market prospects. Many listed companies with good ESG performance will also disclose ESG reports separately in addition to social responsibility reports, which provides investors with more information channels and more effective quantitative decision-making methods for investigating the non-financial performance of invested companies. From the perspective of investors, to effectively use this information, it is essential to clarify the relationship between corporate social responsibility and ESG information and understand the impact of the two on the value of the invested company; The maximization of shareholder wealth, whether social responsibility and ESG input costs can have a positive effect on corporate value are the decisive factors for whether a company is willing to fulfill its social responsibility. On this basis, it is of great theoretical and practical importance to study the impact of enterprise ESG performance on enterprise value.

2. Research on the relationship between corporate social responsibility and ESG performance

The definition of corporate social responsibility and ESG performance is as follows: According to the concept proposed by the European Union in 2001, corporate social responsibility (CSR) refers to the integration of environmental and social impacts into the interaction process with stakeholders voluntarily. The ESG investment philosophy is derived from socially responsible investing and is a branch of socially responsible investing. ESG stands for Environment (Economic), Society (Social) and Corporate Governance (Governance). ESG investment is an investment concept that focuses on the non-financial performance of a company's impact on the environment, society, and its internal governance. The ESG performance of a company is to meet the needs of investors, the company promises, implements and discloses the quantification of the company's ESG performance.

2.1. The difference between corporate social responsibility and ESG performance

First of all, corporate social responsibility application scenarios are broader than ESG. They may appear in corporate brand marketing, supply chain management, employee management, and community communication. These departments can become performance management departments for CSR. ESG is a quantitative assessment of corporate social responsibility achievement and sustainability. Therefore, ESG application scenarios are primarily capital market-driven, and the Investor Relationship Management department is typically responsible for managing the ESG performance of companies.

Secondly, corporate social responsibility considers issues from a multi-stakeholder's perspective and focuses on a broader group. However, ESG primarily considers issues from an investor perspective, emphasizing the relationship between corporate shareholder performance and corporate social responsibility performance. At present, various ESG evaluation systems at home and abroad, due to different national conditions and industries, are quantitative indicators designed from the perspective of investors.

2.2. The relationship between CSR and ESG performance

First, the commonality between CSR and ESG performance is that CSR and ESG performance imposes requirements on the quality of disclosure of business information. A common form of corporate social responsibility enforcement is to publish a CSR report emphasizing the information disclosure to communicate with stakeholders. ESG investors also place considerable importance on disclosing the ESG performance of invested companies. In recent years, domestic and international capital markets have also strongly recommended that listed companies publish standardized ESG reports to improve the quality of disclosure of company information. More importantly, both take the long-term sustainable development of the enterprise as the ultimate goal, which requires the enterprise to consider the interests of shareholders and the fulfillment of social responsibilities.

Second, ESG is the concrete manifestation of corporate social responsibility on the business side, incorporating ESG factors into corporate decision-making. Environmental factors consider the impact on the natural environment during business operations; social factors consider how the company handles the employment relationship from up and down and related communities; corporate governance factors are related to corporate executive compensation, internal control, shareholder rights and other specific circumstances. The value concept, management style and investment and financing standards of an enterprise determine the social and environmental changes caused by its operation.

Thirdly, ESG supports the development of a new suite of CSR measures. Fifty-six institutions in China have joined the United Nations Responsible Investment Initiative. More and more financial institutions are beginning to develop ESG businesses represented by inclusive finance and green credit, and the development of ESG financial businesses will help strengthen the CSR construction of supply chain partners.

3. Impact of corporate social responsibility on corporate value

3.1. The impact of corporate social responsibility on corporate value

Research findings on the impact of corporate social responsibility on the value of businesses in China and abroad include the following. Chen (2005) et al. analyzed the current social responsibility accounting information disclosure of listed companies in my country through sampling and found that the correlation between corporate social responsibility and corporate value was insignificant. Li (2006) research found that enterprises that undertake more social responsibilities will have lower enterprise value in the short term. However, undertaking social responsibilities will not reduce enterprise value in the long run. Wang and He (2009) conducted an empirical study on the samples of manufacturing listed companies in the Shanghai and Shenzhen stock markets in 2005. They found no significant relationship between corporate social responsibility, ROE, and other corporate financial performance. Kim and Kim (2014) found that strengthening corporate social responsibility increases shareholder value by increasing Tobin Q, while weakening corporate social responsibility reduces shareholder value by increasing the company's systemic risk. Ghoul, Omrane and Kim (2017) found that in countries with weak market systems, the positive correlation between corporate social responsibility and corporate value is more significant; in countries with weak equity and credit markets, corporate social responsibility Liability is linked to improved access to finance; countries with more limited commercial freedoms invest more and have a lower risk of default, and countries with weaker legal systems have more extended trade credit periods and higher future sales growth. Bardos, Ertugrul and Gao (2020) research shows that corporate social responsibility positively impacts product market perception, especially for standardized products and competitive industries. This effect is more critical for product quality attributes. Significantly, it is concluded that product market perception is a corporate social responsibility and a channel for creating corporate value.

To sum up, most scholars at home and abroad have reached the research concluded that corporate social responsibility positively affects corporate value, and only a few scholars have come to the opposite conclusion. Regarding research on how CSR affects the value of businesses, different researchers have different perspectives, quantitative approaches, and research findings.

3.2. Analysis of factors impacted the company's value through corporate social responsibility

For the research on what factors affect the fulfillment of corporate social responsibility, the most widely studied field is the impact of corporate governance factors on the fulfillment of corporate social responsibility. Wang (2006) research shows a stable relationship between enterprise value and the operator's equity incentive, and the enterprise's and enterprise value's board structure will also interact. Zhu (2019) found that the accounting conservatism of enterprises is an intermediate factor in the positive relationship between enterprise value and corporate social responsibility. Chen (2021) research shows that the technological innovation investment of enterprises has a mediating effect on the relationship between corporate social responsibility performance and corporate value, and the internal control of enterprises can strengthen the value creation effect of corporate social responsibility. H Servaes and A Tamayo's (2013) research shows that the higher the customer awareness of an enterprise, the more significant the positive impact of its social responsibility activities on enterprise value.

4. Impact of enterprise ESG performance on company value

This paper believes that to study the effect of corporate ESG performance on corporate value, we must first consider issues related to corporate ESG performance, such as the degree of corporate ESG information disclosure and the scientificity and consistency of ESG performance quantification standards, before considering other influencing factors. A practical solution to the problem is the prerequisite for studying the impact of ESG on corporate value, so this paper sorts out the relevant research on the performance of ESG in domestic companies.

4.1. Research on corporate ESG performance

Since corporate ESG performance is a quantitative investigation of corporate social responsibility performance, there are significant differences in the level of ESG data in different industries in China. Therefore, different scholars start with a specific industry for ESG research, and research conclusions and suggestions based on different industries are also different.

Zhou (2020) and other studies have shown that investors in China's A-share market have a clear ESG responsibility preference, and the better the ESG performance of the company, the higher the excess return. Under the impact of the new crown epidemic, the excess cumulative return of companies with better ESG performance is significantly higher than companies with poor ESG performance, and their ability to resist risks is stronger. Xu (2022) pointed out that in my country's manufacturing industry, ESG information disclosure of enterprises can help improve enterprise value, and the effect of ESG information disclosure is affected by factors such as the property rights of enterprises, policy environment, and regional development characteristics. Regarding the existing problems in the disclosure of resource utilization information in China's environmental protection-related industries, Geng et al. (2022) proposed that, on the one hand, listed companies should prepare different types of natural resource asset reporting systems according to their conditions, to be consistent with the national natural resource balance sheet and the national natural resource balance sheet. On the other hand, enterprises should strengthen the rigor of accounting treatment and disclosure of natural resource information, and relevant departments should establish specific accounting standards for accounting and disclosure matters, and actively guide third-party organizations to understand the company's environmental information is identified, verified and evaluated.

4.2. The mechanism by which corporate ESG performance affects the corporate value

Yuan (2021) found that the higher the ESG score and the higher the media attention, the higher the performance level of the company, and media attention has a moderating effect on the impact of ESG on corporate performance. The contribution of ESG to corporate performance heterogeneity significantly exists in the moderating effects of media attention and media attention. Wang (2022) found that ESG performance significantly improves the market value and book value of enterprises. ESG performance realizes value effects through different channels: on the one hand, the excellent performance of ESG performance helps increase enterprises' market attention. In this way, the value-added of the company's market value is realized; on the other hand, ESG performance significantly reduced the company's financing costs, thereby promoting the value-added of its book value.

The ESG performance of different companies has different impacts on corporate value. The research results of Zhang (2019) show that ESG performance significantly affects corporate value. For non-state-owned enterprises, enterprises in non-polluting industries, and small-scale enterprises, the value-added effect of good ESG performance is more significant. The above studies show that ESG performance can increase corporate value by reducing corporate financing costs.

4.3. Limiting conditions for corporate ESG performance to affect corporate value

According to the empirical research of Ruhaya et al. (2018), in the case of a Malaysian public limited company (PLC), all ESG factors have no significant relationship with the company's weighted average cost of capital. Research by Amal and Sylvain (2018) shows that higher social performance scores only affect the market value of firms with great attention, which is more prominent, perform better, and are located in areas with greater press freedom, Countries with higher corporate social reputation. Chen (2019) used principal component analysis to test the correlation between ESG and the financial performance of foreign-listed companies in the technology industry from 2015 to 2017, and found that the impact of ESG on corporate financial performance in the short term was not significant. The significant impact of corporate ESG performance on corporate value does not apply to every industry, company, and time point, but ESG factors will significantly impact corporate value under certain conditions. However, there are few studies on the limiting conditions of corporate ESG performance affecting corporate value.

5. Conclusion and Recommendations

To sum up, most of the research directions of scholars at home and abroad are on the impact of social responsibility fulfillment and ESG performance on corporate value and the impact channels. Most of their innovations lie in consideration of whether it is a heavily polluting industry, the internal governance of the company, and the market feedback effect. Innovative experiments are designed for other factors. These research results provide a specific theoretical basis for improving corporate ESG construction and development. It also provides a decision-making basis for ESG investors to optimize their investment portfolios further. However, there are few research papers analyzing the reasons and limiting conditions for the insignificant impact of corporate ESG performance on corporate value, which to some extent leads these companies to pay less attention to corporate social responsibility (ESG performance) or blindly pursue ESG performance in order to retrieve higher market attention. In the future, more research is needed on the limiting conditions of the current ESG role and quantitative company ESG performance standards.

This paper considers that horizontal benchmarking of the same type of enterprise is a possible guideline for in-depth research. Most importantly, for companies, the concept of ESG development should be fully integrated and reflected in all aspects of production and exploitation. The scientific nature of quantitative ESG performance standards and the heterogeneity of companies are not contradictory, but favor and complement each other. Companies should develop ESG strategies on their own terms and conditions to maximize the company's value.

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