



Problems and Countermeasures in ESG Information Disclosure of SMEs

Di Cai

School of Accounting, Xinjiang University of Finance and Economics, Urumqi 830012, Xinjiang, China
DOI: 10.32629/memf.v5i1.1614

Abstract: The rapid development of global economy has brought about problems such as environmental pollution, lack of social responsibility and imbalance of corporate governance. The concept of ESG is put forward with the concept of sustainable development, and the disclosure of ESG information has become the top priority of enterprise development. Small and medium-sized enterprises are an important part of China's economic development, and ESG information disclosure can reduce the capital cost of small and medium-sized enterprises, alleviate financing pressure and improve the resilience of enterprises. With the implementation of ESG in China, it is found that small and medium-sized enterprises are short of ESG information disclosure, insufficient cognition of ESG information disclosure, incomplete disclosure and other problems. This paper analyzes the problems existing in the process of ESG information disclosure for small and medium-sized enterprises and puts forward countermeasures.

Keywords: ESG, information disclosure, SMEs, sustainable development, corporate governance

1. Introduction

Since the 21st century, the rapid development of the global economy, science and technology and industry have become more and more developed, and the rapid economic growth has brought about serious environmental pollution, lack of social responsibility and poor corporate governance. Under the concept of global Community of human destiny and sustainable development, the concept of ESG is put forward. ESG is an English abbreviation of Environmental, Social and Governance, which is an investment concept and enterprise evaluation standard based on the non-financial performance of environment, social responsibility and corporate governance.

While accelerating the development of green economy transformation in our country, higher requirements are put forward to the sustainable development ability of enterprises. As an important tool to promote green transformation, ESG has also received more attention, and the government has put forward higher requirements for the information disclosure of ESG. According to market research, ESG information disclosure is mainly carried out on state-owned enterprises and large companies at present.

2. Introduction of ESG information disclosure

2.1 Overview

ESG information disclosure is an enterprise's information disclosure on three dimensions: Environmental, Social and Governance.

2.2 Disclosure principles of ESG information disclosure for SMEs

2.2.1 Substance

The disclosure of SMEs should provide events and information that have a significant impact on the decision-making and value creation of stakeholders, including not only positive but also negative impacts.

2.2.2 Authenticity

SMEs should make disclosure based on objective facts or judgments and opinions based on facts, and there is no false, misrepresentation or concealment of important facts.

2.2.3 Accuracy

When SMEs disclose information, they should use clear, concise and easy-to-understand language, and the disclosure content does not contain misleading statements, so as to ensure that stakeholders can accurately understand and make correct decisions.

2.2.4 Integrity

The information disclosure of SMEs should be complete disclosure of all information that has a significant impact on

the decision-making and value judgment of stakeholders, without any concealment or major omission.

3. The impact of ESG information disclosure on SMEs

3.1 Impact on cost of capital

The modern enterprise management mode is the separation of ownership and management right, the owner wants to maximize the shareholders of the enterprise, the operator wants to maximize the interests of the enterprise, so the principal-agent problem arises between the two, and then the principal-agent cost. Through the disclosure of ESG information, SMEs can reduce the principal-agent cost, thus reducing the cost of capital.

3.2 Impact on financing constraints

In recent years, the outbreak of the epidemic has devastated the economic development of enterprises, and small and medium-sized enterprises have encountered more obstacles in the process of sustainable development. Due to their small scale and lack of funds, small and medium-sized enterprises have reduced their ability to resist risks in the face of the pressure of economic depression, and the financing difficulties and financing problems of small and medium-sized enterprises have become increasingly prominent. ESG information disclosure alleviates the financing constraints of SMEs to a certain extent. [2]

On the one hand, financial institutions have innovated financial instruments and obtained support, providing more low thresholds for SMEs to raise financing. The disclosure of ESG information enables financial institutions to grasp the information of SMEs faster, increase the possibility of obtaining financing, and alleviate financing constraints to a certain extent.

On the other hand, small and medium-sized enterprises introduce ESG concept into corporate credit risk management, and the disclosure of ESG information can deliver good economic benefits to the outside world, solve the information asymmetry between stakeholders, increase the possibility of investors to make investment decisions, reduce financing constraints, and obtain more financial support to a certain extent.

3.3 Influence on organizational toughness

The scale of small and medium-sized enterprises in China is relatively small, the organizational toughness is insufficient, the anti-risk ability is relatively weak, and the technical personnel and corporate governance ability are relatively poor compared with other large enterprises and state-owned enterprises. By carrying out ESG information disclosure, SMEs combine ESG concept with business strategy, guide enterprises to continuously improve their internal governance mechanism, optimize governance plans, improve their anti-risk ability, and thus enhance their economic benefits. [3] The higher the quality of ESG information disclosure by SMEs, the stronger the corporate governance ability, the higher the management level of enterprises, and the stronger the organizational resilience, which provides the foundation for the sustainable development of SMEs.

4. Limitations of ESG information disclosure by SMEs

4.1 Lack of unified ESG information disclosure system

In terms of information disclosure methods, SMEs' ESG information disclosure methods are relatively simple, and the report contents are mostly stereotyped descriptions, lack of quantitative indicators, and lack of objectivity, resulting in low disclosure quality and imperfect evaluation standards. [1] In terms of disclosure standards, the development of ESG information disclosure in China started relatively late compared with other countries, and there is no mandatory disclosure of information in all walks of life. The main development force of the government is state-owned enterprises and large enterprises, and there is no special normative document for ESG information disclosure of small and medium-sized enterprises, so enterprises do not have normative disclosure standards. As a result, enterprises can only make positive information disclosure according to their own situation.

4.2 Small and medium-sized enterprises have insufficient awareness of ESG related concepts

Although the concept of ESG was put forward very early, most enterprises do not know much about it. In 2018, China only had an ESG information disclosure framework when the "Code of Governance for Listed Companies" was released, and ESG information disclosure is relatively unfamiliar to SMEs. Through the investigation and research of several domestic SMEs, it is found that more than two-thirds of SMEs do not understand the concept of ESG, nor do they understand the ESG information disclosure mechanism, and their understanding of ESG reports only stays on the needs of customers.

5. Optimize countermeasures for ESG information disclosure of SMEs

5.1 Government

5.1.1 Strengthen ESG information disclosure construction

The construction of ESG information disclosure in China is relatively late, and relevant systems are in the initial stage. For SMEs, the establishment of an effective ESG information disclosure system, the establishment of correct codes of conduct, and the clear scope of ESG information disclosure can guide the construction of ESG information disclosure for SMEs, and advocate enterprises to disclose true and reliable information.

5.1.2 Encourage SMEs to disclose ESG information

Strengthen the government's construction of ESG information disclosure for SMEs and encourage SMEs to make public disclosure. On the one hand, this can be achieved by establishing a reward and punishment mechanism, rewarding SMEs that actively disclose ESG information and perform well in ESG, giving preferential policies to enterprises and increasing government subsidies. Financial institutions are encouraged to lower interest rates and increase lending quotas for SMEs that publicly disclose ESG information.

5.2 Enterprise

5.2.1 Strengthen the construction of ESG information disclosure

Since the construction of ESG information disclosure is relatively late in China, there are no specific unified rules and regulations for the construction of ESG information disclosure for small and medium-sized enterprises. First of all, SMEs should incorporate ESG information construction into their corporate development strategies, make a unified reporting method for the content of information disclosure according to the characteristics of the development of various industries, and make the disclosure indicators comparable. Constantly improve the standards of information disclosure system, in the mandatory disclosure and voluntary disclosure to form a unity; Secondly, establish a complete evaluation system.

5.2.2 Improve enterprises' awareness of ESG information disclosure

SMEs should enhance their employees' understanding of ESG in all aspects, learn from enterprises with good ESG information disclosure, actively consult relevant experts, reward and encourage departments with good ESG information disclosure quality, and criticize and punish those departments that fail to disclose ESG information in accordance with regulations. In addition, relevant experts are invited to conduct training on ESG information disclosure, so as to improve the awareness of ESG information disclosure and strengthen the concept of social responsibility.

5.2.3 Improving the internal governance of enterprises

The level of governance and management within an enterprise is a part of ESG information disclosure and plays an important role in information quality. Corporate governance determines the operation capability of an enterprise, and it can be improved by improving internal control. The higher the level of internal governance, the higher the quality of ESG information disclosure, and the more favorable information will be provided to stakeholders.

6. Closing remarks

Sustainable development is the ultimate goal of our country's economic and social construction, promoting the economic development of small and medium-sized enterprises is an important basis for our country to achieve high-quality development. ESG information disclosure of SMEs can help enterprises reduce capital cost, relieve financing pressure, and improve their sustainable development ability. Therefore, it is necessary to incorporate ESG into the development status of enterprise business strategy, strengthen the construction of ESG information disclosure system for SMEs, encourage SMEs to actively disclose information publicly, improve the quality of ESG information disclosure, and quickly realize the integrated development of SMEs and the market.

References

- [1] ZHANG Sa. Application research of ESG system in China [J]. Journal of Financial Management, 2017(11):80-85. (in Chinese)
- [2] Yin Jianguo, Shi Tingting, Qiao Jiandong. Research on the impact of stakeholders on Corporate Social Responsibility information disclosure [J]. Finance and Accounting Communication, 2016(01):30.
- [3] Luo Zhengying, Zhang Xuefang, Zhao Yujuan. Characteristics, structure and implementation mechanism of accounting information disclosure system of small and medium-sized enterprises [J]. Accounting Research, 2017, (8).