The Impact of ESG Disclosures on Corporate Financial Performance

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Abstract. The policy orientation of ESG development underscores the importance of listed companies standardizing their ESG disclosures. Actively disclosing ESG information can not only enhance internal operational efficiency but also foster business expansion and drive innovation. By making their ESG practices transparent, companies may optimize resource allocation and streamline processes. Externally, improved public trust is largely attributed to an enhanced corporate reputation. This strengthened reputation, in turn, attracts more investors and promotes long-term, stable financial performance by signaling a commitment to sustainable practices. Using financial data from Ping An, this paper further analyzes the influence of ESG disclosure on corporate financial performance. The study's key findings are as follows: (1) ESG disclosure has a modest positive impact on profitability indicators, although the effect remains limited. (2) ESG-driven sustainability transformations have a minimal impact on Ping An's solvency indicators, indicating stability in that regard. (3) ESG disclosure significantly enhances the accounts receivable turnover ratio and operating cycle. However, in the short term, total asset turnover is negatively influenced by ESG practices, showing a slight downward trend as companies adapt.

Keywords: ESG Disclosure, Financial Performance, Ping An.

1 Introduction

The concept of sustainable development reflects corporations' commitment to implementing environmental, social, and governance (ESG) goals [1]. Under the guidance of the China Securities Regulatory Commission, on April 12, three major stock exchanges in China officially issued the "Guidelines for Sustainability Reporting of Listed Companies," which will take effect on May 1, 2024. Over 760 listed companies have voluntarily disclosed their ESG-related reports for 2023 [2]. The increasing standardization of sustainability reports has reduced information asymmetry and market volatility, while highlighting corporations' social and environmental responsibilities [3]. Enhanced transparency in corporate regulations helps improve employee loyalty, which in turn boosts overall operational efficiency. Investors often evaluate corporate behavior and forecast future financial performance

J. Lu (ed.), *Proceedings of the International Workshop on Navigating the Digital Business Frontier for Sustainable Financial Innovation (ICDEBA 2024)*, Advances in Economics, Business and Management Research 315,
https://doi.org/10.2991/978-94-6463-652-9_21

based on ESG [4]. An ESG system developed in line with policy expectations can aid investors in making long-term investment decisions, thereby establishing a strong financial foundation for the sustainable growth of the enterprise.

However, China's ESG system still faces challenges. The ESG disclosure rate among A-share listed companies remains relatively low, with many adopting a wait-and-see approach, offering little effective ESG information to the market. Moreover, the content disclosed is often incomplete. Only certain aspects of corporate governance are subject to mandatory disclosure, while other areas are left to voluntary reporting. This lack of comprehensive information significantly reduces transparency and hinders investors' decision-making. This article examines Ping An as a case study, analyzing and comparing the differences in Ping An’s financial performance before and after ESG disclosure from 2017 to 2023. The purpose is to focus on the completeness and effectiveness of ESG disclosure as well as the correlation between ESG practice and financial indicators. The discussion can not only see the impact of ESG development on financial performance, but also provide guidance and reference for other listed enterprises that have not disclosed ESG information.

According to existing research, Yan suggests that while ESG disclosure may not directly impact financial performance, it plays a crucial role in enhancing businesses' core competitiveness and long-term sustainability [5]. Yan et al. argue that customers tend to favor organizations that excel in ESG, as they are more inclined to purchase sustainable products, thereby increasing the company's revenue [6]. Zhang demonstrate that improving ESG performance enhances information transparency and symmetry, which promotes corporate financial performance [7]. Wang indicates that strengthening an organization's sustainability efforts can boost profitability, operational efficiency, and growth potential. Strong ESG performance also sends positive signals to consumers, making them more willing to pay for products, directly increasing the company's net profit margin [8]. Furthermore, other stakeholders, such as investors, tend to trust and support companies with strong ESG performance through greater capital investment, satisfaction, and credibility. Zhou et al. propose that while improved ESG performance positively impacts operational capabilities, it does not significantly affect profitability and growth [9]. To summarize the literature, although strong ESG performance contributes to the operational enhancements and stakeholder satisfaction, the direct influence on corporation’s profitability is limited. Existing research mentioned that ESG disclosure has improved operational efficiency, and whether all operational indicators will develop in positive direction. In addition, different views are demonstrated on the changes of ESG practice on enterprise profitability, which requires further data research. Literature review helps identify the inconsistent ideas, so as to prove the supplement and improvement of the inconsistent views in this article and these literatures lay the foundation for this article’s statements.

Stakeholder theory posits that a company's success depends not only on the interests of shareholders but also on the interests of other stakeholders, including employees, consumers, suppliers, communities, and governments [10]. The relationship between ESG disclosure and corporate financial performance can be explained through the lens of stakeholder theory. First, ESG disclosure can drive companies to improve their environmental protection efforts, reducing the risk of legal action by controlling pollution and complying with government regulations. This helps enhance financial performance [10]. Second, ESG disclosure motivates companies to take positive steps to meet stakeholder expectations. For instance, ensuring product quality boosts customer satisfaction, attracts potential consumers, builds a strong social reputation, and draws top talent, ultimately contributing to improved financial performance [10]. Third, ESG information disclosure helps companies enhance their internal management models. A favorable working environment and transparent promotion system can significantly increase employee loyalty and work efficiency.

2 Ping An's ESG Performance

Established on March 21, 1988, Ping An primarily operates in the financial sector, offering a broad range of financial products and services, including life insurance, property insurance, securities, banking, and other related businesses. The company's ESG performance will be analyzed below.

According to the company's 2023 annual report, Ping An had invested more than ¥8.77 trillion to support the development of the real economy by the end of 2023 [11]. Ping An Insurance also provided ¥117.89 billion in funds for poverty alleviation and industrial revitalization, along with a green investment portfolio amounting to ¥128.57 billion. In 2023, Ping An earned an "A" grade in MSCI's ESG ratings for the second consecutive year and ranked in the top 1% for ESG scores among Chinese companies in S&P Global. Ping An has integrated sustainability into its development strategy and established a robust, transparent ESG governance structure, organized into four levels: strategy, management, execution, and practice. The strategic and management levels oversee ESG matters and guide the management of core ESG issues, while the executive and practical levels coordinate internal and external activities, including the implementation timeline for the Group's sustainability efforts. This article will evaluate Ping An's performance across three dimensions: environment, society, and governance.

2.1 Environmental Protection

Ping An capitalizes on opportunities for low-carbon development and transformation, using advanced technology to enhance environmental protection and governance. The company reduces its environmental impact through electronic operations, energy-saving retrofits, and fostering sustainable habits. According to 2023 annual report, the scale of new investments exceeded ¥70 billion, with ¥10.6 billion allocated to clean energy initiatives and ¥1.4 billion directed toward green infrastructure projects [11]. In alignment with national carbon peak and carbon neutrality goals, Ping An has further promoted green operations and committed to achieving carbon neutrality in its operations by 2030.

Ping An also actively addresses the challenges and opportunities presented by climate change. The company pays close attention to how climate change affects its business and has established a comprehensive risk identification framework. In May 2023, Ping An launched the industry's first carbon account system covering all employees, incorporating their low-carbon behaviours and carbon emission data into the company's overall operations. Additionally, Ping An Property & Casualty introduced a pilot corporate carbon account system aimed at encouraging businesses to reduce their emissions, supporting the goal of achieving sustainable, environmentally friendly development.

2.2 Social Development

Ping An is committed to responsible investment and uses financial resources to advance the sustainable development of both the company and society. It fulfills its corporate social responsibility across five key areas: healthcare, education, smart cities, and poverty alleviation projects. The company adheres to its principles by offering comprehensive financial support for elderly care and promoting the development of green insurance products and services, such as mangrove carbon sequestration insurance and sustainable development insurance.

Ping An has introduced preferential policies to support green enterprises and projects, including those in renewable energy, energy-saving renovations, and green buildings. In the realm of social insurance, Ping An remains attuned to health trends among the Chinese population and the evolving demand in the insurance market driven by increasing insurance awareness. The company has visibly promoted large-scale engineering insurance, food safety insurance, medical-related accident insurance, and other policies related to social welfare and livelihood.

Additionally, Ping An's innovative inclusive insurance products and upgraded services cater to small and micro enterprises, agricultural workers, and special groups. These offerings provide essential risk protection for their entrepreneurship, operations, employment, and daily life.

2.3 Corporate Governance

Ping An is committed to enhancing corporate governance and risk management. The company adheres strictly to laws and regulations across various industries and regions. It has established an independent supervision system to strengthen the management of employees' business conduct. To maximize staff potential, Ping An focuses on four key areas: employee training and development, protection of employee rights, employee care, and support for the growth of agents. These efforts aim to enhance the firm's internal operational efficiency.

In 2023, Ping An has placed significant emphasis on building and managing its talent team, with the goal of fully utilizing its talent pool. The company follows principles of being people-oriented, secure, fair, and transparent. It prioritizes information security management and adheres to the highest standards to ensure the protection of its information business.

3 Impact of ESG Disclosure on Ping An's Financial Performance

3.1 Profitability Analysis

In the past two years, the insurance industry has experienced rapid development and digital transformation. The rise in online services has provided customers with more convenient platforms and created additional profit opportunities for enterprises. This paper analyzes Ping An's profitability by examining the net operating profit margin and return on equity. The relevant ratios are presented in Table 1.

According to Ping An's 2019 annual report, the Company has begun to deeply promote ESG-driven sustainability transformation and has achieved remarkable results, with operating net profit margin reaching a seven-year peak of 0.16, which is about 0.02 higher than before the ESG disclosure [12]. Ping An's 2018-2019 operating profit margin increased significantly by integrating ESG factors into its insurance products to promote sustainable insurance development and attracting more environmentally conscious consumers. Since the disclosure of ESG information in 2019, this indicator has risen from the second position in the industry to the first place and has been maintained, which shows that the company's capacity to control costs and profitability have improved as a result of its strong ESG disclosure performance.

However, under complex world's economic environment, the domestic economic operation and consumption growth are still facing challenges in the short term, and the overall trend of operating net profit margin indicator from 2020 to 2023 is declining. Return on equity is a measure of whether a company is effectively using the capital invested by shareholders to maximize profits. The data in Table 1 shows that the company's ROE has declined significantly over the past seven years, with the indicator shown in 2023 decreasing by 0.1 compared to that in 2017. Ping An became the first insurance company in Chinese mainland to be included in the Dow Jones Sustainability New Market Index in 2019 that is the first year the company disclosed ESG information. The company's ESG investment and achievements demonstrate its efficient use of capital, which is reflected in the ROE rising to 0.21 in 2019. The decline in ROE after 2020 is due to a number of factors, both the overall slowdown in China's economy during the pandemic and the decline in ROI would have adverse impact on ROE.

Table 1. Ping An's profitability related indicators.

	2017	2018	2019	2020	2021	2022	2023
Net operating profit margin	0.14	0.13	0.16	0.15	0.11	0.10	0.12
Return on Equity	0.19	0.19	0.21	0.17	0.12	0.09	0.09

Data source: CSMAR

3.2 Solvency Analysis

A company's solvency reflects its financial stability, and whether it can repay short-term or long-term debts with financial risks. This paper selects the asset to debt ratio, and the equity to debt ratio, to analyze Ping An's solvency. As can be seen in Table 2, the asset to debt ratio, as an indicator of long-term solvency, kept stable in the past seven years, indicating that Ping An's financial structure is relatively stable and it is resilient to risks with economic uncertainties during the pandemic. Since 2021, the Company has continued to optimize its integrated financial business model and accelerate expansion in the fields of fintech and digital healthcare, resulting in small fluctuations in the asset-debt ratio.

The good performance of ESG is reflected in the increasing equity to debt ratio year by year. By investing in green projects and developing sustainable insurance products, Ping An integrates green development into its main business and introduces preferential policies to support it, and a large amount of expenditure on green investment may be subsidized or tax-advantaged by the government, so that equity financing can be increased while reducing financing costs. At the same time, green investment is conducive to establishing good image of the company, which can attract more consumers and investors to further increase the cash flow and investment intention, so that Ping An can rely more on shareholders' investment for operation and development and reduce financial risks while reducing debt financing. For social aspect, Ping An responded to China's decision-making and deployment of financial support for the development of small and micro enterprises, which provides the public with warm financial products and services, expands the consumer group and reputation. This is beneficial for obtaining more shareholders' capital investment and has a further positive impact on the equity to debt ratio.

Table 2. Ping An's solvency related indicators.

	2017	2018	2019	2020	2021	2022	2023
Asset to Debt Ratio	0.91	0.90	0.90	0.90	0.89	0.89	0.89
Equity to Debt Ratio	0.10	0.11	0.12	0.12	0.12	0.12	0.12

Data source: CSMAR

3.3 Operational Capability Analysis

Operational capability reflects the efficiency with which a company manages its assets. Table 3 analyses Ping An's operational capabilities using three indicators: accounts receivable turnover ratio, total asset turnover ratio, and business cycle. In 2019, the company introduced the "Ping An Group Sustainable Supply Chain Policy," which outlines specific sustainability requirements for suppliers. These requirements include adopting low-carbon green technology to improve operational efficiency and reduce waste. Additionally, the policy emphasizes the development of employee rights, which effectively promotes employee satisfaction and loyalty at the corporate governance level.

Efficient and sustainable supply chain management is evident in faster order processing and delivery, leading to an increased accounts receivable turnover ratio. Consequently, the accounts receivable turnover ratio in 2019 saw a significant increase compared to the previous two years. This improvement contributed to a reduction in the business cycle, which was as high as 423.02 in 2017 before the company began its ESG transformation. By 2023, with Ping An's strong ESG performance, the business cycle had decreased to 14.84.

The total asset turnover ratio indicates that the company's overall ratio has been declining since the second year of ESG disclosure. Ping An has launched nine core sustainability topics aimed at enhancing corporate ESG performance. For instance, information in Ping An’s 2020 annual report indicates that the company signed investment and financing agreements totalling over ¥340 billion for "Belt and Road" projects [13]. Although these continuous business and market adjustments have increased total assets, operating income has not kept pace with the asset growth in the short term, affecting the total asset turnover ratio. From a long-term perspective, ongoing optimization of asset management and business processes is expected to yield higher total asset turnover in the future.

Table 3. Ping An’s operational capability related indicators.

	2017	2018	2019	2020	2021	2022	2023
Accounts receivable turnover	0.86	1.97	40.62	39.91	41.49	34.97	24.6
Total asset turnover	0.12	0.14	0.14	0.12	0.11	0.1	0.08
Business cycle (days)	423.02	185.09	8.99	9.14	8.80	10.44	14.84

Data source: CSMAR

4 Conclusion

Based on Ping An's annual report data from 2017 to 2023, this article examines the impact of ESG information disclosure on its financial performance. The research findings are summarized in three key points. First, effective ESG disclosure improves profitability and cost control, as evidenced by relevant financial performance metrics. Second, the company's solvency indicators are largely unaffected by ESG performance. Finally, while good ESG performance clearly enhances operational efficiency, its impact on long-term operational indicators is modest.

Although Ping An has reached a mature stage of sustainable development, with significant improvements in profitability and operational capability, its debt solvency indicators have remained stable and have not shown improvement. In response to the evolving economic and market conditions, the company should further refine its business development model, product development system, and corporate governance structure to meet ESG disclosure requirements. To achieve strong financial performance, it is essential to enhance information transparency, allowing consumers and shareholders to better understand the company's contributions to social development.

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