Journal of Business and Management Studies
ISSN: 2709-0876
DOI: 10.32996/jbms
Journal Homepage: www.al-kindipublisher.com/index.php/jbms

JBMS
AL-KINDI CENTER FOR RESEARCH AND DEVELOPMENT

| RESEARCH ARTICLE

Review of the Impact of ESG Disclosure on Corporate Commercial Credit Financing

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| ABSTRACT
ESG is an extension of the concept of green investment, reflecting the concept of sustainable development of enterprises. In order to deeply understand the impact of ESG on corporate trade credit financing, this paper takes the existing research theories of ESG and corporate trade credit financing as an example to study the development background, application prospect, disclosure significance, and existing problems of ESG. At present, the literature on the impact of ESG performance on trade credit financing mainly focuses on three aspects: environment, society, and management. This paper first introduces the development background and application prospect of ESG, then combs the existing research theories related to ESG and corporate commercial credit financing, and finally comprehensively analyzes the significance and existing problems of ESG disclosure in order to help future related research. The results show that the study of ESG is helpful in comprehensively analyzing its potential role in corporate trade credit financing and the current challenges. It is suggested that the research on the relationship between ESG and corporate trade credit financing should be further strengthened in the future to better promote the sustainable development of enterprises and the stability of financial markets.

| KEYWORDS

Enterprise commercial credit financing; ESG; financing constraints; green investment; sustainable development of enterprises.

| ARTICLE INFORMATION

ACCEPTED: 14 September 2024 **PUBLISHED:** 05 October 2024 **DOI:** 10.32996/jbms.2024.6.5.14

1. Introduction

1.1 Study on the Background

Sustainable development of the global economy and society requires the practice of environmental, social, and governance (ESG) principles. The ESG principle has been developed for 19 years since it was formally proposed in 2004. Countries around the world continue to promote the coordinated development of the environment, society, and governance in accordance with the principles of ESG. Today, with the development of the economy and society, the world is facing not only many opportunities but also challenges. In recent years, “black swan” events have occurred frequently, and a new type of corona has swept the world, which has impacted the global economy. In this context, the issues of environment, society, and governance have re-aroused global attention, and the concept of sustainable and all-round development has become a hot topic. In the face of the deteriorating and increasingly serious challenges of sustainable development in the environment, society, and financial markets, various international institutions and governments have launched sustainable development strategies such as ESG to build a sustainable and comprehensive framework for human social development.

1.2 Literature Review

ESG principle is a framework system, including environment, social, and governance factors (EBA, 2021). ESG stems from responsible investment by the United Nations. According to the United Nations Principles for Responsible Investment (PRI), "Responsible investment is defined as a comprehensive investment method and management model that includes non-financial factors such as environmental, social, and corporate governance" (PRI, 2021). Therefore, for many investors, ESG has become a key indicator in measuring a company's way of doing business and social influence, and it is also an important means to predict its future economic performance. This investment concept is based on environmental protection, social, and corporate governance, which are the three core elements that we must focus on when making investment decisions. In addition, environmental, social and governance factors help to measure the sustainability of business activities and the impact of activities. Taking into account the value of sustainable and coordinated development of economic, environmental, social, and governance benefits, it is an investment concept that pursues long-term value growth and a comprehensive, concrete, and down-to-earth governance method (Li et al., 2021).

1.3 Research Status

ESG research has exploded in recent years, involving multiple research fields and relatively concentrated but interdisciplinary; the main published journals are mostly international high-level journals, and the research has been strongly supported by various countries, but the quality of funded journals needs to be improved. The research on cooperation network display began in developed countries. In recent years, developing countries have gradually attached importance to it, and the cooperation network needs to be further strengthened. The research hotspots and frontiers are rich and diverse and gradually deepening. In the future, we may pay more attention to S and G latitudes. Based on the core collection database of Web of Science, scholars use a combination of bibliometrics and content analysis, as well as CiteSpace software. At present, the main related research topics of ESG include 11 topics such as responsible investment, corporate social responsibility, sustainable development, sustainable finance, ESG disclosure, corporate sustainability, ESG performance, responsible investment, green innovation, economic policy uncertainty, and investment efficiency. "ESG investment" and "ESG disclosure" are the current frontier hot spots, including "portfolio selection," "portfolio construction," "investment theory," "sustainable investment," "sustainable disclosure," "social performance," "governance performance," "voluntary disclosure," "credit rating" and so on (Zhang et al., 2024).

1.4 State the Problem and Research Significance

In China, although the degree of disclosure of company ESG-related information has not been clearly defined by law as a mandatory obligation, a complete evaluation system has not been formed. However, existing research on the company's ESG performance has reached a consensus: good ESG performance can enhance the company's information transparency and limit the opportunistic behavior of management, thereby improving the company's investment returns and increasing the company's market value. At present, the research on ESG performance mainly focuses on how it affects the company's financing problems, and few people have deeply discussed how ESG performance affects the company's credit financing problems. Most of the research in this area is focused on a single environmental, social, or governance element (Wang, 2023).

From a practical point of view, in the current market environment in China, it is very important to clarify the openness of the company's ESG-related information and establish a complete evaluation system. An in-depth study of the impact of ESG performance on corporate credit financing will help financial institutions to more comprehensively assess the credit risk and solvency of enterprises and provide a more accurate basis for credit decision-making. At the same time, it can also encourage enterprises to pay more attention to ESG performance, improve their sustainable development ability, and then obtain more credit support, promoting the stable development of enterprises and sustainable economic growth.

In terms of theoretical value, the current research on ESG performance mostly focuses on corporate financing, while there are relatively few in-depth discussions on credit financing. This study will fill the gaps in this field and enrich the content of ESG performance research. In addition, research on a single environmental, social, or governance factor is more common. This study comprehensively considers the three dimensions of ESG, which helps to build a more comprehensive theoretical framework and provides new ideas and methods for subsequent research.

2. The Impact of ESG Disclosure on Corporate Financing

2.1 The Impact of Environmental Information Disclosure on Corporate Financing

It is of great significance for enterprises to disclose environmental-related information in a timely manner. From the perspective of debt financing, this helps to break the information barriers between enterprises and the outside world so that financial institutions such as banks can more fully understand the environmental risk status of enterprises, thereby reducing the risks that banks may face. Therefore, when applying for debt financing, enterprises may obtain more generous benefits due to their good environmental information disclosure, such as lower loan interest rates or higher loan amounts. Relevant research shows that the higher the quality of environmental information disclosed by the enterprise, the more positive signals it can send to the market, which helps the enterprise reduce the cost of related equity funds. For enterprises, a better environmental information disclosure situation can effectively promote the debt financing of enterprises and enhance the competitiveness of enterprises in the debt market.

The above research conclusions are also applicable to the equity financing of enterprises. Scholars have found that corporate disclosure of environmental-related information helps to shift the focus of public attention and make investors pay more attention to the efforts and achievements of enterprises in environmental protection. At the same time, this can also enhance the positive expectations of relevant investors in the company and meet the preferences of some investors for environmental protection. These factors work together to make companies more attractive in the equity financing market, thereby reducing the company's financing costs. In addition, good environmental information disclosure can also enhance the social image and reputation of enterprises, attract more long-term investors' attention and support, and provide a strong financial guarantee for the sustainable development of enterprises.

2.2 The Impact of Social Responsibility on Corporate Financing

According to the stakeholder theory, the company should pay attention to the contribution to society and actively meet the needs of all stakeholders. By taking the initiative to assume social obligations, the company can transform social responsibility investment into social assets, thereby improving overall competitiveness and increasing the amount of commercial credit funds. In this process, the company's overall strength has played an important mediating effect. Based on transaction cost theory and resource dependence theory, some scholars have concluded that if the company's environmental, social, and governance (ESG) performance is better, it can effectively reduce the cost of obtaining loans (Liu, 2023).

The disclosure of corporate social responsibility helps to gain the trust of all parties involved in the use of information, which in turn promotes corporate financing. However, at the same time, we should also be alert to the misconduct of enterprises by disclosing social responsibility as a means to cover up their own problems. This kind of behavior will not only damage the interests of investors and other stakeholders but also damage the reputation and credit of the enterprise, which will have a negative impact on the long-term development of the enterprise. Therefore, enterprises should ensure the authenticity and reliability of information when disclosing social responsibility information in order to establish a good corporate image and reputation.

2.3 The Impact of Corporate Governance on Corporate Financing

Corporate governance plays a vital role in corporate financing. If the company's corporate governance level is high, external judgment usually tends to be positive feedback. This is of great benefit to establishing a trusting relationship with suppliers and customers and can also help the company obtain a higher credit score in the public market. In addition, high-quality information disclosure can enhance the confidence of foreign investors because they can obtain the real situation of enterprise liquidity and asset management from these accurate and timely financial data. Before considering whether to grant commercial loans, suppliers or customers are primarily concerned about the possibility of default by the borrower, and comprehensive and accurate information is helpful to better judge this potential risk. Once the accuracy and timeliness of accounting information are guaranteed, the company's accounting transparency will be greatly increased, thereby reducing the distrust of stakeholders in the company and mitigating the adverse effects of commercial loans caused by performance fluctuations, thereby significantly improving the effectiveness of its commercial loans.

Specifically, good corporate governance can affect corporate financing through the following aspects: First, improve the decision-making efficiency and quality of enterprises so that enterprises can better cope with market changes and risks and enhance investors' confidence in enterprises; second, standardize the business behavior of enterprises, reduce internal management risks, and reduce the credit risk of enterprises; the third is to enhance the transparency of enterprises and the quality of information disclosure, so that investors can more accurately assess the value and risk of enterprises, thereby reducing financing costs. Therefore, enterprises should attach importance to corporate governance, constantly improve the governance structure and mechanism, and improve the level of governance to promote the financing and development of enterprises.

3. Measures to Optimize Corporate Financing from the Perspective of ESG Disclosure

ESG disclosure has an important impact on corporate financing. Through timely and accurate disclosure of environmental related information, enterprises can break the information barriers with the outside world, reduce the risk of financial institutions such as banks so as to obtain more favorable conditions in debt financing, reduce the cost of equity funds, and promote debt financing. At the same time, environmental information disclosure also helps to shift the focus of public attention, enhance the positive expectations of investors, meet the needs of environmental preference investors, reduce the financing costs of enterprises, and also have a positive impact on equity financing.

According to the stakeholder theory, enterprises take the initiative to assume social responsibility and transform social responsibility investment into social assets, which can improve the overall competitiveness and increase the amount of commercial credit funds. The disclosure of corporate social responsibility helps to gain the trust of all parties and promote financing, but it is necessary to be alert to the improper behavior of enterprises to cover up their own problems by disclosing social responsibility.

Good corporate governance is crucial to corporate financing. A high level of corporate governance can result in an external positive evaluation, help to establish a trusting relationship with suppliers and customers, and improve credit scores in the public market. High-quality information disclosure can enhance investor confidence and enable them to have a more accurate understanding of corporate liquidity and asset management. Accurate and timely accounting information can improve accounting transparency, reduce the distrust of stakeholders, reduce the adverse effects of performance fluctuations on commercial loans, and improve the effectiveness of commercial loans.

Enterprises can start from the three levels of environment, society, and governance and optimize corporate financing from the perspective of ESG disclosure. At the environmental level, enterprises should strengthen the disclosure of environmental related information, improve the quality of disclosure, ensure the accuracy, integrity, and timeliness of environmental information so that investors and financial institutions can fully understand the environmental risks and performance of enterprises; in the disclosure, quantitative indicators should be used to measure the investment and achievements of enterprises in environmental protection; in terms of disclosure strategy, the company's environmental goals and strategies should be clarified, and the company's long-term planning and commitment to sustainable development should be demonstrated.

At the social level, enterprises should improve the disclosure of social responsibility and fully fulfill the situation, including employee rights, community development, supply chain management, and other aspects of information, in order to show the overall contribution of enterprises to society, focus on substantive issues, especially important social responsibility issues related to corporate business, such as labor rights, environmental protection, product quality, etc., to avoid superficial forms and difficult to convince the public; establish a supervision mechanism to ensure that the social responsibility information disclosed by enterprises is true and reliable, which can be supervised by internal audit or third-party certification.

At the level of corporate governance, enterprises should improve the level of corporate governance disclosure, strengthen the disclosure of governance structure, decision-making process and information transparency, explain in detail the corporate governance structure, board composition and functions, and internal control system, etc., and disclose the important decision-making process of enterprises, including strategy formulation, risk management, etc., in order to increase transparency, timely and accurate disclosure of financial information and non-financial information, so that investors can fully understand the operation status of enterprises ; to develop their own ESG disclosure standards and guidelines based on relevant international standards and industry best practices, and to ensure the consistency and comparability of disclosures, so as to facilitate investors' evaluation and comparison ; strengthen communication with stakeholders ; using digital technology to improve the efficiency of disclosure, using digital platforms and tools, such as online reports, databases, etc., to improve the efficiency of collection, collation and dissemination of ESG information, in addition to ensuring the accessibility and readability of information to facilitate stakeholder access and understanding ; cultivate employees' ESG awareness ; regularly evaluate and audit ESG disclosures.

4. Conclusions and Implications

Through the integration of ESG related theoretical literature, this paper concludes that ESG performance has a positive impact on corporate financing and can alleviate corporate financing constraints.

Good ESG performance helps to break the information barriers between enterprises and the outside world, reduce the risks of financial institutions such as banks, enable enterprises to obtain more favorable conditions in debt financing, reduce the cost of equity funds, and promote debt financing. At the same time, environmental information disclosure also helps to shift the focus of public attention, enhance the positive expectations of investors, meet the needs of environmental preference investors, reduce the financing costs of enterprises, and also have a positive impact on equity financing.

Enterprises take the initiative to assume social responsibility and transform social responsibility investment into social assets, which can improve overall competitiveness and increase the amount of commercial credit funds. The disclosure of corporate social responsibility helps to gain the trust of all parties and promote financing, but it is necessary to be alert to the improper behavior of enterprises to cover up their own problems by disclosing social responsibility.

Good corporate governance can obtain an external positive evaluation, help to establish a trust relationship with suppliers and customers and improve the credit score in the public market. High-quality information disclosure can enhance investor confidence and enable them to have a more accurate understanding of corporate liquidity and asset management. Accurate and timely accounting information can improve accounting transparency, reduce the distrust of stakeholders, reduce the adverse effects of performance fluctuations on commercial loans, and improve the effectiveness of commercial loans.

This paper integrates data from the perspective of ESG disclosure, enriches the research on the relationship between ESG and corporate financing, and provides a new perspective for enterprises to optimize financing. In addition, the article combs the views of scholars at home and abroad and reveals the mitigation effect of ESG performance on corporate financing constraints and its internal mechanism, which helps companies better understand and value the value of ESG. From the perspective of managers, this paper provides a reference for policy makers and regulatory authorities, which is helpful in promoting enterprises to strengthen ESG practices and promote sustainable development.

In the literature review, the article also noted that there are some shortcomings in the existing related research. First of all, most of the existing research is limited by data sources and sample selection, which cannot fully reflect the situation of all enterprises. Secondly, the evaluation criteria and index system of ESG have not yet been fully unified, which will also have a certain impact on the research results. The existing research does not cover all the potential factors of the impact of ESG on corporate financing, and further research is needed in the future.

In terms of future research directions, relevant research should further improve the evaluation criteria and index system of ESG, improve the accuracy and comparability of research, deeply study other potential factors of ESG's impact on corporate financing, such as market competition and industry characteristics, carry out cross-regional and cross-industry comparative research, explore the differences in the impact of ESG on corporate financing in different situations, and strengthen the research on the relationship between ESG and long-term performance and sustainable development of enterprises, so as to provide more comprehensive decision-making basis for enterprises.

Funding: This research received no external funding.
Conflicts of Interest: The authors declare no conflict of interest.
Publisher's Note: All claims expressed in this article are solely those of the authors and do not necessarily represent those of their affiliated organizations, or those of the publisher, the editors and the reviewers.

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