

STRATEGIES FOR CORPORATE ESG VALUE GROWTH

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Abstract

Integrating ESG with corporate development strategies, this approach analyzes aspects such as corporate governance, organizational culture, value strategies, and value creation. It explores methods for enhancing corporate value management through ESG, establishes ESG risk assessment and value accounting systems, utilizes sustainable financial instruments, and develops ESG supply chain management strategies. The goal is to enhance the value of corporate ESG management and promote the formulation of strategic development plans focused on long-term ESG objectives.

Keywords: Sustainable Development, ESG, Value Chain Management, Corporate Governance, ESG Risk Management and Control.

1. INTRODUCE

In *Cake Economics — The Underlying Logic of ESG Investment*, author Edmonds points out that only by "making a bigger cake" adopting a profit model centered on creating social value — can companies achieve more sustainable and stable development. In recent years, investment institutions have increasingly incorporated ESG factors into their investment decisions. A common ESG investment strategy is negative screening, where investors use ESG data disclosed by companies to score them within their investment models and exclude those with poor ESG ratings. Building an ESG investment mindset can help shareholders avoid black swan risks arising from non-financial factors and achieve long-term, sustainable, and stable returns.

2. METHODS

2.1 Establish an ESG Risk Control Model and Scoring System

Listed companies can refine and categorize social, environmental, and corporate governance risks based on the SASB framework, distinguishing between controllable and uncontrollable risks, and set up a scoring card. The specific steps include:

First, studying sector-specific factors within the industry.

Second, based on key issues and corporate risks, breaking down indicators to build a scoring system. Following common practices, scores are typically set on a scale from 0 to 5, and companies are evaluated accordingly.

Third, collecting and managing ESG-related information to control non-financial risks, establishing a dynamic indicator system that adjusts over time. This system should incorporate external ratings and regulatory requirements, adding process monitoring indicators such as greenhouse gas emissions, water usage, or promotion fairness to promptly identify potential ESG risks within the company.[1]

2.2 Disclose Corporate Carbon Emission Data

Companies should establish carbon emission control systems to support their green strategic goals and enhance corporate value.

First, direct carbon emissions should be classified as "Scope 1."

Second, carbon emissions from electricity consumption should be categorized as "Scope 2."

By comparing carbon emission data across industries, companies can identify areas for improvement and participate in carbon trading. Regular disclosure of carbon emission intensity helps set corporate performance evaluation metrics, promoting energy conservation, emission reduction, cost savings, and value enhancement. Additionally, ensuring data transparency increases public trust and attracts investment.

2.3 Leverage Financial Policy Support

In the field of green finance, financial institutions are increasingly directing loans toward major projects in green infrastructure, low-carbon technological innovation, energy conservation and emission reduction in industries, and the efficient use of clean energy. Companies can utilize relevant financial policies to expand financing channels, enhance their opportunities to integrate into the financial supply chain, and ultimately boost corporate value.

2.4 Corporate ESG Internal Data Management

Companies need to sort through their existing data assets, categorizing and integrating financial data, business operation data, and ESG data. They should fully utilize collected operational and value chain data to identify relevant information and calculate carbon emission data. By setting KPI targets, companies can control emissions and apply valuation methods that adjust the price-to-earnings (P/E) ratio using carbon risk premium indicators related to carbon emission rights, environmental sustainability, and climate change impact factors.

Among these factors:

- Climate Change Impact Factors refer to the interconnectedness and causality of various climate-related disaster events, often leading to the occurrence of compound disasters. Companies can consider using a climate risk assessment framework based on CID (Climate Impact Degree) to estimate the probability of climate risks associated with their operations, with scores ranging from [0,1].
- Environmental Sustainability Factors represent the compound probability of factors affecting environmental sustainability; this factor may exceed 1.
- Carbon Emission Rights Factors indicate the amount of carbon emissions generated per unit of energy during the combustion or use of different types of energy sources.

3. RESULTS

3.1 Incorporating ESG Considerations into Investment Valuation Methods

Investment institutions are integrating ESG considerations into their existing valuation methods and procedures. Through various quantitative models, they convert ESG financial information into value measurements and establish a mechanism for transmitting ESG factors to corporate value. For companies to gain high external recognition, they must ensure high-quality financial data.

Firstly, ESG key factors are considered from both the financial forecasting and valuation parameter perspectives in valuation models.

Secondly, tools such as scenario analysis are used to incorporate ESG factors into corporate value assessments.

3.2 Establishing an ESG Key Factor Valuation System

ESG key factors are included in the cash flow forecasts' discount rate to achieve corporate value estimation. Since different industries, regions, and regulations have distinct characteristics, the ESG

factors that significantly affect companies vary. Identifying ESG impact factors for different industries and quantifying them individually can prevent excessive cash flow adjustments.

For example, for a new energy vehicle manufacturer, identifying its key ESG factors and adjusting cash flow projections accordingly is important.

Forecasting Period: ESG investments usually have a negative short-term impact on cash flows but a positive long-term impact on corporate value. Therefore, it is advisable to extend the forecast period based on traditional cash flow forecasts, with the extension not exceeding the project's benefit period.

Perpetual Value: The quality of ESG performance can be reflected in different perpetual growth rate levels. For instance, a new energy vehicle manufacturer with industry-leading R&D and technological innovation capabilities tends to have higher long-term growth potential and value. Thus, using a higher-than-industry-average perpetual growth rate is recommended, with the growth rate forecasted using the compound growth rate method, capped at 50% of the industry average.

Discount Rate: The weighted average cost of capital (WACC) method is typically used to calculate the discount rate for corporate valuation. Good ESG performance helps companies resist market shocks better and lowers systematic risk (Beta). Therefore, ESG characteristics should be incorporated into comparable company screening to identify similar publicly listed companies. Additionally, integrating ESG principles into strategy can reduce specific risks (Alpha), making such companies more likely to secure financing at lower interest rates due to their brand value and reputation.

3.3 Establishing an ESG Value Accounting System

Clarify the overall corporate value creation goals, generally referring to annual financial budget indicators for determination. ESG factors such as the rate of recycling energy use and the negative energy screening ratio are incorporated into long-term indicators and integrated with financial models like DuPont analysis, CAPM, Fama-French three-factor model, DCF model, and leveraged buyout models. This comprehensive analysis links ESG indicator changes to financial performance and discloses non-financial objectives and their impact on corporate performance and society. Additionally, the impact of ESG indicator changes on financials, such as the effect of employee engagement changes on revenue, is calculated.[2]

3.4 Establishing an ESG Adjustment Factor Scenario Analysis Model

A scenario analysis model is established to incorporate ESG factors into corporate value assessments. The influence of ESG key factors on corporate value is, to some extent, affected by policies, supply-demand dynamics, and corporate strategic decisions, creating uncertainty. Given this, scenario analysis can be used to simulate and analyze the impact of ESG key factors on corporate cash flow under different scenarios and then apply a weighted average to obtain the adjusted corporate value. For example, in the automotive manufacturing industry, major ESG factors such as the promotion of new energy vehicle policies and the growing consumer environmental awareness have a negative impact on the sales of high-fuel-consumption gasoline vehicles.

4. DISCUSSION

4.1 Integrating Sustainability into Corporate Operations

Enterprises should integrate the concept of sustainable development across all stages, including product development, production operations, and supply chain management. For instance, during the product development phase, the use of environmentally friendly materials should be considered; in the production process, green manufacturing practices should be promoted; and in supply chain management, suppliers with excellent ESG performance should be selected. By embedding ESG

principles throughout the company's entire production cycle, enterprises can shift from focusing solely on maximizing economic profits to maximizing the interests of stakeholders. This helps to build a long-term development strategy, enhance the company's brand image, and improve overall market competitiveness.

4.2 Promoting Organizational Capability in ESG

Enterprises should fully integrate ESG into their development strategies, corporate culture, governance, risk management, and operational management, combining social, economic, and ecological benefits to establish a sustainable corporate governance structure. Starting from top-level design, an ESG committee led directly by the board of directors should be established, with management driving the ESG committee's related work and various functional departments participating in the ESG governance system. At the same time, a multi-dimensional ESG data management system should be created to comprehensively identify and assess risks and opportunities in environmental, social, and governance areas. The assessment results should be allocated to key business areas through resource allocation, and responsibilities should be assigned to specific positions to continuously improve ESG performance.

4.3 Promoting ESG Innovation in Business Development

The scope and depth of ESG disclosure requirements are expanding. It is no longer just about disclosing outcome data; companies are also required to disclose management logic, systems, and forward-looking forecasts. Enterprises need to gradually quantify the impact of sustainability issues on financial indicators and operational performance, using big data to analyze various scenarios. Through quantitative analysis models, ESG's three main dimensions, core issues, specific indicators, and key performance points should be combined to create ESG innovation concepts suitable for industry development. For example, in its 2023 ESG report, Kweichow Moutai proposed a "Five-line" high-quality development strategy and ESG strategic goals, including "Beautiful Environment," "Social Responsibility—Products," "Beautiful Style," and "Beautiful Rhythm." Similarly, Water Jiufang's ESG strategy includes "Respect Life," "Respect Partners," "Respect Society," "Respect Nature," "Respect the Future," and "Respect Stronger Beliefs."

4.4 Improving ESG Rating Management

Familiarizing with ESG Rating Rules

Enterprises must familiarize themselves with the rating rules of different ESG rating agencies and improve their own ESG rating report framework. Based on these results, they should disclose high-quality data analysis. For companies operating overseas, it is essential to understand the ESG requirements of the local markets, ensuring that ESG reports comply with international standards and address specific issues such as labor relations, data privacy, and carbon reduction.

Considering Industry Characteristics to Identify Key Issues

Enterprises should consider how their business models and industry classifications influence the identification of key ESG issues. For example, in its 2023 ESG analysis report, Cha Ba Dao listed "Franchisee Management" as a highly important issue, "Responsible Supply Chain" as a moderately important issue, and "Addressing Climate Change" as a general issue.

Integrating Comprehensive Risk Management into Corporate Operations

Enterprises should integrate ESG risk management into their overall strategic planning, conducting comprehensive risk control across business models, operational strategies, and financial indicators. They should deeply identify potential ESG risks and opportunities in areas such as energy saving, emissions reduction, waste reduction, and water conservation, seeking the optimal balance between product innovation and risk control.

Paying Attention to Public Opinion

Enterprises should assign a dedicated department to effectively manage negative information and avoid public relations risks. They should also publish positive ESG information through industry association websites and news media, ensuring they avoid “greenwashing.” Additionally, real-time monitoring of legal penalties, lawsuits, and major controversies should be conducted.

4.5 Utilizing Sustainable Finance Tools

State-owned banks have integrated ESG risk into comprehensive risk management and conducted stress tests on climate transition risks in carbon-intensive industries. ESG is incorporated into customer credit rating systems, and ESG risk management is integrated into the entire investment and financing process. Additionally, green finance products such as green bonds, green funds, green leasing, green insurance, and green financial consulting are continuously developed. Enterprises should be familiar with the policies of financial institutions and use products such as green finance to raise funds. Financial institutions not only support green finance but also support transition finance, which helps traditional industries move from high-carbon to low-carbon activities. Using tools such as green bonds and sustainability-linked loans, companies can obtain financial support for their sustainable development projects.

These financial products often link terms such as interest rate adjustments or early repayment triggers to specific ESG indicators, such as carbon emissions standards, energy efficiency metrics, or various indicator combinations. As such, enterprises will be impacted by climate change. Through issuing green bonds, companies can raise funds for environmental or renewable energy projects, integrating green transformation into the financial institution's value chain. Additionally, using sustainability-linked loans, companies can enjoy financing discounts tied to their ESG performance, reducing financing costs.

4.6 Strengthening ESG Financial Decision-Making Analysis

Enterprises may face multiple cash flow scenarios in the future, such as varying environmental regulations that may be enforced at different times or with varying degrees of stringency. Management may need to construct multiple forecasting scenarios during impairment tests to reflect these inherent uncertainties through probability-weight analysis. Typically, the uncertainties associated with these scenarios can be incorporated into cash flow forecasts, and for uncertainties not reflected in the cash flows, a specific risk premium should be added to the discount rate in the financial forecasting model. That is, the discount rate = risk-free rate + market risk premium + specific risk premium. The risk premium should be calibrated based on nature and amount of the uncertainty not fully reflected in the cash flow forecast.

Enterprises should consider the long-term value of ESG indicators when setting up quantitative performance tables, avoiding excessive focus on short-term financial indicators. For example, the total carbon emissions for “Scope 1” and “Scope 2” should be disclosed in the performance table, and each product line should specify “Greenhouse Gas Emissions Intensity (Emissions/Energy Product Total).” The table should also explain accounting standards, industry standards, and the types and sources of pollutant emissions (such as hazardous waste), along with relevant pollutant discharge indicators, including pollutant generation, disposal volume (e.g., incineration, landfilling), and recycling rates as absolute and relative indicators (percentage of total generated volume). At the same time, enterprises need to familiarize themselves with relevant laws and regulations both domestically and internationally, such as the EU Battery and Waste Battery Regulation for electric vehicle manufacturers, the EU Carbon Border Adjustment Mechanism, and the requirements to reduce carbon emissions throughout the entire product lifecycle.[3]

4.7 Formulating ESG Supply Chain Management Strategies

ESG focuses on long-term investment behavior from the investment side and emphasizes green, low-carbon, and environmentally friendly products from the consumer side. These two aspects jointly promote the enhancement of corporate ESG management. The supply chain serves as a bridge between investment and consumption, integrating environmental, social, and governance factors throughout the supply chain management process. During supplier admission, evaluation, and management, carbon footprint management should be well-utilized to ensure supply chain transparency, openness, and traceability. Additionally, suppliers should be evaluated based on indicators such as product safety, product quality improvement, and resource recycling levels. Suppliers who fail to meet ESG standards should be managed in a dynamic pool, and continuous improvement should be made to enhance their ESG management capabilities, promoting high-quality development throughout the entire industry chain.

In January 2021, Xtep established a Sustainability Committee, directly reporting ESG progress to the board of directors. ESG principles are embedded throughout the organization and daily operations. This strategic plan, effective from 2021 through 2030, focuses on three key issues: supply chain management, environmental protection, and social responsibility. It includes 12 themes, such as supplier evaluation, sustainable product innovation, water management, waste management, promoting sports, and social investments. Since the implementation of this strategy, the proportion of suppliers complying with ESG standards has significantly increased.

5. CONCLUSIONS

By practicing the ESG concept, enterprises can better fulfill their social responsibilities, achieving a balance between economic value and social value, while enhancing their soft power and competitiveness. By committing to ESG principles and responsibilities, companies actively build new productive forces and contribute to the improvement of social well-being.

Reference

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Түйіндеме

КОРПОРАЦИЯЛЫҚ ESG ҚҰНДАРЫН ӨСІРУДІҢ СТРАТЕГИЯЛАРЫ

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ESG (Экологиялық, Әлеуметтік және Басқарушылық) элементтерін корпоративтік даму стратегияларымен біріктіре отырып, бұл тәсіл корпоративтік басқару, ұйымдық мәдениет, құнды стратегиялар мен құн жасау сияқты аспектілерді талдайды. ESG арқылы корпоративтік құнды басқаруды жақсарту әдістерін зерттейді, ESG тәуекелдерін бағалау және құнды есептеу

жүйелерін құрады, тұрақты қаржылық құралдарды пайдаланады және ESG жеткізу тізбегін басқару стратегияларын әзірлейді. Мақсаты – корпоративтік ESG басқарудың құнын арттыру және ұзақ мерзімді ESG мақсаттарына бағытталған стратегиялық даму жоспарларын әзірлеуді ынталандыру.

Түйінді сөздер: Тұрақты даму, ESG, Құн тізбегін басқару, Корпоративтік басқару, ESG тәуекелдерін басқару және бақылау.

Резюме

СТРАТЕГИИ РОСТА КОРПОРАТИВНЫХ ЦЕННОСТЕЙ ESG

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Интегрируя ESG в корпоративные стратегии развития, данная статья анализирует такие аспекты, как корпоративное управление, организационная культура, стратегии ценности и создание ценности. Изучаются методы улучшения управления корпоративными ценностями через ESG, создаются системы оценки рисков ESG и учета ценностей, используются устойчивые финансовые инструменты и разрабатываются стратегии управления цепочкой поставок ESG. Целью является повышение ценности корпоративного управления ESG и стимулирование разработки стратегических планов развития, ориентированных на долгосрочные ESG цели.

Ключевые слова: устойчивое развитие, ESG, управление цепочкой поставок, корпоративное управление, управление рисками и контролирование ESG.

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