

Is A Company's Customer Stability Affected by ESG Performance?

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Abstract: Under the influence of the concept of sustainable development, corporate ESG performance is increasingly valued by stakeholders. As one of the corporate stakeholders, corporate customers attach great importance to corporate ESG performance, and they are more willing to maintain long-term and stable partnerships with companies with good corporate ESG performance.

Keywords: Corporate Customer Stability, ESG Performance, Sustainable Development.

1. Introduction

On September 22, 2020, General Secretary Xi Jinping put forward the historically important "double carbon" target. The "double carbon" target has greatly changed the traditional economic decision-making process of enterprises, which no longer rely solely on financial indicators, but show a trend to pay more attention to environmental protection, social responsibility and corporate governance (hereinafter referred to as ESG).

The concept of ESG first emerged in the 1980s, and some investors had already taken environmental protection, social responsibility and corporate governance into account in their investment decisions before ESG emerged, but it was not until ESG emerged that investors took ESG into account in a comprehensive manner. In 1992, the United Nations Programme proposed that financial institutions should consider the impact of ESG performance in their lending operations. Since then, Western countries have been strengthening their ESG disclosure requirements. The development of ESG in China started late and for a shorter period of time. In 2002, the SEC's Code on Governance of Listed Companies clearly stipulated the disclosure of corporate governance of listed companies. In April 2007, the State Environmental Protection Administration stated in the Measures on Environmental Information Disclosure (for Trial Implementation) that enterprises should publish information on environmental protection. In September 2018, the SEC issued the revised Code on Governance of Listed Companies that established the basic framework of ESG disclosure for listed companies and for the first time explicitly required listed companies to disclose ESG-related information, which also implies the increase in China's ESG disclosure requirements and the increased importance attached to ESG. In September 2020, the Shenzhen Stock Exchange mentioned for the first time in the Measures for Assessment of Information Disclosure Work of Listed Companies on Shenzhen Stock Exchange (Revised in 2020) that ESG disclosure would affect enterprise ratings[1-3].

2. Research Significance

2.1. It helps to enrich the literature on the economic consequences of corporate ESG performance

Previous studies on the economic consequences of corporate ESG performance have focused more on corporate value, business performance, and the impact on investors based on ESG investment philosophy, but few have examined its impact on supply chain relationships, and few have examined the impact of corporate ESG performance on customer stability in supply chain relationships. This paper examines the impact of corporate ESG performance on customer stability from the perspective of corporate supply chain relationships, which helps to enrich the research content related to the economic consequences of corporate ESG performance and thus improve the corporate green governance system and related theories[4-5].

2.2. It helps to expand the literature on the factors influencing customer stability

Customer research is an indispensable branch in supply chain research. Existing research proves that the stability of enterprise customers affects the business management of enterprises. The impact factor research conducted in this paper can enrich the research on the impact factors of enterprise customer stability, provide theoretical basis for enterprises to maintain reasonable customer stability, and then provide a certain theoretical basis for the subsequent broadening of the research on supply chain stability[6-8].

2.3. ESG practice perspective of enterprises

According to the China ESG Development Report 2021 and the Work Plan for Improving the Quality of Listed Companies Held by Central Enterprises announced by SASAC, corporate ESG practice in China has been early on the agenda and has made some progress. At the level of corporate practice, corporate ESG practice has reflected diverse characteristics. From the earliest corporate donations and volunteerism to the current emphasis on environmental protection and social responsibility in corporate production and operation activities, companies and their management are exploring better ways for longer-term development. Based on

existing research, this paper broadens the economic consequences of corporate ESG performance and provides a reference for corporate ESG practices to achieve the integration and development of corporate and social interests. Therefore, the research in this paper meets the needs of ESG practice.

2.4. Investor ESG investment perspective

ESG investment refers to the integration of environmental, social responsibility and corporate governance factors into the traditional financial analysis to examine the long-term development potential of enterprises, in order to find sustainable investment targets that create both shareholder wealth and social value. In contrast to the traditional investment approach of focusing on high returns, investors are more concerned about the green development and sustainability of enterprises. This paper provides a basis for investors with ESG investment philosophy to make economic decisions from the perspective of ESG performance affecting supply chain stability[9].

3. Corporate ESG Performance

Since the concept of corporate ESG performance has been widely used, it has received extensive attention from scholars at home and abroad. In recent years, the concept of corporate ESG performance has become popular worldwide. What are the reasons why academics and practitioners are so concerned about corporate ESG performance? First, ESG performance represents the sustainability of a company and is an important reflection of the company's overall capability and value. Second, ESG performance plays an increasingly important role in corporate management, and its economic consequences are spread across all corners of corporate management, such as corporate value, business performance and other important aspects, some scholars believe that the improvement of corporate ESG performance can help improve corporate value and also help improve corporate performance[10-12]. However, some scholars believe that it costs money to improve corporate ESG performance, which requires corporate management to invest more human and material resources in ESG when making decisions, which, in turn, can reduce corporate value and operating performance. Thirdly, all walks of life are concerned about, and even attach importance to, corporate ESG performance, and some national authorities have issued policies to compel listed companies to disclose ESG information, which forces corporate management to invest more effort in ESG.

4. Customer Stability

From the production and supply of raw materials, to the production of products, and finally the delivery of products to end consumers, this is a complete supply chain line, and countless such supply chain lines together is the supply chain network. Being in the supply chain network, the production and operation of enterprises receive a great influence from its stability. When the supply chain is stable, enterprises can start their business in an orderly manner to achieve their goals. When the supply chain is unstable, enterprises may suffer from cash flow breakage, inventory accumulation, poor procurement of raw materials, or even bankruptcy in serious cases. Especially since the new crown epidemic, the stability of the supply chain determines the life and death of a company. Customers, as the most important party in the supply chain

for enterprises, determine whether the enterprise sales road is smooth. Enterprises always want to maintain a long-term and stable relationship with their customers. On the one hand, it helps enterprises to sell their products in time and get cash flow when their business status fluctuates; on the other hand, a long-term and stable relationship helps enterprises to invest their energy in other areas to gain greater competitive advantage[13-15].

5. ESG Performance and Customer Stability

Theories related to ESG performance and customer stability include stakeholder theory and sustainable development theory.

Stakeholder theory means that the survival and development of an enterprise is closely related to many stakeholders of the enterprise, including shareholders, creditors, employees, government departments, communities, etc., and even the natural environment. Therefore, good ESG performance contributes to customer stability.

The theory of sustainable development believes that in order to survive and develop in the long term, a company must consider society and the environment. Only when a company lives in harmony with society and the environment and promotes each other, it will be conducive to the stable and sustainable development of the company and thus enhance customer stability.

Based on the above two theories, ESG investment concept has emerged due to the public's concern about ESG, especially stakeholders, and the impact of ESG performance on customer stability has received extensive attention from scholars. As the most important stakeholders of a company, customers do not only care about the quality of the company's products, they sometimes care more about whether the company they work with has taken their interests into consideration when managing their business. This is because it may bring customers additional psychological enjoyment in addition to price benefits. And according to sustainability theory, corporate ESG performance is an important reflection of corporate sustainability, and more and more countries are mandating listed companies to disclose their ESG performance in a certain period of time. Long-term and stable customer relationship is inseparable from the sustainable development of the enterprise. If a partner company only cares about short-term profits and does not care about long-term development, then the company may not operate for a long time, and then the client will give them less points when choosing a partner. The reason why customers want to maintain long-term relationships with companies is that such relationships bring additional economic benefits to both the company and the customer itself, which is reflected in the fact that long-term cooperation leads to increased and stable sales and high quality and cheap raw materials purchased by the customer. To sum up, the efforts that companies put into ESG performance will definitely be reflected in customer stability[16-20].

6. Conclusions and Recommendations

6.1. Conclusion of the study

Since the release of the revised version of the SEC's Code of Governance for Listed Companies in 2018, the impact of ESG performance on customer stability has stepped into the

public eye, the government and the market have paid more and more attention to ESG disclosure, and the ESG investment concept has emerged. In this context, this paper illustrates the impact of corporate ESG performance on customer stability by summarizing the theories related to corporate ESG performance and customer stability. The results of the study show that the improvement of ESG performance can help improve customer stability and help companies obtain more stable supply chain relationships.

6.2. Suggestions and Insights

Companies should comply with the new market development trend, pay attention to environmental protection, increase investment in environmental protection, actively assume social responsibility, improve corporate governance system, continuously improve ESG performance, and promote high-quality development of enterprises.

The government should promote the improvement of ESG disclosure mechanism, strengthen the supervision of ESG disclosure of listed companies, guide enterprises to pay more attention to ESG performance and reduce short-sighted behavior. The government can make preferential policies or give subsidies to enterprises with good ESG performance to promote green and sustainable development of heavy polluting industries, such as reducing taxes and fees for enterprises with good ESG performance and establishing a "negative list" for enterprises with poor ESG performance to urge enterprises to pay more attention to ESG performance.

Sustainable development is the inevitable choice for the future development of enterprises, and ESG performance is in line with the inevitable requirements of sustainable development, and only by focusing on ESG management and maintaining good customer relations can enterprises embark on the road to sustainable development.

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