

# Application performance and innovation effect of ESG indicators in corporate governance under the background of green development

## —Take Tesla Electric Vehicle Co

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### ABSTRACT

With the development of globalization, enterprises increasingly pay attention to the impact of environment, society and governance (ESG) on their performance. In this paper, the key ESG issues of Tesla is discussed in depth by means of case study, and the implementation situation is analyzed in detail from multiple perspectives. Research shows that the application of ESG technology can significantly improve the financial situation of enterprises and promote their long-term development. This paper obtains the result that the new energy vehicle industry actively improves its own companies to achieve the purpose of ESG excellent rating. It will become an important development trend for enterprises to actively respond to ESG goals. Based on practical cases, this paper summarizes the experience and les-sons of ESG technology implementation in energy enterprises, and puts forward corresponding normative suggestions on ESG information disclosure.

### KEYWORDS

ESG; Sustainable development; Energy vehicles; Tesla

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## 1. INTRODUCTION

In recent years, ESG has emerged as an important new indicator of enterprise performance evaluation. It is not only an investment concept, but also a management and control mechanism for the enterprise, which will comprehensively consider the operation, development, management and control ability of the enterprise, so as to make the development of ESG more feasible. The promotion of ESG not only brings unprecedented opportunities to enterprises, but also can greatly improve the current economic situation, thus advancing economic sustainability. ESG assessment focuses on how enterprises promote long-term economic growth and fulfill social obligations. Tesla is a good example, and in this paper, we will explore its success through ESG assessment.

## 2. ESG OVERVIEW

### 2.1. The Concept of ESG

As a new concept, ESG has developed and emerged in recent years. ESG, which contains environmental, social and governmental evaluating the sustainability of enterprise operation and its impact on social values from three dimensions of environment, society and corporate governance.

## 2.2. Significance of Research on ESG

### 2.2.1. Enterprise ESG performance and green innovation

ESG ratings are closely related to corporate performance, and the concept of this association has been widely recognized. ‘ESG performance has a significant effect on enterprise green innovation, mainly by easing the pressure of the financing enterprise, fitting stakeholders’ environmental protection concept and obtaining employee organizational identity that influences enterprise green innovation.’ (Wu, L., Yi, X., Hu, K., Lyulyov, O., & Pimonenko, T., 2024) [1] The accumulation of ESG not only contributes to the long-term success of enterprises, but also can effectively improve the operating conditions of enterprises. According to Gao, Meng, Gu, Liu & Farrukh ‘the goal of enterprises with good ESG performance is not only to maximize profits, but to optimize the allocation of resources and consider multi stakeholders, so as to promote their sustainable development.’ [2]

### 2.2.2. The status of ESG

ESG plays a crucial role in promoting the prolonged sustainable development of enterprises. The principle of sustainable development aims to achieve high-quality economic development in which man and nature coexist in harmony. The application of ESG can significantly improve the performance of enterprises, thus promoting the progress and development of enterprises and even the whole society. ESG information disclosure is an effective evaluation tool to measure an enterprise's social obligations. It can not only show the company's trust, but also bring some credibility to the company, so as to bring stronger market competitiveness and greater business success and better economic performance. Thus, strengthening the ESG performance of the new energy vehicle industry is of great development significance to Tesla.

## 3. ANALYSIS OF TESLA'S ESG IMPLEMENTATION

### 3.1. Implementation Overview of Tesla and ESG Levels

Tesla is an American manufacturer of electric vehicles, solar panels and batteries for electricity storage for cars and homes. It is the largest electric vehicle and solar panel company in the United States and by 2018 The company has become the best-selling plug-in car company in the world. The company was founded in 2003. In 2008, Elon Musk became the largest shareholder and was named CEO. Since then, Tesla has revolutionized the automotive industry and continues to drive innovation in electric mobility and sustainable energy solutions. Tesla is now seizing opportunities to develop steadily. As of December 2020, Tesla is not only the largest EV by number of units produced (Q1-Q3 2020: 318,350 units), but also the largest automaker by market capitalization.

Tesla doesn't do very well when it comes to ratings or ESG performance, even though Tesla makes highly efficient electric vehicles. But many sustainability challenges remain. Including the impact of batteries on the environment. poor working conditions and strange and unusual sightings. As of 2018, Tesla's main focus is updating its webpage with estimated emissions savings from electric vehicles. Moreover, according to The Transition Pathway Initiative, scored zero in climate performance for not disclosing policies and programs related to ESG topics. (McMahon, 2018) [3]

**Table 1.** Tesla ESG Score + Net Impact Profile

Impact	Negative	Score	Positive
Society	-0.02	+0.42	+4.05
Knowledge	-1.22	-0.91	+0.31
Health	-0.38	+0.21	+0.59
Environment	-2.16	-0.51	+0.64

From table 1, we can get to know that there are many factors which bring positive and negative impact on Tesla's development. And also, we can get data from Sustainalytics that the ESG risk rating is at around 24.7, which means there is a medium risk of Tesla's ESG rating. [4] These data show that Tesla still have a long way to go on ESG performance.

To increase net impact, companies can amplify their positive impact or reduce their negative impact. Tesla appears to create the most significant positive value in the areas of social infrastructure, taxes and employment. Tesla primarily consumes resources or has negative impacts in the areas of limited human capital, greenhouse gas emissions, and non-greenhouse gas emissions.

## **3.2. Specific Analysis of Tesla ESG Aspects**

### **3.2.1. The environmental dimension**

The Reporting Exchange database shows that the most common environmental indicators relate to many aspects, the most important of which are greenhouse gas emissions, sustainable use of water resources, efficient use of energy and waste disposal. In manufacturing, metal sourcing and production of batteries adds CO<sub>2</sub> emissions from the start. During manufacturing, EVs (electrical vehicles) have on average a higher environmental impact than conventional ICE (internal combustion vehicles). (Fernando, 2020) [5]. To solve this problem, Tesla has taken a number of steps to make its electric cars as environmentally friendly as possible. These include reducing the carbon footprint, reducing supply chain emissions and the carbon intensity of each electric vehicle. 'At the same time, Tesla is also actively repowering the existing grid with renewables in order to support the use of clean energy instead of fossil fuels.' (Tesla, 2023). [6]

### **3.2.2. The society dimension**

Tesla's governance issues are mainly to abide by business ethics and actively assume social responsibility. In the model where stakeholders and business influence each other. These relationships highlight the importance of corporate social responsibility. Corporate citizenship and stakeholder management in the case of this company's analysis, Tesla's automobile business has direct and indirect impacts on relevant stakeholders. Tesla addresses the interests of stakeholders through corporate social responsibility strategies. As for social ESG standards, Tesla faces problems in at least two areas: human rights in its supply chain and labor management in its factories. Tesla also manages its workforce poorly. There are many examples of Tesla violating workers' rights and forcing workers to work in unsafe conditions. For example, laying off workers after they were allowed to take unpaid leave during COVID-19 and higher-than-average work-related injury rates. These kinds of similar problems will have a serious social impact on Tesla's ESG performance evaluation and need to be corrected urgently.

'Corporate citizenship activities are strongly integrated into Tesla's products and management practices. Such a corporate social responsibility approach benefits stakeholders, while also boosting the company's corporate and brand image.' (Panmore Institute, 2023) [7] In recent years, Tesla's CSR efforts have been satisfying the interests of the majority of interested parties satisfactorily.

### **3.2.3. The government dimension**

In terms of ESG governance, Tesla is striving to promote ESG reform to achieve better corporate operation. To this end, Tesla has especially improved its internal supervision mechanism to ensure that it has good operational efficiency.

Governance is another area where Tesla struggles. Aside from being known for its CEO Elon Mask's extremely optimistic promises and a Tesla board that consistently misses production deadlines is a serious management problem. Tesla's board of Directors conducted a reasonable assessment of reviewing the company's leadership structure and reviewed committee composition and performance. Tesla's corporate governance structure has contributed to some important decisions that may seem

counterintuitive to some, but are fundamental to Tesla's long-term success. (For example: 'Manufacture EVs from the ground up rather than being a mere supplier of EV components, Establish an international network of stores, service centers, and Supercharger') (Fortuna, 2022) [8].

## **4. EXPERIENCE AND ENLIGHTENMENT OF ESG IMPLEMENTATION IN ENTERPRISES**

### **4.1. Promote Sustainable Development of Enterprises**

A company's financial and non-financial performance is closely related to its effectiveness in applying ESG concepts: better ESG performance can bring greater economic benefits to a company. When considering the economic benefits of enterprise development, we not only need to pay attention to the factors affecting the company's profits, but also should take ESG indicators into account. Only by doing so, can help the company to develop in the long run, as for the reason that investors prefer to choose this kind of company rather than others. 'Long-term-minded investors—whom we call "intrinsic investors"—have an outsize effect on stock performance over time. These investors recognize that ESG will affect value.' (Gelb, McCarthy, Rehm & Voronin, 2023) [9]

### **4.2. Actively Respond to ESG Development Strategy**

In order to achieve better ESG performance, enterprises should actively respond to the policy goal. Humbly accept the participation of investors and social supervision and guidance. Thus, the enterprise development to get better results.

In terms of oversight, the regulator will improve the development of laws and regulations related to the ESG concept, strengthen the implementation of policies, ensure that all companies are aware of their responsibilities to protect the environment, the public and stakeholders, and awareness needs to be strengthened. corporate responsibility and proactive disclosure of annual ESG reports.

### **4.3. Conclusion of ESG at all Dimensions**

Although Tesla is not a leader in terms of sustainability and ESG evaluation, it produces fuel-efficient vehicles and has invested heavily in reducing environmental risks by improving supply chain management and transparency. Develop more efficient recycling processes for battery technology. Overall, enterprises should integrate non-financial ESG indicators into their corporate strategies, allocate resources wisely, and contribute to high-quality economic development. Secondly, investors should consider the ESG performance of enterprises as an important indicator to measure the investment potential of enterprises, so as to encourage them to improve the ESG performance of enterprises and enhance their green technology innovation capabilities. Finally, at the societal level, we should actively promote and introduce corporate disclosure standards and promote high-quality development of enterprises.

## **5. CONCLUSION**

To sum up, electric vehicle industry is an important part of the world's future economic development, it has brought strong driving force for the future economic prosperity. The electric vehicle industry is very important for the improvement and progress of the automobile industry, and it is a major direction for many related industries to strive for. As a pioneer and leader of electric vehicle enterprises, Tesla has made positive contributions to the prosperity and development of the global economy. Therefore, it is particularly important to realize the green and sustainable development and improving the financial performance of such companies.

From the analysis of this paper, it can be seen that good ESG performance plays a positive role in improving a company's financial performance. An enterprise with good ESG performance can better establish its own good corporate image to improve its competitiveness, so as to increase its market share and improve its financial performance. At the same time, enterprises pay attention to environmental protection, which will help reduce the cost of enterprises and save funds from a certain aspect.

However, there are still some limitations and shortcomings in this study. On the one hand, the number of selected ESG indicators is limited, so they cannot truly and comprehensively reflect the specific situation of enterprises, and the research results may not be completely reliable and without deviation. The second point is that this paper only chooses Tesla as a case for research and analysis, and the situation of each enterprise is different, so the results obtained are not universal.

Given the limitations of this paper, future research directions can be improved by focusing on the following aspects. First, more ESG indicators are selected for corresponding analysis, so as to make the research results relatively more reliable and truer; Instead, the whole industry is selected for research and analysis, rather than analyzing a single enterprise. The analysis thus obtained can be more universal and reference significance.

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