Research on the Correlation Between ESG Performance and Corporate Development

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Abstract. With the occurrence of some natural disasters, people have gradually realized the importance of coexistence between humans and ecology, and the topic of green development has also attracted people's attention. Therefore, the ESG concept has gradually emerged. Based on current research findings, this article finds a close correlation between the development of enterprises and their ESG performance. This study mainly focuses on three aspects to explain the positive impact of ESG on enterprises, namely the impact of ESG on relevant investors, the impact of ESG on enterprise risk events, and the impact of ESG on enterprise value. Secondly, two limitations of ESG performance are listed to summarize the close relationship between ESG and enterprise development. Through this study, the author found that better ESG performance of enterprises is more likely to win the favor of investors, that is, ESG performance is directly proportional to investor income. Secondly, good ESG also reflects to a certain extent the ability of enterprises to resist risk events. Finally, concerning the inquiry of whether company value is directly impacted by ESG performance, research has yielded two completely opposite answers, so further exploration is needed for this conclusion. The conclusions of this study can provide some ideas for relevant researchers and offer some reference value for the development of enterprises.

Keywords: ESG, Enterprise development, Investment.

1 Introduction

In the past few decades, there has been a growing interest in environmental and methodological growth, driven by global concerns, social responsibility, and corporate government performance. Chen et al. noted that over two-thirds of executives will place a higher emphasis on environmental, social, and governance in a tumultuous global environment, according to KPMG's 2020 Global CEO Outlook poll [1]. A company's market is greatly impacted by ESG, and there are two primary drivers of market preference, on the one hand, Once more, COVID-19 issued a warning about the dangers linked to the acceleration of climate change, according to Kristalina Georgieva, who served as Managing Director of the International Monetary Fund, who was appointed in 2020, risks associated with climate change are a

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challenge that affect all nations [1]. On the other hand, companies that excel in social responsibility and environmental protection are often regarded as 'golden brands', and this attention to social responsibility and environmental protection often has better growth potential, therefore, investors' pursuit of long-term stable returns requires countries to participate in climate change [1]. Taking into account the concept of a green economy and sustainable development, the strict risk control standards in ESG investment regarding environmental and social impact help investors prevent losses caused by some natural disasters [1].

With the gradual acceptance and application of ESG concepts by enterprises, there is sufficient research to prove that ESG has a positive impact on the financial development of enterprises. The effect on reducing corporate debt financing is greater when ESG performance is better [2]. Sustainable and Responsive Investment has seen significant advancement over the past decade (SRI), the demand for accurate information on financial performance and ESG aspects is shared by investors, shareholders, governments, and companies, resulting in their benefit [3]. At present, research mainly focuses on the social and financial performance that ESG brings to enterprises. Although the benefit of ESG on enterprises cannot be denied, there is still insufficient research to prove that the environment can be significantly improved through ESG, and there is no official data or measurement standard to define what constitutes a good ESG? This may affect investors' decisions and thus impact the development of the enterprise.

In this context, the main focus of this study is to analyze the relationship between ESG performance and relevant investors, the ability to withstand risk events, and the value of the enterprise. The research significance is to provide an overall summary of the impact of ESG and offer certain research ideas for relevant scholars. This article mainly focus on the link between ESG and investors, in order to investigate if companies' financial performance can be enhanced by excellent ESG.

2 The Impact of ESG on Enterprises

2.1 The Impact of ESG on Relevant Investors

How to attract more investors is one of the main issues that most companies need to face in their development. The quality of ESG disclosure was suggested by Qiu Jing and Zhang Jin to be significantly correlated with the choices of green investors [4]. The above viewpoint is also supported in the research of Kräussl et al., in theoretical models, green assets were treated as consumer goods to study investors' preferences for long-term investments, investors have different priorities when it comes to sustainability, and green assets are preferred by a group of investors regardless of their returns [5]. Kräussl et al. have developed a simple method to simulate investors' preferences for green assets by screening companies solely based on their characteristics in their research [5]. The stock prices of companies that violate ethical standards are lower than those of green enterprises because of the fewer investors, the conclusion of the study was that the presence of specific green investors alters the risk-sharing opportunities in the market [5]. The emergence of more green investors leads to a decrease in risk sharing and an increase in cost of capital for polluting enterprises, in addition, in order to timely understand the uncertainty of expected asset risks and returns, investors who do not pursue green investments still have the willingness to learn about the company's ESG related information [5]. The measurement of shareholder value in ESG was accomplished using disclosure preference methods by Baker et al., where the financial and non-financial benefits of ESG-oriented index funds are rewarded by shareholders with higher fees [6]. Research has found that investors have a higher average investment intention towards ESG authorized funds each year compared to the same funds without ESG authorization [6]. The above research provides ample evidence for the increasing number of investors considering a company's ESG performance as one of the important factors when investing, especially for green investors who pursue sustainable development. Therefore, investor decisions are positively impacted by strong ESG performance.

2.2 The Effect of ESG on Risk Events in Corporations

This section will use stock market crash risk as an example to investigate how corporate risk occurrences are affected by ESG. Henisz W J and McGlinch J mentioned in their research that the analysis of the significance of ESG standards has been extended from the perspective of stock investors to creditors by a growing number of studies [7]. The link between better ESG standards management and overall risk management has been demonstrated by previous studies and analyses [7]. According to Giese G, Lee L et al., over the past 10 years, the presence of lower frequency of special risk events in companies with high ESG ratings indicates that they are better able to mitigate serious business risks [8]. For stakeholders, significant fluctuations in stock prices are concerning. Murata R and Hamori S controlled for potential factors affecting stock price crashes, and then conducted relevant analysis and estimation, the research results showed that the risk of future stock price crashes can be reduced by ESG disclosure [9]. According to Murata R and Hamori S, information asymmetry between internal managers and external investors can cause a sudden drop in a company's stock price [9]. Sometimes the bankruptcy of a company is due to the negative information that the company manager concealed from external investors for personal gain reaching its limit [9]. The fact that transparent financial reporting information is often provided by companies that exhibit more social responsibility behaviors can be proven through research on the transparency of corporate financial information, therefore, Stock price crashes are less likely to occur for companies that perform better in corporate social responsibility [9]. In summary, the considerable ESG data also reflects to some extent the importance that companies attach to information symmetry with investors in their development. Their high degree of information disclosure is to some extent related to the lower risk of stock crashes.

2.3 The Role of ESG in Corporate Value

This chapter will use Mengniu Dairy and the real estate industry as examples to explore the impact of ESG on corporate value. One of the main purposes for companies to implement ESG strategies is to create more value for the company, such as financial performance. However, the relationship between a company's information of ESG is controversial, and the study did not provide a definitive conclusion. Research by Li Wei and Zhang Translation has found that the increase in corporate value can be facilitated by ESG performance, whether it is in terms of market value or book value [10]. According to research by Jain M, Sharma G D, and Srivastava M, companies are more likely to receive higher valuation returns from investors when they adopt sustainable practices, the average financial performance of corporate social responsibility companies is better than non-corporate social responsibility companies because of this [11]. In addition, Jain M et al. also studied the Spanish Sustainable Development Index, and found that companies that prioritize social responsibility are able to make more money while still taking on systemic risk and are more responsive to market information [11]. Through Li Wenhui's analysis of the profitability of Mengniu Dairy, it can be seen that in light of the ongoing increase in raw material costs in dairy products, its profitability is steadily improving [12]. The active implementation of ESG concepts and other measures is highly connected with this, the development of rural economy is not only met by this, but it also fulfills the demands of enterprises for high-quality raw materials [12]. Another example is research in the real estate field. Siwei D, Chalermkiat W found that the more ESG disclosure real estate investment trusts provide, the lower their debt costs, their credit ratings increase, their unsecured debt to total debt ratios increase, and they have more control over key company characteristics [13]. These findings suggest that real estate investment trusts can gain greater access to the capital market and enhance corporate financial flexibility by improving ESG disclosure, as lenders place greater emphasis on ESG assessment in loan decisions [13].

In summary, ESG disclosure and performance may be positively correlated with a company's value. However, Jain M, Sharma G D, Srivastava M also mentioned in the article that the financial performance of a company can be affected by the performance of corporate social responsibility [11]. They conducted a survey using relevant data and concluded that the financial aspects of a company are almost unaffected by its social performance [11]. It can be seen that whether ESG performance directly affects corporate financial performance still needs to be studied and explored.

2.4 Limitations of ESG

Lack of Unified ESG Disclosure Standards

Although ESG data has been valued by many companies and investors, there is no official data to support and judge what constitutes good ESG performance, so there is currently a lack of unified ESG disclosure standards in the market. Zhao Jin proposed that ESG evaluation involves multiple methods and models, but there is no standard method that is universally accepted [14]. The evaluation results may differ due to the use of different evaluation indicators and weights by various institutions and investors, which also makes it a challenge for companies to meet the expectations of different investors [14].

Limitations of Third-party Data Providers

With the increase of ESG data and rating providers, although attempts are being made to fill information gaps by providing investors with ESG information about specific companies, these data providers may have limitations and biases. For example, focusing only on certain specific ESG related issues while neglecting other important aspects may lead to overly optimistic evaluations, as Kemeyer R et al. pointed out, company disclosures can be said to be biased [15]. Volkswagen is used as an example to illustrate the difference between the company's ESG assessment and reality. The company was previously considered a model of sustainable development in the industry, but was later exposed in an environmental scandal; companies such as Sustainalytics once rated Orpea as the industry's best ESG performer, until news of widespread systemic unethical behavior in its nursing home department emerged [15].

3 Conclusion

This study found that although the prospects of a company may be influenced by ESG, it is not always significant. Contrary to popular societal perceptions, due to certain limitations, the impact of ESG on corporate performance is not always emphatic, depending on different investors' standards for ESG disclosure or unfair comparisons between ESG data and rating providers. However, it cannot be denied that in terms of the positive impact of ESG, good ESG performance helps companies attract more investors, especially green investors, as green investors show a clear preference for green companies. Secondly, due to the rise of sustainable development concepts, non green investors will continue to value the reference value of ESG data in the future. In addition, a company's ESG disclosure will also bring a certain degree of resilience to risk events. In summary, it is important for companies to improve their ESG performance during their development process. It is worth noting that current research has found and focused on how ESG can help businesses develop, but there are no specific evaluation criteria to measure what constitutes good ESG data. Future research should focus on how to construct a good ESG evaluation standard.

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