

# The Impact of ESG Performance on Corporate Resilience of New Energy Vehicle Companies - The Case of BYD Company

Weiyuan Ma

School of International Trade and Economics, Shandong University of Finance and Economics,  
Jinan, China

202105140646@mail.sdufe.edu.cn

**Abstract.** Environment, society, and governance (ESG), as a method and path for enterprises to achieve sustainable development goals, has gradually received more attention from stakeholders in recent years under the background of dual-carbon and the requirements of sustainable development goals and has had an impact on the resilience of corporate organizations. New energy vehicles are the main direction for the transformation and upgrading of the global automotive industry and green development, and their ESG performance is an important indicator for realizing sustainable development. Build Your Dream (BYD), as a leader in the new energy automobile industry, and its position at the forefront of the global new energy automobile industry, the study of whether BYD's ESG performance can enhance the corporate resilience of new energy automobile enterprises is feasible and representative. This paper draws the following conclusions through the method of case study analysis. First, BYD's ESG performance can improve its corporate resilience and has a significant positive effect in the three dimensions of environment (E), society (S), and governance (S). Second, BYD's ESG is mainly enhanced by optimizing the internal governance structure, improving the status of the supply chain, improving corporate image, and enhancing the employees' internal cohesion and sense of identity. corporate resilience. At the same time, relevant suggestions are made for the implementation of ESG in China's new energy automobile enterprises.

**Keywords:** New energy vehicles; low carbon; corporate resilience.

## 1. Introduction

Environmental, Social, and Governance (ESG) is an investment philosophy and corporate evaluation standard that focuses on a company's environmental, social, and corporate governance performance rather than its traditional financial performance. It takes into account corporate social responsibility, and as rapid economic growth causes more and more negative impacts on society and the environment, ESG indicators of corporate operations become increasingly important. During the 14th Five-Year Plan period, China is based on a new development stage to promote sustainable economic development. New energy vehicles are the main direction for the transformation and upgrading of the global automobile industry and green development, as well as a strategic choice for the high-quality development of China's automobile industry, and also an important pillar for the construction of a "low-carbon" economy, whose ESG performance is closely related to the goal of realizing new progress in ecological civilization during the 14th Five-Year Plan period, and also closely linked to the dual-carbon goal. The Dual-carbon goal is also closely linked [1].

Different from the traditional concept of Corporate Social Responsibility (CSR), ESG is society's way of urging business to think about how to change itself, how to transform its own system into a new type of organization that creates synergies in the promotion of economic development, social progress, and environmental harmony, and to achieve its own sustainable operation and development in the process. Therefore, from CSR to ESG, enterprises need to deeply integrate ESG into their operation system, and establish a sustainable management system and a reasonable corporate governance structure. From CSR report to ESG report, the content of the information should not only be disclosed according to a certain structure and depth but also the company's plan for future sustainable growth and development, as well as the systematic control of the challenges and risks that

the growth and development will face. Only through profound change can a company truly refine its ESG practices, continually increase its resilience, and ultimately evolve into a sustainable organization. As a leading domestic manufacturer of new energy vehicles, BYD has established a comprehensive power product system encompassing traditional fuels, hybrid power, and pure electric vehicles within the new energy vehicle industry. The company has also mastered the core technologies spanning the entire new energy vehicle industrial chain, ranging from batteries, motors, and electronic controls to Insulated Gate Bipolar Transistors (IGBT), thus solidifying its position at the forefront of the global new energy vehicle industry [2]. Therefore, it is feasible and representative to study BYD's ESG performance and then explore whether it can enhance the corporate resilience of new energy vehicle companies.

This paper focuses on the ESG performance and resilience of enterprises, paying particular attention to internal governance mechanisms and the environmental and social impact of these organizations. The study explores the potential of improving corporate resilience through the analysis of the three-dimensional space of ESG, aiming to provide other enterprises with insights for optimizing their corporate governance structures, mitigating environmental and social risks, and serving as a reference. It will help other new energy vehicle enterprises to control their social responsibility for the whole product life cycle and bring better long-term value to the enterprises; At the same time, it will help the new energy vehicle industry to improve its long-term development capability, implement the development concept of “green mountains are golden mountains”, and help China's economy to develop sustainably.

## **2. BYD Case Study**

### **2.1. Development Status of BYD's New Energy Vehicle Field**

According to the BYD 2023 Annual Report, BYD has mastered the core technologies of the whole industrial chain of new energy vehicles such as batteries, motors, electronic control, etc., and has continued to lead the global new energy vehicle transformation from independent innovation to comprehensive open innovation. BYD has ushered in unprecedented development opportunities with its disruptive technologies such as blade batteries, DM-i super hybrid, e-platform 3.0, CTB battery-vehicle integration, “Easysquare”, the Cloud Van system, and the DMO super hybrid off-road platform. In 2023, BYD Group sold 3.024 million new energy vehicles, a year-on-year growth of 67%, and was the world's top seller of new energy vehicles. BYD released its vehicle intelligence strategy, which realizes the efficient integration of electrification and intelligence through the Xuan architecture, leading the intelligent transformation of new energy vehicles. Currently, BYD's new energy vehicles have entered the markets of Germany, Japan and other automotive powerhouses, as well as emerging markets such as Thailand and Brazil, with operations in more than 70 countries and regions and more than 400 cities around the world. Meanwhile, as a new energy total solution provider, BYD owns new energy products such as batteries, solar energy, energy storage, etc., and has opened up the whole industrial chain of energy from acquisition, and storage to application. BYD's new energy products cover consumer 3C batteries, power batteries, photovoltaic storage integration and other fields with a complete industrial chain, firmly occupy the forefront of the industry. Blade batteries with high safety, long life, high endurance, and other characteristics, nickel-free, drilling metal through the industry's most stringent single-battery puncture test, highly recognized by the market, and its solar energy and energy storage solutions are now serving the United States, Germany, Japan, Switzerland, Canada, Australia and South Africa and other new energy developed markets and emerging markets.

As BYD's core automotive technology continues to advance and its major businesses continue to expand, its ESG performance is also evolving. BYD has published social responsibility reports for 13 consecutive years since 2010, making it one of the earlier companies in the automotive industry to make ESG disclosures. The germination of the ESG concept can be traced back to the early 20th century, when some socially responsible investors began to focus on corporate social responsibility

and environmental impacts, mainly emphasizing that corporations should be responsible for their social and environmental impacts. In the early 21st century, the concept of ESG was gradually introduced, which organically combines the three dimensions of environment, society, and governance, and has become an important consideration in investment decisions. Investors have begun to realize the impact of ESG factors on the long-term value of a company, incorporating them into the assessment of their investment portfolios. In recent years, ESG investment has become one of the mainstream trends in the global investment arena. More and more investors and institutions are beginning to incorporate ESG factors into their investment decisions and risk management, recognizing the need to consider environmental and social impacts while achieving sound long-term returns. BYD's 13 consecutive years of adherence to the disclosure of social responsibility reports and the establishment of the CSR Committee have well supervised its corporate behavior, avoided the short-sighted behavior of its decision-makers who are forced by other factors, and improved its internal governance structure, and, at the same time, conveyed to the market its ability to develop sustainably and its sense of social responsibility, attracted more investors' attention and support, and allowed the market to understand the enterprise more comprehensively. ESG performance promotes BYD's development and is a necessary path for BYD to move towards sustainable development.

## **2.2. Analysis of BYD's ESG Performance**

### **2.2.1. Environment (E).**

BYD strictly abides by relevant environmental protection laws and regulations and takes environmental protection as its mission. In the production process, it focuses on reducing the direct impact on the environment, especially in carbon emission and energy management, and has taken a series of measures. In terms of energy and carbon emission management, BYD regularly inventories greenhouse gas emission data and hires a third party to conduct verification to improve its management level. It also reduces fossil energy consumption and carbon emissions through energy management and energy-saving renovation. A complete energy management system is implemented to control and optimize the implementation process to reduce energy consumption and carbon emissions. In battery management, BYD battery recycling and other closed-loop industry chain, to achieve the efficient use of energy and fine dismantling and recycling. In the utilization of water resources, BYD adopts measures such as water conservation management, reduction, recycling and reuse of water resources to protect water resources and reduce water consumption.

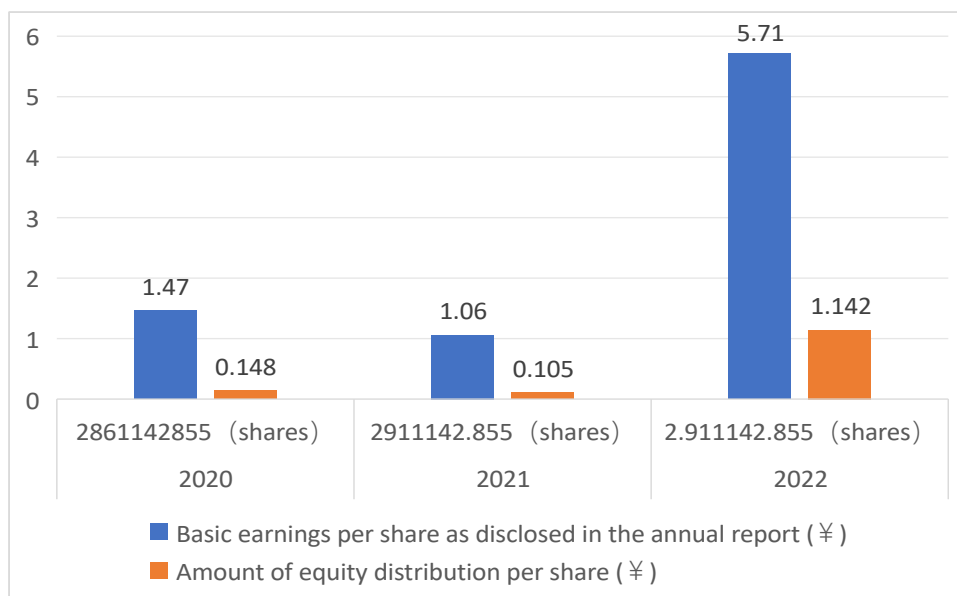
In terms of product development, BYD focuses on solar products and electrochemical energy storage technology development. It has launched a high-efficiency solar module called AURO, which further broadens the photovoltaic application scenarios and can be applied in complex environments such as deserts, Gobi and deserts. Meanwhile, BYD focuses on the development of green power and the research and development of electrochemical energy storage technology. BYD's energy storage products comprehensively cover the power supply side, the grid side and the user side, and it has provided hundreds of energy storage solutions for customers around the world, and it is committed to providing customers with full-scenario, full-value, and full-ecological services. BYD proposes an integrated solar photovoltaic storage and utilization solution, which ensures a balanced supply of power, guarantees the continuous and stable output of clean power, and realizes revenue growth. Output, realize revenue growth, applicable to industrial and commercial distributed PV, household distributed PV, large ground power station and other application scenarios, promoting the global energy low-carbon transformation.

### **2.2.2. Social (S).**

“Promoting employment and maintaining growth” has become an important indicator for measuring the harmonious development of society. BYD adheres to the “people-oriented” human resources policy of respecting the rights of employees, emphasizing the training of talents, encouraging technological innovations, and striving to establish a fair, just, and open working and development environment for its employees.

In terms of employees, BYD abides by the United Nations human rights conventions and China's labor laws and regulations, and implements the principles of equal opportunity and employment according to talent, eliminating discrimination and forced labor. A card-swiping system is used for automatic age identification and alarm, with double safeguards to prevent non-compliant workers from entering. Meanwhile, BYD focuses on employee diversity, including accepting fresh graduates, interns and people with disabilities, providing a fair, just and open working and development environment. BYD has set up a safety evaluation fund, a reward system and a star rating system for safe factories, advocating the safety development concept of “safety first, prevention first”. In addition, BYD establishes a differentiated salary management system based on market competitiveness and employee contributions to protect employee rights and benefits; adhering to the core talent development concept of “cultivating excellence with excellence, and letting success replicate success”, BYD has established a talent training system with BYD's characteristics step by step. It solves the problem of nurturing with the master-apprentice system, solves the problem of retaining with the construction of skill channels, unites the top first-class colleges and universities, first-class disciplines, first-class mobile stations and first-class tutors, and finally establishes the endogenous supply chain of skill talents from “skill cultivation - internal training for teachers - independent work - skill upgrading”.

With regard to the protection of shareholders' rights and interests, BYD actively maintains the stability of the share price, makes timely and adequate information disclosure, and promotes communication and interaction with investors. It also complies with laws and regulations and listing rules to protect the legitimate rights and interests of small and medium-sized shareholders, and continuously improves the Articles of Association and the rules of procedure of the shareholders' meeting. In respect of shareholders' interests, the 2022 annual general meeting held on 8 June 2023 considered and approved the Company's 2022 annual equity distribution plan as follows: based on the Company's existing total share capital of 2,911,142,855 shares (of which 1,813,142,855 shares are A-shares and 1,098,000,000 shares are H-shares), a cash dividend of RMB11.42 for every 10 shares shall be distributed to all shareholders Cash (including tax) per 10 shares to all shareholders. No bonus shares will be given and no capital will be increased by way of capitalization of provident fund, and the total cash dividend will be approximately RMB3,324,525,000, as shown in figure 1.



**Figure 1.** BYD equity distribution program 2020-2022

In terms of supply chain management and new supplier selection, BYD is committed to building a fair, transparent and competitive supply chain system, strengthening cooperation with suppliers and building a clean and open business environment. It realizes efficient and transparent procurement processes through information technology, and continues to implement green procurement and practice CSR. 2023, BYD imported more than 1,700 new suppliers, investigated and confirmed their

qualifications, and required them to fill out corporate responsibility questionnaires, conducted on-site audits and confirmations of the social responsibility management of the suppliers and their downstream supply chains, and required the suppliers to sign cooperation agreements that contain CSR clauses. The company also require suppliers to sign cooperation agreements containing CSR clauses. For materials with no hazardous substance requirements, BYD requires suppliers to provide compliance information and confirm it.

### **2.2.3. Govern (G).**

Since 2010, BYD has published social responsibility reports for 13 consecutive years, and is one of the earlier companies in the automotive industry to make ESG disclosures. In terms of the number of disclosures and topics, BYD meets the industry's requirements, with comprehensive disclosures and a length that exceeds the industry average. Since 2014, BYD's ESG report has consistently exceeded 40 pages, exceeding the average length of the automotive industry for nine consecutive years. The transparency of the letter and disclosure ranks among the industry leaders. Currently, BYD is the only listed automotive company to be rated A in the MSCI ratings.

In terms of corporate governance structure, BYD's Board of Directors assumes full responsibility for the Group's environmental, social, and governance work, and is responsible for setting and overseeing the implementation of the strategic goals for sustainable development. The Corporate Social Responsibility (CSR) Committee is responsible for the day-to-day implementation of the work, coordinating the work of each working group according to the plan, and the Board of Directors reviews the implementation of the sustainable development work every year.

In terms of anti-corruption and integrity building, BYD strictly prohibits any form of corruption, bribery and fraud, and strictly abides by the United Nations Convention against Corruption, the Criminal Law of the People's Republic of China and other relevant international and domestic laws and regulations. The Audit and Supervision Office was established as an anti-corruption department to work independently and guarantee the independence, objectivity and authority of anti-corruption and other audit and supervision work. For employees who violate integrity discipline, severe punitive measures are taken, including termination of labor contracts and entry into the blacklist system, etc., and serious cases are transferred to the judicial authorities for handling. BYD joins the Corporate Anti-Corruption Alliance to share information on employees who violate the law, and employees involved in corruption and other violations will be entered into the industry blacklist. At the same time, it signs integrity cooperation agreements with its partners to clarify its anti-corruption stance and requirements, and jointly maintain the integrity and honesty of cooperation. Units that violate the principle of clean cooperation will be held liable for breach of contract in accordance with the contract or relevant agreements, such as deducting liquidated damages or canceling the cooperation qualification.

Good corporate governance promotes proper decision-making and rational planning. BYD's Corporate Social Responsibility Committee (CSR) is responsible for the day-to-day implementation of the work, coordinating the work of all working groups according to the plan, and the Board of Directors reviews the implementation of sustainable development work every year. At the same time, the Audit and Inspection Department works independently to reduce the possibility of corruption and leakage of business secrets, as well as effectively curbing the occurrence of “kickbacks”, effectively alleviating unnecessary burdens on relevant stakeholders, and maintaining the stability of the company's relations with other parties. In addition, by emphasizing the long-term value, it can also effectively avoid the short-sighted decision-making of decision-makers, take the road of sustainable development, and enhance the resilience of enterprises [3].

### **2.2.4. Impact of BYD's ESG Performance on Corporate Resilience.**

Traditional stakeholder theory suggests that profit maximization is the only goal of the enterprise, and neoclassical theory also suggests that corporate ESG performance does not promote the improvement of corporate financial performance, but rather affects the achievement of the goal of

maximizing corporate value. However, in recent years, some scholars have suggested that corporate ESG performance helps to improve corporate social public trust, reduce corporate operating costs, and enhance corporate performance. Some other scholars believe that corporate ESG performance can avoid risks, such as downside risk and credit risk [3]. The regular disclosure of BYD's ESG report, managers under the influence of ESG governance concepts, its corporate behavior can be more emphasis on green sustainable development, focus on the long-term interests of the enterprise, effectively inhibit BYD forced by internal and external pressures and the pursuit of short-term interests, reduce the short-sighted behavior of the managers, and slowly realize the enterprise business objectives from profit maximization gradually shifted to the balance between economic and social benefits [4]. From the organizational level, enterprises hope that employees create value for them and bring benefits, and the physical and mental health and behavior of employees have a certain degree of correlation with output performance [5]. In labor management, BYD's ESG performance makes it pay more attention to the interests of employees, which has a stronger attraction to different types of labor, and a reasonable compensation mechanism can enhance the cohesion of BYD's employees, as well as helping to improve the work motivation and labor efficiency of the employees to create more value for BYD, and to enhance its ability to withstand risks. In the industrial chain supply chain, on the one hand, BYD's ESG performance helps to enhance its voice in the supply chain, and at the same time, it also has more confidence to choose partners, avoiding the problem of being maliciously suppressed due to a single partner, being forced to raise the cost or the raw material "necklace". 2023, BYD introduced more than 1,700 new suppliers and screened their qualifications. In 2023, BYD newly introduced more than 1700 new suppliers and screened their qualifications, the supply of raw materials is much larger than the demand, so that BYD's cost can be effectively reduced, which also reduces BYD's financial risk, and then enhance the status of the enterprise's supply chain network, on the other hand, the selection of more suppliers improves the stability of BYD's raw material supply as well as the degree of specialization of the division of labor, which helps BYD to stabilize its existing supply chain relationships and seek new partners. On the other hand, more choices of suppliers improve the stability of BYD's raw material supply and the degree of specialized division of labor, thus helping BYD to stabilize the existing supply chain relationship and seek new partners [6]. BYD's substantial disclosure of ESG information improves the transparency and authenticity of the information, which helps the upstream and downstream of the supply chain to coordinate and plan their resources and avoid wastage of resources. In this era where cash is king, the more cash flow an enterprise has, the more room for survival it has in the face of an uncertain market environment. In terms of safeguarding shareholders' rights and interests, BYD actively maintains the stability of its share price, makes timely and adequate information disclosure, and promotes communication and interaction with investors. It also complies with laws, regulations and listing rules to protect the legitimate rights and interests of small and medium-sized shareholders, and continuously improves its Articles of Association and the rules of procedure for shareholders' meetings. These good ESG performances enable BYD to maintain a high level of cooperation and trust between its shareholders and managers, which helps BYD to maintain the stability of its share price and improve the smoothness of its operations in times of stock market turbulence. When the external crisis comes, BYD's good ESG performance enables it to gather stakeholders' trust, and good stakeholders will provide timely and valuable information to the enterprise, so that the enterprise can prepare for the response in advance at the early stage of the crisis, and activate the defense mechanism as soon as possible to cope with the risks and impacts. Secondly, after the crisis, the social responsibility concept conveyed by BYD ESG also accumulates external social capital, business partnerships and internal employee trust for the enterprise. On the one hand, when a crisis occurs, external stakeholders such as shareholders and business partnerships can provide financial support for BYD's recovery, e.g., suppliers can be allowed to provide raw materials and other production materials to the enterprise in case of arrears to alleviate the financing constraints in the process of recovery. On the other hand, internal stakeholders such as employees, due to their trust in BYD, can improve BYD's division of labor and collaboration in the process of crisis efficiency during the crisis, maintain flexibility during the temporary fluctuation of the huge demand for labor (e.g., take the initiative to reduce salary or

accept deferred payment to help the company tide over the crisis), and form a virtuous cycle of internal resources, which further enhances the virtuous cycle of BYD's internal resources as well as its resilience in the face of adversity [6]. Therefore, BYD's ESG performance can enhance its corporate resilience.

### 3. Conclusion

In summary, the following conclusions are drawn: first, BYD's ESG performance improves its corporate resilience and has a significant positive effect in the three dimensions of environment (E), society (S), and governance (S). Second, BYD's ESG enhances its corporate resilience mainly through optimizing its internal governance structure, improving the status of its supply chain, enhancing its corporate image, and strengthening its employees' internal cohesion and sense of identity.

Although new energy companies are the main force in the energy transition, their production and operation has been criticized. They generate green electricity, but their production process is not "green". This makes it imperative for new energy companies to promote ESG. Creating a full life cycle green solution has become the goal of more and more new energy companies. Based on the above analysis of BYD's ESG performance and the substantial improvement of its ESG performance on BYD's corporate resilience, the following suggestions are made for China's new energy automobile enterprises to implement ESG.

First, the Board of Directors assumes full responsibility for the Group's environmental, social and governance efforts, sets strategic goals for sustainable development and oversees their implementation, and establishes an ESG Committee responsible for the day-to-day implementation of its work, coordinating the work of the various working groups in accordance with the plan, and conducting regular meetings to report on the progress of the ESG work. Secondly, should set up a review department, independent of all other departments work, resolutely combat corruption, from the internal purification of the enterprise environment, to avoid the loss of resources, improve the efficiency of enterprise operation. Next, adhere to the people-oriented, to protect the rights and interests of employees, to develop a reasonable salary system, set up a reasonable incentive mechanism to motivate talent and enhance its corporate cohesion. Finally, new energy vehicle enterprises should also actively promote communication with stakeholders, and the ESG report can be one of the most important ways for enterprises to communicate with their stakeholders. Through stakeholder communication and research, the company understand and collect feedback from shareholders, government, employees, customers, etc. to identify important ESG issues, and develop our operations around the needs of stakeholders to reduce information asymmetry and continuously improve sustainable development management.

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