

## Original Paper

# ESG Governance Leads the Sustainable Development of SRUN Enterprises in China

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### Abstract

*This research paper provides an in-depth discussion on the challenges faced by SRUN enterprises in China and the importance of ESG practices. Currently, the concept of ESG in China is still in its early stages, and there is limited research on ESG practices and their theoretical foundation for SRUN enterprises. These enterprises face various challenges such as complex corporate governance, lack of resources and funding, difficulties in technological and digital transformation, and rigid organizational structures and decision-making mechanisms. However, the introduction of ESG practices can improve corporate governance, reduce risks and financing costs, enhance enterprise efficiency, and promote high-quality development of enterprises. Therefore, this paper suggests that SRUN enterprises should proactively identify key issues related to ESG, choose appropriate ESG topics, and incorporate ESG concepts into their operational management to enhance their sustainability. In addition, by improving innovation and flexibility, strengthening cooperation with stakeholders, and continuously improving and monitoring, SRUN enterprises can better implement ESG practices. This research provides theoretical reference and practical guidance for SRUN enterprises to implement ESG practices, and points out the direction for future research in related fields.*

### Keywords

*SRUN Enterprises, ESG Practices, Corporate Governance, Sustainable Development*

## 1. Introduction

In November 2022, the parallel forum on “Jointly Building ESG Ecosystem and Promoting Sustainable Development” was held. The conference emphasized that strengthening ESG governance, practicing ESG concepts, and improving ESG performance are powerful tools for implementing the significant deployments regarding state-owned assets and enterprises laid out by the 20th Party Congress, and

fully leveraging the function and role of state-owned enterprises on the new journey in the new era. The concept of ESG originated from the idea of social responsibility, formally proposed by the United Nations Principles for Responsible Investment as a crucial indicator for measuring sustainable corporate development. ESG is a series of metric systems and evaluation dimensions that assess the sustainability of corporate development, filling in the limitations of financial evaluation for companies. With the popularization and practice of the ESG concept, ESG is no longer just a tool for investors to assess investment risks, but has become a behavioral norm for various industries to practice social responsibility and enhance sustainable development capabilities (Hongchun, 2023).

However, the concept of ESG in China is still in its early stages of development. ESG practices mostly involve policy-based disclosure of ESG reports, and academic research is more concentrated on ESG performance in relation to investment. There is substantial exploration into the ‘E’ (Environment, Green) component of ESG, whereas discussions about the ‘S’ (Social) and ‘G’ (Governance) components are relatively scarce.

“Specialized, Refined, Unique, and Novel (SRUN)” enterprises are the driving force behind China’s high-quality development. This was also explicitly stated in the 20th Party Congress Report: there is support for the development of SRUN enterprises. It is hoped that SRUN small and medium-sized enterprises will focus on their main business, making meticulous efforts, to play a more significant role in enhancing the stability of industrial and supply chains and promoting economic and social development. However, SRUN enterprises face disadvantages such as low resilience to risk, poor levels of collaboration, a tendency for industrial chains to fracture, and limited financing capabilities. These issues pose serious obstacles to corporate development. Yet, as seen from a wide range of practical applications and industry case studies, the ESG concept can serve as a guide to improving levels of corporate governance (Jun Yuhe et al., 2023).

Due to policy requirements, most of the ESG-related research in China focuses on listed companies, with very few relating to small and medium-sized companies. Currently, research in the field of ESG for “Specialized, Refined, Unique, and Novel (SRUN)” enterprises is almost non-existent. SRUN enterprises lack theoretical basis for practicing ESG to improve corporate resilience and achieve high-quality development. The mechanism and development path for high-quality development under ESG governance for SRUN enterprises have yet to be clarified.

This paper, based on the positive effects of ESG on SRUN enterprises, expounds the importance of SRUN enterprises carrying out ESG practices from the perspectives of business environment, ESG concept, and related practices. It discusses the possibility of achieving high-quality development through ESG practices, and proposes specific practice suggestions.

## **2. Challenges of Specialized, Refined, Unique, and Novel (SRUN) Enterprises**

### *2.1 Definition and Characteristics of SRUN Enterprises*

SRUN enterprises have a profound understanding and mastery of specific fields or industries through

in-depth research and professional skills. They focus on a specific area and find their market positioning by deeply exploring niche markets. These enterprises are distinct from traditional ones in terms of market positioning. They do not attempt to meet all needs comprehensively, but rather focus on specific market segments, satisfying the needs of particular customer groups through specialized and differentiated products or services. Flexibility and adaptability enable these enterprises to respond swiftly to market changes and challenges, laying the foundation for high-quality development. However, SRUN enterprises also face numerous obstacles in their development.

## *2.2 Current Challenges Faced by Specialized, Refined, Unique, and Novel (SRUN) Enterprises*

From the perspective of the corporate growth cycle, the enterprise management structure is simple in the start-up period. With the development of the enterprise, the size of the company expands rapidly, and corporate governance also needs to build and improve a series of governance systems, for power distribution, functional definition, and checks and balances. Corporate expansion brings with it increased costs, requiring capital inflows to maintain liquidity. Bank loans are the primary means of financing for small and medium enterprises, but the innovative outputs of SRUN enterprises have characteristics such as uncertainty and high risk of returns, leading financial institutions to be unwilling to invest due to insufficient credit conditions, loan scale restrictions, and other factors. Additionally, due to the concentrated fields of SRUN enterprises, many of which are in manufacturing, the threshold for equity financing is high, with rigid indicators. Only one-tenth of SRUN enterprises in China are listed companies. In addition to these, SRUN enterprises face the following challenges during their development:

### *2.2.1 Uncertainty of Regulations and Policies*

Changes in policies and regulations may bring uncertainty to the development of SRUN enterprises. Adjustments in policies, industry regulations, and changes in market access may have a significant impact on enterprise operations and development.

### *2.2.2 High Dependence on Specific Markets or Customers*

Due to the market positioning and specialization of SRUN enterprises, they may be highly dependent on specific markets or customers. This makes them more vulnerable when market conditions or customer demands change, lacking diversified sources of business and a broad customer base.

### *2.2.3 Limited Capital and Resources*

SRUN enterprises have long cycles for investment return and high uncertainty in innovation conversion. With many restrictions on bank loans and high thresholds for listing, SRUN enterprises have limited funds and resources. This could make it challenging to respond to emergencies, market fluctuations, or expansion needs.

### *2.2.4 Challenges in Technological and Digital Transformation*

Technological innovation and digital transformation are key factors for enterprises to maintain competitiveness and resilience. For SRUN enterprises, the challenge of swiftly adopting and adapting to new technologies may be considerable.

### 2.2.5 Rigidity of Organizational Structure and Decision-Making Mechanisms

During the expansion and development stages of enterprises, the personnel count and organizational structure expand rapidly. If decision-making power is concentrated in the hands of a few, there may be rigidity in the decision-making mechanism. Rapid decision-making, flexible organizational structure, and efficient levels of corporate governance are crucial for enterprise resilience.

### 2.2.6 Insufficient Risk Management and Emergency Plans

SRUN enterprises may have weak links in risk management and emergency planning. Due to inadequate understanding and measures to handle risks, coupled with a lack of corporate financial resources, enterprises may not be fully prepared when facing emergencies, market challenges, or disasters.

## 3. The Concept of ESG and Its Role in Corporate Governance

### 3.1 The Impact of ESG Governance on Enterprises

Studies on listed companies have proven that ESG performance has corresponding impacts on corporate value, capital costs, enterprise risk, and enterprise efficiency.

ESG performance enhances the relevance of earning value through the capacity transformation mechanism, information transmission mechanism, and corporate reputation mechanism. Good ESG performance can increase stock prices (Qureshi Kirkerud et al., 2020); in the information transmission mechanism, ESG performance can provide incremental information, attract analyst attention, thereby enhancing the relevance of earning value; good ESG performance can increase dividend payment levels (Ellili, 2022), reduce debt capital costs (Raimo Caragnano et al., 2021), and decrease the degree of financing constraints (Zhi-bin & Yu-meng et al., 2022); in the capacity transformation mechanism, ESG performance enhances the relevance of earning value by strengthening the enterprise's endogenous growth capability and reducing operational risk; it also reduces corporate default risk (Atif & Ali, 2021) and stock price crash risk (Quan, Lu et al. 2023). Furthermore, enterprises that actively engage in ESG practices demonstrate higher effectiveness in response strategies to negative events through their fulfillment of social responsibilities (Qing 2021). Additionally, good ESG performance can attract investors who emphasize robust operational funds, increasing the capital market's confidence in the enterprise, and thereby enhancing the enterprise's resilience in dealing with risks (Yan, ting et al., 2023). The ESG concept can guide enterprise funds and production elements towards green energy-saving products, enhancing the future performance and long-term return value of the enterprise based on the characteristics of green innovative products. A large amount of industry practice and empirical research shows that there is a stable positive transmission mechanism between digital transformation, innovative capability, and ESG performance. On the one hand, ESG practices require enterprises to undergo digital transformation, which provides strong technical support and a feasible path for enterprises to fulfill their ESG responsibilities (Haijun, Songzheng et al., 2023). On the other hand, digital transformation has a moderating effect on improving ESG performance.

ESG performance can be seen as a force driving internal growth of the enterprise, while also helping to reduce operational risk, thereby enhancing the enterprise's sustainability and risk management capabilities. This shows that ESG performance is not just a simple signal indicator, but a key driver for enhancing enterprise core competitiveness and stimulating economic growth. Enterprises should actively integrate the ESG concept into their operational management processes, optimize their ecosystem, and enhance their sustainable development capabilities.

Firmly executing ESG practices is a step in the right direction towards long-term development. SRUN enterprises should leverage their relative advantages, identify key issues related to ESG, and continuously improve their green and low-carbon management capabilities. Small and medium-sized enterprises should proactively choose suitable ESG topics, view ESG as a long-term value concept and a "health check" tool to identify problems and shortcomings, continually grow in the new journey of promoting China's economic development, and establish their unique marks.

### *3.2 The Concept of ESG and Its Role in Corporate Governance*

#### *3.2.1 The Importance and Practice of the Environmental Dimension*

The environmental dimension refers to the impact of a company's business activities on the environment and its focus on sustainable development. A company's practices in the environmental dimension include reducing carbon emissions, improving energy efficiency, promoting the use of renewable energy, and adopting resource-saving measures.

Specialized and Unique (SRUN) enterprises can enhance their resilience and achieve long-term development by focusing on environmental sustainability. Firstly, they pay attention to environmental protection and resource utilization efficiency in product design and production processes, thereby reducing negative impacts on the environment through measures such as reducing energy consumption, optimizing waste management, and using eco-friendly materials. Secondly, SRUN enterprises can meet the demands of consumers and investors for environmental consciousness and strengthen their brand image and market competitiveness by focusing on environmental sustainability. By emphasizing environmental sustainability, companies can gain consumer approval and loyalty and attract more investor attention and financial support. Therefore, SRUN enterprises not only reduce environmental risks but also enhance their resilience and sustainable development capabilities by improving environmental sustainability.

#### *3.2.2 The Importance and Practice of the Social Dimension*

The social dimension involves a company's relationship with various stakeholders in society and the fulfillment of its social responsibilities. A company's practices in the social dimension include focusing on employee welfare, providing fair employment opportunities, respecting labor rights, caring about consumer rights, and promoting community participation.

SRUN enterprises can enhance their resilience and establish solid social relationships by strengthening their sense of social responsibility. Firstly, focusing on employee welfare and providing a good working environment can improve employee satisfaction and loyalty, thus enhancing organizational stability and

adaptability. Employees are one of the most important resources of a company, and their enthusiasm and creativity are crucial to the development of the company. Secondly, SRUN enterprises can establish a good corporate reputation and social image by caring about consumer rights, complying with ethical business codes, and participating in community activities. Consumers and the society tend to support companies that take on social responsibilities, so SRUN enterprises can attract more consumers, establish good partnerships, and gain social support and recognition through the practice of social responsibility awareness. Therefore, SRUN enterprises can not only enhance their resilience and stability but also gain a good reputation and social support by strengthening their sense of social responsibility.

### 3.2.3 The Importance and Practice of the Governance Dimension

The governance dimension involves internal decision-making, corporate governance structure, and transparency. Practices in the governance dimension include establishing a sound corporate governance structure, strengthening internal control and risk management, protecting shareholder rights, and increasing transparency in information disclosure.

SRUN enterprises can enhance their resilience and strengthen their internal management effectiveness by improving their corporate governance structure. Firstly, a sound corporate governance structure helps to establish a transparent, fair, and efficient decision-making mechanism, improve the quality of corporate decisions and compliance, and reduce the occurrence of internal conflicts and risks. Standardized internal control and risk management mechanisms can help companies better cope with uncertainties and market changes, enhancing their flexibility and adaptability. Secondly, a sound corporate governance structure can establish stable external relationships, including cooperative and trusting relationships with investors, shareholders, regulators, and other stakeholders. The establishment of transparency and accountability helps increase cooperation and support from external stakeholders, enhancing the company's reputation and stability in the market. Therefore, SRUN enterprises can enhance their resilience and stability and gain more cooperation and support by improving their corporate governance structure.

## 4. ESG Practice Strategies for Specialized and Unique Enterprises

In addition to setting specific strategic goals in the three aspects of ESG, enterprises should pay attention to the following practical strategies.

### 4.1 Enhancing Innovation and Flexibility

Encouraging innovative thinking and practice: SRUN enterprises in China should actively encourage employees to develop innovative thinking and foster an environment of innovation culture. This can be achieved in several ways. Firstly, enterprises can establish incentive mechanisms to reward employees who come up with new ideas and solutions and provide resources and support to push forward these innovative projects. Secondly, enterprises can encourage cross-departmental collaboration and knowledge sharing to promote cross-boundary integration of innovation. Additionally, SRUN

enterprises can establish cooperative relationships with external partners such as startups, research institutions, and universities to jointly carry out innovative projects and share knowledge.

**Promoting digital transformation and technology application:** Digital transformation and technology application are important means to enhance the flexibility and competitiveness of enterprises. SRUN enterprises in China can actively promote digital transformation, adopt advanced digital technologies and information systems to optimize business processes and decision-making processes, and improve the flexibility and agility of enterprises. For example, enterprises can apply technologies such as big data analysis, artificial intelligence, the Internet of Things, and cloud computing to achieve real-time monitoring and analysis of business data, so as to make accurate decisions more quickly. Moreover, technological innovation can also help enterprises to open up new business areas, launch innovative products and services, and meet the constantly changing market demand.

#### *4.2 Strengthening Stakeholder Cooperation*

**Building solid stakeholder relationships:** SRUN enterprises in China should actively build solid stakeholder relationships, including shareholders, employees, suppliers, consumers, communities, and governments. Firstly, enterprises should establish effective communication mechanisms to maintain regular dialogues and interactions with stakeholders. Secondly, enterprises should build transparent and trusting relationships, share information with stakeholders, and participate in the decision-making process. This helps to establish common interest cognition and consensus, enhancing the stability and sustainability of cooperation. In addition, enterprises should develop stakeholder participation plans, inviting them to participate in enterprise decision-making and project evaluation, to ensure that their voices are fully heard and considered.

**Conducting social responsibility projects and cooperation:** To strengthen cooperation with stakeholders, social responsibility projects and cooperation should be carried out to give back to society and solve social problems. Enterprises can choose suitable areas of social responsibility to invest and support based on their own business characteristics and the concerns of stakeholders. For example, enterprises can carry out environmental protection projects, promoting the sustainable use of resources and environmental protection. Meanwhile, enterprises can cooperate with the community to carry out public welfare activities, supporting the development of education, health, poverty alleviation, and other social fields. Through these social responsibility projects and cooperation, enterprises can build a win-win relationship with stakeholders, enhance corporate social reputation and image.

#### *4.3 Continuous Improvement and Monitoring*

**Regularly assessing and monitoring ESG performance:** Enterprises should regularly assess and monitor their ESG performance to measure the accomplishment of practices and goals. Enterprises can use Key Performance Indicators (KPIs) to measure performance in environmental, social, and governance aspects, such as carbon emissions, results of employee satisfaction surveys, and board diversity. In addition, enterprises can use independent audit and evaluation agencies for audits and evaluations to ensure the objectivity and credibility of the evaluation results. Through regular assessment and

monitoring of ESG performance, enterprises can promptly identify problems and areas for improvement, and provide a basis for the formulation of future ESG strategies and goals.

Continuously improving ESG practices and goals: Based on the results of regular assessments, SRUN enterprises in China should continuously improve their ESG practices and goals. Improvements can include formulating specific improvement measures and action plans to make up for deficiencies in current practices and enhance performance. For example, enterprises can establish an internal ESG improvement team responsible for tracking evaluation results, formulating improvement plans, and supervising implementation. In addition, enterprises can learn from best practices and industry standards, learning, and sharing successful experiences in the industry to continuously improve their ESG performance and practice level. In addition, enterprises should maintain close cooperation and dialogue with stakeholders, listen to their feedback and suggestions, to better meet their expectations and needs, and further improve in ESG practices and goals.

## 5. Conclusion and Prospect

This paper aims to explore how specialized and unique enterprises in China can improve corporate governance level and achieve high-quality development under the guidance of ESG concept in the VUCA era. We realize that uncertainty, complexity, ambiguity, and intense competition pose challenges to the development of SRUN enterprises. Against this backdrop, the concept of ESG provides a guiding and practical framework for enterprises to improve environmental sustainability, strengthen social responsibility awareness, and establish a sound corporate governance structure.

From the perspective of the impact of ESG on enterprises, we find that ESG plays a positive role in various aspects of the development of SRUN enterprises. Firstly, by improving environmental sustainability, enterprises can reduce environmental risks and optimize resource use, thereby reducing business operation uncertainty. Secondly, enhancing social responsibility awareness helps enterprises establish a good brand image, win the trust and support of consumers and stakeholders. Lastly, a sound corporate governance structure can improve the legitimacy and transparency of corporate decision-making, reduce internal conflicts and risks, and enhance the resilience and stability of enterprises.

Based on the above analysis, we propose a series of practical strategies. Firstly, enterprises should clarify ESG strategic objectives, including setting environmental objectives and indicators, caring about employee rights and community participation, and establishing a sound corporate governance structure. Secondly, enterprises need to enhance innovation and flexibility, by encouraging innovative thinking and practice, promoting digital transformation and technology application to adapt to rapidly changing market demand. Furthermore, enterprises should strengthen cooperation with stakeholders, build solid relationships, conduct social responsibility projects and cooperation to achieve win-win and sustainable development. Lastly, enterprises should continuously improve and monitor ESG practices and goals, regularly assess performance, and continuously improve to ensure the effective



implementation of the ESG strategy and the achievement of goals.

Looking forward to future research directions, we can further explore the following issues. Firstly, we can deeply study the impact of ESG practices on the long-term performance and competitiveness of SRUN enterprises to verify the effect of ESG in improving enterprise resilience and achieving high-quality development. Secondly, we can examine the differences and challenges in ESG practices among SRUN enterprises of different industries and sizes, providing references for enterprises to formulate more specific implementation strategies. In addition, we can also explore the relationship between ESG and innovation, human resource management, and corporate value to further enhance enterprise performance and resilience.

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