

Industrial Bank Innovatively Explores the "ESG" Sustainable Development Financial Service Model

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Abstract

This case study examines Industrial Bank's innovative collaboration with Honor, a global tech company, to enhance green competitiveness through ESG-focused finance. Industrial Bank provided "financial + non-financial" services, including an internationally-aligned ESG governance framework and Shenzhen's first sustainability-linked loan. This loan incentivized Honor's clean energy and social accessibility targets via interest rate mechanisms. An empirical study of Chinese banks (2009-2023) confirms strong ESG performance positively correlates with financial outcomes. This model demonstrates how integrating green financial products with consulting services helps enterprises navigate global trade barriers, lower costs, and achieve sustainable growth, offering a replicable framework for the industry.

Keywords

Green Finance; ESG Performance; Sustainability-Linked Loan.

1. Case Background

1.1. Global Green Transformation and the Challenges of Chinese Enterprises "Going Global"

Amidst the wave of global industrial chain transformation and low-carbon initiatives, corporate sustainable development has become a crucial topic in the global economy. In recent years, major economies worldwide have accelerated their green transformation, particularly developed markets such as the European Union and the United States. They have introduced policies requiring enterprises to adhere to stricter Environmental, Social, and Governance (ESG) standards in their production and operations.[1] With the implementation of the Paris Climate Agreement, countries are increasingly stringent in controlling carbon emissions, and green development has become a common goal for global industrial chains. Green barriers in regions like Europe and North America are becoming more pronounced. Products exported to these regions must meet local green requirements; otherwise, companies may face market access obstacles, high tariffs, or even legal challenges.

In this context, Chinese enterprises, especially manufacturing companies in the Greater Bay Area, face severe challenges. Shenzhen, as a pioneering city in China's reform and opening-up, is a core city in the Greater Bay Area and a major hub for China's foreign trade. With the continuous rise of global green trade barriers, enterprises in Shenzhen, particularly technology companies, face immense pressure on how to overcome green standards and environmental regulations in markets like the EU.[2] How to maintain competitiveness during the internationalization process has become an urgent issue for Shenzhen enterprises, especially tech companies.

According to the latest data from Shenzhen Customs, in the first half of 2024, Shenzhen's total import and export value reached RMB 2.2 trillion, a year-on-year increase of 31.7%, hitting a record high and continuing to rank first nationwide. This data not only reflects the robust growth of Shenzhen's economy but also proves its significant position in the international

market. However, as international market green requirements continue to escalate, Shenzhen enterprises must urgently enhance their own green competitiveness to sustain their competitive advantage in the global market.

1.2. Honor's Green Transformation in Globalization

Honor, as a leading global smart devices provider, early on integrated a green and low-carbon sustainable development strategy into its global strategic layout, making it a vital part of the company's globalization efforts. Honor is committed to providing global consumers with a more intelligent lifestyle experience through innovative technological products and excellent services. As the company's globalization process accelerates, Honor has gradually integrated the concept of sustainable development into product design, production processes, supply chain management, and other aspects to adapt to the global green economy trend.

Honor's efforts in green transformation have been evident for some time. For example, Honor promotes the use of environmentally friendly materials in the global market to reduce the carbon footprint of electronic products. In supply chain management, Honor requires all suppliers to meet certain environmental standards and promotes the formulation and implementation of their emission reduction targets. In April 2023, Honor released its inaugural ESG Report, detailing the company's strategies and initiatives in areas such as green and low-carbon practices, social responsibility, and governance structure. The report clearly states that Honor plans to achieve carbon neutrality in its own operations by 2045 and has set clear carbon peak targets: achieving carbon peak by 2030, reducing emissions by 36% by 2035, reducing carbon emissions by 88% compared to 2022 by 2045, and striving to use 100% renewable energy by 2045.[3]

Honor's clear sustainable development strategy not only provides a green guide for its product design and production but also lays a solid foundation for the company's compliance and market competitiveness in the globalization process. Especially in European and American markets, where green environmental protection has become an important factor in consumer purchasing decisions, Honor's performance in ESG undoubtedly adds significant value to its competition in the international market.

1.3. Industrial Bank's Green Finance Strategy

As a pioneer in China's green finance sector, Industrial Bank has made outstanding contributions to promoting sustainable development. Since launching China's first energy efficiency financing project in collaboration with the International Finance Corporation (IFC) in 2006, Industrial Bank has actively explored innovations in green financial products and expanded green investments. The bank offers enterprises not just green financing but also comprehensive green financial solutions, including green bonds, green loans, and green asset securitization.[4]

In its green financial services, Industrial Bank not only focuses on providing financial support but also helps enterprises establish a comprehensive green transformation system by formulating relevant policies and offering consulting services. Through these financial products and services, [5]Industrial Bank assists domestic and international enterprises in achieving sustainable development goals while adhering to green development principles, reducing financing costs, and enhancing their market competitiveness. Particularly in supporting Chinese enterprises "going global," Industrial Bank actively promotes innovation in green financial tools to help companies enhance their green image and competitiveness in overseas markets.

In its cooperation with enterprises in the Greater Bay Area, especially technology companies, Industrial Bank continuously explores comprehensive solutions combining financial and non-

financial services, striving to help enterprises go abroad through all-around support and enhance their competitiveness in the international market.

2. Industrial Bank's Green Finance Innovation and Cooperation with Honor

ESG Support Provided by Industrial Bank to Honor

(1) Establishing an ESG Governance Framework

When initiating green finance cooperation with Honor, Industrial Bank leveraged its research capabilities to collaborate closely with Honor in establishing an ESG governance framework aligned with international standards. [6]Based on its own business needs and global development strategy, Honor defined corresponding goals and action plans across the three dimensions of environment, social, and governance.

In the environmental (E) aspect, Industrial Bank assisted Honor in formulating detailed measures for green supply chain management, carbon emission control, and energy efficiency improvement, while also providing green technology support. By optimizing product design and production processes, Honor can reduce resource consumption and lower its environmental impact, while further enhancing product green competitiveness through the promotion of environmental technologies.[7]

In the social (S) aspect, Industrial Bank helped Honor improve its social responsibility performance, strengthening responsibility towards stakeholders such as employees, suppliers, and consumers, and promoting positive progress in areas like ensuring product accessibility features, improving product availability, and enhancing labor conditions. Honor strengthens its social image and brand influence by enhancing community cooperation, fulfilling social responsibilities, and actively participating in public welfare initiatives globally.

In the governance (G) aspect, Industrial Bank assisted Honor in improving its corporate governance structure, transparency, and compliance. By refining the governance structure,[8] Honor can make decisions more efficiently, reduce management risks, and enhance external trust. The establishment of this framework enables Honor to advance sustainable development more steadily in its globalization process and effectively mitigate risks associated with green trade barriers.

(2) Sustainability-Linked Loan

In September 2023, Industrial Bank issued its first sustainability-linked loan to Honor. This loan was the first in the Shenzhen market to adhere to international guidelines for sustainability-linked loans. Based on core goals of Honor's ESG strategy, particularly in green low-carbon and social responsibility aspects, the loan incorporated related performance indicators: the proportion of clean energy used and the number of beneficiaries of product accessibility features.

In the loan agreement, both parties agreed upon specific sustainability performance targets and linked them to the loan interest rate, forming an incentive mechanism of "interest rate reduction - performance target achievement." For example, Honor plans to achieve a clean energy usage proportion of 13% by the end of 2024 and 19% by the end of 2025; simultaneously, the number of beneficiaries of product accessibility features is targeted to reach 6 million and 7 million people, respectively. This mechanism not only incentivizes the company to make substantial progress in green development but also provides certain economic incentives, helping it enhance competitiveness in the global market.

This loan, certified by a third-party professional certification body, also served as a positive demonstration effect for the integration of finance and the real economy, promoting the development of the green finance market.

(3) Bank-University-Enterprise Cooperation Promoting ESG Practices

In March 2024, Industrial Bank, together with Zhejiang University International Business School (ZIBS) and Cambridge Judge Business School (CJBS), co-hosted a research project titled "Under the Background of EU Green Transition, How Banks Support Enterprises' 'Going Global' by Facilitating Corporate ESG Construction." [9] This project brought together experts and scholars from domestic and international universities to analyze China-EU ESG policies and the opportunities and challenges Chinese enterprises face in the "going global" process.

Through cooperation with universities, Industrial Bank not only provided strong ESG consulting support to Honor but also, via the research project, proposed specific plans on how banks can support corporate ESG construction and help enterprises enhance green competitiveness using financial and non-financial tools. This cooperation not only raised Honor's brand awareness in the international market but also provided valuable green transformation pathways and sustainable development solutions for other Chinese enterprises.

3. Innovation Points and Sustainable Development Impact

3.1. Innovative Introduction of Sustainability-Linked Loans Aligned with International Standards

Through its innovative sustainability-linked loan product, Industrial Bank provides financial support for enterprises' green transformation. This loan is not only linked to the company's ESG goals but also drives continuous effort in green development through interest rate incentives and mechanisms. Unlike traditional loans, the core of the sustainability-linked loan lies in "combining the enterprise's green development goals with financing conditions." This innovative financial product not only complies with international sustainability criteria but also helps enterprises achieve ESG goals, lower financing costs, and enhance market competitiveness.

3.2. Providing Comprehensive "Financial + Non-Financial" Integrated Services

Industrial Bank integrates financial and non-financial services to help enterprises receive all-around support during their green transformation. Besides offering green financial products like green bonds and green loans, the bank also provides non-financial services such as ESG consulting, report preparation, and risk assessment, offering enterprises a complete ESG solution. This innovative model provides a strong guarantee for enterprises to enhance their sustainable development level and strengthen international competitiveness.[10]

4. Economic and Social Benefits

4.1. Economic Benefits

Through the implementation of the sustainability-linked loan, Honor can access relatively lower financing costs, thereby gaining stronger competitiveness in the global market. Simultaneously, through improving production processes and optimizing resource allocation during the green transformation, the company not only enhances its social responsibility but also creates greater economic value. This loan mechanism incentivizes companies to pay more attention to environmental and social responsibilities and establish a positive green brand image in the international market.

4.2. Social Benefits and Scalability

Industrial Bank's innovations in the green finance sector not only provide substantial support to Honor but also offer reference experiences for other enterprises. With the gradual improvement of green finance policies, more and more companies are expected to adopt this innovative sustainability-linked loan product, thereby enhancing their green competitiveness

in the international market. Furthermore, the bank's cooperation with universities not only strengthens corporate awareness of social responsibility but also promotes the process of the global green economy. Through this cooperation model, Industrial Bank injects new impetus into the future development of green finance.

5. Conclusion

Through innovative green financial products and integrated services, Industrial Bank has helped enhance Honor's competitiveness in its globalization process. Against the backdrop of the global green transition, the role of financial institutions in supporting corporate green transformation is increasingly important. Industrial Bank's sustainability-linked loan and ESG "Financial + Non-Financial" service model not only provide comprehensive green finance support to Honor but also offer replicable and scalable practical experience for other enterprises and financial institutions. With the continuous development of the green finance market, more enterprises will achieve sustainable development with the help of green finance, driving the global economy towards a green and low-carbon direction.

6. Empirical Study on the Impact of Bank ESG Performance on Financial Performance

6.1. Sample Selection and Data Sources

This paper selects annual panel data of all A-share listed commercial banks from 2009 to 2023 as the research object. These data include 6 state-owned commercial banks and 36 non-state-owned commercial banks, ensuring unbiased data. ESG ratings are sourced from the Bloomberg database, financial data of listed banks are from the Wind database, and macroeconomic data are from local statistical bureau websites.

6.2. Variable Selection

(1) Financial Performance

Return on Total Assets (ROA) considers a bank's asset scale and the returns generated by these assets, intuitively reflecting how efficiently a bank utilizes its assets to generate profits, and accurately representing the financial health of commercial banks. Therefore, this paper selects ROA to measure bank financial performance. To enhance research reliability, the non-interest income margin is used as a substitute for ROA in robustness checks.

(2) ESG Performance

As the ESG disclosure scores provided by Bloomberg vary within the [0, 100] interval, they can more accurately reflect a bank's ESG performance compared to other rating systems.[11] Hence, following the approach of Qiu and Yin, this paper also references the Bloomberg ESG scores and their component scores.

(3) Control Variables

Bank-level control variables include asset size (SIZE), leverage ratio (LEV), and operating income growth rate (SALEGR). Given the strong correlation between bank development and regional economic policies, control variables related to the regional economy are added alongside the bank-level controls, such as local per capita GDP (GDPGR) and local price levels (CPI).

6.3. Model Design

To deeply explore the intrinsic relationship between commercial banks' ESG performance and their financial performance, this paper establishes the following baseline regression model:

$$ROA_{i,t} = \alpha_0 + \alpha_1 ESG_{i,t} + \alpha_2 Control_{i,t} + u_i + \epsilon_{it}$$

Where $ROA_{i,t}$ represents the return on total assets for bank i in year t , $ESG_{i,t}$ represents the overall ESG performance and its components for bank i in year t , $Control_i$ represents the control variables, u_i represents individual fixed effects for different banks, and ε_{it} it is the random error term.

6.4. Empirical Analysis

(1) Descriptive Analysis

In the descriptive statistics of main variables, the mean of return on total assets is 0.928, with a minimum of 0.424 and a maximum of 1.46; the mean of commercial banks' ESG performance is 38.503, with a minimum of 17.141 and a maximum of 60.084. This indicates significant fluctuation in both ROA and ESG performance of Chinese commercial banks, justifying the need for research.

(2) Baseline Regression

Columns (1) to (4) in Table 1 show the impact of ESG performance and its components on bank financial performance, respectively. While considering both time and individual fixed effects, the coefficient for ESG is 0.0030, significant at the 5% confidence level, indicating a positive correlation between ESG and bank performance. Good ESG performance promotes bank performance. It can be seen that social (S) performance and governance (G) performance both have significant positive impacts on financial performance, with coefficients of 0.0023 (significant at 10%) and 0.0027 (significant at 1%), respectively. Environmental performance (E) is positively correlated with financial performance but not significantly.

Table 1. Baseline Regression Results

Variable	ROA			
	(1)	(2)	(3)	(4)
ESG	0.0030** (2.0715)			
E		-0.0009(-1.0482)		
S			0.0023*(1.8031)	
G				0.0027*** (3.3928)
SIZE	0.1309*** (2.7266)	0.1363*** (2.8255)	0.1497*** (3.1015)	0.0949* (1.9409)
LEV	-4.9194*** (-4.6373)	-5.1031*** (-4.7929)	-5.1405*** (-4.8488)	-4.6329*** (-4.4096)
SELEGE	0.0008 (1.3022)	0.0008 (1.2592)	0.0007 (1.1905)	0.0009 (1.5337)
GDPGR	-0.0035*** (-2.6615)	-0.0027** (-2.0523)	-0.0033** (-2.5696)	-0.0033*** (-2.6375)
CPI	0.0021 (0.7051)	0.0019 (0.6136)	0.0023 (0.7430)	0.0014 (0.4509)
Constant	0.0000 (0.0330)	0.0000 (0.0411)	-0.0001 (-0.0903)	0.0003 (0.3540)
Observations	2.1667* (1.8631)	2.2239* (1.8953)	1.9012 (1.6206)	2.7766** (2.3918)
R-squared	288	288	288	288
Firm FE	0.716	0.712	0.715	0.724
Year FE	YES	YES	YES	YES

Note: t-statistics in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels respectively.*

6.5. Conclusions and Recommendations

Using annual data of Chinese listed commercial banks from 2009 to 2023, this study examines the impact of ESG performance on commercial banks' financial performance and the pathways of influence. The empirical results show that good ESG performance has a significant positive effect on enhancing financial performance. In the process of ESG factors influencing financial performance, operational efficiency plays a crucial mediating role. Further research reveals that the three components of ESG have different impacts on financial performance. Social and governance performance significantly enhance commercial banks' financial performance, while environmental performance has no significant impact on commercial banks' financial

performance. [12] Meanwhile, heterogeneity analysis reveals that the positive effect of ESG performance on profitability is

more pronounced for non-state-owned commercial banks. Based on the research conclusions, the following recommendations are proposed.[13]

First, commercial banks should integrate the ESG sustainable development concept into their daily operations. Initially, establish an ESG working group led by senior management responsible for driving the implementation and monitoring of the ESG strategy to ensure the ESG concept is implemented throughout the bank. Next, develop ESG assessment systems for loan and investment projects to identify potential environmental, social, and governance risks.[14] Strengthen the research and development of green financial products, creating specialized green credit products for projects like clean energy and energy conservation and emission reduction to meet their financing needs. Furthermore, commercial banks should establish a robust ESG information disclosure system, regularly publish ESG reports, and ensure the accuracy and reliability of data.

Second, commercial banks should strengthen the development of ESG talent teams. Firstly, provide internal ESG training courses for existing employees, covering ESG theory, practical cases, risk assessment and management, etc., to enhance employees' ESG awareness and capabilities. Then, strengthen communication and exchange between the ESG team and other departments to ensure timely and accurate transmission of ESG information within the bank. At last, establish cooperative relationships with external institutions such as universities and research institutes to jointly carry out ESG talent development programs and attract outstanding talents to join the bank's ESG team.

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