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A Literature Review on the Impact of ESG Information Disclosure on the Value of the Automobile Manufacturing Industry

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Abstract: As global attention to sustainable development and corporate social responsibility continues to grow, Environmental, Social, and Governance (ESG) have become critical non-financial indicators for assessing the value of the automobile manufacturing industry. This literature review summarizes existing domestic and international research on the various ways ESG disclosure affects the value of the automobile manufacturing industry. Studies show that good ESG performance can enhance a company's market recognition, attract investors, reduce financing costs, and strengthen consumer trust and brand loyalty. Despite the positive impacts, the research also points out challenges in disclosing ESG information, including the uniformity of disclosure content and the lack of a unified assessment standard. Overall, ESG performance has a significant positive effect on the long-term value creation of the automobile manufacturing industry. However, there is also a need to balance it with financial performance to ensure continuity and effectiveness.

Keywords: ESG; automobile manufacturing; value impact; literature review

1. An Overview of International ESG Disclosure Research

1.1. From CSR to ESG

Scholars abroad have spent an extended period investigating the impact of Corporate Social Responsibility (CSR) on financial performance, originating from the stakeholder theory of Freeman (1984), and developed further by Jones (1995). This provided a solid theoretical framework for groups advocating CSR. The theory posits that the practice of CSR helps establish and strengthen the bonds of trust between a company and its key stakeholders—such as employees, customers, local community members, environmental advocates, and the public—vital for the company's continued success and financial stability.

Dhaliwal (2011) found that companies with higher equity capital costs in previous years tend to start disclosing CSR activities within the year. Those outperforming other companies in social responsibility disclosure subsequently enjoy reduced equity capital costs. Companies that disclose are more likely to raise equity after these disclosures than non-disclosing companies; among those raising equity, disclosing companies raise significantly more funds.

Corporate Social Responsibility considers issues from a multi-stakeholder perspective, focusing on a broader group, whereas ESG mainly considers issues from an investor's viewpoint, concentrating on the relationship between shareholder returns and corporate social performance (Han, 2023). As times evolve, researchers have realized that focusing solely on social responsibility is no longer sufficient to analyze the impact of non-financial information on a company. Consequently, more scholars have begun to focus on the environment, social aspects, and governance, confirming in multiple studies a positive and proactive relationship between ESG and corporate financial performance (Huang, 2016).

1.2. International ESG disclosure systems

The establishment of international ESG rating

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and indicator systems is relatively advanced, with the proposal of international ESG standards and the founding of organizations dating back to the end of the last century (Guo, 2024). As early as 1997, the Global Reporting Initiative (GRI) developed a credible and reliable global framework for sustainable development reporting, available for use by organizations of any size, industry, and region. In 2001, the ISO standards proposed the goal of "coordinating standardization work worldwide and collaborating with other international organizations on standardization issues." More recently, in 2021, the International Financial Reporting Standards Foundation (IFRSF) proposed "to provide a comprehensive benchmark for the integrated development of global ESG standards, meeting global investors' information needs on climate and other sustainability issues," focusing on two core topics: financial information disclosure related to sustainability and climate-related disclosures.

2. An Overview of Domestic ESG Information Disclosure

In 2022, the China Securities Regulatory Commission revised related Policies adding environmental, social, and governance information to the content of communication between listed companies and investors. Current research primarily utilizes rating data provided by Hua Zheng and Bloomberg Intelligence to measure ESG performance; however, these data tend to focus on the quantity rather than the quality of disclosures. Future research needs to consider both the quantity and quality of ESG. Some companies take superficial measures to improve their ESG ratings without genuinely addressing issues of concern to stakeholders, a practice known as "greenwashing" or "faux green."

In China, the disclosure of ESG information by listed companies is mostly voluntary. Research by Huang and Yao (2016) shows that poorly performing companies tend to disclose more ESG non-financial information in an attempt to construct a positive social image through such manipulation. However, they caution that excessive information disclosure may mislead investors and harm the company's financial status. Zhang and Sun (2021), after studying 55 Chinese companies listed on the Shanghai and Shenzhen A-shares, found that environmental investments have a significant positive impact on corporate financial performance, with environmental auditing playing a moderating role in this relationship. Zhang (2017) believes that ESG information helps investors judge a company's ability to manage risk and improve long-term returns, which is crucial for investment decisions. They also warn against company behaviors that pursue high ESG scores at the expense of short-term financial performance.

The development of ESG in China also relies on the establishment of an ESG system for financial investment. The construction of an indicator system is crucial for advancing ESG development in China. Due to different national conditions and corporate development scenarios, China needs to establish and refine its own ESG system. However, there is still a lack of systematic research in this area (Duan, 2023). Most of the existing ESG rating systems in the Chinese market are based on categorized ratings. Due to the voluntary disclosure system, the rating data provided by rating agencies can occasionally be missing or delayed (Dong, 2023). Currently, researchers in the domestic academic community primarily rely on ESG rating data provided by Hua Zheng and Bloomberg Intelligence when assessing ESG performance. Hua Zheng's ESG rating standards integrate the core concepts of international ESG and have been adjusted for localization considering China's specific national conditions. Bloomberg's ESG rating, on the other hand, mainly evaluates a company's ESG performance comprehensively based on information from annual reports, social responsibility reports, and official websites (Zhou, 2024).

3. The Impact of ESG Disclosure on the Value of the Automotive Manufacturing Industry

3.1. Overview of ESG disclosure in the domestic

automotive manufacturing industry

According to disclosures by NetEase Finance, many traditional automotive manufacturers have long been emphasizing the disclosure of ESG reports. For instance, Volkswagen began disclosing ESG reports in 1999, Chinese car brand BYD started in 2010, Tesla in 2018, and XPeng Motors in 2020. As for innovative brands in the new energy vehicle sector, NIO and Li Auto both commenced their ESG reporting in 2021. It is evident that, as an emerging industry, domestic automotive manufacturers are not as focused on ESG reporting disclosures as other enterprises. Moreover, most ESG reports disclose conservative information, with no visible negative impact information. The presentation of the disclosed content is rather uniform, primarily textual, and lacks correlation or comparison in data display, often presented in tabular form (Li, 2023).

At the same time, scholars have also pointed out that the completeness of corporate ESG disclosure content needs improvement. ESG reports should not merely serve as a means for companies to attract investment, enhance consumer trust, and brand loyalty; they should reflect the true state of the company. However, the vast majority of ESG reports only disclose positive information about the company, lacking the revelation of negative information and solutions (Gao, 2023).

In July 2021, the National Development and Reform Commission issued related policies that the full lifecycle management of automobile use and emphasized that vigorously developing the circular economy is of great significance for achieving the goals of peaking carbon emissions and carbon neutrality (Yang, 2022). As an important part of the circular economy, the automotive parts remanufacturing industry has emerged, committed to the sustainable use of resources in the automotive industry. The development of this industry is closely linked to the national "dual carbon" strategic goals, namely peaking carbon emissions and achieving carbon neutrality. Looking ahead, from now on for at least the next 10 years or even up to 40 years, the automotive parts remanufacturing industry is expected to continue to receive steadfast support from the government in terms of policy formulation and financial subsidies.

3.2. Influencing performance of ESG factors in the domestic automotive manufacturing industry

The fundamental purpose and responsibility of a company lie in creating greater value for shareholders and society at large. The ability of a company to sustain development is not only constrained by internal operational efficiency but is also linked to its achievements in social contributions and environmental impact. ESG, which advocates managing a company from environmental, social, and governance perspectives, has become a key criterion for measuring a company's capacity to create sustainable value. It encompasses the ultimate goals of value management, the standards to be followed, and the specific strategies implemented. In this section, the research citing XPeng Motors (Gao,2023) and NIO (Li, 2023) will be used as case studies.

3.2.1. Environmental management

In the environmental information disclosure, XPeng Motors has revealed its environmental management system, green operations process, zero-carbon emission products, climate actions, and low-carbon strategies, along with the quantitative disclosure of key environmental performance indicators. Regarding the environmental management system, XPeng Motors has established a series of environmental protection management procedures in accordance with relevant laws and regulations, formed an emergency response team for environmental incidents, and proactively accepted public supervision. The company regularly entrusts qualified third parties to monitor wastewater, exhaust gases, soil, and groundwater. NIO disclosed its systematic carbon footprint management mechanism in its 2022 ESG report, along with actions taken in resource recycling, emission reduction, and ecological collaboration. It also disclosed several key environmental metrics, including waste emissions and resource consumption. In 2021, NIO proposed the Clean Parks eco-collaboration plan, collaborating with global environmental organizations and nature reserves to promote the creation of a clean self-sustaining ecosystem. The company plans to invest 100 million yuan over the next three years to support the establishment of low-carbon, environmentally friendly, and clean energy self-cycling systems in global nature reserves.

3.2.2. Social responsibility

XPeng Motors primarily disclosed social responsibility information in three areas: philanthropy, products, and employees. Regarding employees, the company revealed measures taken concerning employment, occupational health and safety, and worker training and education. XPeng actively complies with legal regulations, has developed a series of employee assessment and training systems tailored to its actual situation, and pays close attention to the health and safety of its workforce. In terms of philanthropic activities, in 2020, XPeng Motors fulfilled its social responsibilities by participating in public welfare activities such as anti-epidemic efforts, agricultural assistance, and flood prevention and disaster relief. NIO disclosed its social responsibility information mainly in four aspects: employees, philanthropy and charity, products, and supply chain. For employees, NIO disclosed measures related to recruitment, training, compensation and benefits, and worker safety and health. Additionally, NIO periodically organizes employee activities to enrich their spiritual lives. In the realm of philanthropy and charity, NIO collaborates with township governments and non-profit organizations to continuously exert effort in public welfare projects such as rural revitalization, emergency aid, and charitable donations. The company participated in rescue and relief efforts for disasters like the pandemic and flooding and organized charity auctions and other volunteer activities. NIO has established a manufacturing process and CQA (Customer Quality Assessment) for whole vehicle reviews, creating a solid systematic manufacturing guarantee. As an upstream player in the industry chain, quality on the supply side is crucial for car manufacturing. The company has specifically formulated a series of internal systems, regularly conducts audits and evaluations of partners, and entrusts third-party institutions to perform factory audits on some partners to ensure comprehensive quality control over the supply chain.

3.2.3. Governance of the company

In the ESG report disclosed by XPeng Motors, there is relatively little coverage of corporate governance; the main focus is on the company’s organizational structure, the diverse backgrounds of board members, and the internal control model. The board currently consists of nine directors, three of whom are independent. The board members hail from the fields of technology, automobile manufacturing, and finance. In its annual report, XPeng Motors introduces the personal backgrounds of the board members and their positions within the various committees under the board. NIO disclosed in its 2021 ESG report the structure of the board and its committees, the composition of the board members, internal controls and risk management, and business ethics. The board comprises six directors, including three independent directors and one female director, with committees for audit, nomination, and environment, social, and corporate governance (ESG), as well as a compensation committee. The authorities of NIO’s board and committees are publicly available on the company’s official website. In terms of internal controls and risk management, NIO has established a risk management and internal control system, with the audit committee authorized to oversee and manage overall risks. In 2021, the company conducted eight risk audit initiatives. Regarding business ethics, NIO conducted annual internal audits on various provisions within its code of business conduct and ethics and made these publicly available. Moreover, NIO has established an integrity reporting management mechanism and a series of procedures to supervise the construction of the company’s business ethics through multiple channels.

From the assessment of the two automotive companies discussed in this article, their performances under the influence of ESG factors are quite varied. Firstly, there is a lack of diversity in the form of ESG information disclosure. There are primarily two sources for stakeholders to obtain XPeng Motors' ESG information: one is the ESG report published on the official website, and the other is the annual report and listing documents released on the stock exchange. It is noteworthy that the ESG report published by XPeng Motors is not directly announced on the official website of the stock exchange but rather on the company's own website. If investors only pay attention to announcements on the stock exchange, they might overlook this ESG report, leading to potential information asymmetry. Secondly, the information disclosed is not comprehensive; NIO only reveals positive information about the enterprise in its ESG reports without disclosing negative information and providing solutions, which does not reflect the true situation of NIO fulfilling its social responsibilities. Lastly, there is no established system for regular ESG information disclosure. Volkswagen began publishing environmental reports as early as 1999, and domestic brand BYD started releasing ESG reports from 2010. As new forces in the new energy vehicle industry, domestic brands like NIO and XPeng Motors only began disclosing ESG reports after 2020. As emerging industries focus on providing new energy products, these automobile manufacturers are actually lagging behind other companies in terms of ESG reporting, indicating that some automotive manufacturers do not place enough emphasis on environmental, social, and corporate governance issues.

4. Summary and Outlook

This article reviews the research on the impact of ESG information disclosure on companies by scholars in China and abroad, finding that the concept of ESG is becoming increasingly important in corporate management and investment decisions. The research system abroad is relatively mature, with a more complete framework and organizations updating and upgrading standards and issues related to ESG. In China, ESG information data is obtained through the capture and processing of data agencies, mainly relying on voluntary corporate disclosure. In the automotive manufacturing industry, some leading enterprises have started to focus on the disclosure of information related to environmental responsibility and governance in recent years. According to scholarly research results, such disclosures have a positive impact on the future performance of these enterprises. However, automotive manufacturers should also note that future ESG information disclosure needs to improve in terms of completeness, accuracy, and effectiveness. As investors become more discerning, only by setting stricter standards and enhancing the quality of their own information can they stand out and gain favor in an environment where ESG is increasingly recognized and accepted.

This article proposes the following suggestions: First, scholars in China should increase empirical research on ESG and expand the current state of research; second, improve Chinese ESG rating agencies and develop a more accurate ESG rating system suitable for the domestic market environment.

Conflict of Interest

The author declares that she has no conflicts of interest to this work.

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