

Performance of Corporate Sustainability Based on ESG Perspective

Xuxi Liu^{1,a*}

¹*Changan University, Xi'an Shaanxi Province, China, 710016*

a. xuxi324@163.com

**corresponding author*

Abstract: Environmental, social and governance (ESG) investing suggests that a company's financial investments should not only consider economic returns and financial indicators, but also assess the combined environmental, social and wider stakeholder impacts of corporate activities and investment behaviour. Enhancing corporate value is one of the ultimate goals of ESG practice. The purpose of this paper is to examine whether there are sectoral differences in ESG practices across industries and to explore the relationship between corporate sustainability and ESG investments. Three representative ESG rating agencies' ratings of China's domestic listed enterprises from 2017-2021 were collected, and the top 5% of enterprises (eight in total) were selected as a comprehensive sample to assess their sustainability, and the following conclusions were drawn: (1) there are sectoral differences in ESG investment, with higher ESG ratings in frontier sectors; (2) there is a lag, and there is no short-term correlation between ESG investment and corporate sustainability.

Keywords: ESG ratings, sustainable development, listed companies, market systems

1. Introduction

According to the paper "Our Common Future," the key to sustainable development is to satisfy current needs without jeopardizing the ability of future generations to satisfy their own. Sustainable development slowly rose to prominence around the world, including China, until it was made the 17th global development objective of the United Nations in 2015. General Secretary Xi Jinping advocated for creating a community of shared destiny in China's 13th Five-Year Plan, highlighting the importance of corporate governance, supply chain risk management, environment and resource management, society, and governance for investors in determining a company's worth and influencing their decisions. At present, domestic and international research on the relationship between ESG and listed enterprises at different levels is mainly focused on the relationship between a single factor of ESG and the financial performance of enterprises, or the relationship between the financial performance of enterprises in the ESG rating, but there is less research on the relationship between ESG as a whole and the overall sustainable development of enterprises. In terms of corporate sustainability, there is a paucity of literature examining the relationship between ESG and corporate sustainability, whether in terms of a single factor of ESG or corporate sustainability as a whole. This paper therefore considers the environment, social responsibility, and corporate governance as a whole and explores the impact of ESG on the sustainable development of listed enterprises based on the ESG rating system, broadening the current research on ESG. Firstly, it selects several representative

ESG rating agencies in China, comprehensively screens the top 5% of listed enterprises in terms of ESG impact, and attempts to carry out industry classification to explore the ESG impact mechanism of enterprises in different industries under the institutional background and market environment in China. Secondly, the sustainability of enterprises is judged from four dimensions, and the economic consequences of ESG responsibility fulfillment are derived from the comparison of enterprises' sustainability; thirdly, based on the comparison of micro enterprises, an attempt is made to further verify the impact that differences in macro market systems can have on the sustainability of enterprises.

As for the research methods, the author uses the literature research method. Also, the comparative analysis method is applied to compare between three companies in the paper, by comparing the three companies selected to compare between industries. The paper also uses qualitative analysis to present macroeconomic development comparisons in terms of microcosmic figurative companies. This essay has two goals. First, in our securities market, recent years have seen an excessive amount of exposure to bad news regarding listed businesses, which has resulted in significant losses for both institutional and individual investors. Because of this, if investors can learn to apply a sustainable evaluation system, they will be able to make an informed decision about the risk exposure, corporate value, financial situation, and operational performance of listed firms, which will lower the risk associated with their investments. Secondly, the current regulatory system for listed enterprises by the regulators of China's securities market is not perfect, and there are no uniform requirements for the annual disclosure of information by listed enterprises, nor are there any uniform measurement indicators. The study of the relationship between ESG rating and the sustainable development of listed enterprises can provide a reference for the regulators of China's securities market to improve the relevant management system.

2. Literature Review

The current research on environmental resources and society (i.e., the ESG concept) in academia is divided into the following three main categories: Most scholars believe that ESG performance has a positive impact on corporate sustainability and can enhance a company's business performance or Market Valuation [3]. Because good ESG performance not only builds social capital by maintaining good relations with stakeholders but also contributes to the company's competitive advantage, thereby enhancing its sustainability [5-6]. It has also been argued that ESG performance has a negative impact on enterprise value [7]. They point out that a company's greatest social responsibility is to benefit its shareholders and that investing in factors with strong externalities such as environmental and social responsibility can increase additional costs, waste resources, and weaken competitiveness, thereby harming shareholders and reducing corporate value. Other scholars argue that ESG performance has no significant impact on corporate sustainability [9].

Cajias et al. found that negative performance reduces firm value to a greater extent than positive performance enhances firm value [2]. Capelle-Blancard and Petit also find that negative ESG events can cause a company's market capitalisation to fall, but the company does not derive additional benefits from positive events [10]. In contrast, Aouadi and Marsat argue that companies with ESG controversies have higher enterprise value, as ESG controversies can lead investors to pay more attention to the ESG performance of companies [11]. The literature on the economic consequences of ESG performance in terms of corporate risk, financing constraints and the cost of capital provides clues to the study of the mechanisms of influence. Higher socially responsible performance reduces total and idiosyncratic corporate risk and also reduces systemic risk [12-13]. Better ESG performance leads to a significant reduction in the capital constraints faced by companies, with stakeholder support and transparent disclosure playing an important role in reducing capital constraints [14]. Companies with good ESG performance also have a lower cost of debt [15]

3. Top 5% ESG Rating

ESG (environmental, social and corporate governance) ratings are based on ESG disclosure and can provide a reference for ESG investments. 1983 saw the establishment of VigeoEiris, the first ESG rating agency. Different ESG rating agencies have their own evaluation focus. Therefore, the ESG rating dimensions in the market show diversified characteristics. For instance, Dow Jones focuses on the financial, environmental, and social facets of business performance, whereas MSCI, Bloomberg, and Thomson Reuters offer comprehensive ESG ratings that span environmental, social, and corporate governance components. The ESG rating framework that domestic institutions are now developing is often based on the developed framework of international institutions, with commensurate enhancements in the design of particular indicators in accordance with domestic development and market circumstances. For instance, Shang Dao Rong Green introduced the first domestic ESG rating system in 2015, which is comparable to the pyramid-shaped structure frequently used internationally and includes a three-tier indicator system, with 13 sub-issues at level two and more than 200 indicators at level three, with both level two and three indicators designed and improved to suit the actual situation in China and divided into three categories: environmental, social, and corporate governance.

Based on China's ESG rating system, three representative ESG rating agencies, Huazheng, SynTao Green Finance and Wind, have been selected for this paper.

3.1. Huazheng ESG Rating

Table 1: Top 5% company numbers during 2017-2021(Huazheng) [17].

Year	Number
2017	168
2018	176
2019	183
2020	202
2021	226

To ensure the stability of the data, companies that have appeared in the top 5% list only once in the last five years were excluded, and 160 companies were finally counted (as shown in Table 1).

The top 5% of Huazheng companies in the last five years are shown in Table 2.

Table 2: Top 5% companies in Huazheng ESG [17].

Stock Code	Ratings	Stock Code	Ratings
000001.SZ	AAA	000422.SZ	AAA
000002.SZ	AAA	000423.SZ	AAA
000004.SZ	AAA	000425.SZ	AAA
000005.SZ	AAA	000426.SZ	AAA
000006.SZ	AAA	000428.SZ	AAA
...
000411.SZ	AAA	000576.SZ	AA
000413.SZ	AAA	000581.SZ	AA
000416.SZ	AAA	000582.SZ	AA
000417.SZ	AAA	000589.SZ	AA
000419.SZ	AAA	000598.SZ	AA

Table 2: (continued).

000420.SZ	AAA	000638.SZ	AA
000421.SZ	AAA	000661.SZ	AA

3.2. SynTao Green Finance ESG Rating

Table 3: Top 5% company numbers during 2017-2021(SynTao Green Finance) [18].

Year	Number
2017	16
2018	39
2019	40
2020	40
2021	40

To ensure the stability of the data, companies that have only appeared in the top 5% list once in the past five years were excluded, and 45 companies were finally counted.

The top 5% of companies with ESG ratings in the last five years are shown in Table 4.

Table 4: Top 5% companies in SynTao Green Finance [18].

Stock code	Rating	Stock code	Rating
000063.SZ	B+	002714.SZ	B+
000100.SZ	B+	600011.SH	B+
000725.SZ	B+	600019.SH	B+
000825.SZ	B+	600021.SH	B+
002202.SZ	B+	600026.SH	B+
600018.SH	B+	600098.SH	B+
600036.SH	B+	002773.SZ	A-
600050.SH	B+	601231.SH	A-
600196.SH	B+	000001.SZ	B+
600332.SH	B+	000039.SZ	B+
600498.SH	B+	000999.SZ	B+
600820.SH	B+	002415.SZ	B+
601088.SH	A-	002422.SZ	B+
000338.SZ	B+	300274.SZ	B+
000513.SZ	B+	600027.SH	B+
000538.SZ	B+	003816.SZ	A-
000553.SZ	B+	600282.SH	A-
000776.SZ	B+	600309.SH	A-
000878.SZ	B+	000050.SZ	B+
002466.SZ	B+	000166.SZ	B+
002594.SZ	B+	002281.SZ	B+
002601.SZ	B+	002460.SZ	B+
		002475.SZ	B+

3.3. Wind

Table 5: Top 5% company numbers during 2018-2021(Wind) [19].

Year	Number
2018	176
2019	183
2020	204
2021	230

To ensure the stability of the data, companies that have only appeared in the top 5% list once in the last five years were removed, resulting in 205 companies.

The top 5% of ESG rated companies in the last four years are shown in Table 6

Table 6: Top 5% companies in Wind [19].

Stock code	Rating	Stock code	Rating	Stock code	Rating
600050.SH	AAA	600690.SH	AA	002386.SZ	A
600115.SH	AAA	601377.SH	AA	002405.SZ	A
600887.SH	AAA	688981.SH	AA	002415.SZ	A
000002.SZ	AA	000006.SZ	A	002422.SZ	A
000039.SZ	AA	000031.SZ	A	002449.SZ	A
000063.SZ	AA	000035.SZ	A	002459.SZ	A
000338.SZ	AA	000050.SZ	A	002461.SZ	A
000629.SZ	AA	000061.SZ	A	002466.SZ	A
000726.SZ	AA	000066.SZ	A	002500.SZ	A
...
601330.SH	AA	002237.SZ	A	002646.SZ	A
601598.SH	AA	002249.SZ	A	002657.SZ	A
603259.SH	AA	002262.SZ	A	002773.SZ	A
002315.SZ	AA	002271.SZ	A	002797.SZ	A
002352.SZ	AA	002279.SZ	A	002911.SZ	A
002583.SZ	AA	002287.SZ	A	002948.SZ	A
300103.SZ	AA	002292.SZ	A	300003.SZ	A
300413.SZ	AA	002331.SZ	A	300058.SZ	A
600066.SH	AA	002332.SZ	A	300086.SZ	A
600282.SH	AA	002340.SZ	A	300098.SZ	A
600521.SH	AA	002372.SZ	A	000166.SZ	A

Companies that have been in the top 5% of the ESG ratings of all three rating agencies in recent years are selected for presentation, as shown in Table 7.

Table 7: Top 5% companies during 2017-2021 [17-19].

Stock code	SynTao Green Finance	Huazheng	WIND
000063.SZ	B+	AAA	AA
000100.SZ	B+	AAA	A
000338.SZ	B+	AAA	AA
000513.SZ	B+	AAA	A

Table 7: (continued).

000001.SZ	B+	AAA	A
000039.SZ	B+	AAA	AA
000050.SZ	B+	AAA	A
000166.SZ	B+	AAA	A

It can be found that six out of the eight screened companies belong to the tertiary sector. It can be concluded that the tertiary sector is an emerging high-tech industry and the ESG performance of companies within the sector is better because companies in the tertiary sector will have fewer costs to spend on traditional expenses such as fixed assets and can shift more corporate expenses to ESG expenses, which is beneficial to the ESG performance of companies. The remaining two companies are in the high-end manufacturing sector and the high-end manufacturing sector. In addition to the six companies belonging to the tertiary sector, the remaining two companies belong to the high-end manufacturing industry (secondary sector) and the pharmaceutical industry, which have in common the need to invest heavily in scientific and technological research, and are at the cutting edge of the industry, requiring a fixed investment in ESG to strengthen the social image of the company.

4. Sustainability Evaluation of Enterprises

4.1. Theoretical Analysis

There are two main theories on the relationship between ESG inputs and enterprise: one on the sustainability of ESG disclosure for the company itself, and the other on the relationship between ESG and the company's stakeholders. Although the disclosure of ESG-related information can lead to higher costs in the short term due to the need to hire specialized agencies, long optimization time and high professionalism, companies can gain goodwill and form a greater competitive advantage in the long term by actively engaging in ESG compliance. Therefore, the ESG concept is based on the theory of sustainable development, which can encourage companies to pay attention to environmental protection and social responsibility and take positive actions to be responsible for resources and the environment. Stakeholder theory emphasizes the role that stakeholders play in influencing the achievement of organizational goals and the development and profitability of a company. By taking up social responsibility, enterprises can achieve and safeguard the rights and interests of stakeholders, enhance their competitiveness and improve their performance, and promote stakeholders to encourage and monitor their behaviour, so that they can consciously take up more social responsibility, thus forming a virtuous circle. John Elkington put forward the 'triple bottom line' theory to define sustainability [20]. He believes that if a company wants to achieve sustainable development and success, it must adhere to the triple bottom line principle of integrating corporate profitability, social responsibility and environmental responsibility.

4.2. Sustainability Evaluation

A total of eight companies with high ESG rankings were selected to assess the level of corporate sustainability. This paper attempts to assess the level of sustainability of a company from three perspectives.

Table 8: Perspective 1 — Profitability of the business [19].

Stock	ROA	ROE	OPR	ROIC
000063.SZ	0.021392	0.076148	0.029539	0.214114
000100.SZ	0.0308902	0.0901896	0.058216	0.109815

Table 8: (continued).

000338.SZ	0.0509586	0.170591	0.0635764	0.0644608
000513.SZ	0.1394218	0.2039752	0.2356022	2.9723352
000001.SZ	0.0074442	0.0999116	0.2230858	0.0300682
000039.SZ	0.0380144	0.1120986	0.0550826	0.1608458
000050.SZ	0.0219508	0.0469518	0.0447344	0.7226668
000166.SZ	0.015995	0.0816452	0.387993	0.0411355

Return on Equity (ROA) is the ratio of net profit after tax to total assets and is a measure of how much net profit is generated per unit of assets. It reflects how efficiently a company uses its owner's equity. Return on Equity (ROE) measures the extent to which returns are generated from the investment of shareholders' money. Generally, companies with ROE ratios above 10% and within 20% have strong profitability. This indicator reflects the ability to generate net income from own capital. OPR is the ratio of net profit to operating income, which reflects the ability of a company's operating income to generate net profit. ROIC is a static indicator for evaluating the profitability of an investment proposal, and companies with the ROIC above 15% for five consecutive years also have good profitability. Therefore, after combining the four figures, only one of the eight companies was selected to meet the sustainability indicator of strong profitability — 000039.SZ.

Table 9: Perspective 2 — The ability of companies to raise finance [19].

Stock code	TDR	EM
000063.SZ	0.7113588	3.4873322
000100.SZ	0.6512964	2.8804904
000338.SZ	0.6920326	3.2597574
000513.SZ	0.3258652	1.484762
000001.SZ	0.9240714	13.241693
000039.SZ	0.652965	2.8968162
000050.SZ	0.553828	2.249118
000166.SZ	0.805527	5.1731726

Two indicators have been selected to reflect the strength of a firm's ability to raise capital through the risk profile of its operations.

TDR is calculated by comparing an organization's total liabilities to its total assets. It serves as a gauge of the ability of an organization to utilize funds granted by creditors to support its operations and represents the security of creditors in granting loans. The DuPont analysis uses the EM indicator, which is the inverse of the equity ratio and equals the ratio of total assets to total shareholders' equity. The equity multiplier measures the degree of a company's financial leverage. Generally speaking, a gearing ratio of 40%-60% is a normal range, and an equity multiplier of 2 to 3 is generally normal. 8 companies were also screened to identify only one company with a normal risk factor and strong financing ability — 000050.SZ (as shown in Table 9).

Table 10: Perspective 1 — Business capability [19].

Stock code	TAT	ET
000063.SZ	0.6808028	2.3920384
000100.SZ	0.5477538	1.6210186
000338.SZ	0.801244	2.6823854
000513.SZ	0.5672574	0.8354658

Table 10: (continued).

000001.SZ	0.6492645	1.88272705
000039.SZ	0.6492645	1.88272705
000050.SZ	0.4996906	1.0872202
000166.SZ	0.0427104	0.2171714

There are 2 indicators selected to reflect the operating capacity of an enterprise. The ratio of net sales revenue to average total assets in a period of time, which is the connotation expression of total asset turnover rate. It is also an indicator. This indicator is used to measure the ratio between the investment scale and the sales level of assets. The higher the ratio, the stronger the company's sales ability. This also shows the effectiveness of asset investment. Equity asset turnover ratio represents the efficiency of the company in using its owner's assets. The higher the ratio, the more efficient the use of the owner's assets. The normal range of total asset turnover is 0.8 to 1, and only one of the eight companies qualifies — 000338.SZ. By assessing the three capabilities of the companies, the authors found that only a very small number of companies with high ESG ratings excelled in one aspect of sustainability, suggesting that high ESG ratings and corporate sustainability did not produce a strong correlation over a five-year period. In terms of separate comparisons, the largest number of companies are close to the normal range in terms of their ability to raise capital, followed by operating capacity, and finally profitability.

5. Discussion

The selected time period of five years may not intuitively reflect the positive and positive correlation of ESG on the sustainable development of enterprises but may instead adversely affect their profitability, but it can be predicted that due to good risk resilience and operational capability, enterprises will maintain stable development in the long term and eventually achieve the expected returns. State institutional environments, such as differences in weak and austere government policies, gaps in governance transparency, arbitrary enforcement of rules, and differences in the level of safety and labour standards, all influence how CSR is conceived and practised by the state. In most developing countries, CSR is still equated with philanthropy rather than normative responsibility. The impact of CSR, ESG performance on financial performance in a single country has been studied by a number of scholars. For example, Hemlata Chelawat empirically studied the relationship between ESG performance and financial performance of listed companies in India [21]. Ki-Hoon Lee examined the way in which environmental responsibility affects corporate financial performance in selected Korean companies [22]. In addition, some scholars argue that the impact of ESG performance on firms is conditional. For example, EI Ghoul et al. show that in countries with weak market institutions, corporate ESG performance has a positive impact on firm value and, therefore, active ESG activities can overcome market failures arising from institutional gaps [4]. Jurgens think, Cultural and philosophical differences between countries can fundamentally explain the way in which stakeholders are viewed in different countries [23]. Developing country environments are often more dynamic and unpredictable, requiring developing country companies to expend a certain amount of financial and material resources to respond to changing customer needs and market trends in a timely manner as opposed to developed countries, which have the capacity and energy to actively engage in corporate social responsibility and bear the costs of doing so. There is little literature on the relationship between ESG and financial performance in different regions, but this paper argues that regions and countries have similar attributes and that government policies and public governance may vary from region to region, which in turn may have an impact on companies in that region.

6. Conclusion

This paper seeks to explore the relationship between the ESG ratings of companies in different industries and the industries in which they operate, as well as the relationship between a company's high ESG rating and its sustainability, by screening out companies with high ESG ratings assessed by a number of institutions in different industries in China and assessing their sustainability. Companies with high ESG ratings are mainly concentrated in the tertiary and frontier manufacturing sectors, indicating that the difference in industries will affect the ESG performance of companies to a certain extent. ESG ratings do not show a significant positive correlation with a company's sustainability, with companies with high ESG ratings having better financing performance in comparison, followed by operational capability and finally profitability. ESG does not have a significant impact on corporate earnings in the short term, but will steadily and continuously influence the sustainable development of a company due to its good positive effects. Different economic systems, social systems, and levels of national development will all affect the level of sustainable development of enterprises to a certain extent. Due to limited access to resources, it is not possible to compare companies with high ESG performance from a macro perspective across different economic systems, but only on the basis of theory and discussion of micro firms in the same economic system. In the course of subsequent research, relevant data will be collected and the arguments will be made.

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