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Overseas ESG Disclosure Strategies of Chinese Multinational Enterprises: A Comparative Analysis Based on Sustainability Reports

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Abstract. With the increasing focus around the world on sustainable development, environmental, social and governance (ESG) disclosure has started to be considered by many people as a way to assess corporate social responsibility, transparency and other issues. With the growth of Chinese multinational enterprises abroad, there has been a gradual loosening of China's institutional system and rising expectations from overseas investors, regulators and the public. Through study, it will be found that how to construct an ESG disclosure strategy for Chinese multinational enterprises to increase their legitimacy and boost international competitiveness in the foreign market can be determined. According to the theory of institutions and legitimacy, this paper will employ qualitative research methods to study the contents of corporate sustainability reports and use comparative case analysis as one of the research tools. The three main kinds of ESG disclosure strategies in this paper are the standardisation-oriented strategy, the localisation-oriented strategy and the hybrid strategy. The above results show that standardisation can promote a high degree of uniformity and easy comparison among many countries, and at the same time localisation is needed to meet the different requirements of various host countries. ESG disclosure in this paper will be used as a tool for Chinese multinational enterprises to address the requirements of institutions and improve their standing with all parties involved in the course of life.

Keywords: ESG disclosure, Chinese multinational enterprises, sustainability reports, institutional theory, legitimacy theory

1. Introduction

Environmental, Social and Governance (ESG) has begun to be applied as a way to assess the long-term values of enterprises [1]. Due to stricter regulations and rising expectations from investors and all sides, companies have gradually begun to incorporate ESG disclosure in their corporate communication plans. For multinational enterprises (MNEs), transparent ESG reports can show their sustainable development efforts and improve their corporate image and stability in the eyes of shareholders, the public, etc., around the world [2]. Therefore, sustainability reports have become

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one of the main ways multinational enterprises express their ESG commitments and plans for overseas development.

With the progress of the Belt and Road Initiative and other forms of international investment, many Chinese enterprises have entered many new institutions around the world. Compared with domestic operations, Chinese multinational enterprises need to address the policies at home and abroad at the same time, meet the expectations of international investors, local communities and other stakeholders, etc. Due to all the institutions' pressures, ESG disclosure has come to play in the field of corporate social responsibility, reinforcing organisational legitimacy and promoting the development of overseas businesses.

Currently, the main contents of research are the factors affecting, quality of and economic effects of ESG disclosures [3]. There has been relatively less research at present on the strategy of disclosure of ESG information by Chinese multinational enterprises in foreign markets. Specifically, it has not been mentioned in our study how enterprises can meet the global reporting standards and local disclosure requirements for communications on the progress of sustainable development.

Therefore, this paper will explore the overseas ESG disclosure strategies of Chinese multinational enterprises in order to address the above problem. It will study the traits of ESG disclosure in corporate sustainability reports to find different patterns of disclosure strategies and discuss their strategic value from the angles of institutional theory and legitimacy theory.

Methodologically, this paper will use the method of a literature review and comparative case analysis. Sustainability reports from some typical large Chinese companies have been chosen as the main data. By comparing the ESG disclosures of many companies, three typical models of foreign disclosure have been introduced in this paper - standardised, localised and combined - and how they help build the legitimacy and image of enterprises abroad.

2. Literature review

2.1. ESG disclosure and corporate internationalisation

ESG disclosure has gradually been added to corporate sustainability and non-financial reports and now serves this purpose. ESG disclosure began as a voluntary form of communication, but with the continuous strengthening of regulations and increasing demands from investors and other parties, it has now gradually been included in many countries' compulsory lists for listed companies [3]. ESG reports are now used by many companies to show that they have achieved some good results in the environment and society, etc.

For many foreign companies, the idea of ESG reporting has also gradually begun to be adopted in business. When a company goes abroad to establish itself in another country, it will be governed by many different laws and rules. Open ESG reports will help reduce information asymmetry, increase the trust of overseas investors and other stakeholders in the company [4]. Therefore, sustainability reports have become an essential way for many foreign companies to convey their corporate culture, long-term plans for the environment and society, etc.

Although previous studies have investigated the reasons for differences in the level of ESG disclosure and its effect on the economic performance of listed companies, fewer papers have looked at how foreign companies adjust their ESG reports under various institutional environments [5]. The problem is serious for Chinese multinational enterprises; they need to meet the overseas reporting requirements of other countries as well as those at home.

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2.2. Institutional theory and legitimacy theory

According to the institutional theory, changes in the environment at a company, such as the government and society, are also reasons for modifications in its behaviour. For multinational enterprises, the reasons for this are in the home country institutions and host country regulatory environments [6]. In order to maintain the stability and legitimacy of the organisation, it will modify its operating mode and information disclosure. Legitimacy theory is also a reason why the company voluntarily disclosed its ESG information. Through the spread of environmental responsibility, social contribution and governance information, enterprises hope to gain the trust and support of investors, the government, consumers, etc [7]. For foreign companies, thus, ESG reports will be used to enhance their status and attract international capital in order to achieve various purposes. Institution theory and the theory of legitimacy can be used together to explore the reasons for the differences in ESG disclosure strategies of China's multinational enterprises abroad.

2.3. Analysis framework

According to the theories of institutions and legitimacy, an analysis system will be built in this paper to explore the overseas ESG disclosure strategies of Chinese multinational enterprises (Figure 1). Different institutional pressures in the country vary, so their different effects on ESG disclosures by listed companies will influence the building of legitimacy and trust in the global market for these companies. By analysing various companies' sustainable development reports abroad, it can be seen that there are three basic types of ESG disclosure strategies: standardised, localised and mixed models. The following is an analysis of the features of each strategy and how the different types of disclosure help multinational enterprises meet the requirements of overseas regulations and promote all-round development abroad.

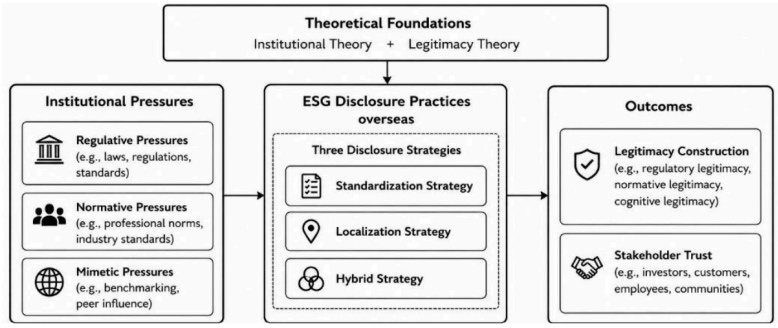


Figure 1. Analytical framework of Overseas ESG disclosure strategies of Chinese multinational enterprises

3. ESG disclosure characteristics of Chinese multinational enterprises

3.1. Overall reporting characteristics

Sustainability reports released by many large Chinese companies have started to align with foreign ESG reporting norms. Recently, many enterprises have started to use the international reporting system of the Global Reporting Initiative (GRI) and the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) to improve the openness and comparability of their data in foreign markets. According to the International Survey of Sustainability Reporting by KPMG, local stock exchange regulations and foreign standards have been continuously

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incorporated, and as of now, 61% of N100 companies in China's main reporting have been based on these all-encompassing systems [8]. At the same time, in the G250 group, which consists of large multinational enterprises around the world, a remarkable 96% of companies have started to issue formal sustainability or ESG matter reports; leading Chinese multinational corporations have been taking note of this and are proactively advancing in their deepening global market integration [8].

In the past, many corporate reports focused more on their environmental protection and social welfare work; now, the ESG report structure is more complete and contains all three sections of environment, society and governance. A Change has occurred in recent years, and now companies are required to publish risk reports. According to data from the China Association for Public Companies (CAPCO), among the mandatory reporting group, 93.06% of the listed companies have conducted materiality assessments regularly, and 60.15% of them have additionally carried out the standard "double materiality" analysis [5]. Therefore, the primary disclosures have been modified to form a multi-dimensional reporting matrix that can comprehensively assess the carbon emission performance (E), labour indicators and compliance (S), board diversity and anti-corruption governance (G), etc.

A typical characteristic of China's multinational enterprises is the integration of global sustainable development goals and their own development plans. ESG disclosure is no longer just about meeting the requirements; it has also been used to present the company's values, risk control abilities, and long-term competitiveness. As a result, the total number of published reports by Chinese companies has risen sharply in recent years. According to the latest statistics released by SynTao Green Finance, as of now, the total number of A-share listed companies that have published voluntary ESG or sustainability reports is approximately 2,090; this figure has increased by 376 from the previous year, and among top-tier market constituents (CSI 300 Index) companies, the report issuance rate is already close to 95.3% [9]. The sustainability report will also help the company meet the requirements of overseas investors, regulators and the public in its foreign business.

However, there are also differences among the industries. Companies in the environmentally sensitive sectors of energy, manufacturing and transportation will pay more attention to carbon reduction, green development and other forms of environmental risk control. Technology and consumer-oriented companies usually focus on innovation, employee development, data responsibility, and social responsibility.

3.2. Environmental disclosure and report

Environmental disclosure is one of the main parts of ESG reports published by Chinese foreign-invested enterprises. With the rising attention of the world's economy to environmental protection and reducing carbon emissions, many companies have started to publish their plans to reduce emissions, use new energy, etc [10]. Enterprises that have foreign manufacturing bases or international supply chains will generally need to report all environmental information in the areas of damage around the world. Generally speaking, these reports will cover the company's goals for reducing carbon emissions, plans to save energy, construction of an environmental management system, etc. To meet the demands of various countries for sustainability, the company has made some concrete measures. At the same time, the environment's information disclosure is also in line with the global ESG trend. With the spread of GRI and TCFD frameworks, many companies have started to disclose their environmental information in a way that is more accessible to international investors and other stakeholders; as a result, most of the top-tier companies around the world have now integrated climate disclosure into their normal operations.

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3.3. Social dissemination behaviour

As one of the factors in the ESG framework, social responsibility has begun to be included in reports by many large foreign enterprises [11]. Chinese enterprises have been gradually releasing more information about employee welfare, workplace safety, diversity and inclusion, supply chain responsibility, community contribution, etc., and in foreign countries, social responsibility reporting has also served to build good relationships with local stakeholders. Labour standards and workers' rights are issues that affect the legitimacy of the enterprise and the public opinion of society; community development is also one. Chinese multinational enterprises have made some reports on their social responsibility work to show that they are doing good in the world. These disclosures can also address any concerns that have arisen over the labour process, social responsibility, etc. To build a good reputation, enterprises have started to use strict standard indicators rather than general descriptions, and more than 60 per cent of the reporting subjects now employ formalised double materiality frameworks to assess and report on their impact on society and labour.

3.4. Governance disclosure practices

Governance disclosure refers to the corporate management system, compliance mechanism, risk control and ethical business practices of the company [11]. Multinational enterprises need to have good governance to manage the difficulties in foreign operations and various regulations in all countries. Many Chinese multinational enterprises have included the following in their ESG reports: anti-corruption policies, compliance management, board governance and overseas risk management. The disclosed information should be clear, open, and easily understandable by investors and foreign investors. According to data from enterprises in China, some leading companies have established a regular materiality assessment system in their governance framework to manage compliance and operating risks reasonably, and about 93.06 per cent of them have done so. Generally speaking, among the contents of ESG reports published by Chinese multinational enterprises, more and more are meeting the minimum requirements stipulated in regulations. However, the actual ways in which different companies approach it will vary based on the characteristics of their industries, the extent of internationalisation, etc. These differences are the basis for distinguishing the various overseas ESG disclosure strategies in the following section.

4. ESG disclosure strategies of Chinese multinational enterprises abroad

Based on the analysis of the sustainability report, it has been determined that the three types of ESG disclosure strategies for Chinese multinational enterprises in overseas markets are: the standardisation-oriented strategy, the localisation-oriented strategy and the hybrid strategy. The above measures are taken by the company to comply with various demands from the outside world and at home for ESG.

Standardisation is the direction of the new-type standard, which is to unify and compare. The company will be in line with the reporting framework that foreign companies have adopted and set uniform ESG and sustainability goals around the world. Therefore, this plan will reduce the problem of information asymmetry and improve the transparency of the company to global investors and other parties. According to the institution theory, the standardization of corporate governance is an adjustment made by enterprises in response to new rules at home and abroad that are consistent with ESG. However, too much standardisation will not be able to meet all the specific demands of different places.

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The other way is to consider the circumstances of the local area and carry out ESG reporting accordingly. Based on local regulations, the interests of various parties and other reasons, the company will choose which information to disclose first. For example, based on the situation in different areas, enterprises may give more weight to different factors such as labour standards, social responsibility, etc. Thus, the company will be able to work with local groups and increase its support in the local area. The scope of the localised disclosure is relatively small, so it may not be uniform across the company.

Both the direction of standardization and localisation will be taken. Therefore, the company has established one global ESG system and can also adapt to the specific demands of different places for environmental and social responsibility. As a result, many Chinese multinational enterprises have started to adopt this approach to better adapt to the different institutions around the world while maintaining brand consistency. By means of the two together, the company aims to achieve all-weather international sustainability for its brand and be more responsive to changes at the local level.

5. Conclusion

Based on the analysis of sustainability reports, this paper has studied the overseas ESG disclosure strategies of Chinese multinational enterprises and considered them in light of institutional theory and the theory of legitimacy. According to the above results, ESG disclosure has moved beyond the scope of fulfilling regulatory obligations and is now employed proactively to boost the image of the company among all parts of society.

The three main ESG disclosure strategies in this paper are the standardised strategy, the localised strategy, and a combination of the two. Standardization is to have consistent reports and make them comparable worldwide to meet the demands of global ESG. The localisation strategy is to change the disclosure system according to the requirements of the host country and interests of local parties for legitimacy. A combination of globalisation and localisation will be employed to build one long-lasting brand that meets the various institutional environments in different parts of the world. In short, the above strategies show how Chinese multinational enterprises have been addressing the conflict between globalisation and localisation in foreign markets.

There are some shortcomings in this study. Firstly, it is mainly based on the company's sustainability report and qualitative comparison, so the actual ESG performance and stakeholders' opinions may be unknown. Secondly, there are fewer specific analyses of different industries, areas and other forms of ownership. In the future, more studies will be conducted using statistics to examine the connection between ESG disclosure and a company's business. Research abroad and in other places has also obtained some results on how institutional environments affect ESG communication.

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