Frontiers in Business, Economics and Management
ISSN: 2766-824X | Vol. 17, No. 1, 2024

A Study on the Impact of ESG Invest on Enabling Businesses to Transform During Difficult Economic Times

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Abstract: How to transform the economy of enterprises in difficult period based on ESG has become the focus of academic attention. Research shows that ESG investments help companies transform in difficult economic times by reducing the pressure on financing. Further analysis shows that ESG investment has a more significant positive impact on high-innovation and labor-intensive firms than low-innovation and labor-intensive firms. Especially in the case of poor business environment, the positive correlation between ESG investment and enterprise development is more prominent. Based on this, we put forward a series of policy recommendations, including improving the ESG investment system, releasing its diversified enabling role, and formulating personalized development strategies for enterprises in difficult times, aiming at providing effective guidance for enterprises' economic transformation.

Keywords: Enterprises in difficult times, Financing constraints, Economic transformation, ESG invest.

1. Introduction

In the current society, the problems of environmental pollution control, social responsibility fulfillment and internal governance of enterprises have attracted much attention. With the deepening of globalization and market economy, the concept of sustainable development and corporate social responsibility has become the focus of public attention. The concept of ESG (Environmental, Social and Governance) is based on corporate social responsibility (CSR). Since the 1930s, CSR information disclosure system has gradually been adopted by enterprises and has become an important part of enterprise development strategy. CSR encompasses multiple dimensions such as community and employee relations, product quality, environment, human rights and diversity. Although many studies equate CSR and ESG, ESG is more clearly defined and plays a key role in promoting sustainable development of enterprises and achieving win-win economic and social benefits.

ESG performance is a comprehensive evaluation method of environmental, social responsibility, and governance performance, which can more effectively stimulate the confidence of the government, investment institutions, and business entities in the ESG concept and is the exploration journey of the family business to implement the green development concept and dual-carbon strategy [3].

Research has shown that companies with good ESG performance are generally more financially sound, mainly due to the intrinsic link between ESG and corporate economic transformation. M. Wu [4] show High ESG performance can help second-generation successors gain recogni-tion from minority shareholders. It can not only help improve the involvement of the second- generation, but also enhance the trust of stake-holders, offering rich information and resources, which will help increase the firm value. Atif [5] show Enhancing ESG performance can effect the value creation by influencing the behavior of the firm’s key players and the high quality fulfillment of contracts with stakeholders. Good ESG performance can create broader value for stakeholders, attract external investors to bring more resources to the enterprise, promote the enterprise to invest in R&D innovation, and improve the level of digitalization [10]. Although investors are increasingly concerned about the environmental and social responsibility performance of companies, the specific practice of ESG concepts still needs to be further developed. What should be particularly focused is the moral behaviors inside the enterprise. If ESG performance contains sustainability information, it can be used by investors to predict future financial performance, as stated in hypothesis [2]. Enterprises should pay attention to the role of ESG performance in their value-creation process and fully implement ESG concepts in all aspects of production and operation. To gain an advantage in fierce market competition, companies still need to improve their ESG performance con-tinuously. They should also develop a scientific ESG practice plan according to their condi-tions and not blindly follow the experience of other companies. Strengthen communication with stakeholders, and establish a good reputation and image with the help of ESG signal transmission[9].The more enterprises pay attention to ESG practice and realize self-ESG performance optimization through collaborative governance, the more they will be able to show their good comprehensive strength and development potential, and the more they will be able to attract high-quality investors who pursue long-term returns, and the addition of such high-quality capital will rapidly improve the enterprise's anti-risk ability and steady growth.

However, some scholars pointed out that the implementation of ESG is not without challenges, and it requires a lot of resources, which may affect the economic efficiency and growth of enterprises. X. Z. Yang [17] show that ESG investment will occupy the development funds of enterprises, affect the operation ability of enterprises, and weaken the value of enterprises. Especially during the economic crisis, the market's concern about over investment can cause these companies to lose even more value. With the induction of capital market preference, enterprises with insufficient specifications in the aspect of morality may not take time to improve their levels of environmental governance and social governance. They tend to choose the short-term behavior of “fraudulent packaging” to cater capital market preference, and conduct “greenwashing” and other counter-feiting behaviors, which will definitely lead to the artificially excellent ESG performance [11]. Particularly in view of system-level “wicked” problems such as climate change and income inequality, investors want to understand the environmental and social impact of their portfolios and demand the measurement of exter-nalities beyond nonfinancial performance measures [13].

To sum up, although the existing literature has extensively discussed the impact of ESG on enterprise development and the influencing factors of enterprise economic transformation in difficult times, few studies have integrated ESG investment and enterprise economic transformation in difficult times into a unified framework for in-depth research. In fact, ESG investment is an important way for enterprises to relieve financial pressure and improve business level in difficult times, and has a direct impact on the economic transformation of enterprises. Therefore, this paper aims to discuss the impact of ESG investment on the economic transformation of enterprises in difficult times from the perspective of ESG investment, and comprehensively evaluate the mechanism of ESG investment on the economic transformation of enterprises from the perspectives of financing constraints, innovation level, specific industry and regional differences, so as to provide new references for policy formulation and enterprise management.

2. Organization of the Text

2.1. ESG Investing Can Empower Companies to Transform During Difficult Times

ESG investment helps companies transform during difficult times in terms of market competition, risk management, and stakeholder mitigation. Liu [15] show that some listed companies should focus on the benefits brought by ESG investment from the perspective of sustainable development, break the mindset that ESG investment will cost a lot of costs, and actively disclose ESG information to the society. Different from the traditional investment concept that puts profit first, ESG investment incorporates the ecological footprint and carbon trading of enterprises into the audit criteria for investment and financing. This investment approach aims to drive the development of a low-carbon economy and provide impetus for the transformation of the corporate economy in difficult times. From the perspective of investment and financing risk management, ESG investment not only contributes to the stability of the capital market, but also stimulates the economic transformation vitality of enterprises in difficult times. Specifically, Wang Linlin et al [14] show that ESG investment takes society, environment and governance as the core content of the rating system, forms a comprehensive constraint on the capital market, reduces the violation behavior of enterprises in daily operation, reduces the trial and error cost, thereby improving the risk management level of project investment and financing, and promotes the economic transformation of enterprises in difficult times. Responsible investing is widely understood as the integration of ESG factors into investment processes and decision-making. ESG factors cover a wide spectrum of issues that traditionally are not part of financial analysis, yet may have financial relevance. This might include how corporations respond to climate change, how good they are with water management, how effective their health and safety policies are in the protection against accidents, how they manage their supply chains, how they treat their workers and whether they have a corporate culture that builds trust and fosters innovation [12].

At the same time, ESG investing emphasizes communication and collaboration with stakeholders, including investors, employees, customers, suppliers and communities. Based on stakeholder theory, enterprises should not only pay attention to shareholders' rights and interests, but also balance the rights and interests of various stakeholders to achieve sustainable development. Freeman [1] shows the idea that successful companies are able to align the interests of all stakeholders to make them more sustainable. By building good stakeholder relationships, companies are able to get more support and resources to jointly tackle the challenges of difficult economic times. ESG investing emphasizes a company's environmental responsibility, social responsibility and governance structure, which helps companies to build a positive public image. Good ESG performance can enhance consumer and investor trust, enhance brand value, and thus gain a competitive advantage in the market. At the same time, ESG investment emphasizes the evaluation of enterprises' green business performance, development potential and risk expectations, so as to convey the signal of sustainable development of enterprises to external investors and enhance the social reputation of enterprises in difficult times. This will help enterprises attract more input from individual investors, social capital and stakeholders, expand the fault-tolerance and trial-and-error space of their business behavior, gradually enhance the growth and comprehensive strength of enterprises, and achieve economic transformation.

In terms of market competition, ESG investment has a "back forcing" mechanism, which can promote the economic transformation of enterprises in difficult times. ESG investment products tilt limited credit resources to enterprises with high environmental benefits, bring competitive pressure to some difficult enterprises with low environmental benefits, and urge them to develop environmental protection products and create new growth points, so as to achieve economic transformation. At the same time, the environmental benefit requirements of ESG investment urge enterprises to increase environmental management expenditure, bring potential resource advantages and expected market competitiveness for enterprises, and further promote the economic transformation of enterprises in difficult times. ESG Investment provides diversified financing channels for enterprises in difficult times and provides financial support for their green development projects by providing financial products such as bonds and funds. This kind of financial support not only increases the capital liquidity of enterprises, but also helps enterprises to choose more projects with low risk and long return cycle, thus reducing the proportion of risky investment, curbing the short-sighted behavior of management, strengthening external risk management, and further accelerating the process of economic transformation.

2.2. ESG Investment Helps the Economic Transformation of Enterprises in Difficult Times by Easing Financing Constraints

In the difficult economic period, enterprises, especially those facing financial pressure, have the problem of financing constraints. Financing constraints not only limit the investment ability of enterprises, but also affect their necessary economic transformation and innovation activities. ESG investments are usually accompanied by an evaluation of a company's sustainability capabilities. If an enterprise can show good ESG performance, release signals to the government, investors and the public, win the trust and support of all stakeholders, and help the enterprise obtain resources, it can increase its attraction to investors, thus reducing financing costs, improving financing efficiency, easing financing constraints, achieving a virtuous cycle between the enterprise and the company's financial status, and improving the efficiency of value creation [7].

ESG investment alleviates corporate financing constraints in terms of green transformation, increasing reputational costs, and increasing corporate cash flow, thus helping enterprises transform in difficult times. ESG performance can help firms obtain resource support from stakeholders by enhancing corporate reputations [6]. The growth of ESG investments has led to the development of sustainable financial products, such as green funds, ESG index funds, etc., providing companies with diversified options beyond traditional financing channels. These products often have clear requirements for customers' environmental performance, which may prompt companies that are not environmentally efficient to re-examine their production processes and seek a green transformation. The practice of ESG investment, which makes a firm's green performance and green productive capacity a basic condition of capital injection, has a reputational cost impact on financial and insurance institutions. In order to gain access to green cooperation, opportunities related to ESG investments, some enterprises in difficult times may choose to mortgage or pledge their fixed assets, thereby further enhancing their external financing capacity. This enhanced ability of capital conversion enables enterprises to invest in more green production projects, solve financing problems in green product research and development, seize green market share, and achieve economic transformation. At the same time, ESG investment-related products usually have the development purpose of long-term profit, which provides investors with stable income protection under economic downward pressure. Therefore, these products can attract idle funds of enterprises in difficult times and enhance the stability of the business sources of assets and liabilities of enterprises. This not only improves the success probability of enterprise equity offering, but also effectively reduces the internal financing constraints, so that enterprises can more freely carry out business expansion, product research and development, transformation and upgrading, and finally achieve economic transformation.

At a time when consumers and investors are increasingly concerned about sustainability, good ESG performance can be a competitive advantage. This helps companies to better position themselves in the market and attract more customers and investments, thereby maintaining or strengthening their market position in difficult times.

2.3. The ESG Performance of Non-Labor-Intensive Firms Is More Conducive to Economic Transformation in Difficult Times

Non-labor-intensive firms, those that rely more on physical capital and technology in production and services, and less on human resources, have unique advantages in ESG performance, and these advantages play a key role in economic transformation during difficult times. As a result, the ESG performance of non-labor-intensive enterprises in difficult times has a greater impact on corporate performance, which may be because such enterprises are more focused on maintaining operations and employee welfare in difficult economic times, and it is difficult to invest additional resources to improve ESG performance. In addition, such enterprises may be more dependent on traditional production models and may be slower to respond and be effective to ESG practices.

Non-labor-intensive enterprises have more advantages in material capital, technological input and labor cost in difficult times, which is more conducive to their economic transformation. First of all, such enterprises usually have strong R&D and innovation capabilities due to their high material capital and technical investment in the maturity period. Under the ESG framework, these companies are able to improve their ESG performance without increasing costs through technological innovation to improve resource efficiency and reduce environmental impact. This ability to innovate allows non-labor-intensive companies to quickly adapt their products and services to new market demands and regulatory requirements in the face of market and environmental changes. Cicchiello et al [8] show that External governance char-acteristics include industry competition and government intervention. In highly com-petitive industries, companies need to strategically replan their ESG behaviors to help them achieve a differentiated competitive strategy through improved ESG performance. Non-labor-intensive companies tend to have more automated and informationized production processes, which gives them an advantage in data collection and analysis. Companies can use this data to monitor and improve their ESG performance, for example by monitoring energy consumption and emissions to optimize operations, or by analyzing supply chain data to improve supply chain sustainability. Second, because non-labor-intensive firms invest relatively little in human resources, they face less pressure on wage and benefit costs in times of economic hardship. This enables companies to devote more resources to ESG-related projects, such as research and development of green technologies and implementation of social responsibility projects, thereby enhancing their competitiveness and market position through ESG performance in difficult times.

To sum up, the ESG performance of non-labor-intensive enterprises in difficult times to enable the economic transformation of enterprises is mainly reflected in their innovation ability, data-driven decision-making, low human resource cost pressure and market signal transmission. These factors work together to make non-labor-intensive enterprises better able to carry out economic transformation and achieve sustainable development in difficult economic times.

3. Conclusions and Policy Recommendations

3.1. Conclusions

This paper explores in depth the impact of ESG investment on the economic transformation of enterprises in difficult times. The research finds that the practice of ESG still injects new vitality into the development of enterprises, and ESG investment provides new impetus for enterprises to transform during economic difficulties.

By improving the green operation performance, development potential and risk expectation of enterprises, ESG investment can not only reduce the financing pressure, but also improve the financial situation of these enterprises by enhancing their market competitiveness and social recognition, and effectively promote the economic transformation of enterprises. ESG investment enhances a firm's competitive advantage in the market, especially in terms of financing constraints. By providing diversified financing channels and financial support, ESG investment significantly reduces the financing cost of enterprises and improves the financing efficiency, thus providing financial support for the economic transformation of enterprises. When discussing the relationship between ESG performance and enterprise performance, financing constraints become a key moderating factor. Despite economic pressures, companies can still drive growth through ESG practices without violating the laws of economics. In the financial situation that does not cause a cash flow crisis, enterprises can continue to implement ESG to achieve a win-win situation of sustainable development and economic benefits. At the same time, labor-intensive enterprises have a more obvious impact on corporate performance through ESG practices in difficult times, which may be related to the fact that these enterprises pay more attention to the performance of employees' rights and interests, working environment and other aspects of social responsibility, thus enhancing their market competitiveness and social recognition.

To sum up, ESG practice plays an important role in the economic transformation of enterprises in difficult times. By easing financing constraints, enhancing market competitiveness and enhancing social recognition, ESG practice has brought new development opportunities for enterprises and promoted the sustainable development of enterprises.

3.2. Policy Recommendations

3.2.1. Government role and support

For companies in difficult times, the government plays an important role in promoting their ESG implementation. While emphasizing corporate social responsibility, the government should provide targeted policy support and assistance, such as tax incentives, financing facilities, etc., to ease the financial pressure of these enterprises and promote their steady development.

3.2.2. Enterprise strategy and image building

Enterprises should firmly adhere to the sustainable development strategy and integrate ESG concepts into every link of production and operation. By establishing and consolidating a responsible image in capital markets and product markets, companies can increase intangible assets and enhance brand value. In addition, optimizing the financing structure and improving the investment efficiency are also effective ways to alleviate the operating crisis.

3.2.3. Stakeholder engagement and financial support

In addition to the enterprises themselves and the government, other stakeholders such as investors, suppliers, customers, etc., should also actively participate in the governance of listed companies. They can evaluate the development prospects of enterprises according to their ESG performance, and provide more financial support and investment inclination for enterprises with excellent ESG performance. This can not only help companies reverse the trend of declining performance, but also promote the sustainable development of the whole society.

Acknowledgment

On the occasion of completing this research paper on the impact of economic transformation in difficult times for ESG-enabled enterprises, I would first like to thank my supervisor, Professor Yan, whose professional knowledge and rigorous academic attitude have provided me with valuable guidance for my research.

At the same time, I also want to thank Master Feng and Master Deng, who have provided me with a lot of useful advice and help in the process of my research. Dr. Feng gave me professional guidance in data collection and processing, while Dr. Deng provided valuable advice in the writing and revision process of the paper. I would also like to thank the faculty and students of the Business School of Hunan University of Science and Technology for providing a good academic atmosphere and resource support for my research. Especially my classmates, they gave me encouragement and help when I encountered difficulties, so that I could overcome many difficulties and finish this paper.

Finally, I want to thank my family, they have always been my strongest support. In the process of my research and writing my thesis, they gave me unlimited support and encouragement, so that I could devote myself to the research work. Thanks again to all the people who gave me help and support during my research. Without you, the completion of this paper would not be possible.

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