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The Value Effect of ESG Performance and Corporate Governance Innovation in Chinese Enterprises under High-Quality Development

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Abstract: This paper arises from the ongoing development of ESG (Environmental, Social, and Governance) information disclosure and governance in recent years, and the academic interest in these areas. While numerous discussions on ESG information disclosure and governance exist, a comprehensive review and summary are still lacking. This paper focuses on academic research on the application and innovation of ESG information disclosure and governance in Chinese enterprises, aiming to provide research directions and perspectives for future researchers. The main data sources for this study are CNKI and CSSCI, selecting papers and journals from the past ten years and using Citespace to analyze the collected data. The results show that corporate value is closely linked to consumer interests. Through innovations in ESG governance models, operational risks are reduced, resource utilization is improved, and the social functions of enterprises are highlighted, achieving sustainable development.

Keywords: ESG, Enterprises, Innovation, Sustainable Development

1. Introduction

This paper contributes by using AI and big data technology to summarize and analyze a series of recent literature and research related to ESG disclosure. It organizes the viewpoints and conclusions on the relationship between enterprises and consumers, how enterprises innovate in ESG, and the link between enterprises and sustainable development. The innovation of this paper lies in providing new insights and perspectives on corporate innovation and ESG governance through the analysis and summary of previous research and offering recommendations for corporate ESG governance.

2. What is ESG?

ESG has emerged as a topic of interest due to environmental pollution, resource constraints, and the rise of sustainable development. Different scholars and organizations define ESG in various ways, such as:

- "ESG (Environmental, Social, and Governance) is a sustainable development value system aimed at the harmonious coexistence of people and nature." [1]

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- "Enterprises should consider their performance in environmental (Environment), social (Social), and governance (Governance) aspects while focusing on their operations."[2]
- "Microeconomic subjects incorporate environmental, social responsibility, and corporate governance into economic decision-making."[3]

However, there is a consensus on the core of ESG: "Combining environmental, social responsibility, and corporate governance with sustainable development, promoting sustainable development of enterprises and enhancing government management through information disclosure."

3. Literature Keyword Cluster Analysis

Using Citespace to conduct a keyword cluster analysis on 2,500 articles from CNKI and CSSCI, the following keyword clustering map is obtained:

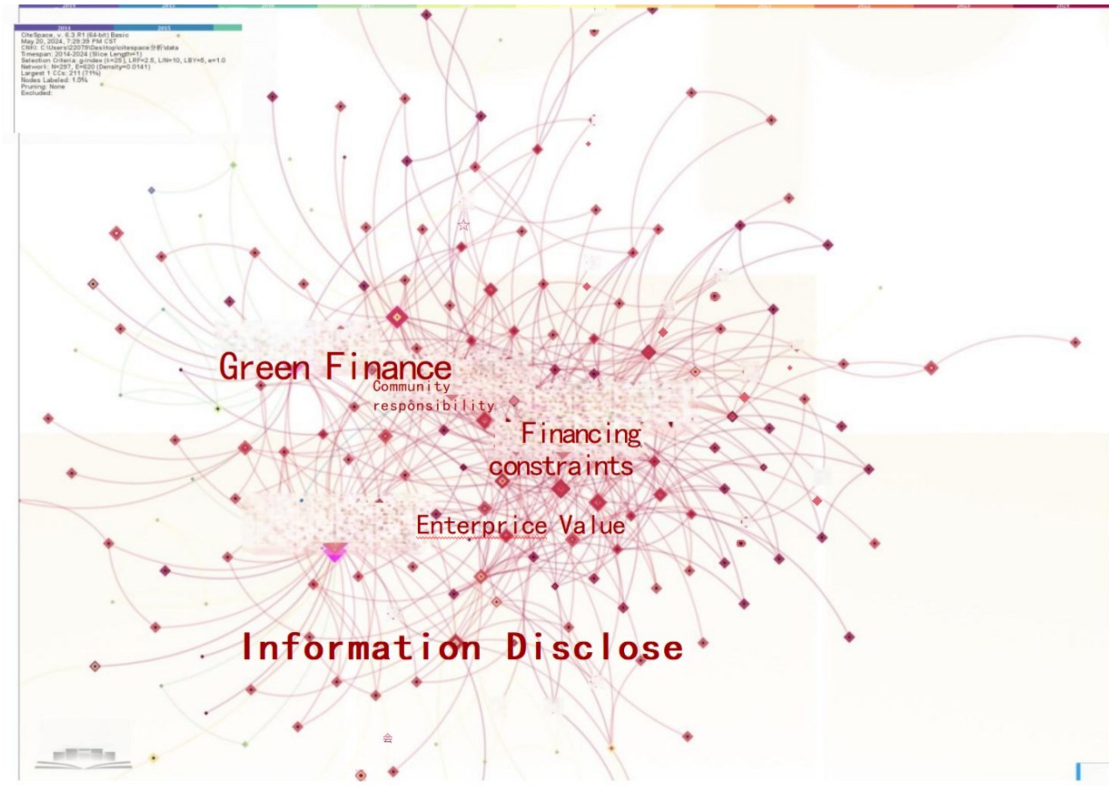

Figure 1: Keyword Cluster Analysis of CNKI Papers

Analyzing the betweenness centrality (BC) reveals that academia mainly focuses on "information disclosure" (BC=0.33), "financing constraints" (BC=0.20), "green finance" (BC=0.18), and "social responsibility" (BC=0.10).

4. Why Enterprises Value ESG

China, one of the world's largest and most dynamic economies, relies on its enterprises as a crucial driving force for economic development. To foster prosperity in an environmentally friendly and socially responsible manner, Chinese enterprises must lead by example. High-quality reporting on ESG indicators guides capital flow, aids regulators in timely decision-making, and helps customers make informed supply chain management decisions, thereby promoting sustainable growth. [4]

The 2021 China International Financial Annual Forum at the China International Fair for Trade in Services released the first ESG fund evaluation system. The report shows that ESG funds have

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performance advantages over ordinary funds. Domestic and foreign regulatory bodies, industry organizations, and investors agree that key ESG performance significantly impacts long-term corporate risks and returns. Investors are increasingly incorporating ESG factors into financial models for assessing corporate value. Therefore, ESG information is essential for value judgments and investment decisions.

Reasons why enterprises value ESG:

- Risk Reduction: Enterprises face various risks in their operations, including environmental, social, and governance risks. Focusing on ESG helps identify and manage these risks better, reducing potential negative impacts. [5]
- Enhanced Corporate Image: Investors and consumers increasingly focus on corporate sustainability and social responsibility. Adhering to ESG standards enhances corporate image, attracting more investors and consumers.
- Innovation Driver: ESG standards promote corporate innovation, particularly in sustainability and social responsibility. For example, reducing carbon emissions may require developing more eco-friendly products or adopting cleaner production methods.
- Compliance Requirements: Some regions have incorporated ESG standards into laws and regulations. Non-compliance can lead to legal sanctions, making adherence to ESG standards a necessity for compliant operations. [6]
- Increased Employee Satisfaction: Employees increasingly value corporate sustainability and social responsibility. Providing an ESG-compliant work environment helps attract and retain talented individuals.
- Supply Chain Management: Addressing ESG issues in the supply chain ensures sustainability and compliance, better managing supply chain risks.
- Improved Financial Performance: Studies show that enterprises with strong ESG performance often exhibit better financial performance due to their likelihood of attracting and supporting long-term valuable business and customers. [7]

In summary, valuing ESG helps enterprises reduce risks, enhance their image, drive innovation, ensure compliance, increase employee satisfaction, optimize supply chain management, and improve financial performance, thereby maintaining a competitive edge in a challenging market environment.

5. Relationship between Corporate ESG Performance and Consumers

Corporate ESG performance is closely related to consumers. ESG performance in environmental, social, and governance aspects is directly linked to consumer interests.

Firstly, good ESG performance builds consumer trust and confidence. Consumers are more willing to buy products or services from companies that protect the environment, fulfill social responsibilities, and strengthen governance. Poor ESG performance, such as environmental pollution or illegal activities, leads to consumer distrust and reduced purchases.

Secondly, ESG performance influences consumer purchasing decisions. Increasingly, consumers prioritize corporate social and environmental responsibilities when choosing products or services. Companies with strong ESG performance can earn consumer trust and loyalty, translating into competitive advantages and business growth. For example, some consumers choose to buy environmentally friendly products such as organic food and green clothing. The companies that produce these products perform well in ESG aspects and are able to meet consumer demands.

Additionally, ESG performance helps build emotional connections with consumers. Companies can engage in social and environmental initiatives to strengthen ties with consumers, enhancing brand loyalty and reputation.

However, the relationship between ESG performance and consumers is complex and dynamic. Different consumer groups may vary in their focus on ESG issues, and consumer needs and

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expectations change over time. Therefore, companies must continuously monitor and adjust their ESG strategies to align with consumer demands.

Finally, ESG performance affects brand image and reputation. A strong ESG record enhances brand image, expands market share, and increases profitability. Conversely, poor ESG performance damages brand reputation and hinders development. Thus, companies should prioritize ESG, fulfill social and environmental responsibilities, and improve governance to meet consumer expectations and enhance competitiveness and sustainability.

In conclusion, there is a close link between ESG performance and consumers. Companies should focus on ESG issues, improve their ESG performance, attract consumers, and earn their trust and loyalty. Simultaneously, companies must adapt their ESG strategies to evolving market conditions.

6. Requirements and Methods for Corporate ESG Innovation

With escalating resource issues and environmental concerns, ESG strategy has become a hot topic, making high-quality ESG innovation essential. Recent research offers various requirements and methods for high-quality ESG innovation. The summary includes:

- Clear ESG Strategy: Companies must define their ESG strategy, identifying core concerns and values to guide innovation and integrate ESG principles into their overall strategy.[8]
- Cross-Department Collaboration: ESG innovation involves multiple departments. Establishing cross-department collaboration mechanisms is crucial. Companies can set up dedicated ESG coordination bodies or working groups.
- R&D Innovation: Innovate in products, services, and processes to meet ESG requirements, such as developing eco-friendly products and optimizing production to reduce energy consumption and waste.
- Invest in Technology R&D: Investing in renewable energy, carbon capture and storage, and circular economy technologies drives ESG innovation.
- Partnerships: Collaborate with governments, NGOs, and research institutions to advance ESG innovation through joint projects and initiatives.
- Employee Training: Educate employees on ESG to enhance awareness and competency, supporting the implementation of ESG strategies.
- Evaluation Systems: Establish ESG evaluation systems to regularly assess performance and identify improvement areas, ensuring continuous ESG progress.
- Transparency and Communication: Enhance ESG transparency and communication through public reports, data disclosure, and sharing best practices, building stakeholder confidence and involvement.
- External Resources: Utilize external resources such as government subsidies, tax incentives, and venture capital to support ESG innovation.
- Pilot Projects: Implement pilot projects to test ESG innovations, reducing risks and improving success rates. Pilot experiences inform broader ESG strategies.
- Data-Driven Decisions: Use ESG-related data to assess strategy effectiveness and monitor performance, identifying innovation opportunities and challenges.[9]
- Leadership: Cultivate ESG-aware leadership to drive ESG innovation, demonstrating its importance to the company.
- Employee Engagement: Encourage employee participation in ESG projects, providing support and resources, and recognizing outstanding contributions.
- Corporate Culture: Integrate ESG into corporate culture through awareness campaigns, training, and activities, fostering shared values and behavior norms.
- Continuous Learning: Stay updated on ESG trends and best practices, continuously refining strategies to adapt to changing markets and societal expectations.[10]

- Collaboration Networks: Build networks with other companies, research institutions, and government bodies to share resources and address ESG challenges collectively.[11]
- Talent Investment: Develop ESG-knowledgeable employees through training, courses, seminars, and professional hires, collaborating with academia to cultivate future talent.
- Supply Chain Management: Optimize supply chain management, encouraging suppliers to improve ESG performance, ensuring sustainable practices.
- Social and Environmental Impact: Focus on social contributions and minimizing environmental impact, supporting public welfare and community engagement.
- Supervision Mechanisms: Implement supervision mechanisms to monitor and evaluate ESG innovation processes, ensuring effectiveness and sustainability.

7. Conclusion and Insights

In the era of rapid and high-quality economic and social development, ESG (Environmental, Social, and Governance) information is a crucial factor influencing corporate value judgments and investor decisions. The ESG performance of enterprises stands out, particularly in balancing economic benefits with environmental protection. Aside from negative phenomena like "greenwashing," nearly one-third of companies can achieve invisible capital appreciation and maximize profits. More and more enterprises and production sectors are embracing new development concepts, thereby expanding value effects.

It is noteworthy that enterprises and governments collaborate and coordinate, considering their actual production capacity, economies of scale, and social influence, to promote and practice green, low-carbon, and innovative environmental protection concepts. This can subtly and immeasurably benefit long-term economic and social development as well as ecological protection. Currently, China's ESG market started later than the mature systems abroad, but it has great development potential. The continuous promotion and implementation of this concept can help enterprises grow, stimulate innovation, and promote the achievement of dual carbon goals. This, in turn, reinforces environmental awareness and advances the sustainable and steady development of the green economy. To some extent, it can also influence non-profit organizations in expanding the ESG concept.

In the future, as strategic trends become more apparent and the connection between enterprises and consumers strengthens, focusing on ESG can reduce potential risks, optimize supply chain management, and enhance both internal and external benefits. This better adaptation to changing times underscores the value and development prospects of ESG.

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