

ESG in China: A review of practice and research, and future research avenues

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ESG in China: A review of practice and research, and future research avenues



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ABSTRACT

This paper reviews the practice and research on environmental, social and governance (ESG) in China. It finds that (1) under China's top-down framework, ESG practices have grown substantially in ESG disclosure, ESG rating and ESG investing; and (2) ESG research has focused on corporate ESG disclosure and performance as well as ESG investing. Although the topics of the ESG studies reviewed in this paper are similar to those of ESG research in other countries, China's ESG research enriches international ESG research by showing two distinct characteristics, namely, the country's unique institutional context and the dominance of quantitative research methods. Future research can investigate ESG standards development and the impact of traditional Chinese ethics, modernization and internationalization on ESG in China.

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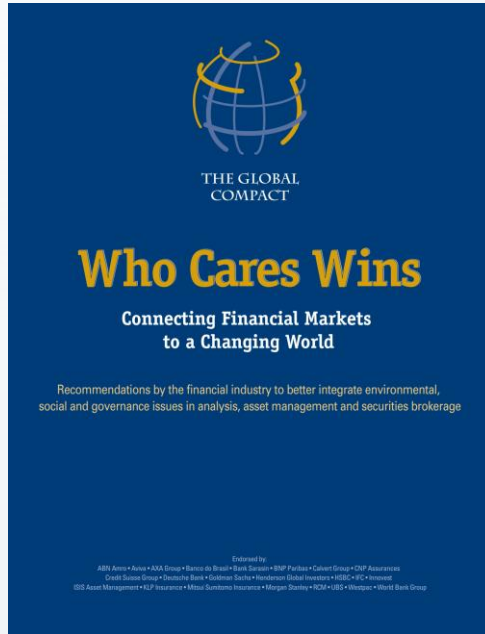
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- 4 Future research avenues

1 Introduction of ESG



Part One: Introduction of ESG



Financial Sector
Initiative
Who Cares Wins

Executive summary

This report is the result of a joint initiative of financial institutions which were invited by United Nations Secretary-General Kofi Annan to develop guidelines and recommendations on how to better integrate environmental, social and corporate governance issues in asset management, securities brokerage services and associated research functions. Twenty financial institutions from 9 countries with total assets under management of over 6 trillion USD have participated in developing this report. The initiative is supported by the chief executive officers of the endorsing institutions. The U.N. Global Compact oversaw the collaborative effort that led to this report and the Swiss Government provided the necessary funding.

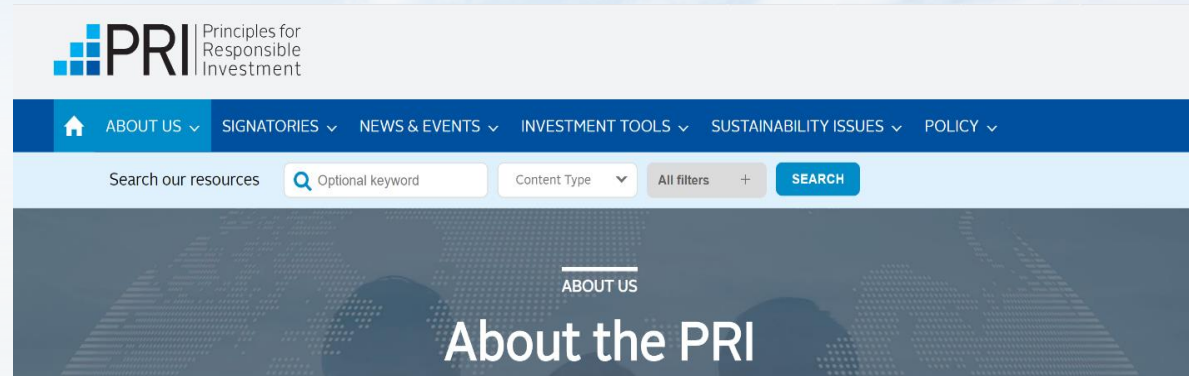
Part One: Introduction of ESG

Throughout this report we have refrained from using terms such as sustainability, corporate citizenship, etc., in order to avoid misunderstandings deriving from different interpretations of these terms. We have preferred to spell out the environmental, social and governance issues which are the topic of this report.

Sound corporate governance and risk management systems are crucial pre-requisites to successfully implementing policies and measures to address environmental and social challenges. This is why we have chosen to use the term “environmental, social and governance issues” throughout this report, as a way of highlighting the fact that these three areas are closely inter-linked.

In particular, we believe that corporate governance systems can play a key role in implementing many of the recommendations in this report, particularly with regard to better transparency and disclosure, linking executive compensation to longer-term drivers of shareholder value and improving accountability.

Part One: Introduction of ESG



How did the PRI start?

In early 2005, the then United Nations Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment. A 20-person investor group drawn from institutions in 12 countries was supported by a 70-person group of experts from the investment industry, intergovernmental organisations and civil society.

What are the six Principles for Responsible Investment?

The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

1

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

2

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

3

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

5

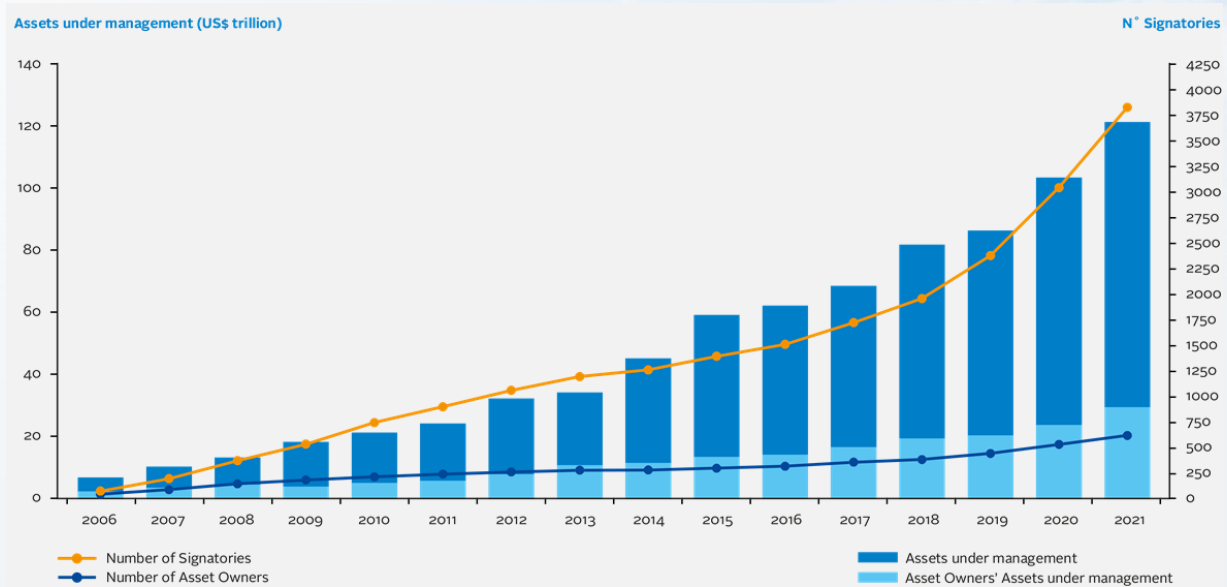
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

6

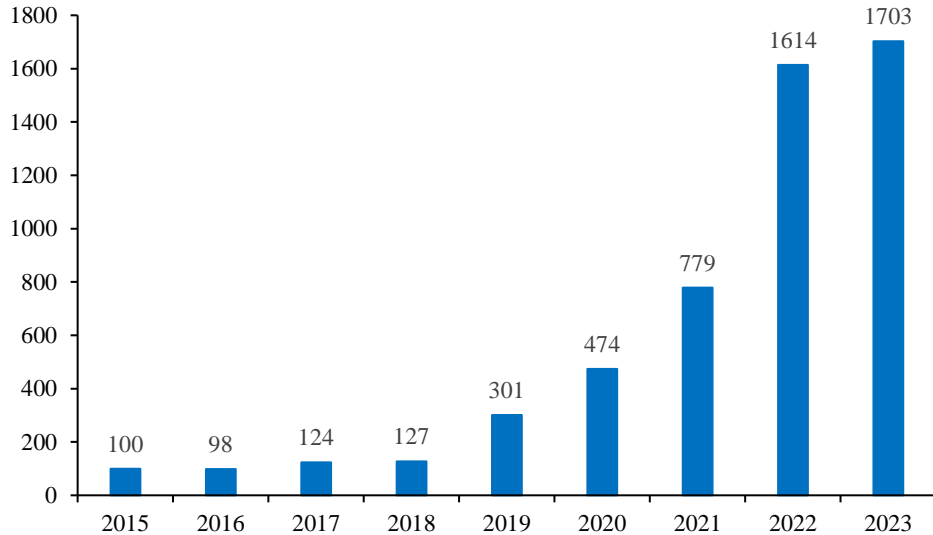
Principle 6: We will each report on our activities and progress towards implementing the Principles.

Part One: Introduction of ESG

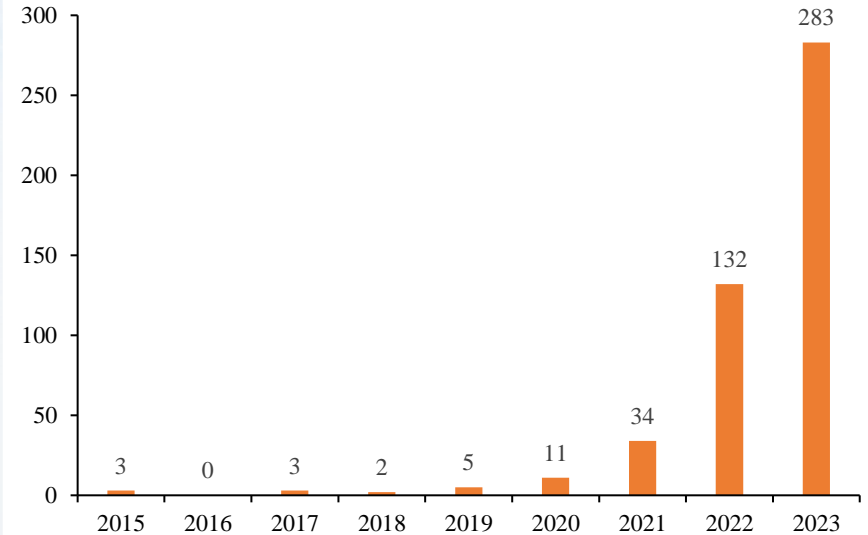
PRI Signing institutions and asset management institutions (2006-2021)



Part One: Introduction of ESG



Number of papers on the topic of "ESG"



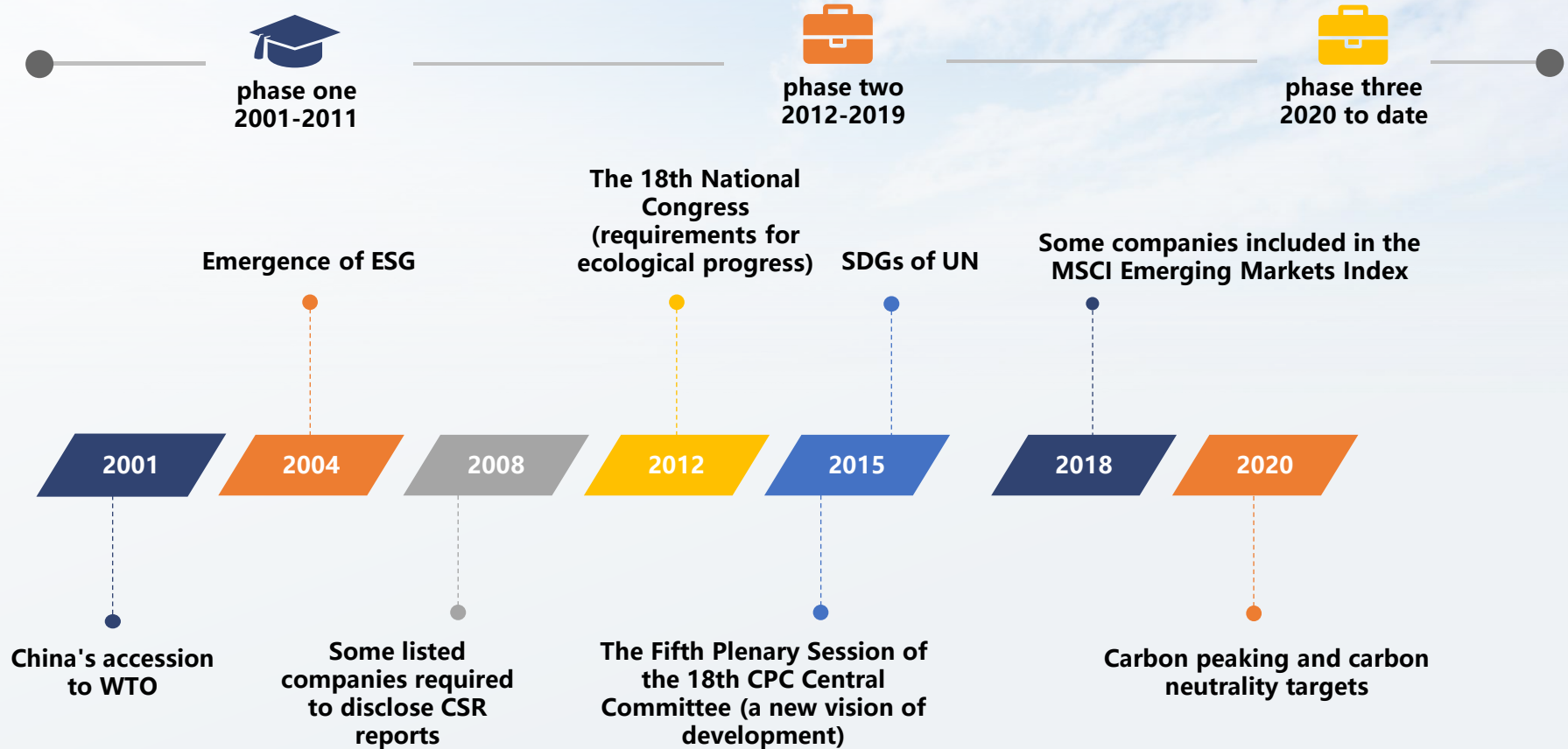
Number of papers on the topic of "ESG and China"

According to a search in the Web of Science database on March 15, 2024,
The number of papers on the topic of **"ESG"** rose rapidly from **100** in 2015 to **1,703** in 2023;
The number of papers on **"ESG and China"** rose from **3** in 2015 to **283** in 2023.

2 ESG practice in China



Part Two: ESG practice in China





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2.1 ESG disclosure

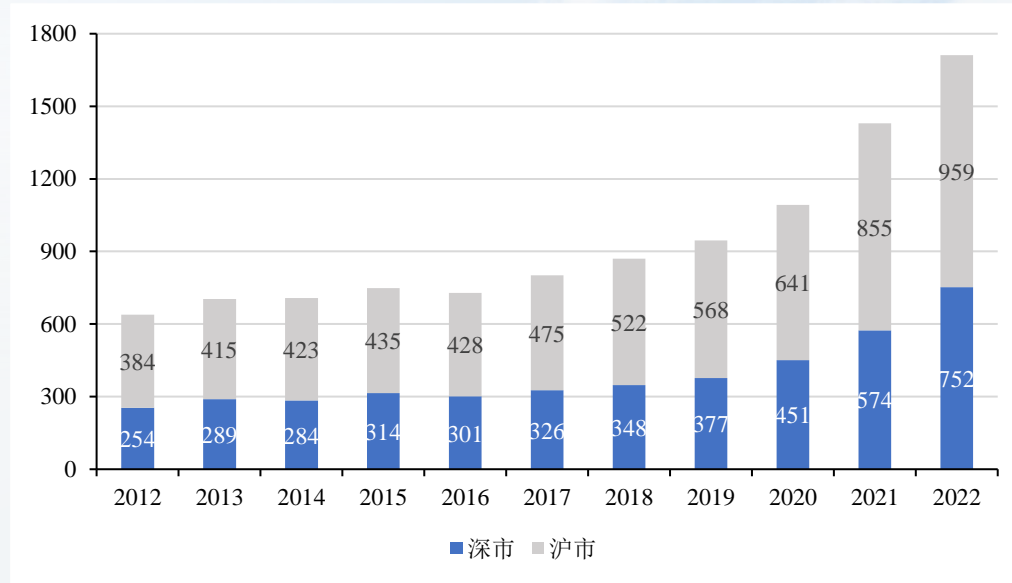


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2.2 ESG rating



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2.3 ESG Investment

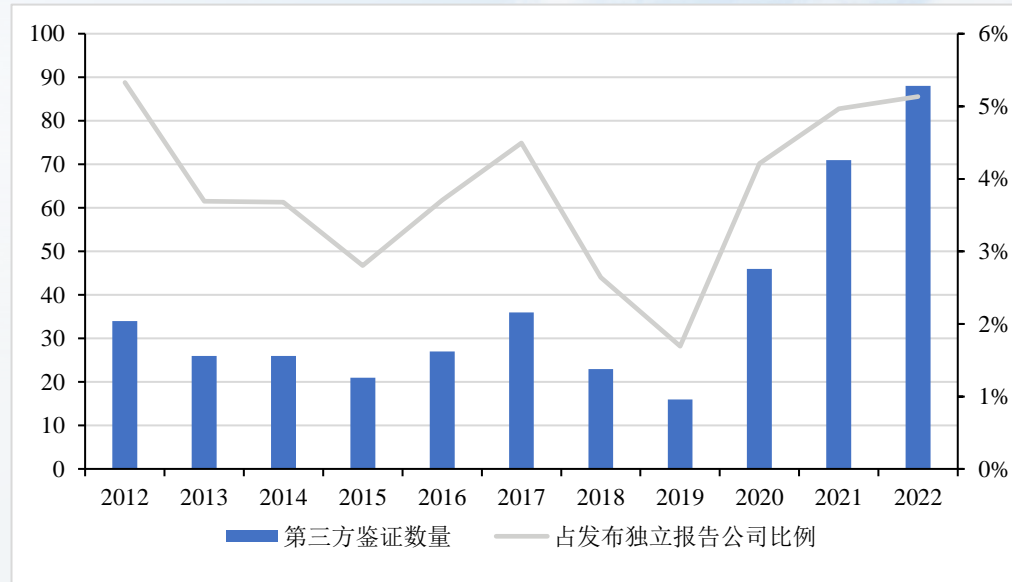
2.1 ESG disclosure



Number of independent reports by listed companies from 2012 to 2022

Data source: SynTao

2.1 ESG disclosure



Number and Percentage of third party assurance of ESG reports from 2012 to 2022

Data source: CSMAR database

2.2 ESG rating

ESG rating agencies

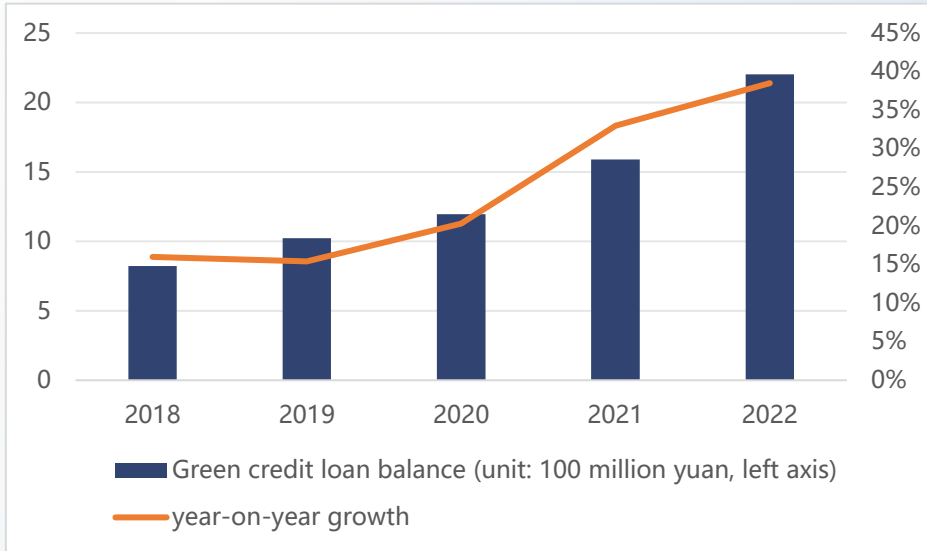
rating agency	data sources	Index system	Rating setting	update frequency
Bloomberg	1.Listed companies' websites, announcements, sustainability reports, etc. 2.News and public opinion 3.other public data	3 pillars, 120 issues	0-100	annual
FTSE Russell	1. Listed companies' websites, announcements, sustainability reports, etc. 2.Regulatory authorities 3.News and public opinion 4.Industry associations	3 pillars, 14 issues, 300+data points	0-5	Monthly
MSCI	1. Listed companies' websites, announcements, sustainability reports, etc. 2. Regulatory authorities 3. News and public opinion 4. Industry associations 5.Corporate communication channels	3 pillars, 10 issues, 37 sub-issues	7 levels, from low to high: CCC、B、BB、BBB、A、AA、AAA	annual
Refinitiv	1. Listed companies' websites, announcements, sustainability reports, etc. 2. Regulatory authorities 3. News and public opinion 4. Industry associations	3 pillars, 10 issues, 186 sub-issues, 500+data points	12 levels, from low to high: D-、D、D+、C-、C、C+、B-、B、B+、A-、A、A+	Weekly
RepRisk AG	1. Regulatory authorities 2. News and public opinion 3. Industry associations	3 pillars, 28 issues, 73 sub-issues	10 risk levels, from high to low: D、C、CC、CCC、B、BB、BBB、A、AA、AAA	Monthly

Data source: Zhang and Yuan (2021)

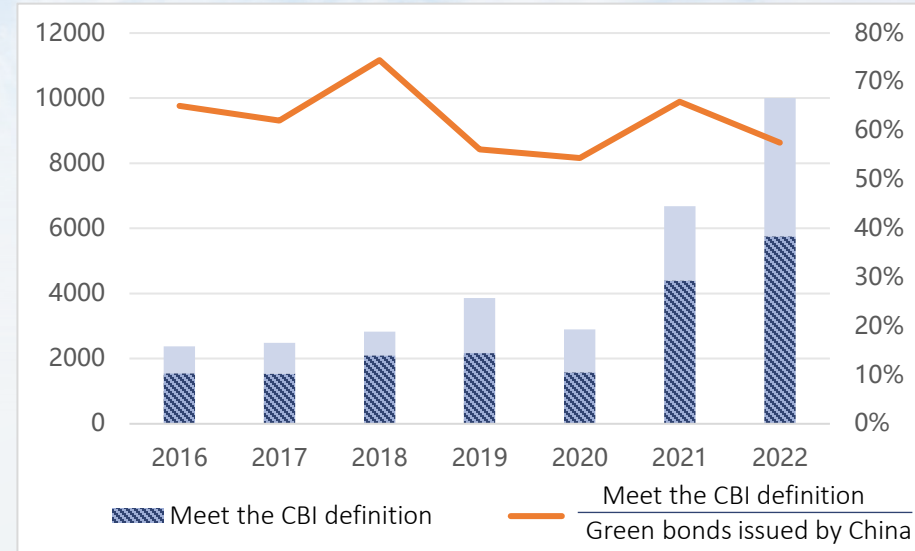
2.2 ESG rating

rating agency	data sources	Index system	Rating setting	update frequency
China Securities Index, CSI	1. Listed companies' websites, announcements, sustainability reports, corporate charters, etc. 2. Regulatory authorities 3. News and public opinion 4. Specific data in SCI	3 pillars, 14 issues, 22+ sub-issues, 100+ data points	10 levels, from low to high: D, C, CC, CCC, B, BB, BBB, A, AA, AAA	Monthly
Sino-Securities Index, Huazheng	1. Listed companies' websites, announcements, sustainability reports, corporate charters, etc. 2. Regulatory authorities 3. News and public opinion	3 pillars, 14 issues, 26 sub-issues, 130+ data points	9 levels, from low to high: C, CC, CCC, B, BB, BBB, A, AA, AAA	Quarterly
SynTao Green, SynTao	1. Listed companies' websites, announcements, sustainability reports, etc. 2. News and public opinion	3 pillars, 14 issues, 200+ data points	10 levels, from low to high: D, C-, C, C+, B-, B, B+, A-, A, A+	Quarterly
Wind Information Technology, Wind	1. Listed companies' websites, announcements, sustainability reports, etc. 2. Regulatory authorities 3. News and public opinion 4. Industry associations	3 pillars, 27 issues, 300+ data points	7 levels, from low to high: CCC, B, BB, BBB, A, AA, AAA	Monthly
Rankins, RKS	1. Listed companies' websites, announcements, sustainability reports, etc. 2. Regulatory authorities 3. News and public opinion 4. Social organizations surveys	3 pillars, 26 issues, 100+ data points	7 levels, from low to high: CCC, B, BB, BBB, A, AA, AAA	annual
China Alliance of Social Value Investment, CASVI	1. Listed companies' websites, announcements, sustainability reports, etc. 2. Regulatory authorities 3. News and public opinion	3 pillars, 9 issues, 27+ sub-issues, 55+ data points	10 levels, from low to high: D, C, CC, CCC, B, BB, BBB, A, AA, AAA	Semi-annual

2.3 ESG Investment



The balance of green credit loans from 2018 to 2022
Data source: People's Bank of China



Green Bond Issuance (Unit: 100 million yuan)
Data source: Climate Bonds Initiative (2023)

2.3 ESG Investment

ESG investment products include ESG fund, ESG index, ESG asset management products, among which ESG fund and ESG index are developing faster.



By the end of June 2023, there were 477 ESG public funds in China, and a fund scale of 592 billion yuan.

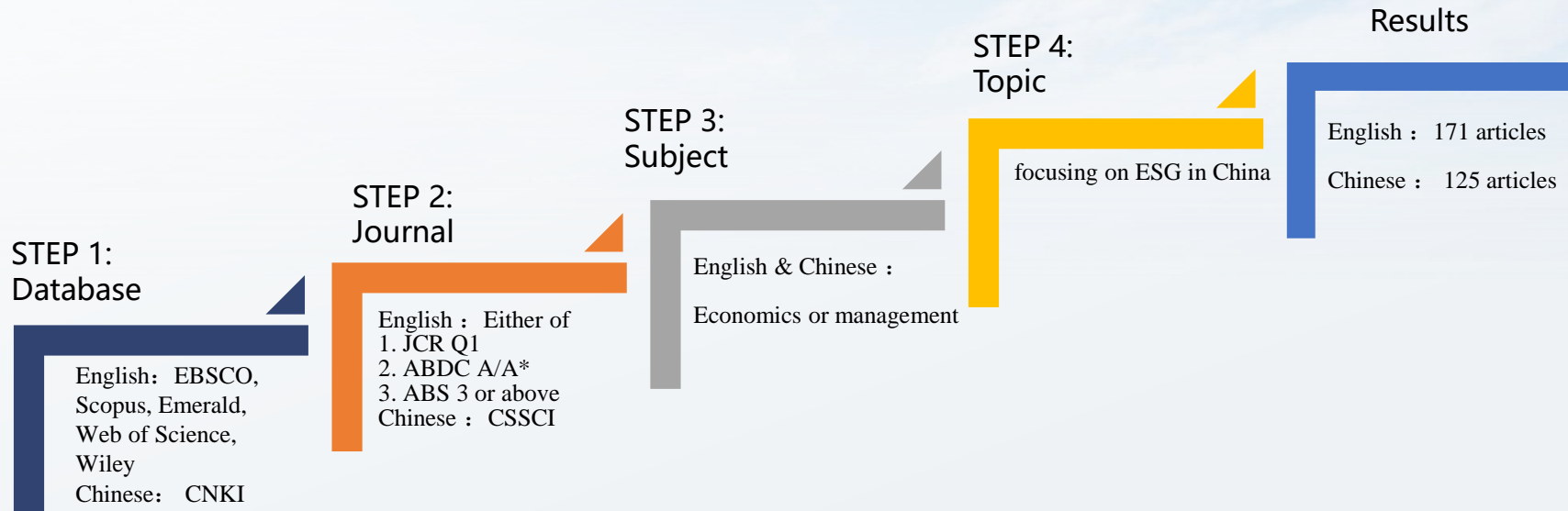


By the end of June 2023, a total of 818 ESG indexes have been issued, including 323 core ESG indexes and 495 pan-ESG indexes.

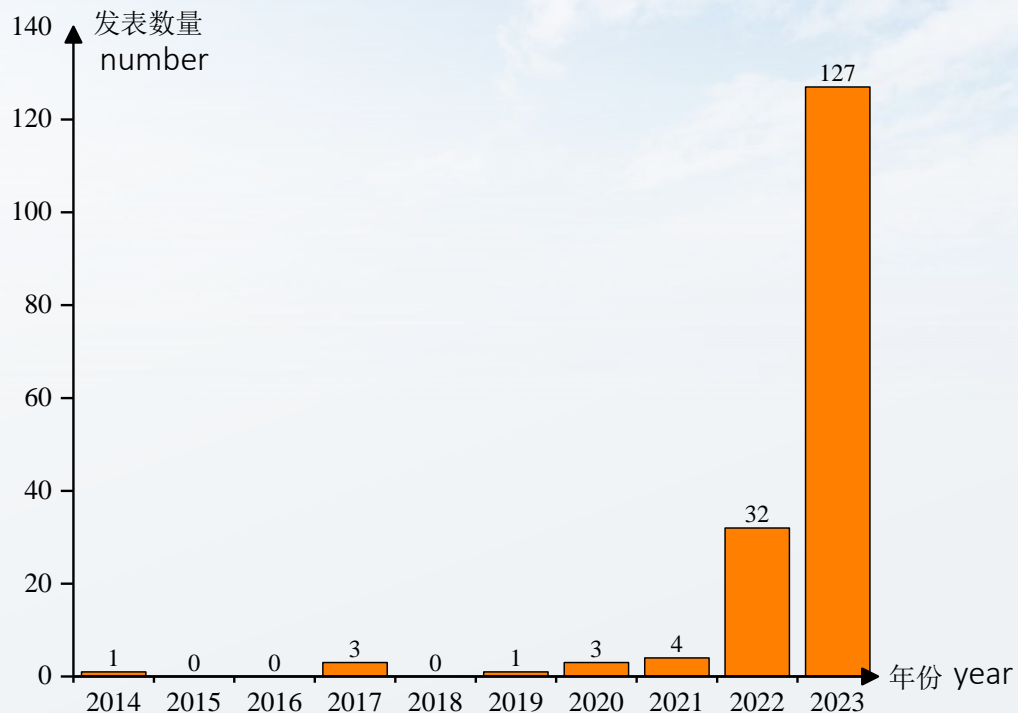
3 ESG research in China



Part Three: ESG research in China

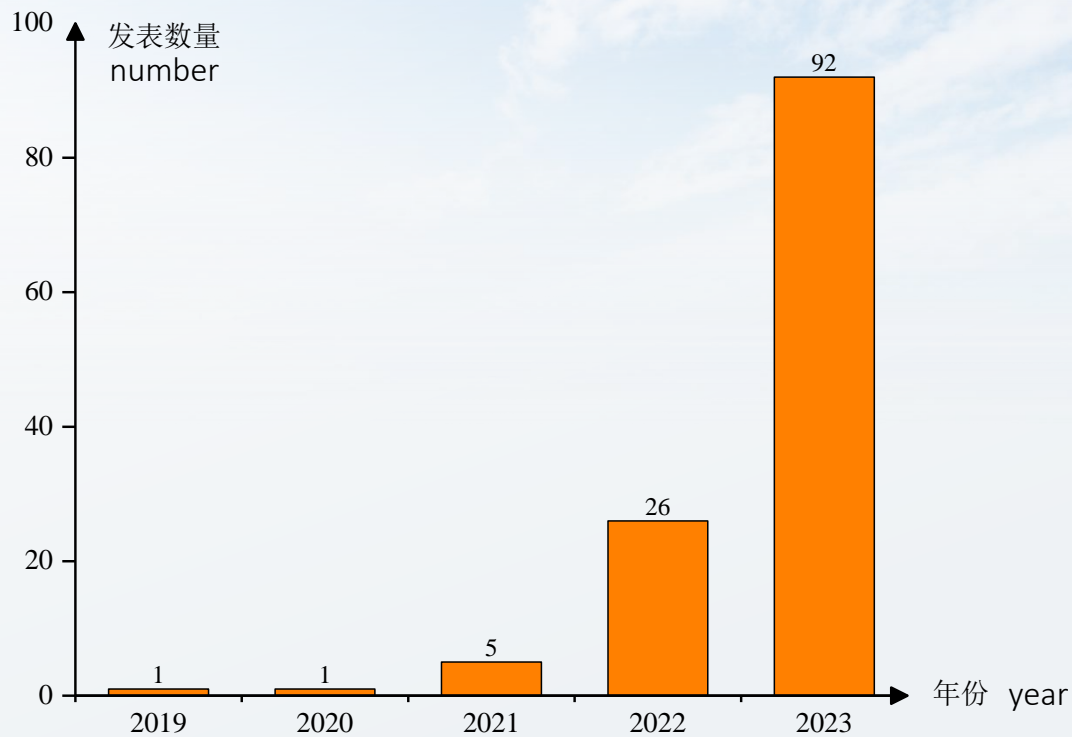


English literature



Number of English papers from 2014 to 2023

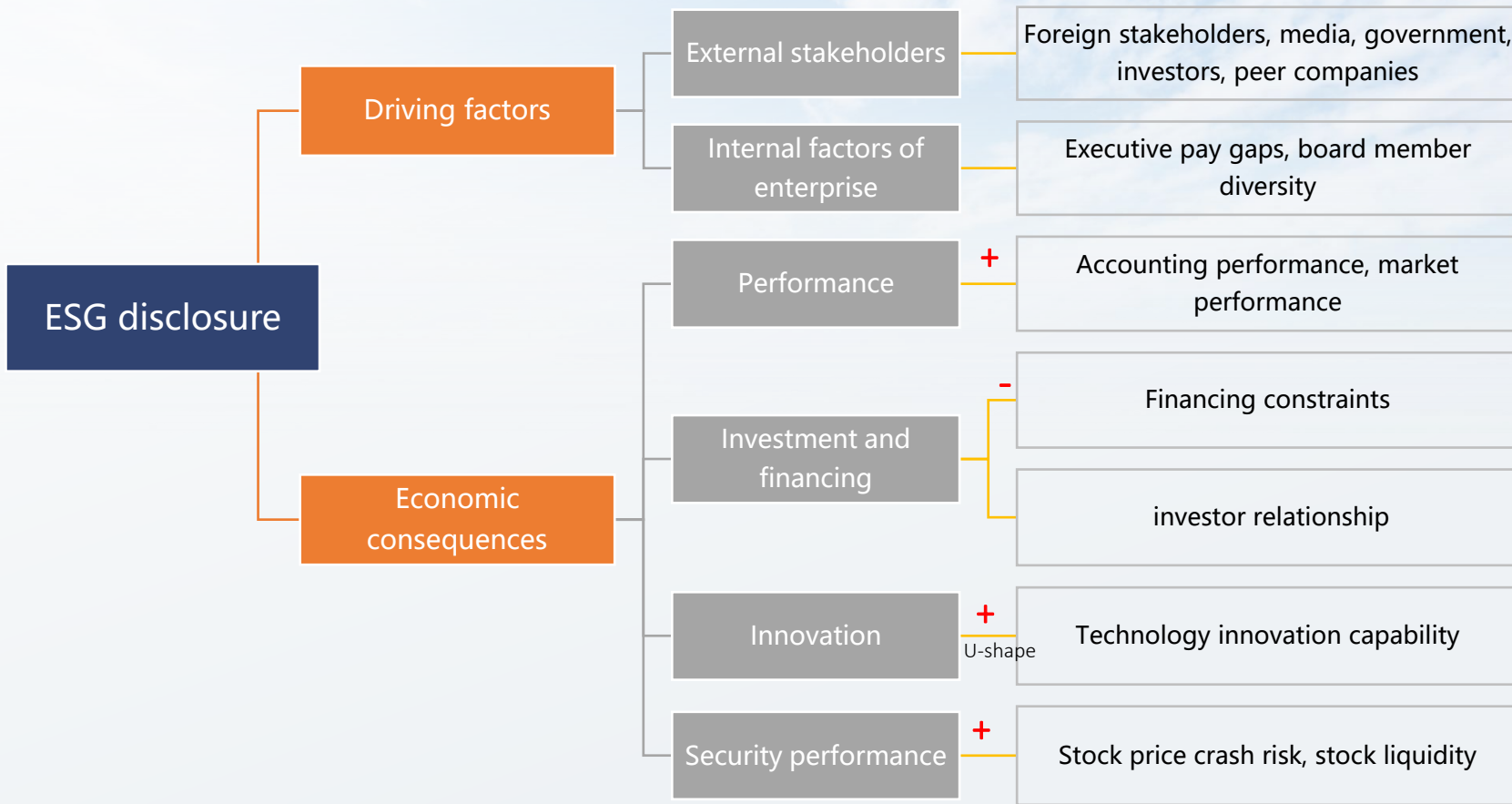
Chinese literature



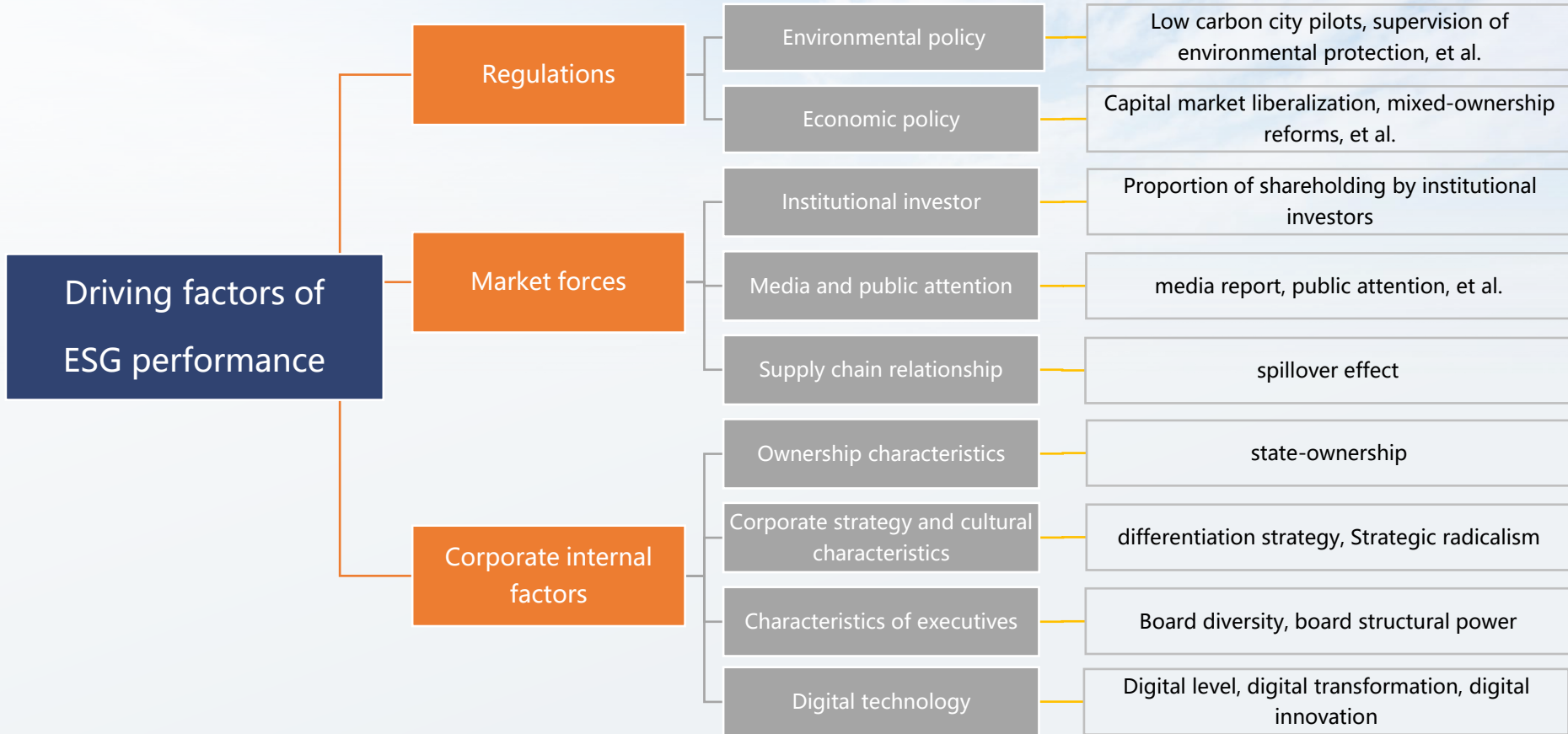
Number of Chinese papers from 2019 to 2023



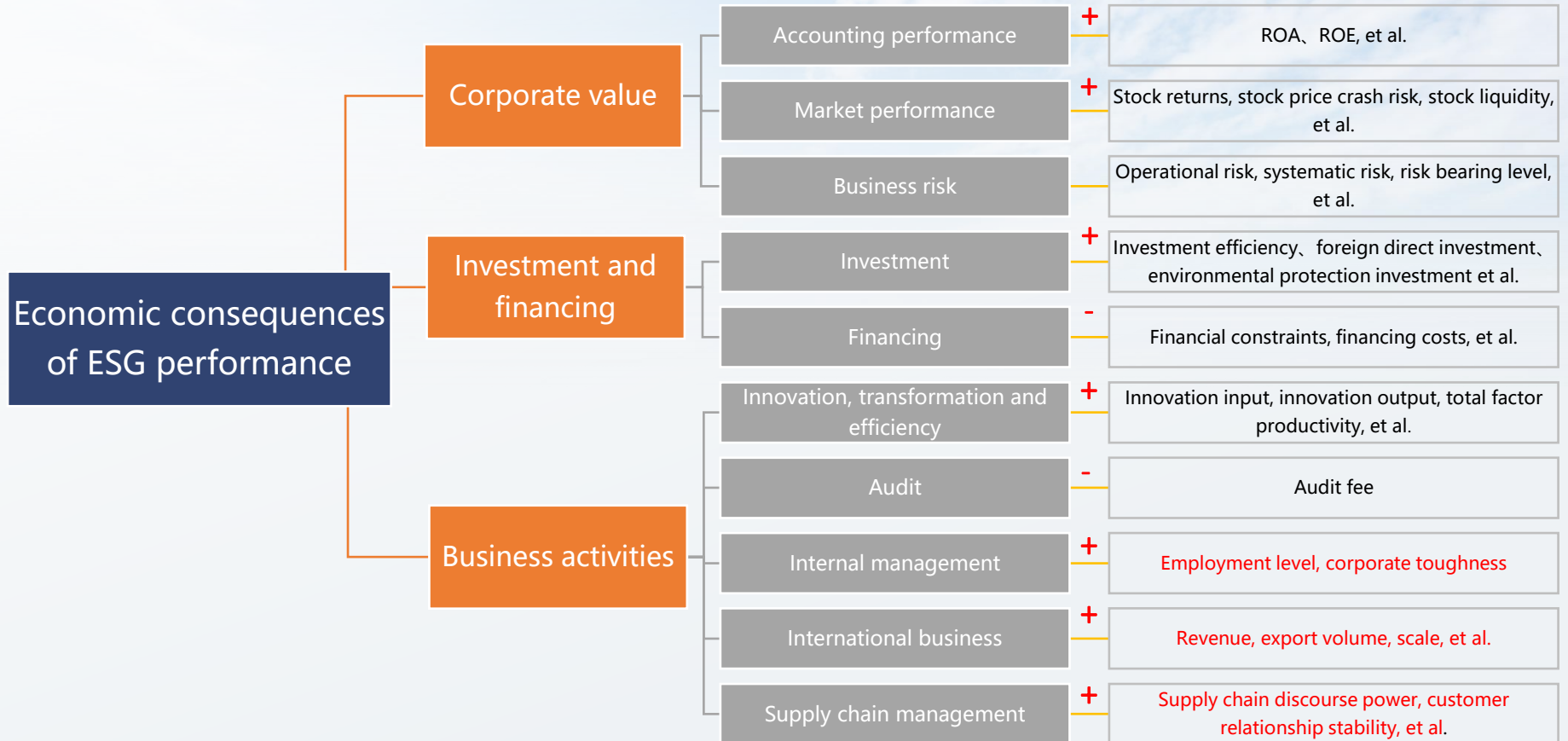
3.1 ESG disclosure



3.2.1 Driving factors of ESG performance

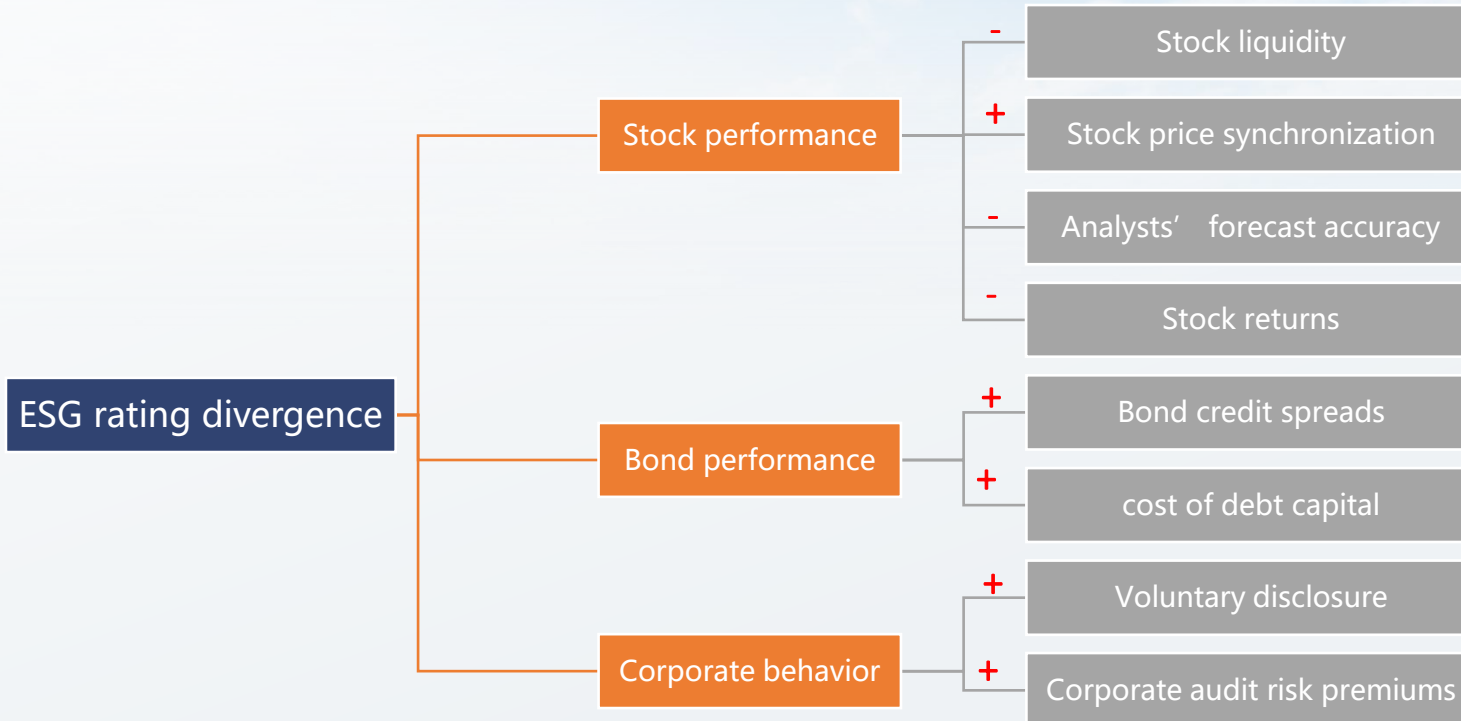


3.2.2 Economic consequences of ESG performance



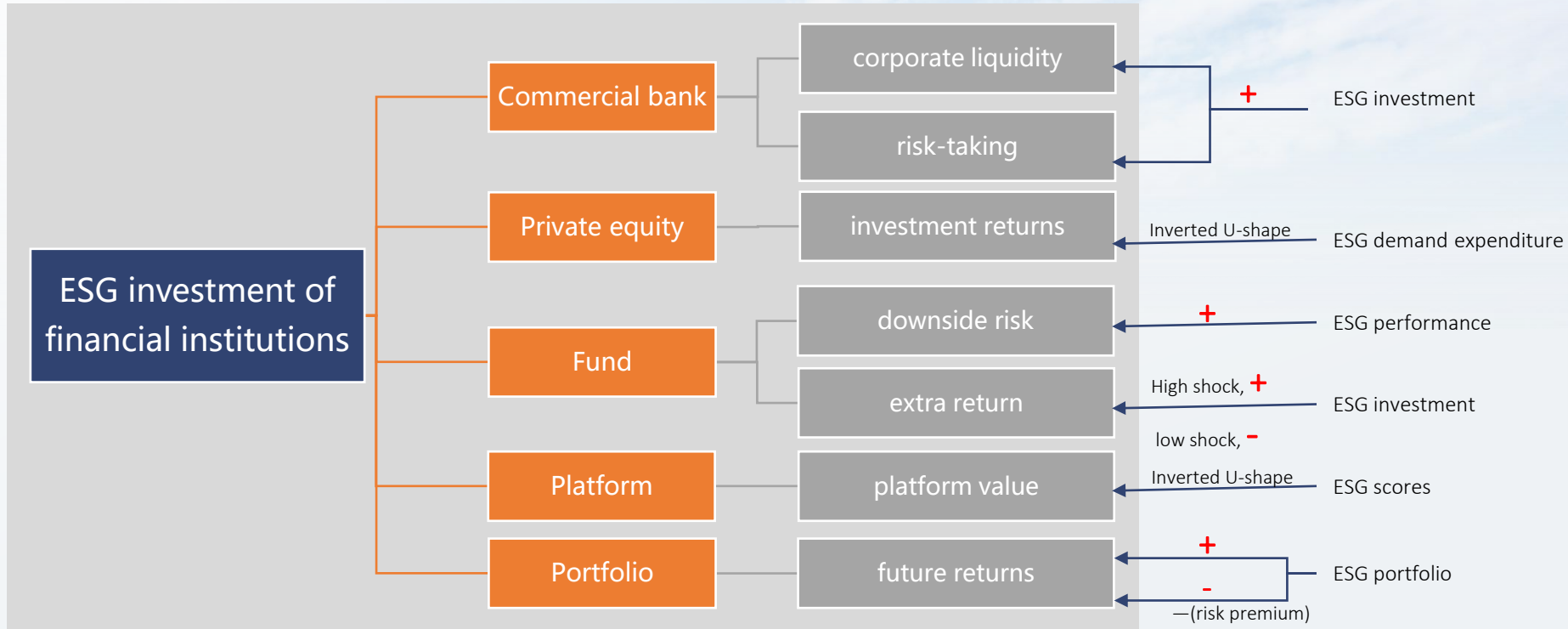
3.3 ESG rating divergence

ESG rating is an important tool for investors to judge the sustainability of enterprises or products, and the divergence in ESG rating has caused extensive discussions in practice and academia (Chatterji et al., 2016; Christensen et al., 2022). The phenomenon also exists in China (Li et al., 2023).



3.4 ESG investment of financial institutions

The ESG investment of financial institutions have focused on different investment subjects.



4 Future research avenues



Research contents

1. Research topic

- focus on ESG performance and disclosure
- pay attention to ESG investment and rating divergence
- few studies on assurance

2. Research perspective

- top-down institutional drivers
- price effect measured by ROA, Return, etc

3. Unique setting

- dual listing
- business internationalization

Research methods and data

1. Journal

- mostly on Economics, finance journals;
- relatively few on Management and accounting journals

2. Methodology

mainly archival research (97.64%)

3. Data

- professional ESG rating data
- use ESG rating to measure ESG performance (86.87%)

Part Four: Future research avenues



Scientific identification of causation rather than correlation



Research on the development of standards on ESG disclosure, rating, and assurance



From price effect to total welfare effect



ESG practice of unlisted companies

Case study, field study, interview and other methods



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Thank you!

