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Impact of State-Owned Capital Participation on ESG Performance of Private Enterprises

Xiongwei Wu*

Guangzhou Institute of Science and Technology, Guangzhou 510540, Guangdong Province, China

***Corresponding author:** Xiongwei Wu, wuxiongwei2023@163.com

Abstract: As global investors and stakeholders increasingly prioritize environmental, social, and governance (ESG) performance, corporate social responsibility and sustainability have become crucial factors in determining corporate success. In the context of China's robust economy, the involvement of state-owned capital exerts a profound impact on the ESG performance of private enterprises. This paper, starting from the perspective of ESG, analyzes how state-owned capital participation influences the ESG performance of private enterprises. Additionally, it proposes recommendations for the involvement of state-owned enterprises in private enterprises, aiming to foster the sustainable development of private enterprises and enhance their social responsibility.

Keywords: State-owned capital; Private enterprises; ESG; Sense of social responsibility

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1. Introduction

As the global focus on corporate social responsibility and sustainable development continues to grow, environmental, social, and governance (ESG) factors are becoming increasingly prominent in investment decisions and business operations. The impact of state-owned equity participation on the ESG performance of private enterprises is also gaining attention. Given their significance in China's economic development, it is essential to study the effects of state-owned enterprises' equity participation on the ESG performance of private enterprises.

2. Environmental, social, and governance (ESG)

ESG, an acronym for environmental, social, and governance, is a critical standard for assessing a listed company's social responsibility. The ESG rating system, also known as ESG rating, is developed by commercial and non-profit organizations to evaluate how well a company's commitment, performance, business model, and structure align with the Sustainable Development Goals [1].

Primarily utilized in the investment field, ESG imposes more specific requirements on corporate information disclosure. It necessitates a shift from flexible to specific disclosure content, with an emphasis on disclosing corporate governance performance. Specifically, the environmental aspect focuses on the impact of enterprises on the environment, climate change, and natural resource protection. The social aspects emphasize corporate social responsibility and employee welfare, while corporate governance focuses on the structure and risk management of corporate governance.

ESG investing is a form of responsible investment that aims to promote sustainable development. Investors can evaluate the contribution of investment objects to sustainable economic development, environmental protection, and social responsibility by screening or evaluating ESG indicators [2,3]. Furthermore, ESG ratings are also employed by other stakeholders, such as job seekers and clients, to assess business relationships.

Currently, ESG investing is gaining increasing attention worldwide, with many institutional investors and asset owners incorporating ESG factors into their investment decisions. Simultaneously, ESG investment plays a role in promoting sustainable practices and innovation.

3. The impact of state-owned capital participation on the ESG performance of private enterprises

3.1. Funding support

As market competition intensifies, numerous private enterprises encounter funding shortages. The involvement of state-owned capital can offer stable financial support, aiding private enterprises in alleviating financial pressures and facilitating the effective implementation of ESG strategies. Furthermore, state-owned capital typically possesses substantial assets and robust investment capabilities, enabling the attraction of additional social capital into private enterprises. This not only eases the financial burdens on private enterprises but also fosters their rapid development, transformation, and upgrading. Simultaneously, state-owned capital participation enhances the credit ratings of private enterprises, increasing their credibility. This, in turn, facilitates access to more financing channels and reduces debt financing costs, effectively mitigating the challenges of “difficult financing” and “expensive financing” for private enterprises [4-6].

3.2. Policy guidance

Upon state-owned capital participation in private enterprises, it can guide them toward sectors such as green environmental protection and high-tech industries encouraged by the state’s industrial policy. This strategic direction not only positions private enterprises advantageously in market competition but also contributes to the overall economic development of the country. State-owned capital participation is often aligned with national fiscal policies, allowing the government to guide private enterprises through financial subsidies and tax incentives toward increased investment in environmental protection and ESG actions such as cleaner production. Such policy guidance reduces costs for private enterprises, enhances market competitiveness, and fosters the green development of society at large. Additionally, state-owned capital, wielding significant influence in the financial field, can offer green financial products and services for private enterprises, including low-interest loans and support for green bond issuance, addressing financial challenges and promoting green development [7].

3.3. Change of governance structure

The entry of state-owned capital into private enterprises may reshape the board of directors’ structure. The addition of directors with national backgrounds can steer board decision-making toward long-term development and social responsibility. State-owned capital can also intensify supervision and guidance by appointing directors or independent directors to curb violations and enhance enterprise ESG performance [8]. Concurrently, state-owned capital's entry may prompt private enterprises to elevate their focus on improving corporate governance levels. Enhanced corporate governance provides a stable and standardized internal management environment, facilitating private enterprises in fulfilling ESG responsibilities more effectively [9].

3.4. Demonstration effect

State-owned capital exhibits a notable demonstration effect in fulfilling social responsibilities. Upon entering private enterprises, state-owned capital can transfer this effect, actively promoting green investment, environmental protection projects, support for public welfare initiatives, and a commitment to social responsibilities. This serves as an example for private enterprises to actively fulfill social responsibilities. Additionally, state-owned capital reinforces the supervision of private enterprises, encouraging them to prioritize information disclosure. Increased information disclosure enhances enterprise transparency, enabling better understanding by investors and the public, improving ESG performance, and subsequently enhancing market reputation and social responsibility [10]. This positive impact is particularly pronounced in private enterprises subject to strong government intervention, intense industry competition, high supply chain concentration, and significant media attention [11]. Moreover, state-owned capital, assuming a leadership role in technological innovation and industrial upgrading, can transfer this role to private enterprises, motivating them to focus on environmental protection and social responsibility in innovation and development. For instance, state-owned capital can guide private enterprises to increase investment in environmental protection technology, new energy, and other fields, fostering green development and industrial upgrading [12].

4. Suggestions on the participation of state-owned enterprises in private enterprises

4.1. Suggestions on state-owned enterprises' participation in private enterprises

4.1.1. Establishing a sound fund system

In the participation of state-owned enterprises in private enterprises, the supervision of funds should be strengthened. State-owned enterprises should establish a robust fund management system to regulate the use and management of funds in private equity enterprises. It is essential to clarify the scope and purpose of fund utilization, prevent misappropriation and abuse of funds, and ensure effective fund utilization. Establishing a risk early warning mechanism is necessary to discover and prevent potential capital risks promptly, ensuring capital security [13].

4.1.2. Strengthening internal audit and supervision

State-owned enterprises should enhance the internal audit and supervision of private enterprises with equity participation to ensure the rationality and standardization of fund usage. Regarding internal audit, a comprehensive internal audit system should be established to regularly audit the financial status of enterprises, ensuring compliance with relevant laws, regulations, and ESG requirements. In terms of supervision, a capital supervision plan should be formulated, improving the supervision mechanism, strengthening internal control, and increasing internal control implementation. Regular or irregular methods can be adopted to audit and supervise the use of funds by participating private enterprises, promptly correcting and addressing identified issues [14].

4.1.3. Cooperation with third-party regulators

State-owned enterprises can collaborate with third-party supervisory organizations to jointly strengthen the supervision of the funds in private enterprises in which they participate. Third-party supervisory organizations can provide professional supervisory services and risk assessments to help state-owned enterprises better understand the use of funds and the risk status of the private enterprises in which they have participated.

4.1.4. Strengthening legal and compliance awareness

Both state-owned enterprises and private enterprises with equity participation should enhance their awareness of law and compliance, adhering to relevant laws, regulations, and fund management provisions. Instances of fund use violations should be addressed in accordance with the law, and criminal responsibility pursued if it constitutes a crime.

4.2. Improving the information disclosure mechanism

4.2.1. Formulation of information disclosure policies and norms

State-owned enterprises should formulate information disclosure policies and norms to clarify specific content, manner, and time requirements for information disclosure in participating private enterprises. These policies and norms should align with national and local laws and regulations while considering practicality and sustainability.

4.2.2. Strengthening the supervision of information disclosure

State-owned enterprises should enhance the supervision of information disclosure in private enterprises with equity participation to ensure timely, accurate, and complete information disclosure. Regular or irregular inspections and evaluations of information disclosure by participating private enterprises should be conducted, and identified problems corrected promptly [15].

4.2.3. Establishment of an information-sharing and communication mechanism

State-owned enterprises should establish an information-sharing and communication mechanism with participating private enterprises to enhance information communication and collaboration. Through information sharing, they can gain timely insights into the operation and ESG performance of participating private enterprises, providing support and reference for corporate decision-making. Simultaneously, this mechanism can convey the policies and requirements of state-owned enterprises to participating private enterprises promptly, strengthening guidance and assistance.

4.2.4. Utilizing the assessment and certification role of third-party institutions

State-owned enterprises can involve third-party organizations in assessing and certifying the ESG performance of private companies in which they participate. These organizations can offer professional assessment and certification services to help state-owned enterprises better understand the ESG performance and social responsibility fulfillment of private companies with equity participation, further enhancing the supervision and guidance on information disclosure.

4.2.5. Strengthening education and training

State-owned enterprises should intensify education and training on information disclosure for relevant personnel in private enterprises with equity participation. This effort aims to improve enterprises' attention to information disclosure and their ability to disclose information. Through education and training, the awareness and ability of enterprises to disclose information can be enhanced, further promoting the improvement and standardization of information disclosure.

4.3. Building cooperation mechanisms

4.3.1. Joint formulation of strategic planning

State-owned enterprises and private enterprises can collaborate to formulate strategic plans, clarifying the direction and goals of development. When formulating strategic plans, considerations should be given to ESG factors, incorporating sustainable development and social responsibility into development strategies to jointly promote the healthy development of enterprises.

4.3.2. Establishment of joint working groups

State-owned enterprises and private companies can establish a joint working group to implement the strategic plan and promote cooperation in ESG. The joint working group, comprising senior executives, heads of relevant departments, and ESG experts from both sides, ensures efficient and professionalized cooperation.

4.3.3. Strengthening information sharing and communication

State-owned enterprises and private enterprises can strengthen information sharing and communication, staying abreast of each other's ESG performance and needs, and working together to solve problems encountered in cooperation. Regular meetings and exchange visits can be held to enhance mutual understanding and trust, laying the foundation for further cooperation.

4.3.4. Promoting technological innovation and green development

State-owned enterprises and private enterprises can jointly promote technological innovation and green development, such as jointly developing green technologies and promoting environmentally friendly products. Through technological innovation and green development, they can enhance the competitiveness of enterprises and realize sustainable development.

4.3.5. Establishment of benefit-sharing mechanisms

State-owned enterprises and private enterprises can establish a benefit-sharing mechanism to rationally distribute the benefits of cooperation. In this mechanism, ESG factors can be fully considered, incorporating environmental protection and social responsibility performance appraisal and other measures to ensure that both parties benefit from the cooperation.

4.3.6. Building long-term cooperation mechanisms

State-owned enterprises and private enterprises can build long-term cooperation mechanisms, such as signing long-term cooperation agreements and forming joint ventures. The long-term cooperation mechanism can stabilize the cooperation relationship between the two parties, jointly promoting progress and development in ESG.

5. Conclusion

In summary, the participation of state-owned capital has a positive impact on the ESG performance of private enterprises, making a significant contribution to enhancing the sustainable development of these enterprises and promoting overall economic sustainability. As technology continues to innovate and industrial upgrading accelerates, state-owned capital's involvement in private enterprises is poised to encounter both opportunities and challenges. Moving forward, it is imperative for the government, regulators, investors, and other stakeholders to collaborate in fostering an environment that encourages enterprises to consistently enhance their ESG performance.

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