

Whether ESG Performance is Conducive to Enhancing the Sustainable Development Ability of Enterprises - Based on the Analysis of State-owned Enterprises in China

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Abstract. With the increasingly prominent challenges of global climate change, the concept of a low-carbon economy has emerged. As the main participants in economic activities, the environmental, social, and corporate governance (ESG) performance of enterprises has gradually become an important indicator for measuring their sustainable development capabilities. As an important pillar of the national economy, China's state-owned enterprises not only bear economic responsibilities, but also shoulder social and political responsibilities, and their business behavior and policy orientation have a far-reaching impact on economic and social development. This paper focuses on Chinese state-owned enterprises, a special group of enterprises that occupies a core position in China's economic system and aims to explore whether ESG performance is conducive to enhancing the sustainable development ability of Chinese state-owned enterprises. Through an in-depth analysis of state-owned enterprises in China, this paper assesses the role of ESG factors in enhancing long-term competitiveness, promoting social responsibility, and enhancing corporate governance. The study found that enterprises with excellent ESG performance perform well in environmental protection, social responsibility fulfillment, and corporate governance structure optimization on a theoretical level. However, many enterprises still have some problems in ESG practice, which leads to a positive correlation between ESG performance and enterprise sustainability. This paper deeply explores the causes of these problems and proposes solutions. The research results of this paper provide practical guidance and theoretical support for state-owned enterprises to improve ESG performance and achieve sustainable development, and further provide a theoretical reference value for relevant policymakers.

Keywords: ESG Performance; Chinese State-owned Enterprises; Environmental Protection; Social Responsibility; Corporate Governance.

1. Introduction

With the rapid development of the global economy, environmental protection and social responsibility have increasingly become important issues that cannot be ignored by enterprises. In recent years, more and more enterprises have begun to pay attention to ESG performance and integrate it into their strategic planning and management systems. Governments, regulators, investment institutions, and consumer groups have also increased their attention and promotion of ESG, prompting enterprises to pay more attention to environmental friendliness, social harmony, and governance optimization while pursuing economic benefits. In this context, ESG performance has become one of the important criteria to evaluate the sustainable development ability of enterprises. According to the requirements of EGS performance, enterprises need to not only focus on traditional financial indicators but also extends the perspective to the performance of enterprises in environmental protection, social responsibility and corporate governance. It can be seen that ESG concept has become an important part of enterprise strategic planning. The ESG concept emphasizes the improvement of environmental protection, social justice, and corporate governance, which helps to promote the sustainable development of the global economy and achieve a virtuous cycle of economic growth, environmental protection, and social progress [1]. In addition, as an important indicator of the non-financial performance of enterprises, ESG's impact on the sustainable development of enterprises has attracted wide attention. Especially in China, as an important

participant in the global economy, its state-owned enterprises play an irreplaceable role in promoting sustainable economic and social development. The ESG performance of Chinese state-owned enterprises is not only related to the long-term development of the enterprises themselves, but also has great significance for the overall progress of the society.

Looking back, Chinese state-owned enterprises have been constantly exploring and practicing ESG concepts while pursuing economic benefits [2]. As the Chinese government attaches great importance to the construction of ecological civilization and green and low-carbon development, state-owned enterprises actively respond to the call of national policies and constantly improve ESG performance. In terms of environmental protection, enterprises have increased their investment in clean energy and environmental protection technologies. In terms of social responsibility, enterprises actively participate in social welfare undertakings and strive to give back to society. In terms of corporate governance, enterprises continue to improve their governance structure and improve the transparency of information disclosure. However, although Chinese state-owned enterprises have made certain progress in ESG, they still face many challenges in the practical aspect of ESG at present [3]. China's state-owned enterprises generally expect to promote the coordinated development of the economy, society, and environment by strengthening ESG performance, but the actual process also exposes the shortcomings and confusion of some enterprises in ESG practice. Therefore, it is of great practical significance for state-owned enterprises to deeply explore the relationship between ESG performance and the sustainable development ability of enterprises.

This study aims to explore the mechanism analysis of the impact of ESG performance on the sustainable development ability of state-owned enterprises in China through theoretical analysis, give theoretical support and practical guidance for state-owned enterprises to formulate ESG strategies, and further provide a decision-making basis for policymakers, to promote the cooperation between government, enterprises, and society in sustainable development.

2. ESG Development Status

ESG covers the environmental impact of a company's operations, its contribution to society, and the transparency and efficiency of its internal governance. On the environment, it focuses on how companies can reduce their carbon footprint, manage natural resources, combat climate change, and more. In the social aspect, it focuses on issues such as labor rights, supply chain responsibility, community participation, and consumer rights protection. In terms of governance, it emphasizes corporate leadership, decision-making transparency, risk management, and shareholder relations. These three dimensions are interwoven and together constitute a comprehensive portrait of the sustainable development of enterprises.

Currently, ESG has shown a thriving trend globally. More and more companies are realizing that good ESG performance can not only enhance their brand image and boost investor confidence but also bring long-term competitive advantages to the company. Therefore, many companies have begun to proactively compile ESG indices, establish evaluation systems, and release ESG development reports to showcase their efforts and achievements in sustainable development to the outside world. These reports not only provide investors with a new perspective on evaluating corporate value, but also provide an important basis for regulatory agencies, non-governmental organizations, and the public to supervise corporate behavior. Meanwhile, with the deepening of ESG concepts, more and more financial institutions are incorporating ESG factors into their investment decision-making processes and launching various ESG investment products. These products not only meet the needs of investors for sustainable development but also promote the flow of funds to companies with good ESG performance, thereby further promoting the prosperity of the ESG market.

The development trend of ESG is advancing at an unprecedented speed, demonstrating strong vitality and broad prospects. With the increasing global attention to sustainable development issues, companies, investors, governments, and various sectors of society are paying more attention to and investing in ESG. In the future, ESG information disclosure will become more standardized and

transparent. With the gradual improvement of regulatory policies, more and more countries and regions will introduce mandatory ESG information disclosure requirements, prompting companies to proactively, comprehensively, and truthfully disclose their performance in environmental, social, and governance aspects. This will provide investors with more accurate and comparable ESG data, helping them make more informed investment decisions. Secondly, ESG investment will become one of the mainstream investment methods. With the popularization of ESG investment concepts and investors' recognition of sustainable development value, more and more funds will flow into companies and projects with good ESG performance. This will further promote the prosperity and development of the ESG investment market, contributing to the green transformation and sustainable development of the global economy [4].

3. Points Out the ESG Performance Problems of State-owned Enterprises

3.1. Characteristics of State-owned Enterprises

State-owned enterprises, as the backbone of the national economy, have significant characteristics. They not only have the support of national capital but also carry multiple missions such as national strategy and livelihood security. In development, state-owned enterprises play an irreplaceable role in key areas and major projects with their strong resource integration capabilities and policy advantages [5]. However, in terms of sustainable development, state-owned enterprises also face challenges. Some state-owned enterprises have problems such as inflexible decision-making mechanisms, slow market response speed, and low resource utilization efficiency. These problems not only constrain the development of state-owned enterprises themselves and affect their long-term competitiveness but also affect their pillar role in national economic development.

In this context, it is particularly important for state-owned enterprises to adopt ESG development concepts. ESG rating provides a new benchmark for state-owned enterprises to measure their sustainable development capabilities by comprehensively evaluating their performance in environmental protection, social responsibility, and corporate governance. By establishing a scientific ESG indicator system, state-owned enterprises can recognize their shortcomings and advantages in sustainable development, and formulate more precise strategies to promote continuous improvement in environmental, social, and governance aspects. This not only helps to enhance the brand image and social responsibility of state-owned enterprises but also stimulates their internal motivation and promotes sustainable development in the fierce market competition.

3.2. Analysis of ESG Development Obstacles and Problems of State-owned Enterprises

There are some problems in the ESG performance and practice of Chinese state-owned enterprises at present. State-owned enterprises with excellent ESG performance should be able to significantly enhance their sustainable development capabilities. Specifically, good environmental performance can reduce a company's resource consumption and environmental pollution, thereby lowering costs and enhancing brand image. Active social investment can enhance the relationship between enterprises and employees, consumers, and communities, and improve the social reputation and credibility of enterprises. Improvements in governance can enhance the decision-making efficiency and risk control capabilities of enterprises, providing strong guarantees for their long-term development [6]. Therefore, the expected outcome is that state-owned enterprises with excellent ESG performance will have stronger sustainable development capabilities. However, studies have shown that there is not always a positive correlation between ESG performance and a company's sustainable development capability in practical operations. State-owned enterprises have not been smooth sailing in the process of promoting ESG development, facing many obstacles and problems that are complex and intertwined, collectively constituting the challenges of ESG practice in state-owned enterprises. Many reasons can lead to the existence of such unexpected results [7], and the following is a detailed analysis of these issues.

3.2.1. Conflict between Economic Interests and Social Responsibility.

Enterprises may neglect their pursuit of economic benefits due to excessive pursuit of ESG performance, leading to a decline in profitability and even potentially damaging their long-term development. Contrary to the previous situation, companies may neglect environmental protection and social responsibility in their pursuit of economic benefits, resulting in environmental pollution and social injustice [8,9].

For state-owned enterprises, as government-invested or controlled enterprises, their primary task is to maintain and increase the value of state-owned assets and contribute to the development of the national economy. This economic goal, while driving the rapid development of enterprises, often makes them hesitant when facing ESG investments. ESG projects often require long-term capital investment and sustained effort, with long return cycles and high uncertainty, which conflicts with the pursuit of short-term economic benefits by state-owned enterprises. For example, in the field of environmental protection, enterprises may need to invest a large amount of funds in technological transformation and pollution control, but these investments are difficult to directly convert into economic benefits in the short term, and may even affect the profitability of the enterprise. This conflict often leads state-owned enterprises to prioritize economic interests and adopt a wait-and-see attitude toward ESG investment when weighing the pros and cons.

3.2.2. Uncertainty of External Environment.

The uncertainty of the external environment is another major challenge for the ESG development of state-owned enterprises. Firstly, frequent changes in policies and regulations have brought enormous adaptation pressure to enterprises [10]. Policies and regulations often have regional, temporal, and differential characteristics, and can change at any time with changes in social conditions, which makes it difficult for state-owned enterprises to adapt to ESG-related policy changes promptly. Secondly, changes in the market environment have also increased the difficulty of corporate ESG practices. The diversity of market demand, changes in consumer preferences, and the evolution of the competitive landscape may all affect a company's ESG decision-making and execution. In addition, fluctuations in public opinion have also had a significant impact on the ESG practices of state-owned enterprises. With the rise of social media, public attention and participation in ESG issues continue to increase. Any negative event related to ESG can quickly trigger a public opinion storm, causing significant damage to corporate image and brand value. In short, ESG performance is greatly influenced by external factors such as policy changes, market demand changes, etc. The changes in these factors may have a negative impact on a company's ESG performance, which in turn affects the company's sustainability.

3.2.3. Formalistic Approach.

In ESG practice, in response to government calls, some state-owned enterprises have problems such as formalism and lack of long-term planning [11], resulting in unsatisfactory ESG performance. Some state-owned enterprises often view ESG as a "face-saving project" in response to government calls or external regulatory requirements, focusing only on surface work and report disclosure, while neglecting substantive improvements and effectiveness. This formalistic tendency is manifested in multiple aspects. Firstly, the setting of ESG goals is unrealistic, lacking operability and measurability. Secondly, there is a lack of effective supervision and evaluation mechanisms during the execution of ESG projects, resulting in a significant reduction in project effectiveness. Thirdly, there are phenomena such as exaggeration and avoidance of emphasis in ESG report disclosure, making it difficult to truly reflect the ESG performance of the enterprise. Formalism not only wastes the resources and energy of enterprises but may also damage their reputation and image, rendering ESG practices a mere piece of paper.

3.2.4. Imperfection of Evaluation Criteria and System.

The imperfect and inconsistent ESG evaluation standards and systems are another challenge facing the ESG development of state-owned enterprises at present. At present, there are numerous evaluation

standards and systems for ESG both domestically and internationally, with significant differences, and a lack of unified, authoritative, and highly operable measurement indicators. This leads to a lack of clear guidance for companies in pursuing ESG performance and also makes the relationship between ESG performance and a company's sustainability more complex [12]. It can be seen that this diversity and incompleteness bring great confusion and difficulty to enterprises when choosing ESG projects, setting goals, and measuring results. On the one hand, different evaluation criteria and systems may lead companies to arrive at vastly different conclusions and judgments on the same issue. On the other hand, the lack of unified standards also makes it difficult for companies to reach consensus and trust when communicating with investors, regulatory agencies, and the general public. In addition, existing ESG evaluation systems often focus on quantitative indicators and overlook the importance of qualitative factors, making it difficult to comprehensively reflect a company's ESG performance. Therefore, improving ESG evaluation standards and systems is an urgent need for state-owned enterprises to promote ESG development.

3.3. Suggestions for Improving ESG Performance of State-owned Enterprises

A series of targeted solutions are proposed to address the ESG performance issues of Chinese state-owned enterprises, to promote comprehensive improvement in their environmental, social, and governance performance.

3.3.1. Strengthen Environmental Protection Awareness and Promote Green Transformation.

Firstly, state-owned enterprises should deeply recognize the inherent connection between environmental protection and corporate development, and integrate the concept of green development into the core of their corporate culture. State-owned enterprises can increase their investment in research and application of clean energy and environmental protection technologies, such as promoting renewable energy sources such as solar and wind power, and reducing their dependence on traditional fossil fuels. It is also necessary to implement resource conservation and recycling strategies, improve resource utilization efficiency through technological innovation, and reduce waste generation. In addition, state-owned enterprises should establish strict pollution emission control mechanisms to ensure that all production activities comply with national and local environmental standards, while actively exploring zero-emission and negative emission technology paths. State-owned enterprises should also actively participate in the national carbon reduction plan, leading the industry to transform toward low-carbon and green direction.

3.3.2. Improve the Corporate Governance Structure and Enhance the Transparency of Information Disclosure.

The optimization of corporate governance structure is the key to improving ESG performance. State-owned enterprises should establish and improve a modern corporate system, clarify the boundaries of rights and responsibilities of the shareholders' meeting, board of directors, supervisory board, and management, strengthen the proportion of independent directors and external experts in the board of directors, and enhance the professionalism and independence of decision-making. State-owned enterprises should also improve their information disclosure mechanisms, regularly release ESG reports, provide detailed disclosures of their performance and risks in environmental protection, social responsibility, and corporate governance, enhance transparency, and accept public supervision. It is urgent to strengthen the construction of internal control and risk management systems. State-owned enterprises should promptly detect and correct violations, and effectively prevent and control environmental, social, and governance risks.

3.3.3. Construct and Improve ESG Evaluation Criteria and System.

The government and relevant departments should further improve the ESG evaluation standards and system, and strengthen the supervision and guidance of ESG practices [13]. A unified ESG evaluation standard and system are the foundation for guiding corporate practices and measuring effectiveness. The government, industry associations, and third-party organizations should work together to develop

an ESG evaluation system that is in line with China's national conditions and international standards. Here are some potential measures. Firstly, clarify the core indicators and evaluation standards of ESG evaluation, which should not only reflect the basic requirements of environmental protection but also consider the diversity of social contributions and reflect the standardization of corporate governance. Secondly, establish standardized processes for collecting, analyzing, and disclosing environmental, social, and governance data to ensure the objectivity and comparability of evaluation results. Thirdly, strengthen the supervision and guidance of environmental, social, and governance practices, and help enterprises improve their environmental, social, and governance management levels through policy guidance, training, and exchanges. Through the implementation of these measures, the ESG performance of Chinese state-owned enterprises can be gradually improved, thereby enhancing their sustainable development capabilities.

3.3.4. Balance Economic Interests and Social Responsibilities.

While pursuing economic benefits, state-owned enterprises should pay more attention to fulfilling their social responsibilities and achieving a win-win situation between economic and social benefits [14]. This requires companies to fully consider the demands of stakeholders, such as employee rights, consumer rights, community impact, etc., when formulating development strategies, and find a balance between economic growth and social responsibility through technological innovation, management innovation, and other means. At the same time, state-owned enterprises should actively participate in public welfare and charity undertakings, give back to society through donations, volunteer services, and other forms, establish a good corporate image, and enhance social credibility.

In summary, by strengthening environmental protection awareness, improving corporate governance structure, constructing and perfecting environmental, social, and governance evaluation standards, and balancing economic interests and social responsibilities, Chinese state-owned enterprises can gradually improve their environmental, social, and governance performance, not only winning broader development space for themselves but also contributing to the sustainable development of China's economy and society.

4. Conclusion

This study found through in-depth analysis that although some state-owned enterprises do have shortcomings in ESG practice, such as lagging environmental awareness, insufficient fulfillment of social responsibilities, or incomplete governance structures, it cannot be ignored that ESG performance has a significant positive effect on enhancing the overall sustainable development capacity of Chinese state-owned enterprises. This positive impact is not only reflected in the ability of enterprises to more sensitively perceive and adapt to rapidly changing market environments but also significantly enhances their resilience in the face of economic fluctuations and external risks. More importantly, companies that actively practice environmental, social, and governance principles have won widespread trust and respect from investors, consumers, employees, and various sectors of society by demonstrating their commitment to environmental protection, social responsibility, and good corporate governance. This has earned valuable intangible assets for the company.

For the potential risks that may exist in ESG practices, this study suggests that state-owned enterprises should take the initiative to continuously deepen the layout of environmental, social, and governance strategies. They should not only increase investment in environmental governance, and improve resource utilization efficiency and pollution control levels, but also continuously optimize the fulfillment of social responsibilities to ensure the harmonious coexistence of corporate activities and social welfare. At the same time, state-owned enterprises need to accelerate the reform of their corporate governance structure, strengthen internal supervision and risk management, and ensure that environmental, social, and governance concepts are integrated into every aspect of their operations. As an important driving force, the government should introduce more targeted policy measures, such as improving environmental, social, and governance information disclosure standards and transparency requirements, establishing ESG performance evaluation systems and incentive

mechanisms, providing clear and actionable ESG practice guidelines and incentive measures for state-owned enterprises and all market entities, jointly creating a good ecological environment that encourages enterprises to actively engage in ESG practices, and jointly promoting the green, inclusive, and sustainable development of the Chinese economy.

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