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Correlation Analysis of ESG Ratings and Enterprise Performance

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Abstract: ESG (environment, society and governance) evaluation system, as a tool to comprehensively consider the sustainable development ability of enterprises, is increasingly receiving attention. In the context of the promotion of the concept of global sustainable development and the pursuit of high-quality economic development, many third-party evaluation institutions and index research organizations at home and abroad are actively building and improving the ESG rating framework. Through systematic review of domestic and foreign academic circles of ESG rating and enterprise performance correlation research results, this paper reveals an important discovery: ESG rating mechanism not only provides the mirror of self, make it can accurate positioning and optimization in environmental protection, social responsibility and corporate governance, also became the driving enterprises to the direction of more green, harmonious and efficient key force, and promote the long-term sustainable development of the enterprise.

Keywords: ESG Rating; Enterprise Performance; Relevance

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Introduction

The ESG evaluation system was first formally introduced in the United Nations Principles for Responsible Investment (PRI) report in 2006, serving as a non-financial evaluation framework that has revolutionized the traditional decision-making basis of investors. Compared to the traditional practice of relying only on financial statements, ESG reporting provides investors with a wealth of non-financial information that is essential to making comprehensive and sound investment decisions. In order to measure and improve the performance of listed companies in ESG, a specialized ESG evaluation system and rating agencies emerged in the capital market. At present, ESG factor has become an indispensable part of many investors' evaluation of investment targets, because it is directly related to the ability of enterprises to deal with risks and long-term investment value. As a result, companies with higher ESG ratings tend to be more favored by the capital market because they show stronger sustainable development potential and social responsibility. However, in China, despite the gradual recognition of the ESG concept, the current situation of ESG information disclosure still faces many challenges. Specifically, the lack of unified, specific and standardized ESG information disclosure standards leads to the uneven quality of information disclosure in the market. At the same time, the existing evaluation system is not mature, which is difficult to fully and deeply reflect the ESG performance of enterprises, and the breadth and depth of information disclosure need to be improved. These problems limit investors 'accurate evaluation of the ESG performance of Chinese enterprises, and also hinder the in-depth application and development of the ESG concept in China's capital market.

1. Correlation Analysis of ESG Dimensions and Enterprise Performance

1.1 Environmental Responsibility and Enterprise Performance

Since the wave of environmental protection swept the United States in the mid-20th century, the concept of corporate environmental responsibility has gradually moved from behind the scenes to the front, and become the focus of attention from all walks of life. As the core driving force of economic development, enterprises are endowed with the sacred mission of protecting the environment. In view of the long cyclical and high nature of environmental responsibility investment, it is difficult for enterprises to quickly improve their short-term performance through this way, but this does not prevent them from adopting sound environmental protection strategies and gradually deepening green innovation and reputation management.

1.1.1 Co-evolution of environmental responsibility and environmental strategy

In the long-term blueprint of the enterprise, the environmental strategy is both a challenge and an opportunity. Enterprises that deeply realize the value of environmental management will take the initiative to integrate environmental protection concept into their strategic core, adopt forward-looking environmental strategies, and ensure that every link from product design to production process meets environmental standards [1]. This strategic environmental protection layout not only improves the management efficiency and market competitiveness of the enterprise, but also lays a solid foundation for the continuous growth of the enterprise performance. Therefore, the active performance of environmental responsibility is undoubtedly a long-term investment in the performance of enterprises, and its positive effect will gradually appear in all aspects of enterprise operation.

1.1.2 Green innovation: a new engine under environmental responsibility

Enterprises deeply influenced by corporate culture and values are often able to keenly capture the ethical motivation behind environmental problems, so as to actively tilt resource allocation to public interests and promote the comprehensive penetration of green innovation in production and operation. This kind of green innovation driven by environmental responsibility can not only help enterprises to cope with environmental challenges, but also can bring excess economic returns to enterprises through the spillover effect of technological innovation. In the long run, green innovation will become a key driving force for enterprises to improve their performance and achieve sustainable development.

1.1.3 Green reputation: intangible assets for the sustainable development of enterprises

In today's increasingly serious environmental problems, the green reputation of enterprises has become an important part of its intangible assets. Once the green reputation of an enterprise is damaged, it will not only lead to a crisis of trust among stakeholders, but also may lead to irreparable market losses. Therefore, enterprises that actively fulfill environmental responsibilities and practice green production methods are more likely to win the recognition and support from all walks of life, so as to build a good corporate image and brand image. The accumulation of such green reputation will bring a broader market space and a more stable customer base for the enterprise, and then promote the continuous improvement of enterprise performance.

1.2 Social Responsibility and Corporate Performance

While pursuing economic profits, enterprises also shoulder the important responsibility of safeguarding the well-being of all stakeholders, that is, social responsibility. With the deepening of the global consensus on green development, traditional management theories have been difficult to meet the needs of modern enterprises, and enterprises need to take more initiative to assume social responsibilities to adapt to the changes of The Times. Despite the challenge of indicator selection and data collection in the evaluation of the direct impact of social responsibility on corporate performance, its positive effects are significantly reflected in many aspects, such as stock prices, financial indicators, and employee and customer relationships.

1.2.1 Employee perspective: fair cognition and loyalty

Colquitt The theory reveals a positive correlation between employees' sense of fairness and their work performance. When employees feel the fair treatment of the enterprise, their self-esteem is satisfied and their work enthusiasm is improved, thus reducing the turnover rate of [2]. The practice of corporate social responsibility is not only a response to external stakeholders, but also a reflection of internal fairness and justice. By providing a fair working environment, a reasonable salary system and career development opportunities, enterprises can enhance the sense of belonging and loyalty of employees, and then improve the overall performance.

1.2.2 Customer perspective: transaction fairness and satisfaction

The impact of CSR on customers is mainly reflected in the perception of transaction fairness and satisfaction. First, by optimizing the internal process, enterprises can improve the service quality and efficiency of customers, so that customers can feel more fairness and respect in the transaction process. Secondly, high-quality products are the key to win customer satisfaction. The enterprise is committed to improving product quality, which not only meets the basic needs of customers, but also enhances its trust and loyalty to the enterprise brand. Finally, ethical responsibility is an important part of corporate social responsibility. The noble moral standards and ethical behavior shown by enterprises can positively affect customers' perception of fair transaction, and then improve customer satisfaction and loyalty.

1.2.3 Comprehensive benefits: the dual drive of employees and customers

The decrease of employee turnover rate and the improvement of customer satisfaction together constitute the dual drive of corporate social responsibility to corporate performance. Retaining excellent employees can not only maintain the stability and creativity of the enterprise team, but also improve the production efficiency and product quality, thus improving the financial performance of the enterprise. The customers with high satisfaction are the cornerstone of the sustainable development of the enterprise. They will not only become loyal repeat customers, but also bring more potential customers to the enterprise through word of mouth communication. This comprehensive benefit driven by both internal employees and external customers will bring long-term market competitiveness and value growth to the enterprise.

1.3 Corporate Governance and Corporate Performance

The complex link between corporate governance and corporate performance has long attracted the deep attention of academics, industry leaders and policy makers. The research results in this field are extensive and in-depth, mainly focusing on the three core aspects of equity structure, board of directors composition and management incentive mechanism, which reveals how corporate governance shapes the performance of enterprises in multiple dimensions.

1.3.1 Dialectical relationship between ownership structure and enterprise performance

There are many voices about the relationship between ownership structure and enterprise performance. The research of Xu

Liping et al. shows that the high shareholding ratio of the largest shareholder is often accompanied by the improvement of enterprise performance, reflecting the possible positive effects of equity concentration. However, there is also a view that highly concentrated equity may inhibit corporate vitality and lead to declining performance. Chen Deping et al. put forward the concept of equity checks and balances, emphasizing that a moderately dispersed equity structure is helpful to improve enterprise performance. In addition, the research of An Ye et al. on specific industries (such as manufacturing industry) revealed the positive link between the shareholding ratio of internal shareholders and enterprise performance, and further refined the path of the impact of equity structure on enterprise performance [3].

1.3.2 The adaptation between the characteristics of the board of directors and the enterprise performance

As the core organization of corporate governance, the size and composition of the board of directors directly affect the decision-making efficiency and performance of the enterprise. The study found that the larger the board is not the better, but needs to be flexibly adjusted according to the industry environment and development stage of the enterprise. Excessive board size may lead to lengthy and inefficient decision-making processes, which in turn affects corporate performance. At the same time, the proportion of independent directors is also a concern. Kumar's research points out that a high proportion of independent directors may not be conducive to corporate performance in some cases, which suggests that we should fully consider their adaptation to the actual needs of the company when building a board.

1.3.3 The dynamic balance between the management incentive mechanism and the enterprise performance

As the executor of the enterprise strategy, the design of the incentive mechanism is crucial to stimulate the management potential and improve the enterprise performance. When enterprises are faced with high performance risks, the traditional compensation system may be difficult to effectively motivate managers. However, for enterprises implementing the operator shareholding incentive system, the salary of managers is closely related to their shareholding ratio and stock return rate. This interest binding mechanism helps to stimulate the enthusiasm and creativity of managers, so as to promote the improvement of enterprise performance. It is worth noting that the effectiveness of this incentive mechanism also needs to consider the influence of other factors such as the accounting profits of enterprises, in order to realize the dynamic balance between the interests of the management and the long-term development of the enterprise.

2. Multiple Impacts of ESG Ratings on Corporate Performance

2.1 Indirect Promotion Mechanism of ESG Rating and Enterprise Performance

2.1.1 Stimulate innovation vitality and make green transformation

The improvement of ESG rating has become a catalyst for enterprises to pursue sustainable development, encouraging enterprises to invest more in technology research and development and green production. This investment not only helps to avoid the agency risks caused by environmental and social problems, but also significantly enhances the innovation ability and market competitiveness of the enterprise, and lays a solid foundation for the long-term development and performance improvement of the enterprise. At the same time, the financing convenience brought by ESG rating reduces the financial pressure of enterprises, making it easier for the innovation results to be transformed into actual productivity, and further promoting the leap of enterprise performance.

2.1.2 Media focus and reputation effect

With the continuous media attention to ESG performance, the social image and reputation of enterprises have been significantly improved. This positive effect encourages enterprises to more actively fulfill their social responsibilities and operate in accordance with high standards of social responsibility standards, so as to generate positive feedback on corporate performance. In addition, media exposure also reduces the phenomenon of information asymmetry, reduces the market fluctuations caused by information lag, and creates a more stable development environment for enterprises.

2.1.3 Reduce financing costs and enhance financing capacity

High-quality ESG rating is a strong proof of corporate social responsibility and sustainable development ability, which sends a positive signal to the capital market and enhances creditors' confidence in enterprises. This confidence reduces the risk premium requirements of creditors, thus reducing the cost of debt financing. At the same time, ESG rating also improves the financing capacity of the enterprise, provides strong financial support for the enterprise to expand production and expand the market, and promotes the overall improvement of the enterprise performance.

2.1.4 Value realization of institutional investors' preferences

The higher ESG ratings make companies more attractive, especially for institutional investors with ESG investment preferences. They are willing to pay a premium for companies whose ESG performs well, even if they may face performance fluctuations in the short term. This market recognition not only improves the market value of the enterprise, but also sends a positive business signal to the outside world, which contributes to the continuous improvement of [4] of the enterprise performance.

2.1.5 Information transparency and risk prevention and control

In order to improve the ESG rating, enterprises will pay more attention to the improvement of their sustainable development ability, thus reducing operational risks. At the same time, the ESG rating system requires enterprises to disclose more information related to the environment, society and governance, which helps to improve the information transparency of enterprises and reduce information asymmetry. On the basis of information transparency, enterprises can better assess and manage risks, reduce profit volatility, and provide a strong guarantee for the stable growth of enterprise performance.

2.2 Complex Interaction between ESG Rating and Financial Performance

Mainstream view of positive effects: Most studies show that there is a positive correlation between ESG ratings and corporate financial performance. Companies with high ESG ratings show greater economic resilience in market competition and tend to outperform their peers financially. This positive impact is mainly realized through five channels: first, promote revenue growth and attract more sustainable customers; second, reduce costs, such as improving operational efficiency through energy conservation and emission reduction; third, optimize employee productivity and reduce supervision and management costs due to environmental and social problems; fourth, optimize investment and capital expenditure decisions to ensure resources toward high return and low risk areas; fifth, reduce legal and regulatory intervention and reduce compliance costs and potential legal risks.

Weighing between short-term benefits and long-term benefits: However, some scholars have proposed different views that the excessive pursuit of ESG ratings in the short term may sacrifice economic benefits and lead to a bad financial performance. This often occurs when companies see ESG as a short-term utilitarian tool, ignoring its deep integration with long-term development strategies, thus increasing both direct and indirect costs.

Externalities and shareholder equity considerations: In addition, the externalities of ESG investment complicate the relationship between it and corporate financial performance. Some studies point out that the direct connection between the ESG rating of listed companies and the return rate and company value is not significant, especially when the behavior of managers deviates from the overall interests of the enterprise.

2.3 Two-way Influence of ESG Rating and Non-financial Performance

2.3.1 The positive role of positive promotion

ESG ratings also show significant value in terms of non-financial performance. Including ESG factors in strategic decisions helps to improve the robustness of the financial system. Meanwhile, high-quality ESG rating has become an important tool for corporate reputation management, which can win a wider range of stakeholders and promote the improvement of non-financial performance. High ESG rating not only improves the cumulative excess returns of stocks, but also enhances the information transparency, reduces the principal-agent problem, and helps enterprises to build a good market image and attract more investors. In addition, high ratings also mean that companies can better fulfill their contracts with stakeholders, cushion negative information shocks through reputation effects and reducing the risk of corporate crash.

2.3.2 Cost increase and long-term development challenges

However, the pursuit of high ESG ratings is also accompanied by increased costs, which may, to some extent, contradict the improvement in non-financial performance. Especially when enterprises take formalistic measures simply for the sake of rating, it may damage the real quality of green innovation and affect the long-term development of enterprises. In addition, from the perspective of shareholder first theory, ESG rating may be seen as a potential loss of shareholders' equity [5].

3. Conclusion

Although the domestic ESG concept develops late, it is accelerating to integrate with the international standards, and the evaluation system is becoming more and more perfect. Companies increasingly focus on integrating ESG ratings into their business strategies, and most experts believe that high-quality ratings are crucial to improving corporate performance. The high ESG rating not only highlights the overall strength of enterprises, but also indicates its future development potential to helping enterprises seize market opportunities. At the same time, high ratings help to enhance the resilience of enterprises, resist economic fluctuations, and become the first choice for investors to achieve stable returns. With the popularity of ESG concept, high-rated enterprises are more favored by investors and financing channels are expanded. Therefore, enterprises should actively embrace ESG, integrate it into their daily operations, fulfill their social responsibilities, improve their sustainable development capacity, and create a better future together.

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