Connotation Analysis of Corporate Value Creation Based on ESG Perspective

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Abstract: As the concept of the sustainable development and other goodness-oriented ideas take root, the connotation of corporate value creation has been transformed accordingly. Stakeholder Supremacy enriches the single connotation of traditional economic value creation. Based on the ESG theoretical framework, this paper integrates the three perspectives of social, environmental, and corporate governance to explore the feasibility of corporate value creation under the new scope. By analysing the data of the selected sample with the help of Multiple Regression model by the SPSS software, the study concluded that the realization of integrated value creation by will promote the realization of single value creation, as well as the achievement of long-term development goals of Chinese enterprises and the sustainable development of society as a whole.

1 INTRODUCTION

The ESG concept was formally proposed by United Nations in 2005, and the ESG disclosure framework was also formally established in *The Code on Governance of Listed Enterprises* revised by China Securities Regulatory Commission in 2018. ESG is a value concept that encompasses environmental, social, and corporate governance and provides a comprehensive assessment of a company's sustainability from a non-financial perspective. ESG is a value concept that encompasses Environment, Social, and Governance to provides a comprehensive assessment of an enterprise's sustainability from a non-financial perspective (HUANG 2021). With the establishment of the peak carbon dioxide emissions and carbon neutrality goals, The Fourteenth Five-Year Plan, and Vision 2035, China is paying more and more attention to ESG, encouraging enterprises to improve their economic, social and environmental values through the application of ESG concepts, and promoting their sustainable and healthy development. More and more enterprise management matters such as the choice of value creation choice require positive analysis. And with the support of various economic models by data analytics technology and software, such as Stata, SPSS, EViews, and so on, the enterprises management behaviour is becoming more efficiently and accurately.

2 CURRENT STATUS OF RESEARCH ON CORPORATE VALUE CREATION

The emergence of the ESG concept has accelerated the impact on the shareholder supremacy's mainstream of the long dominant. The Shareholder Supremacy insists on the view that administrator only needs to be accountable to its shareholders, to generate residual income for them and thus achieve the goal of profit maximization. Then the Stakeholder Supremacy has further captured the discourse on the meaning of enterprise value creation.

Stakeholder Supremacy didn't deny the former view, and it thought the traditional scope of enterprise value creation is too superficial and narrow. In addition to ESG, Triple Bottom Line also provides a solid theoretical basis for the broadening of the scope of this doctrine, which believes that only the enterprise that create economic, social, and environmental values (HUANG 2021) and contribute to social progress in this way are sustainable

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enterprises. Therefore, in order to respond to the development of the times, what enterprise have to do today is to let their hidden social and environmental value creation requirements come to the surface, and not only the pursuit of economic value.

However, there is still disagreement among academics on the scope of enterprise value creation enriched by Stakeholder Supremacy, and the point of contention that prevents full agreement is whether the new scope of corporate value creation is a complement or an addition to the traditional economic value creation, and the findings can be summarized into two broad categories.

One type of conclusion is that cost is a factor that must be taken into account when an enterprise creates value, and that value creation under the new category may result in a significant increase in the costs and an increase in resource consumption of the enterprise, which, on the contrary, has a negative impact on the long-term profits of the enterprise and damages the economic value originally created to obstacle the sustainable development of the enterprise. Another type of conclusion says, while realizing value creation under the new category, the enterprise also builds a positive image for itself, which can increase its visibility and obtain policy support in the long run, thus contributing to increased profits and further realization of value creation in the traditional economy.

As the quest for the sustainable development grows, the above-mentioned controversial point is the impact of the new scope of enterprise value creation on the traditional economic value creation, that needs to be clarified. After analysing the points of contention, this paper argues that the difference in the quality of the indicators chosen to measure corporate value creation is the key point of disagreement in the research findings and the reason why corporate value creation under the new scope is not yet universally accepted.

Based on the ESG concept framework and Triple Bottom Line, this paper will select representative indicators based on the nature of corporate value creation under the new scope, and further prove that the realization of corporate value creation under the new scope does not conflict with the connotation of corporate value creation, but brings positive analysis to it, thus promoting the long-term sustainable development of enterprises.

3 RESEARCH HYPOTHESIS

At this stage, with the development of the concept of the sustainable development and the peak carbon dioxide emissions and carbon neutrality goals, the new scope of corporate value creation is attracting more and more attention, and the demand of various stakeholders for such information is gradually expanding, which makes enterprises pay more and more attention to the disclosure of their own comprehensive value realization. In order to measure this integrated value, various new types of integrated indicators have emerged to evaluate the creation of economic, social, and environmental values of enterprises.

However, due to the diversity of the connotation of corporate value creation under the new scope, the lack of common and unified standards for the measurement of indicators by rating agencies, and the considerable discretion of administrators in disclosing such information, there are a lot of greenwashing in many new comprehensive indicators.

Based on the above analysis, this study uses the ESG concept framework for measuring corporate value creation under the new scope, and selects relevant raw factors data from three perspectives respectively, social, environmental and corporate governance, to show its comprehensive value creation.

3.1 Corporate Social Responsibility and Financial Performance

From the social point of view, enterprises can accumulate a good reputation and gain the trust of relevant stakeholders through the long-term performance of social responsibility, while effectively reducing the instability and uncertainty of their future development, enterprise-wide risk and idiosyncratic risk, and also has a stabilizing effect on stock market prices. This not only helps to reduce the economic losses caused by the volatility of the enterprise, but can further lead to an increase in financial performance. According to the above analysis, this research proposes hypothesis 1:

H1: Corporate social responsibility performance and corporate financial performance has s positive correlation.

3.2 Corporate Environmental Protection and Financial Performance

From an environmental perspective, based on Michael Porter's Porter Hypothesis, appropriate environmental regulation can effectively improve the productivity of enterprises, and the increase can be fully offset by the cost of doing for this. Enterprises to establish the concept of environmental protection to increase environmental protection behaviours (LI 2022), which helps to save resources consumption in operations, green technology innovation capabilities and the economic transformation of ecological benefits, and all this will lead to an increase in the economic efficiency of the enterprise. According to the above analysis, this research proposes hypothesis 2:

H2: Corporate environmental protection performance and corporate financial performance has s positive correlation.

3.3 Corporate Governance and Financial Performance

From a corporate perspective, corporate governance is a series of institutional arrangements that serve the creation of corporate value, and good corporate governance can promote the standardization of its operations (YANG 2020). On the one hand, it helps to improve the quality of internal and external controls and the accuracy and efficiency of decision-making; on the other hand, effective management and balance between stakeholders can reduce transaction costs and thus increase the economic gains of the enterprise. In order to realize the role of corporate governance in promoting value creation, it is necessary to change to a shared governance model, so that ownership of the enterprise can be dispersed to all stakeholders in an orderly manner and avoid the Tunnel Effect caused by the concentration of large areas of equity. According to the above analysis, this research proposes hypothesis 3:

H3: Corporate equity concentration and corporate financial performance has s negative correlation.

4 RESEARCH DESIGN

4.1 Sample Selection and Processing

In March 2021, World Economic Forum released a white paper called *ESG Report: Helping China Take Off to Gather Momentum and Win Together* with PwC China. *ESG Practice Roadmap under The Peak Carbon Dioxide Emissions and Carbon Neutrality Goals and Evaluation Report on the Development of Chinese Listed Enterprises (2021)* has published by Southern International Forum of Finance and Economics in December. Both of them studied the ESG performance of listed enterprises in China and gave evaluation and suggestions on their current development status and future development direction. The release of successive heavyweight ESG documents signifies that the concept and its framework have become a signpost for the sustainable development path of Chinese companies, as well as a guide for enterprises to achieve value creation under the new scope.

According to the above reports Secondary Sector of Economy is more perfect in disclosing information related to ESG concept. And industries of that area are all heavyweight players in achieving the peak carbon dioxide emissions and carbon neutrality goals, so starting them can provides a relatively abundant data base for this study on the one hand, and it will has practical significance for Chinese enterprises to promote sustainable development on the other.

Therefore, this research selects the 2014-2020 data of listed enterprises from the above industries Shenzhen A- Main-Board share market as the research sample using the CSRC's Industry Classification Guidelines for Listed Enterprises (2012) as the standard. This research also takes the following treatments on the data: firstly, the sample of enterprises with ST status in the year interval is excluded; secondly, the sample of enterprises with missing observations is excluded, and finally 208 enterprises with a total of 1,456 sample values are obtained.

4.2 Variable Definition

4.2.1 Predicted Variable

Domestic and foreign scholars have taken a multi-industry sample of enterprises, and through research and analysis of common indicators such as ROA and ROE, it has been demonstrated that Economic Value Added (EVA) can reflect a more realistic and effective corporate financial performance compared to traditional financial performance measures (LI 2022). Therefore, this research adopts EVA as predicted variable to measure corporate financial performance based on the CSMAR database.

4.2.2 Explanatory Variable

In 2008, the Shanghai Stock Exchange issued *The Notice on Strengthening the Social Responsibility of Listed Enterprises*, in which the concept of Social Contribution Value per Share was introduced for the first time, and this indicator integrates the contribution of enterprises to various interest groups in society. Therefore, this research adopts Social Contribution Value per Share as an explanatory variable to measure the performance of corporate social responsibility based on the CSMAR database.

The annual environmental performance of an enterprise can be clearly and intuitively reflected by whether the enterprise receives annual environmental honours or reward or not, and this can be used as a variable to represent the environmental protection performance of the enterprise. Therefore, this research sets a dummy variable to represent the enterprise got an honour or a reward or not as a measure of environmental protection performance based on the CSMAR database.

In this research, based on the CSMAR database, the shareholding ratio of the first largest shareholder is selected as an explanatory variable to measure the concentration of corporate equity.

In addition, total corporate assets, gearing ratio, and total asset turnover ratio were selected as controlled variables based on the CSMAR database.

Types	Implication	Label	Factors
Predicted Variable	financial performance	EVA	Economic Value Added
Explanatory Variable	social responsibility performance	Social Contribution Value per Share	Value added per share generated by the enterprise for the society
	environmental protection performance	Environmental Reward	set a Dummy Variable
	equity concentration	TOP1	the shareholding ratio of the first largest shareholder
Controlled Variable	Enterprise Scale	size	Total Assets
	Debt-Paying Ability	lev	Debt to Asset Ratio
	Operation Capability	tat	Total Assets Turnover

Figure 1: Variable Definition.

4.3 Research Model

This research builds up the following model (1) based on the above analytical theoretical analysis and assumptions:

$$EVA=\alpha_0+\alpha_{1*}(\text{Social Contribution per Share})+\alpha_{2*}(\text{Environmental Rewards})+\alpha_{3*}(\text{TOP1})+\alpha_{4*}(\text{size})+\alpha_{5*}(\text{lev})+\alpha_{6*}(\text{tat})+\varepsilon 1 \quad (1)$$

α_0 is the constant term; α_i (i =1 to 6) is the coefficient of each variable; and ε_1 is the error term. In this research, the sample data were standardized before further positive analysis.

The following positive analysis will be conducted using Multiple Regression model by SPSS software.

5 POSITIVE ANALYSIS

5.1 Descriptive Statistical Analysis

Figure 2 shows the results of the descriptive statistical analysis. the maximum value of EVA is 21436.39, the minimum value is -9639.90, and the variance is 1912.53, indicating that there are significant differences in the level of financial performance of the companies within the selected sample, and the development of each industry is very different. Among the explanatory variables, the shareholding ratio of the first largest shareholder is 89.99% at the maximum and 3.62% at the minimum, with the average of 34.37%, which shows that the concentration of equity among corporates is not uniform.

Variable Label	Sample Size	Minimum	Maximum	Average	variance
EVA	1456	-9636.90	21436.39	240.61	1912.53
Social Contribution Value per Share	1456	-7.44	27.78	1.65	2.02
Environmental Reward	1456	0	1	0.2	0.397
TOP1	1456	0.0362	0.8999	0.3437	0.1488
size	1456	607.48	424256.81	23138.65	41866.81
lev	1456	0.04	1.96	0.47	0.19
tat	1456	0.01	3.57	0.71	0.49

Figure 2: Descriptive Statistical.

5.2 Correlation Analysis

The correlation matrix in Figure 3 shows that EVA is significantly and positively correlated with Social

Contribution per Share at the 1% level, and EVA is also significantly and positively correlated with Environmental Rewards at the 1% level, tentatively verifying hypotheses 1 and 2.

Variable Label	EVA	Social Contribution Value per Share	Environmental Reward	TOP1	size	lev	tat
EVA	1						
Social Contribution Value per Share	0.438**	1					
Environmental Reward	0.145**	0.11**	1				
TOP1	-0.005	0.097**	0.033	1			
size	0.34**	0.275**	0.262**	0.045	1		
lev	-0.067*	0.006	0.066*	0.104	0.301	1	
tat	0.103*	0.163**	0.017	0.139**	-0.017	0.054*	1
Notes: ** indicates significant at 1% level							
* indicates significant at 5% level							

Figure 3: Correlation Matrix.

5.3 Multicollinearity Analysis

The samples were tested for multicollinearity, and as shown in Table 4, the mean the average of VIF were much less than 10 and the 1/VIF were all close to 1, indicating that there was no multicollinearity between the explanatory variables.

Variable Label	1/VIF	VIF
Social Contribution Value per Share	0.882	1.133
Environmental Reward	0.929	1.075
TOP1	0.965	1.035
size	0.782	1.277
lev	0.889	1.124
tat	0.949	1.053

Figure 4: Multicollinearity Test.

5.4 Multiple Regression Analysis

By multiple regression analysis of the samples yielded Figure 5, the coefficients of Social Contribution Value per Share, Environmental Reward and TOP1 were significant at the 1%, 10%, and 5% levels respectively. The coefficient α_1 was positive for Social Contribution Value per Share, α_2 was positive for Environmental Reward, and α_3 was negative for TOP1. As well as it demonstrated the social responsibility performance and environmental protection performance both have a positive correlation with financial performance in an enterprise. And the corporate equity concentration and its financial performance has s negative correlation. Therefore, hypotheses 1, 2, and 3 were all valid.

5.5 Robustness Analysis

To ensure the robustness and reliability of the study results, the control variable of operating income growth rate is added to model (1), and turned to model (2) for testing. As can be seen from Figure 5, the coefficients of the predicted variable EVA and the explanatory variables Social Contribution Value per Share, Environmental Reward, and TOP1 in the model (1) are still significant at the 1%, 10%, and 5% levels. The original hypotheses remain valid through the robustness test.

$$\text{EVA}=\beta_0+\beta_{1*}(\text{Social Contribution Value per Share})+\beta_{2*}(\text{Environmental Rewards})+\beta_{3*}(\text{TOP1})+\beta_{4*}(\text{size})+\beta_{5*}(\text{lev})+\beta_{6*}(\text{tat})+\beta_{7*}(\text{income growth rate})+\varepsilon_2 \quad (2)$$

	EVA	
Variable Label	Model (1)	Model (2)
Social Contribution Value per Share	0.35***(-0.844)	0.35***(14.658)
Environmental Reward	0.043*(14.668)	0.043*(1.851)
TOP1	-0.045**(-1.994)	-0.045**(-2.003)
size	0.283***(11.182)	0.283***(11.189)
lev	-0.156***(-6.556)	-0.156***(-6.571)
tat	0.065***(2.820)	0.065***(2.795)
Sample Size	1456	1456

Notes: *** indicates significant at 1% level
** indicates significant at 5% level
* indicates significant at 10% level
( ) data is the t-statistic

Figure 5: Multiple Regression & Robustness Test.

5.6 Results and Discussions

Based on the ESG concept framework, the following conclusions and suggestions are drawn from the above research conducted by SPSS software. Enterprise managers should be good at building appropriate economic models to control the business and development situation before and after the event, and have a global grasp of it, so as to achieve efficient and accurate management.

Corporate social performance and financial performance are positively correlated, and good social performance can improve corporate economic performance to a certain extent. Corporate environmental performance is positively related to corporate financial performance. Environmental protection behaviour recognized by the policy will bring considerable economic value-added to enterprises. The higher the concentration of equity, the lower the level of financial performance. Diversification of equity can effectively avoid undesirable governance performance.

Enterprises should actively assume social responsibility so as to promote the achievement of their economic goals and enhance corporate value. Enterprises should actively participate in environmental protection and establish a positive image of low carbon and environmental protection, which in turn will get the policy support and positively influence their financial performance. A reasonable degree of standardization of the governance system will effectively reduce non-systematic risks of enterprises, avoid internal fluctuations and achieve smooth long-term operation of enterprises. Enterprises should make reasonable allocations of assets, liabilities, and related equity, and regularly evaluate their debt-paying ability, profitability, operating ability, development level, and risk level to reduce uncertainty and enhance their coping capacity.

Through the three perspectives of social, environmental, and corporate governance, and with the help of a large number of representative raw factors data we have conducted research and analysis on corporate value creation under the new scope, and confirmed that the comprehensive realization of economic, social, and environmental values is not a substitute for the traditional value creation, but an addition to the maximization of profits. The integrated value creation connotation of the current stage of enterprises proposed by Stakeholder Supremacy which contains the economic value, social value, and environmental value is feasible.

6 CONCLUSIONS

With the support of various data analysis technologies and software for various economic models, the enterprise stakeholders become more accurate in grasping the overall situation, administrators become more disciplined in their behaviours, and the enterprise operations become more efficient. Nowadays, the realization of integrated value creation by Chinese enterprises can not only promote their long-term pursuit of sustainable development, but also promote the achievement of China's the peak carbon dioxide emissions and carbon neutrality goals, and then move towards the direction of the sustainable development of the whole society.

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