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Analyzing the Existing Problems and Countermeasures in Domestic ESG Information Disclosure

Jiamin Zhou

Xi'an polytechnic university school of management, Xi'an, Shaanxi, 710600, China

Abstract: With the development of many international ESG disclosure standards, the current reference standards for China's ESG practice are obviously insufficient, and there is a lack of ESG disclosure standards based on China's national conditions. For this reason, the article fully discusses the necessity of developing the localization of China's ESG disclosure, thoroughly analyses the problems existing in the current process of China's ESG disclosure, and proposes corresponding measures.

Keywords: ESG Concept; ESG Disclosure; ESG Standard; Localization.

1. Introduction

ESG disclosure is the disclosure of information by enterprises on their specific behaviours in the environmental, social and governance fields, which is an important basis for the assessment of non-financial information by companies, and is also a tangible embodiment of the concept of sustainable development by enterprises. As an important form of reflection of the three dimensions of CSR, its disclosure system is gaining attention globally. As of 2023, a total of 69 stock exchanges have issued disclosure guidelines, all of which use reporting tools such as GRI, SASB, IIRC, CDP, TCFD, and CDSB. A comparison of the six shows that GRI is the most popular reporting tool, with 96% of the 65 stock exchanges citing GRI.

Table 1. Policies on environmental, social and corporate governance enacted in China in recent years

Time	Name of document
2003	Announcement on the Disclosure of Corporate Environmental Information
2006	Guidelines on Social Responsibility of Listed Companies
2008	Report on the fulfilment of social responsibility by companies
2015	Environmental Protection Law
2016	Guiding Opinions on Building a Green Financial System
2018	Code of Governance for Listed Companies
2021	Administrative Measures for the Legal Disclosure of Corporate Environmental Information
2022	Format Guidelines for Legal Disclosure of Corporate Environmental Information
2022	Guidelines on Corporate ESG Disclosure
2022	CSI ESG Index and Evaluation Methodology

In recent years, with the rapid development of China's economy and increased internationalisation, China has begun to pay attention to the development of ESG concepts and actively promote ESG-related practices among enterprises. However, there is currently no unified and clear ESG standard and disclosure system in mainland China. Only the Hong Kong Exchanges and Clearing Limited (HKEx) has stipulated ESG disclosure standards for Hong Kong enterprises from the perspective of "no disclosure, no explanation". Although China has also issued a series of policy documents on ESG (see Table 1), laying a solid foundation for Chinese enterprises to disclose ESG information. However, in the process of China's industrial transformation and upgrading, the ESG disclosure standards developed in accordance with international standards can no longer meet the actual needs of domestic enterprises, and at the same time, it also restricts the popularisation and in-depth implementation of China's ESG concepts in the country.

Therefore, this paper discusses the necessity of developing China's local ESG disclosure, analyses in-depth the problems existing in China's current ESG disclosure process on this basis, and puts forward corresponding suggestions and measures to provide inspiration and direction for the introduction of ESG disclosure standard guidelines in China in line with the national conditions and comprehensive standards.

2. The Need to Develop Local Standard ESG Disclosure

As a favourable tool for measuring non-financial information of enterprises, ESG disclosure can help investors to understand the information in the areas of development strategy, governance and social responsibility awareness of enterprises, and to comprehensively assess the sustainable development capability of enterprises. At the same time, most researchers have proved that ESG disclosure is positively correlated with corporate performance and has important guidance and reference value for corporate operations and investors' investment choices. Therefore, it is particularly important to analyse the necessity and urgency of establishing a local standard ESG disclosure in China.

2.1. Enterprise Level

From the perspective of enterprises, the development of local standardised ESG disclosure can improve the ability of investors to identify their information disclosure and meet their needs. The current international ESG standard concept is based on a unique background, and the number of ESG disclosure systems is large, and there is no uniformity in the construction of the framework, and a variety of standards and frameworks will undoubtedly increase the difficulty of corporate investors in identifying, screening, accepting, and interpreting the information, and at the same time, it will also discourage investors, leading to a decrease in the activity of

the market. As China adopts an autonomous disclosure approach to ESG information disclosure, the vast majority of enterprises do not have a strong willingness to disclose, and without uniform and standardised disclosure guidelines, the quality of enterprises' disclosure information will be greatly undermined. In addition, whether it is constructing and managing investment portfolios or ESG ratings, it needs to be analysed with the help of big data, artificial intelligence and other information technology means, and there are certain requirements for the disclosure quality of its information, so the collation and analysis of ESG data must be established to establish a unified standard quantitative indicators, which also indicates the necessity of constructing a standardised ESG disclosure for the local area.

2.2. Market Level

From the market perspective, the existing international ESG standards target listed companies that are required to disclose CSR reports, while China is an economic market dominated by small and medium-sized enterprises, and only the Hong Kong Stock Exchange has issued a semi-mandatory requirement of "disclose or explain", while the rest have adopted a "voluntary" approach. The rest have adopted a "voluntary" approach. At the same time, disclosure of ESG information will bring many externalities to companies, such as greenhouse gases, emissions and other environmental issues, and it is difficult to estimate the losses of those who are harmed because a fully competitive market has not yet been formed. Therefore, driven by their own interests, companies may tend to reject or even distort the relevant information disclosure. Investors will not be able to measure the truthfulness of ESG disclosure by a uniform standard, which may result in "wrong investment". When a matter cannot be handled by the market mechanism alone, there must be an "invisible hand" to control, and all interventions should be based on corporate disclosure can be regulated and standards can be set, therefore, the establishment of a unified standard of local ESG standards is imminent.

2.3. National Level

From a national perspective, China's current promotion of ESG concepts is highly consistent with its national strategies such as the new development concept, high-quality growth, and the "dual-carbon" goal. However, the concept of ESG originated from "responsible investment", which is a product of the evolution of the concept of sustainable development, and its original purpose was to resist the infringement of the rights of its stakeholders by capitalism's "maximisation of shareholders' rights", reflecting the resistance to the over-exploitation of its capitalists, with the main emphasis on the "individual" and the "individual". The main emphasis is on "individualism". In the long history of China's economic development, the goal of development has always been "common prosperity", addressing the disparity between the rich and the poor in China's regions. However, the existing international standards have failed to incorporate this into the disclosure system, making it difficult to utilise international ESG standards to promote ESG development of Chinese enterprises so as to achieve the goal of common prosperity. Secondly, China is still in the primary stage of socialism and has been in the primary stage of socialism for a long time, and compared with the developing countries, there still exists the problem of unbalanced and insufficient development of the productive forces, and the existing international standards are mainly a system to protect the rights of the developed economies and stakeholders, which does not match with the basic national conditions of China.

According to the above analysis, based on China's national conditions and actual economic development trends, it is necessary for China to establish a "localised" ESG standard that belongs to China's national conditions.

3. Problems with ESG Disclosure by Chinese Enterprises

At present, China's enterprises for the concept of ESG cognition, is still in the initial stage, not recognized the importance of ESG information disclosure, the quantity and quality of its disclosure information is still debatable, the overall pace of development is relatively slow and lagging behind.

3.1. China has not Formulated a Unified Disclosure Framework and Standard for the Time Being

In China, the overall ESG reporting is still mainly based on voluntary disclosure, and in the absence of top-level design, there is no unified disclosure framework and guidelines, and enterprises are launching ESG disclosure in accordance with their own business characteristics, economic environment and industry needs, which has resulted in large differences in the scope, form, quantity and quality of ESG disclosure of enterprises, and there are also insufficient, incomplete, inconsistent and other problems. And most of them are descriptive disclosure, but lack of quantitative disclosure on important issues, and the disclosure of some companies exists in simple accordance with a certain unit indicator, and cannot be disclosed based on the overall development strategy of the enterprise as well as its business activities and other aspects. Moreover, based on the influence of social reputation, many enterprises usually choose to disclose information that the enterprise has done well and are unwilling to disclose unfavourable information, thus affecting investors' ability to make correct investment decisions.

3.2. Lack of Uniform Evaluation Standards for ESG Disclosure

In terms of ratings, international organisations such as the US and the EU have set up more than 600 ESG rating agencies and formed a set of relatively perfect ESG rating system, which provides investors with a corresponding basis for decision-making. In contrast, there are only more than 20 domestic ESG rating agencies, such as: Shangdao Ronggreen, Social Development Alliance, Green Finance Research Institute of China University of Finance and Economics, Huazhuang, etc., whose ESG ratings of enterprises are released every year. However, the results vary greatly between different rating agencies, and the same enterprise's scoring results for different topics are inconsistent. For example, in Ping An Bank's 2021 rating report, the Business Way Rong Green grade is B+, while the SWIFT is a D grade. As there is no uniform evaluation standard, each institution sets different indicators, for example, SWIC focuses more on sensitive industries and social disputes of enterprises, while CDFG Green and CSI focus more on ESG risks and opportunities, etc.

3.3. Lack of Disclosure Indicators and Regulatory Standards in Line with China's National Conditions

In terms of content, the existing ESG standards are mainly established on the basis of capitalist developed countries such as Europe and the United States, which are not compatible with China's economic system and subjects, economic development goals and development stages, and lack targeted discussions for China's common standards, industry standards, and characteristic issues, and as a result, information disclosed under the framework of international standards lacks substance and reliability, and fails to achieve consistency and substance of corporate ESG disclosure, resulting in insufficient transparency and benchmarking of corporate ESG disclosure. In addition, the unsoundness of China's ESG disclosure regulatory system will result in the ineffective implementation of China's ESG disclosure system, and may even be "in name only", resulting in the consequences of China's ESG disclosure system being out of step with the development of theories. For companies, under the "voluntary disclosure" system, due to self-interest, companies are more likely to adopt the practice of "selective disclosure", thus increasing the possibility of insufficiently objective, comprehensive and transparent disclosure; in the view of stakeholders, the lack of regulation will be regarded as the company's behaviour, and the lack of supervision will be regarded as the company's behaviour. In the eyes of stakeholders, the absence of regulation will be regarded as a signal that the company's behaviour is authoritatively approved, which will lead to the enhancement of market blindness, spontaneity and lagging, thus increasing the possibility of stakeholders making wrong decisions, which will seriously restrict the process of ESG disclosure in China.

At present, the top-level design and conception of China's ESG disclosure system has been completed, and what is needed now is to further promote the overall construction of the system. In order to build China's ESG disclosure system, it is necessary to improve the construction of the common framework, the establishment of industry standards, and the design of special issues.

4. Suggestions for Constructing ESG Disclosure Standards in China

The ESG disclosure standard system is an important foundation for promoting the high-quality development of China's modernised economy, and is conducive to China's better integration into the world economic system and participation in the process of world economic governance. On the one hand, it is conducive to promoting the integration of Chinese enterprises with the international market and accelerating the formation of a new development pattern of "domestic and international double-cycle"; at the same time, it helps us to build up the image of a responsible big country, enhance our international reputation, and promote our better integration into and participation in the governance of the world economy. Therefore, based on the background of the Fourteenth Five-Year Plan and the dual-carbon target, and taking into account China's actual situation and in line with international standards, the following policy recommendations are put forward.

4.1. Construct a Universal ESG Disclosure Framework

Under the existing international and domestic environments, and in light of China's national conditions, construct a universal ESG information disclosure framework. Specific contents include: on the premise of expanding the main body of information disclosure and promoting full coverage, introducing attention to small and medium-sized investors, adopting a sub-industry, scale and phase-by-phase approach to provide a comprehensive understanding of China's ESG information disclosure potential, and constructing a system of ESG disclosure guidelines that is suitable for China. We will further clarify the significance of ESG disclosure, and on this basis, we will further explore the relevant theories of ESG disclosure, accelerate the improvement of relevant norms and indicators such as "social" and "governance", and promote the comprehensive and balanced development of ESG standard system.

4.2. Formulate Industry Norms for ESG Disclosure Suitable for the Characteristics of Different Industries

Conduct research on each industry and formulate industry norms for ESG information disclosure suitable for the characteristics of different industries. Specifically, this includes two aspects: in terms of content, cooperate with industry experts to clarify the indicators of information disclosure and build a targeted standard system for different industries, so that while mastering the ESG information pulse of each industry, we can also clarify the boundaries of ESG information disclosure in the industry; in terms of format, provide a common framework system containing terminology, classification and coding, and a general guideline to meet the basic requirements of ESG information disclosure for enterprises in each industry. In terms of format, it provides a common framework system for enterprises in various industries, including terminology, classification and coding, and general guidelines, etc., so as to meet the basic requirements of enterprises for ESG information disclosure.

4.3. Explore Modularized Disclosure Content with Chinese Characteristics

On the basis of mastering the general standards and industrial standards, we will conduct an in-depth exploration of China's ESG disclosure model and construct modular standards with our own characteristics. The main contents include: at the macro level, under the background of the "14th Five-Year Plan" and the "dual-carbon" strategy, the scenario of a large country with Chinese characteristics must be fully taken into account, and factors such as the country's economic system and main body, the economic development goal, and the stage of economic development must be incorporated into the disclosure. The factors of national economic system and main body, economic development target, economic development stage, etc. must be included. At the micro level, the characteristic modules of state-owned enterprises, small and medium-sized enterprises, biodiversity, climate change and dual-carbon are taken as the reference objects for the development of characteristic standards, so as to improve the overall nature of the theme of characteristic standards.

In summary, the establishment of China's ESG disclosure ecosystem based on general standards, industry standards, and featured standards requires further improvement in

various dimensions such as standard setting, evaluation system, third-party supervision, government policies, and corporate citizenship. In this regard, a third party should be introduced to improve the ESG information disclosure supervision system. By improving relevant laws and regulations, setting up relevant supervisory departments and other initiatives, the supervision of corporate disclosure behavior and review of disclosure reports should be strengthened to prevent corporate data from being falsified and disrupting the market order, and to ensure that the construction of the ESG disclosure system advances in an orderly manner. Improve policy protection, fully mobilise the enthusiasm of stakeholders, and create a good environment for ESG information disclosure. The concept of ESG should be promoted from theory to practice through the "dual orientation of government and market", such as tax subsidies and preferential reductions.

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