

The Impact of ESG on Corporate Financial Performance

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Abstract

Under the guidance of the concept of sustainable development and the "dual carbon" goals, the establishment of an ESG system has become an important issue of concern for enterprises in our country. The ESG system not only helps companies fulfill their social responsibilities but is also believed to enhance their financial performance. Regarding the question of whether ESG truly has a positive feedback effect on a company's financial performance, a descriptive analysis and visual analysis method were employed to review and analyze over 200 research papers related to ESG. Taking Bosiding as an example, it was found that ESG has had a certain positive feedback effect on the Research findings indicate that corporate ESG performance has a significant positive impact on the financial performance of listed companies. ESG performance not only alleviates financing constraints but also enhances corporate efficiency, making a positive contribution to the profitability of both listed companies and small and medium-sized enterprises.

Keywords

financial performance, carbon neutrality, ESG performance, sustainable development, positive feedback mechanism

1. Introduction

With the introduction of the strategies of "carbon peak," "carbon neutrality," and "common prosperity," practicing the ESG development concept has become a consensus among enterprises, financial institutions, and investors. ESG is an evaluation system that measures a company's sustainability capability from three dimensions: environmental, social responsibility, and corporate governance (Yan, W. X. 1974). The report of the 20th National Congress of the Communist Party explicitly calls for "coordinately advancing carbon reduction, pollution reduction, greening, and growth, promoting ecological priority, conservation and intensive use, and green low-carbon development," as well as "enhancing the Party's leadership in the improvement of Measuring whether a company has investment value is no longer solely based on financial indicators; the company's performance in environmental, social, and governance aspects is increasingly being valued.

1.1 The ESG system of Bosideng Co., Ltd.

Under the sustainable development strategy requirements of "carbon peak and carbon neutrality," more and more companies are increasing their investment in environmental protection, social responsibility, and corporate governance. By enhancing their ESG ratings, they are not only promoting green transformation but also increasing corporate value. Since 2017, Bosideng has been disclosing its corporate Environmental, Social, and Governance (ESG) report, establishing an ESG management framework across three dimensions:

decision-making, management, and execution. This ensures the effective implementation of ESG standards, enabling the company to reach a higher industry level and

In terms of environmental governance, as a pioneer in the clothing industry, Bosideng recognized early on the risks and challenges that climate change posed to its business. The company is committed to developing in the direction of a "green transition." On one hand, the company actively adjusts its operating model to adapt to the risks posed by climate change; on the other hand, it strives to reduce carbon emissions in various business processes to mitigate environmental pollution.

In terms of social responsibility, Bosideng has always adhered to a people-oriented business philosophy and has achieved notable results in social governance. Internally, companies place great importance on issues such as employee compensation, promotion, and benefits, striving to create a healthy and comfortable work environment for their staff. They are also committed to talent development, enhancing employee skills to drive performance growth. On an external level, companies are keen on developing public welfare initiatives. Bosideng has its own charitable foundation and volunteer service team, donating a large amount of materials to society free of charge each year, as well as providing free labor.

In terms of corporate governance, Bosideng's governance principles emphasize accountability and transparency, making decisions aimed at maximizing the interests of the company and its shareholders. The company will also introduce its latest developments and strategic goals to shareholders through methods such as shareholder meetings, on-site inspections, and one-on-one communications, incorporating shareholders' opinions into the company's long-term strategic objectives (Chen, R. Q. 1999).

1.2 ESG information disclosure

ESG information disclosure has now become a globally recognized management system that enables companies to enhance their core competitiveness and pursue sustainable development. At the same time, there is a comprehensive penetration of all scenarios, including legislation, government regulation, financial institutions scoring enterprises for decision-making, and the daily management of businesses, among others. Unlike the traditional financial metrics found in the three major financial statements, which mainly reflect the current or past operating conditions and present a short- to medium-term status, the future state cannot be discerned from financial reports. At this point, a non-financial metric—ESG—is needed. The hidden risks of long-term sustainable development in this disclosure identify whether a company has the capability for sustainable development. I believe this will become a new opportunity for the future. At the same time, ESG advocates for the spirit of "baking the cake," achieving a synergistic effect where 1 + 1 is greater than 2, growing together with suppliers, customers, and employees, while customers gain value from their usage. For example, in recent years, the explosive popularity of Ruixing Coffee has led to the development of the sauce-flavored latte, innovatively combining coffee with Maotai, seemingly unrelated items, into a new consumer experience. It has returned to the essence of business, focusing on quality, working hard alongside stakeholders

1.3 Investigation of ESG-related Literature

A review of over 2, 200 research papers related to ESG has shown that 90% of the papers indicate a non-negative relationship between ESG and corporate financial performance; 62. 6% of the papers demonstrate a positive relationship between ESG and corporate financial performance. As future data becomes more refined, it will show an upward trend. According to incomplete statistics, if existing listed companies worldwide do not undergo low-carbon transformation, 50% of their profits will disappear. PWC has conducted relevant statistics, indicating that by 2026, ESG-related assets will reach \$33. 9 trillion, with an average annual compound growth rate of 12. 9% in recent years. The growth rate of sustainable development funds will far exceed the average growth rate of the overall wealth management market ESG assets will account for 21. 5% of the total global asset management scale in the next five years (Zhan, H. 2021).

1.4 High and Far-sighted ESG Strategy - Committed to doing the difficult yet right thing

ESG is not only a more "glamorous" standard for large enterprises; it is equally applicable to small and medium-sized enterprises. Valuing ESG is a long-term strategic vision that reveals many future trends in

digitalization. I have discovered some benefits, such as: 1. Breaking free from the rat race and exploring new business opportunities. 2. Reduce costs, improve management levels, and simultaneously enhance work efficiency. 3. Companies have strict requirements for carbon emissions, and ESG can further facilitate integration into the supply chains of large enterprises. 4. Expanding scale through loans, borrowing money, or equity financing, etc. , makes it easier to secure funding by placing emphasis on ESG. 5. Enhancing the company's own image. 6. Improve the strategic technology of the enterprise.

1.5 The impact of Bosideng's ESG system on financial performance

1.5.1 The impact of environmental performance on financial performance

Bosideng, themed around a positive relationship with nature, adheres to five principles: compliance with laws, pollution prevention, energy conservation and emissions reduction, environmental protection, and continuous improvement. As a pioneer in the apparel and textile industry, it actively responds to the Companies have been paying close attention to the mutual influence between climate change and their operations. On one hand, they actively take action to address the potential climate crisis; on the other hand, they promote energy conservation and emission reduction by improving energy efficiency and using environmentally friendly materials, thus fulfilling the climate responsibilities that businesses should as a benchmark for green and sustainable development in the industry, Bosideng has established a positive corporate image across various sectors of society, thereby attracting more investment funds for the company.

In summary, Bosideng has established a positive corporate image by protecting the climate and promoting green transformation, which has enhanced its fundraising capabilities and brought in more capital flow. At the same time, the vigorous promotion of clean energy use and efficient water resource utilization has saved the company a significant amount in management expenses and It can be concluded that Bosideng's investment in environmental management has had a positive impact on its financial performance.

1.5.2 The Impact of Social Dimension Performance on Financial Performance

In terms of the social dimension, Bosideng has always adhered to a people-oriented approach. The company places great importance on the value of talent and strives to provide employees with high-quality compensation, promotion opportunities, and benefits. Companies place particular emphasis on the training and development of employees, implementing programs such as the Eagle Program, the Flying Eagle Program, and the Falcon Program for the cultivation of reserve talents, specialized personnel, and management cadres, respectively. In 2023, the retention rate of high-performing employees in the company reached over 95%; among newly hired talent, those with a bachelor's degree or higher accounted for as much as 81%; and employees born in the 1990s made up approximately 46% of the workforce. These data indicate that Bosideng's treatment of employees can fully motivate them, improving the company's production efficiency while also saving a significant amount on the costs of recruiting high-skilled talent (He, X. J. et al., 2012).

Bosideng is committed to improving employee benefits and regularly organizes training to enhance their overall quality, aiming to reduce the costs of talent acquisition and losses from employee turnover. Additionally, by actively engaging in public welfare activities, the company lowers its tax burden. These measures can directly help the company increase its financial performance. This also indicates that Bosideng's efforts in the social dimension have had a positive impact on its corporate performance.

1.5.3 The Impact of Corporate Governance Performance on Financial Performance

Bosideng has always been committed to maintaining a high level of corporate governance, adhering to the principles of accountability and transparency, and consistently aiming to maximize the interests of the company and its shareholders. By extensively communicating with employees, customers, suppliers, investors, and government regulatory agencies, companies can understand the expectations and suggestions of internal and external stakeholders regarding the future development of the enterprise. This helps companies refine their sustainable development strategies and accelerates the process of achieving sustainable development goals. This initiative, which emphasizes the different perspectives of internal and external stakeholders, showcases Bosideng's strong operational status and confidence to the outside world. While reinforcing the company's social image, it has also attracted more investment and reduced the difficulty of fundraising for the enterprise (Fang, X. M. & Hu Ding. 2023).

Bosideng Holdings has demonstrated good corporate governance to the outside world, which has won the company more investment funds and prevented potential asset losses through strict governance regulations. This indicates that Bosideng's good corporate governance level directly or indirectly enhances corporate performance, demonstrating the positive impact of its corporate governance dimension system on financial performance.

2. Conclusion and Recommendations

ESG has a significant positive impact on the financial performance of Bosideng. At the same time, it was concluded that ESG performance not only alleviates financing constraints but also enhances corporate efficiency, positively contributing to the profitability of both listed companies and small and medium-sized enterprises. In the Chinese market swept by the ESG wave, Bosideng has successfully positioned itself at the forefront of the industry with its rich experience in ESG development and its own corporate strength, setting a good example for its peers. Under the influence of Bosideng, more Chinese textile and apparel companies will join the construction of the ESG system in the future, collectively promoting the green transformation of the industry and achieving our country's "dual carbon" goals while meeting the requirements for high-quality development.

But everything has two sides; it is both a risk and an opportunity. Our country has established nine major carbon emission offices, creating a new scoring system that encompasses everything from high-carbon industries to individual carbon accounts. The goal of carbon neutrality is to serve as a lever for us to achieve industrial upgrading and energy substitution, actively eliminating outdated production capacity in a timely manner, concentrating efforts on developing core technologies, and breaking through the "bottleneck" issues. For example, Tesla made 7 billion dollars by selling carbon credits. By selling electric vehicles, a considerable amount of points were earned, which were then used to trade at the exchange, resulting in a significant cash flow. Under the guidance of the "dual carbon" goals and high-quality development, enterprises need to invest more resources in environmental protection, social responsibility, and corporate governance (ESG) to enhance their corporate value.

To integrate the establishment of the ESG system into various industries, it is essential not only to have strong guidance from the government but also to make companies aware of the benefits that building an ESG system can bring to themselves. Only then can companies take concrete actions to protect the environment, fulfill social responsibilities, and enhance their Based on the above research conclusions, the following suggestions are proposed for the construction of the ESG system in enterprises (Xu, J. Z. et al., 2018).

First, the government should strengthen its guidance for enterprises in building ESG systems, encouraging listed companies to practice ESG principles through concrete actions to protect the environment, fulfill social responsibilities, and enhance corporate governance. At the same time, incorporate ESG performance into the assessment criteria for executives of state-owned enterprises, using evaluation to promote development and leverage the leading role of state-owned enterprises in environmental protection, social responsibility, and corporate governance. Secondly, companies should design effective mechanisms for ESG construction, actively integrating ESG concepts into product development, production, sales, and service processes. They should proactively disclose ESG construction information to reduce information asymmetry, leverage the intermediary effect of financing constraints, and enhance the company's financial performance. Thirdly, investors should incorporate ESG performance into their investment portfolio decision-making framework. ESG performance can positively promote corporate financial performance, and company stock prices have upward momentum and potential, allowing investors to achieve stable and sustainable returns. Moreover, investors who invest in companies with good ESG performance help enhance their image in the capital market, which is beneficial for companies to raise funds in the capital market. This, in turn, incentivizes companies to strengthen their ESG efforts and promotes high-quality development.

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Conflicts of Interest

The authors declare no conflict of interest.

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