

# The Impact of ESG Practices on Corporate Financial Performance: Evidence from Tesla

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## ABSTRACT

This paper aims to explore the impact of ESG practices on Tesla's financial performance, clarify the relationship between the two and the influencing path, and provide references for ESG practices in the automotive industry. The research uses the literature research method and case analysis method. It sorts out ESG-related theories and literature, and combines Tesla's Impact Reports from 2020 to 2024 and third-party data to analyze its ESG performance from the dimensions of environment, society, and governance. It also evaluates the impact on financial performance in combination with financial indicators. The study finds that Tesla's ESG disclosures are polarized. The environmental data is detailed, but the disclosure of negative information on society and governance is insufficient. ESG practices have broadened its financing channels and optimized financing costs. The impact on financial performance is complex. In the short term, it increases costs and reduces profitability, while in the long term, through technological innovation, brand reputation improvement, etc., it promotes the improvement of profitability, operating ability, solvency, and development ability. Based on this, ESG optimization strategies are proposed from the perspectives of enterprises, the market, and the government. At the same time, the deficiencies of this study, such as the lack of quantitative analysis, are pointed out to provide directions for follow-up research.

## KEYWORDS

SG practices; Corporate financial performance; Automotive industry

## 1. INTRODUCTION

### 1.1. Research Background and Significance

#### 1.1.1. Research Background

Against the backdrop of the growing global popularity of the concept of sustainable development, ESG has emerged as a crucial indicator for evaluating a company's comprehensive value and long-term development potential. In January 2023, the EU's Corporate Sustainability Reporting Directive (CSRD) stipulated that EU companies meeting the directive's requirements and third-country companies operating in the EU should be required to disclose sustainability reports in phases. The accompanying detailed rules, the European Sustainability Reporting Standards (ESRS), also put forward more elaborate requirements. In 2024, the pace of global ESG information disclosure accelerated. The International Organization for Standardization (ISO) officially released the Framework for the Implementation of Environmental, Social, and Governance (ESG) Principles, clarifying a series of more comprehensive and detailed ESG principles and practices. These policies and regulations continuously urge companies to strengthen ESG management and actively disclose ESG information, thereby achieving green and sustainable economic and social development.

Automobile companies, as one of the major sources of energy consumption and environmental pollution, have attracted significant attention regarding their ESG practices. In recent years, the global automotive industry has been undergoing profound transformation, with the rise of new energy vehicles becoming the mainstream trend of industry development. To address climate change and reduce carbon emissions, countries have successively introduced policies to encourage the development of new energy vehicles, such as subsidies, tax incentives, and timetables for phasing out the sale of fuel vehicles. This makes the environmental investment and performance of automobile companies particularly crucial.

Tesla, a leading company in the new energy vehicle sector, has been committed to promoting the development of sustainable energy since its establishment and has demonstrated remarkable environmental performance, playing a positive role in driving the green transformation of the global automotive industry. However, it has also faced a series of ESG-related controversies during its development.

A company's financial performance, as the core of its survival and development, is of great concern to stakeholders such as investors and managers. They closely monitor financial indicators such as a company's profitability, solvency, operational capacity, and development capacity. In the context of the increasing popularity of the ESG concept, the relationship between Tesla's ESG practices and its financial performance is a topic worthy of in-depth exploration. This research also contributes to companies' implementation of the ESG concept and the achievement of sustainable economic and social development.

### 1.1.2. Research Significance and Methods

This paper studies the impact of Tesla's ESG on its corporate financial performance. Currently, although there are numerous studies on the relationship between ESG practices and corporate financial performance, the conclusions vary, including positive, negative, or non-linear relationships. By taking Tesla as a specific research object and conducting an in-depth analysis of the impact of its ESG practices on financial performance, this paper can provide new cases and evidence for related research, further enriching the relevant theoretical system.

In addition, by analyzing Tesla's practical experience, this paper reveals the multiple impact paths of ESG practices on corporate financial performance. Other automobile manufacturing companies can draw on its experience and formulate practical ESG strategies based on their own development stages and actual needs to enhance market competitiveness and achieve sustainable development. Finally, this research provides a theoretical basis for policymakers to improve the ESG information disclosure system and incentive mechanism.

This paper adopts a research method that combines literature research and case analysis. A theoretical framework is constructed through literature review, and Tesla's ESG practices and financial data are analyzed in depth. Moreover, starting from the process and results of Tesla's ESG practices, this paper takes the motivation, process, and results of Tesla's ESG practices as the research path to analyze the key role of ESG practices in its corporate development, providing certain references for other companies.

## 1.2. Main Research Content and Framework

This paper explores the relationship and impact path between Tesla's ESG practices and financial performance. As shown in the figure 1, the full text is divided into six parts:

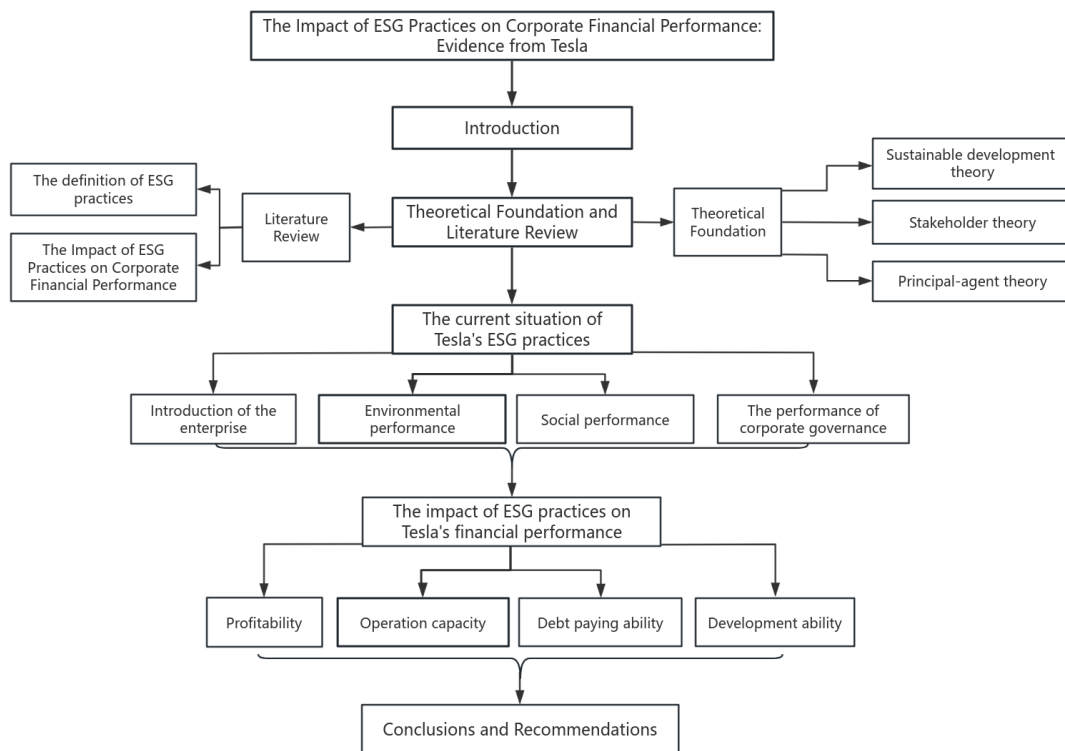
Chapter 1 is the introduction. The main content includes the research background and significance, research content and methods, a summary of the research content and framework, and the research innovation points of this paper.

Chapter 2 is the theoretical basis and literature review. It sorts out the core concepts related to ESG, constructs a theoretical system, and conducts an in-depth evaluation of domestic and foreign research in the ESG field and the relationship between ESG and corporate financial performance, providing theoretical support and methodological guidance for subsequent research.

Chapter 3 focuses on the current situation of Tesla's ESG practices. Taking Tesla as the research object, it collects and analyzes public materials such as its ESG reports and social responsibility reports, evaluates its ESG performance from the aspects of environmental responsibility, social responsibility, and corporate governance, and further explores the specific impact path on its financial performance.

Chapter 4 examines the impact of ESG practices on Tesla's financial performance. Through relevant financial indicators and the calculation, comparison, and analysis of these indicators, it assesses the impact generated by Tesla's ESG practices.

Chapter 5 Conclusions and Implications. First, summarize the impact of Tesla's ESG practices on its corporate financial performance. Based on the conclusions drawn, propose corresponding ESG optimization strategies from the perspectives of enterprises, investors, and the government. Also, point out the limitations of this study and look forward to future research directions.



**Figure 1.** The relationship and impact path between Tesla's ESG practices and financial performance

### 1.3. Possible Innovations

This paper mainly adopts the case study method to explore the impact of ESG practices on corporate financial performance. In existing research, discussions on ESG mainly rely on large-sample empirical analysis. Although it has broad representativeness, there are still certain limitations in terms of analysis depth and details. Different from traditional single empirical research, this paper takes Tesla as a specific case to conduct an in-depth analysis of the relationship and impact path between its ESG practices and financial performance, and further evaluate the resulting economic effects. Since the research conclusions of scholars on the relationship between corporate ESG practices and financial performance are not consistent at present, the case study of Tesla will further focus on the

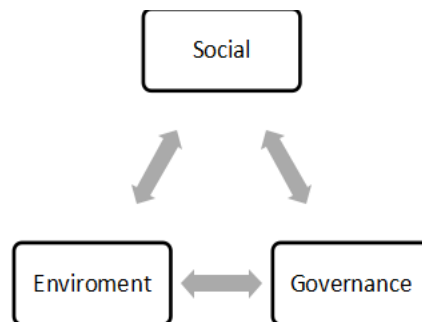
specific paths through which each dimension of ESG affects financial performance, thereby revealing the internal mechanism of its value creation more deeply.

## 2. THEORETICAL BASIS AND LITERATURE REVIEW

### 2.1. Related Concepts

#### 2.1.1. Definition of Corporate ESG Practices

Corporate ESG practices were initially proposed by the United Nations Environment Programme in 2004, emphasizing the need to focus on non-financial information of enterprises. Foreign scholars started researching ESG practices earlier. As shown in Figure 2, ESG was initially defined as the performance of enterprises in the areas of E (Environment), S (Society), and G (Corporate Governance) [1]. Domestic scholars proposed that ESG practices, as a concept and practice method, can measure the sustainable development ability and long-term value of enterprises from multiple dimensions [2]. Generally speaking, although domestic and foreign scholars have different focuses in defining ESG practices, they all point to the comprehensive performance of enterprises in the dimensions of environment, society, and governance. This provides a conceptual basis for exploring the impact of Tesla's ESG practices on its financial performance.



**Figure 2.** Definition of Corporate ESG Practices

#### 2.1.2. Financial Performance

Financial performance refers to the economic performance of an enterprise within a specific period, mainly reflecting its operating results and economic benefits through financial indicators. It is an important basis for evaluating the operating conditions of an enterprise. Financial performance is usually measured through dimensions such as profitability, growth ability, solvency, and operational ability.

### 2.2. Related Theoretical Foundations

#### 2.2.1. Sustainable Development Theory

The sustainable development theory is a theoretical framework aiming to balance economic growth, social progress, and environmental protection. Regarding sustainable business models, it emphasizes that enterprises should effectively integrate environmental, social, and economic values to create comprehensive and shared values. The coordinated development of financial performance and environmental performance is the key for enterprises to meet sustainable requirements. The harmony between economic development and the natural environment and the virtuous cycle of social development are important goals pursued by the sustainable development theory and also an important foundation for ESG performance. Many existing ESG reporting frameworks reflect the idea of sustainable development in the design of indicator systems, especially in the design of social and environmental indicators.

### 2.2.2. Stakeholder Theory

The stakeholder theory advocates that an enterprise is not only the enterprise of shareholders but also the enterprise of stakeholders, and its operation and development should balance the demands of various stakeholders. Among them, stakeholders refer to groups that, in addition to shareholders, also bear the operating risks of the enterprise. The stakeholder theory requires enterprises to include the protection of the natural environment, the maintenance of community relations, and the realization of social value as development and operating goals in addition to considering shareholder value. Therefore, it constitutes the theoretical basis for ESG practices. Existing empirical studies show that when enterprises conduct more comprehensive ESG practices based on stakeholder demands, they will have higher financial performance and lower capital costs.

### 2.2.3. Principal-Agent Theory

The core idea of the principal-agent theory is how enterprise owners design an optimal mechanism to motivate agents and reduce agency costs under the condition of information asymmetry. The enterprise owner is the principal, and the manager is the agent. To solve the principal-agent problem between the two and minimize agency costs, it is necessary to introduce corporate governance theory, that is, to design an optimal incentive and restraint mechanism to effectively motivate and supervise the manager's behavior, making it consistent with the principal's goals and achieving the maximization of enterprise benefits.

## 2.3. Literature Review

Through sorting out the Chinese and foreign literature, the relationship between ESG practices and financial performance is a hot topic in the current academic circle, but no consistent conclusion has been reached so far.

Some scholars believe that there is a positive correlation between a firm's ESG performance and its financial performance, that is, the better the firm's ESG performance, the higher its financial performance. From the theoretical level, according to the stakeholder theory, enterprises should not only create value for shareholders, but also pay attention to the interests and needs of other stakeholders. By fulfilling ESG responsibilities, enterprises can improve the satisfaction and loyalty of stakeholders, enhance their own survival ability and competitiveness, and thus improve their financial performance. Resource dependence theory holds that enterprises need to rely on the external environment to obtain scarce resources, and actively fulfill ESG responsibilities can obtain more resource support and cooperation opportunities, reduce operating costs and risks, and thus promote financial performance. Empirical studies also support the positive relationship between ESG practices and financial performance practices. For example, a scholar analyzed more than 2,200 studies on the correlation between ESG practices and financial performance, and found that 90% of them showed a non-negative correlation between the two [3]. Another scholar took 54 Malaysian listed companies as samples and found that ESG practices were significantly positively correlated with corporate value [4]. Domestic researcher took Chinese listed companies from 2008 to 2012 as samples, took return on assets and market value as financial indicators, constructed an ESG rating index system from the three dimensions of environment, society and governance, used multiple regression model to empirically analyze the impact of ESG rating on enterprise performance, and considered the moderating effect of institutional environment. The study finds that ESG rating has a significant positive impact on corporate performance, and the better the institutional environment, the weaker the impact [5].

Some studies believe that there is a negative correlation between ESG practices and financial performance, that is, the better the ESG practices are, the lower the financial performance is. Based on the cost-benefit analysis, it is argued that ESG inputs will increase operational costs and constraints, and reduce the competitiveness and profitability of enterprises. A essay was pointed out on ESG practices and financial performance that there was an 8% negative correlation between ESG and

financial performance at the enterprise level [3]. They believe that this may be because some enterprises over-invest in ESG, resulting in the waste and misallocation of resources. Based on the data of German listed companies from 2006 to 2012, A team used multiple regression model to test the impact of ESG on various risks of enterprises. They find that ESG practices have a negative and significant impact on all types of risk of the firm. Based on this result, the explanation they give is that ESG investment will increase the cost and complexity of enterprises, thus increasing the risk exposure of enterprises [6].

A small number of studies have found that there is a nonlinear relationship between enterprise ESG practice and financial performance, the main reasons are as follows. First, there is a phenomenon of diminishing marginal effect of ESG investment. Second, there are risks and uncertainties in ESG investment, and enterprises' ESG investment may face changes and challenges in market, policy, technology and other aspects, which will cause fluctuations or declines in financial performance. Third, ESG investment has practice lag effect. ESG investment of enterprises needs a long practice to show its impact on financial performance, so there may be no significant change in financial performance in the short term. A Chinese scholar used the data of Chinese listed companies to conduct research and found an inverted U-shaped relationship between ESG and financial performance, that is, when ESG performance is lower than a certain inflection point, ESG and financial performance are positively correlated; When ESG performance is above a certain inflection point, ESG is negatively related to financial performance [7]. Others also believed that while actively implementing ESG practices, enterprises often find it difficult to take into account their economic development, which has a negative impact on their performance [8].

To sum up, scholars have divergent research conclusions on the relationship between enterprises' ESG practices and financial performance, which may be caused by different research methods, sample selection, and differences in industries and regions. In addition, although there are a large number of studies on enterprises, most of them are studied on heavily polluting enterprises, and there are few studies on automobile manufacturing industry. Therefore, this paper will select Tesla, a representative enterprise, as the case object, in order to enrich the research content of ESG and enterprise performance in the field of automobile manufacturing

### **3. TESLA'S ESG PERFORMANCE STATUS**

#### **3.1. Introduction**

Founded in 2003, Tesla Motors has been committed to the development of electric vehicles since its inception, with the vision of "accelerating the development of sustainable transportation with the most innovative technology and enabling more people to drive electric vehicles". By 2023, the company's business covers electric vehicles, energy storage and solar products. Today, Tesla, which trades under the ticker TSLA, has a market capitalization of \$1.04 trillion and a major presence in the global auto market. In addition, Tesla adopts the "CEO-led model" in ESG governance structure, and Musk, as the founder and CEO, directly participates in ESG strategic decision-making.

#### **3.2. Tesla ESG Disclosure Introduction**

As a benchmark enterprise in the global new energy vehicle industry, Tesla has released Impact Report year by year since 2018, disclosing its practice results in environmental, social and governance dimensions. However, the report is still controversial in terms of data transparency, strategy execution consistency and other aspects. Based on the core data of Tesla Impact Report from 2020 to 2024, combined with the verification information of third-party institutions (such as OSHA survey of the United States Occupational Safety and Health Administration and MSCI ESG rating report), this paper systematically evaluates the advantages and potential problems of ESG three-dimensional report, providing reference for the sustainable development of the automobile industry.

### 3.2.1. Disclosure of information related to environment

In the field of environment, Tesla actively practices the concept of sustainable development and has made a series of remarkable achievements. Its global factories are 75% renewable on average, well above the International Energy Agency's industry average of 40%. Major breakthroughs have also been made in battery recycling technology, with the overall recycling rate of batteries increasing to 90 percent. In terms of virtual power plant scenario innovation, Tesla has built a VPP network that has achieved remarkable results, such as in California, where the network achieved 345 MW of power response during the 2024 summer heat wave. However, Tesla has also exposed some problems in its environmental practices. Supply chain emissions are out of control, with carbon emissions from its supply chain increasing by 20% year on year in 2024, and the report does not disclose the specific list of suppliers and the division of emission reduction responsibility. The regional energy structure is obviously differentiated. The Shanghai factory still relies on China's coal-dominated power grid, which limits the average proportion of renewable energy in the global factory, and the overall carbon emissions increase by 20% year on year, significantly lagging behind the goal of "carbon neutrality in global operations by 2030". Slow commercialization of recycling technology, poor progress in the ramp up of 2024 4680 battery production, and a six-month delay in the Australian battery recycling project due to indigenous protests over the location of the project, highlight the problems of community conflict and lack of coordination mechanisms.

### 3.2.2. Disclosure of social related information

In the social field, Tesla has made remarkable achievements in employee development and supply chain coordination. In 2024, its employee training coverage reached 90%, and the number of special safety training increased by 50% year on year. More than 95% of the employees in the Chinese factory are localized, and the company cooperates with 12 universities to train more than 2,000 new energy technology talents every year. On the supply chain side, Tesla has shortened the supplier payment period to 90 days. It has also established a low-carbon material procurement platform with CATL and BASF, and promoted the application of advanced technology in 400 local first-tier suppliers in China, 60 of which have entered the global supply chain system.

However, there are also many problems with Tesla's practices at the social level. The disclosure of work-related injury data is untrue. The survey of the United States Occupational Safety and Health Administration (OSHA) shows that 1 in every 21 employees in the Texas factory is injured, and there are many serious accidents throughout the year, which is inconsistent with the global factory injury rate reported by Tesla is less than 0.3%, and the occupational health data of temporary workers is not included in the statistics. In 2023, the Fremont factory was awarded 137 million US dollars for racial discrimination, and in 2024, the Texas factory was exposed to "wage theft" and sexual harassment. But, Tesla only said that "employee satisfaction is 92%", and the global layoffs of 14% did not explain the compensation and re-employment plan. The community impact assessment is a formality. The waste water pollution of the Texas factory leads to environmental and residents' health problems, and the German factory is sued for groundwater pollution. However, Tesla's report lacks effective response to these controversial events and residents' feedback mechanism, and the credibility of social responsibility disclosure is low.

### 3.2.3. Disclosure of information related to corporate governance

Tesla has made outstanding achievements in supply chain transparency and technology empowerment. Achieve 100% IRMA audits of tier 1 suppliers by 2024, 78% of cobalt and nickel mines commit to following the OECD Guidelines for Responsible Supply Chains in Minerals, and establish a battery passport system to disclose the full life cycle carbon footprint of batteries. In terms of ESG governance structure and data-driven, the board of Directors has an independent audit committee with 9 members, including 6 independent directors. Executive compensation is linked to carbon emission intensity and battery recycling targets. In 2024, it passed ISO 37001 anti-bribery

certification. For example, the battery production digital twin model controls the SOC estimation error within 2%.

But Tesla has significant problems with ESG strategy and governance. First, ESG strategy is resistant and governance is backward. Key ESG proposals were rejected at the 2024 general meeting of shareholders, the company moved to a region with loose ESG regulation, and the CEO disparage ESG, leading to a downgrade of MSCI rating to BB, lower than some tobacco companies. Second, there are selective and incomplete data disclosure, key indicators such as work-related injury rate are not broken down by factory, and there is no special responsibility identification and rectification explanation for controversial incidents such as wastewater pollution in Texas. Third, the supplier collaborative governance mechanism is missing, and the "emission reduction target-order allocation" linkage mechanism has not been established. The steel of the Texas factory still uses a high-carbon process, with a carbon emission intensity of about 2.2 tons of CO<sub>2</sub>/ton of steel, lagging behind the green hydrogen steelmaking technology of BMW, Volkswagen and other rivals, with a carbon emission of about 0.3 tons of CO<sub>2</sub>/ton of steel).

### **3.3. Summary of This Chapter**

Tesla's 2020-2024 Impact Report clearly exposed two typical contradictions of ESG practices in the new energy vehicle industry. On the one hand, the leading nature of technological innovation is in sharp contrast to the lagging nature of governance implementation. It has made breakthroughs in renewable energy application and battery recycling technology in the environmental dimension, promoted employee training and community employment in the social dimension, and built a supply chain transparency mechanism in the governance dimension. These partial achievements have provided replicable technical paths and practice models for the industry. On the other hand, the significance of local achievements is accompanied by the lack of global coordination. The control of supply chain carbon emissions is not effectively controlled, the protection of labor rights and interests is systematically lacking, and the corporate governance layer has obvious resistance to ESG strategy. These problems not only weaken the integrity of Tesla's own ESG practice, but also weaken the integrity of Tesla's own ESG practice. It also reflects the deep shortcomings generally faced by the industry in sustainable development, that is, the imbalance between technological breakthrough and governance capacity, local optimization and global coordination.

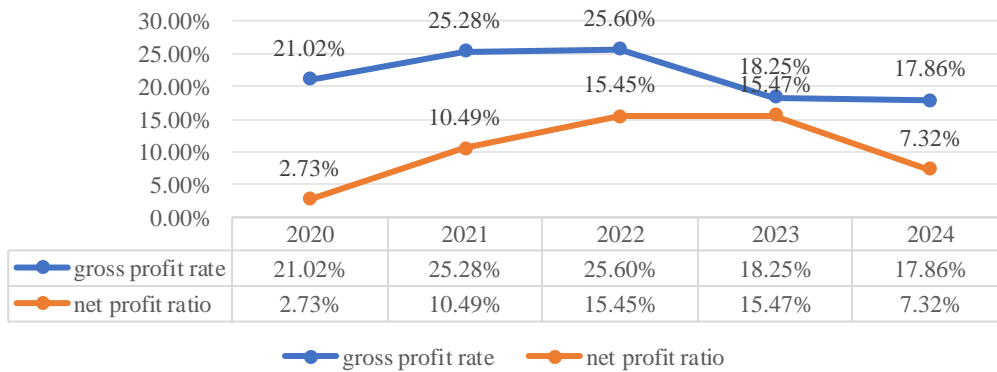
## **4. IMPACT OF TESLA'S ESG PRACTICES ON FINANCIAL PERFORMANCE**

### **4.1. Profitability**

Good ESG practices can enhance the corporate image and enable the company to occupy more market share, thus improving the profitability of the company. Profitability refers to the ability of an enterprise to make full use of existing resources to pursue profit maximization in a period of time, which can effectively reflect the competitiveness of the enterprise. Tesla's gross margin rose from 21.02% in 2020 to 25.60% in 2022, and then declined year after year to 17.86% by 2024. Net margin rose steadily from 2020 to 2023, from 2.73% to 15.47%, but fell sharply again in 2024, down 8.15% to 7.32%.

These two sets of data show that Tesla's ESG practices have a two-sided impact on its corporate profitability. The positive practices of the environmental and governance dimensions have brought additional revenue and stable operation to Tesla, which has a significant effect on improving profitability; However, the negative events of the social dimension and the combined impact of ESG factors in the market competition have also inhibited its profitability to some extent. If Tesla wants to further improve its profitability, it needs to continuously strengthen ESG practices in social and

governance dimensions, improve the company's reputation, and enhance market competitiveness, so as to better play the role of ESG practices in promoting profitability and reduce the impact of inhibiting factors.

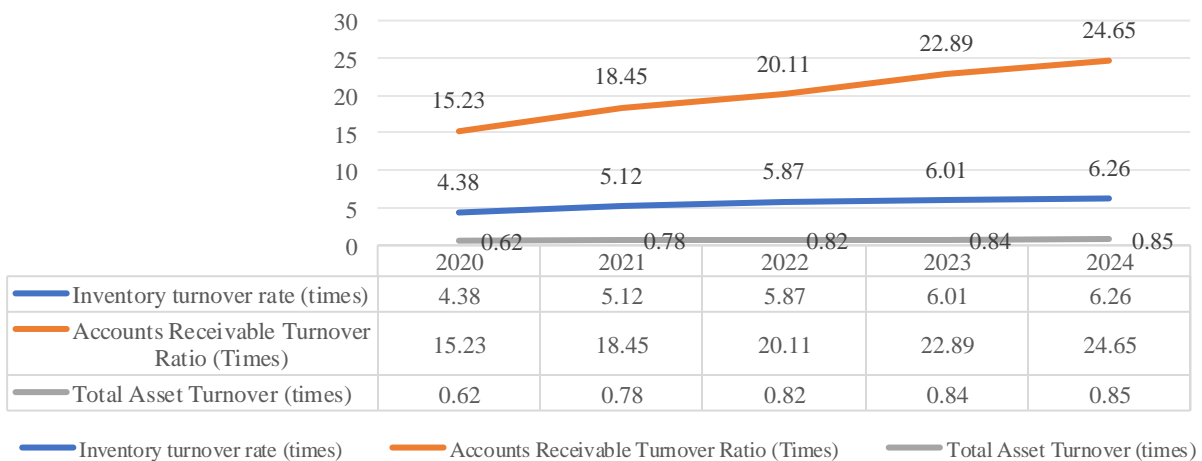


**Figure 3.** The data is used to measure profitability

### 4.2. Operating Capacity

Operating capacity reflects the efficiency and effect of an enterprise effectively using its assets and resources to carry out business activities and create profits in a certain period of time. The more an enterprise invests in ESG, the more perfect the equity governance of the company is, and the higher the operational efficiency and management level of assets will be. Its analysis mainly involves inventory turnover, accounts receivable turnover and total assets turnover and other indicators. As can be seen from the figure, from 2020 to 2024, Tesla's inventory turnover rate increased from 4.38 to 6.26, accounts receivable turnover rate increased from 15.23 to 24.65, and total asset turnover rate increased from 0.62 to 0.85. The three indicators all showed an increasing trend year by year, reflecting the continuous optimization of the enterprise's operating efficiency.

It can be seen that ESG practices have a positive impact on Tesla's ability to operate from a number of perspectives. The environmental dimension ensures the stability and continuity of production by optimizing the supply chain and improving energy efficiency; Social dimension improved production efficiency and customer satisfaction through staff training and community relationship maintenance; The governance dimension reduces operational risks and enhances market trust by improving corporate governance structure and enhancing information disclosure. These positive effects work together to make Tesla show a good upward trend in operating capacity indicators such as inventory turnover, accounts receivable turnover and total asset turnover.

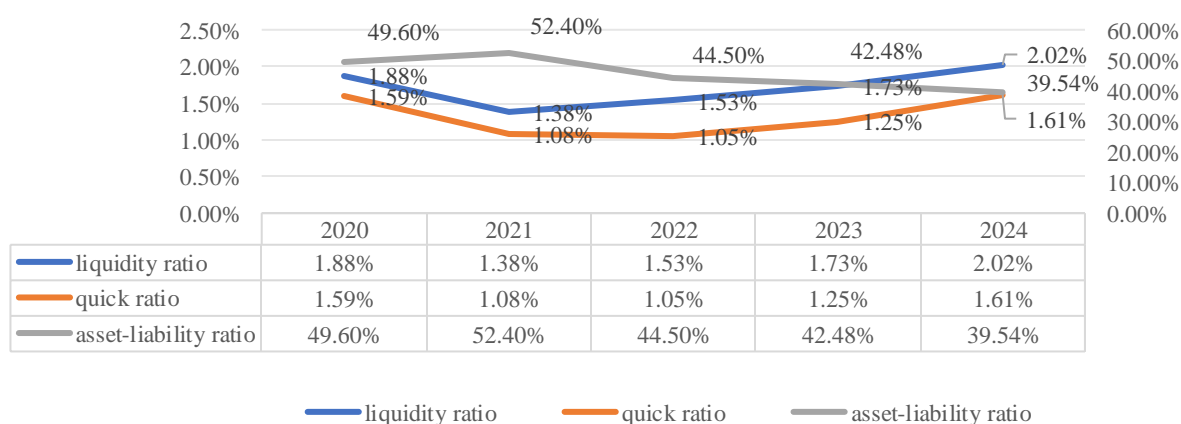


**Figure 4.** The data is used to measure operational efficiency

### 4.3. Debt Paying Ability

Debt paying ability is the key to the long-term healthy development of an enterprise, reflecting the ability of an enterprise to use assets to repay debts. ESG practices help strengthen communication with suppliers, customers and other stakeholders, reduce information asymmetry, thus optimizing the loan recovery process, and thus enhancing the solvency of enterprises. This paper selects current ratio, quick ratio and asset-liability ratio as indicators to measure Tesla's solvency. By 2024, Tesla's liquidity ratio will rise from 1.88% to 2.02%, its quick ratio will rise from 1.59% to 1.61%, and its asset-liability ratio will fall from 49.60% to 39.54%, showing an optimization trend in both short-term and long-term solvency.

In general, ESG practices have significantly promoted Tesla's solvency by stabilizing cash flow, reducing risks and optimizing financing, and promoted the continuous improvement of short-term liquidity and long-term debt burden.

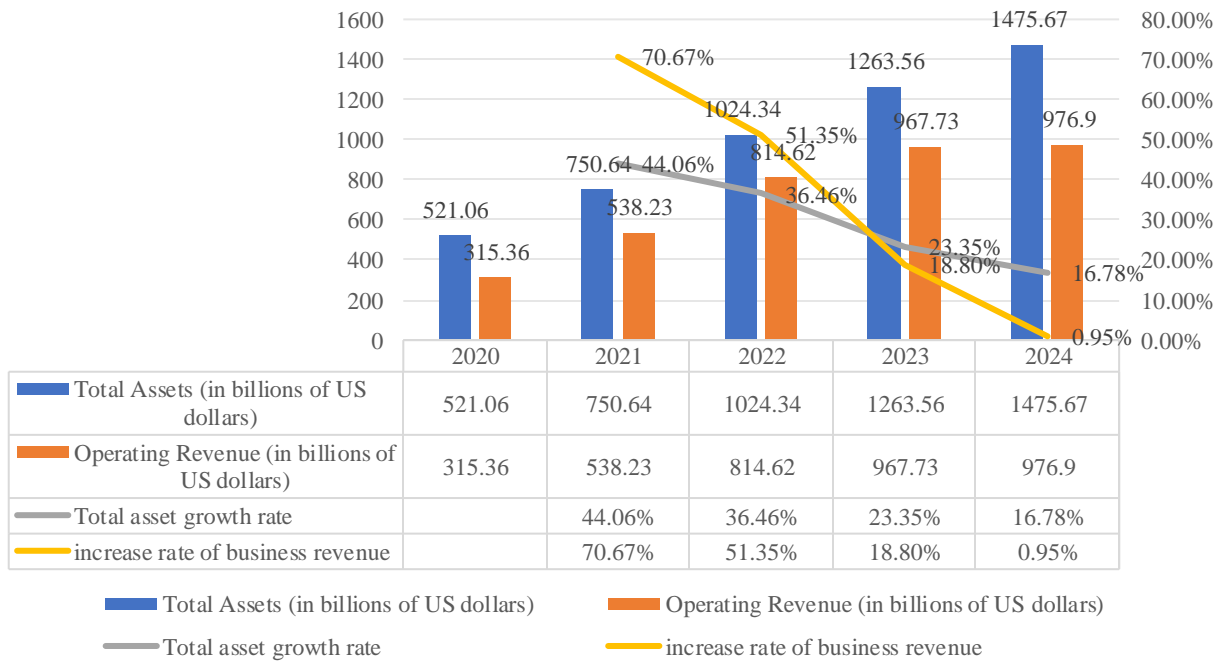


**Figure 5.** The data is used to measure the ability to repay debts

### 4.4. Development Capacity

Development capacity focuses on the growth rate of an enterprise in terms of revenue, profit and assets. The good performance of ESG in enterprises has positive externalities, which can enhance the trust of investors, broaden financing channels and improve financing availability, thus optimizing the capital structure and promoting the sustainable and healthy development of enterprises. This paper selects total assets and operating income as the analysis indexes of enterprise development ability. As can be seen from the figure, from 2020 to 2024, Tesla's total assets increased from 52.106 billion US dollars to 147.567 billion US dollars, and its operating income increased from 31.536 billion US dollars to 97.69 billion US dollars. Although the growth rate of total assets and operating income showed a slowing trend, the overall scale expanded significantly.

Due to market competition and base expansion, the growth rate slowed down in the later stage, but ESG practice injected core momentum into Tesla's development capacity from three aspects: green asset layout, brand value precipitation and capital efficiency improvement. The scale growth of total assets and operating income confirms the role of ESG in promoting enterprise development.



**Figure 6.** The data is used to measure the development capacity

#### 4.5. Summary of this chapter

This chapter deeply explores the correlation between Tesla's ESG practices and its financial performance, and the results show that Tesla's ESG practices do not promote or inhibit its financial performance, but a dynamic game with environmental practices as the driving force and governance society as the hindrance. In the short term, social governance costs and intensified industry competition weaken some profit performance; In the long run, the technical barriers constructed by environmental innovation and the market resilience precipitated by brand trust are continuously stabilizing the foundation of financial performance.

### 5. CONCLUSIONS AND IMPLICATIONS

#### 5.1. Research Conclusions

With the global attention to environmental protection, ESG concept has gradually entered the vision of a wide range of investors. ESG requires enterprises to pay attention to environmental protection, social responsibility, corporate governance and other aspects while focusing on economic benefits. As an automobile manufacturer with natural fit in these fields, it should actively assume ESG responsibilities and improve the company's performance in ESG. By integrating domestic literature and theories on external tubes, this paper selects Tesla as a research case to explore the effect mechanism of its ESG practice on financial performance, and draws the following conclusions:

First, the content of ESG disclosed by companies is polarized. Tesla is relatively detailed in the disclosure of environment-related data, such as carbon credit trading data and factory energy efficiency, but at the social and governance level, the depth of disclosure of negative information, such as labor rights disputes and automatic driving safety accidents, is insufficient, and the overall integrity of disclosure needs to be further balanced and improved.

Second, it has broadened financing channels and optimized financing costs. With its ESG advantages in electric vehicles and sustainable energy, Tesla has attracted many institutional and individual investors concerned about sustainable investment. The inflow of a large number of ESG funds, as

well as the low interest rate when green bonds are issued, show that they have enhanced trust with investors, greatly expanded financing channels, reduced financing costs, and effectively relieved financial pressure.

Third, it has a complex and long-term positive impact on financial performance. In the short term, Tesla's investment in ESG aspects such as improving labor environment and product safety performance increases operating costs, has a certain negative impact on gross margin and net margin, and drives down profitability. But in the long run, technological innovation in the environmental dimension, such as battery recycling technology, reduces the cost of raw materials; Social dimension good brand image and reputation, enhance customer loyalty and market share; The efficient management decision-making mechanism of governance dimension ensures the stability of enterprise operation, and these factors work together to significantly improve the profitability, operation, debt paying and development ability of enterprises, laying a solid foundation for the continuous improvement of financial performance.

## **5.2. Countermeasures and Policy Suggestions**

### **5.2.1. Enterprise level**

First of all, enterprises should deeply integrate ESG concept into corporate strategic planning, build a systematic sustainable development management system, and strengthen communication and cooperation among environmental, social and governance dimensions as well as with business departments. Based on the overall strategic positioning of the enterprise, formulate a quantifiable and assessable ESG target system, covering key dimensions such as carbon emission intensity, energy efficiency and protection of employee rights and interests, and ensure coordination with the demands of various stakeholders. Secondly, the ESG information disclosure system should be improved, and a more comprehensive ESG information collection and review mechanism should be established, especially for the negative information of social and governance dimensions, so as to achieve timely, accurate and in-depth disclosure. At the same time, internal evaluation and external audit of ESG reports should be carried out regularly to ensure the integrity and credibility of the disclosed content and enhance the transparency and credibility of the enterprise.

### **5.2.2. Market Level**

First of all, the ESG rating system should be improved, and the rating agencies should constantly optimize the ESG rating method, improve the scientific, objective and consistency of the rating, and increase the weight of the quality of negative information disclosure and risk management ability of enterprises. And it is necessary to strengthen the interpretation and application guidance of rating results, so as to provide investors with more reference value for decision-making basis. Secondly, financial institutions, industry associations and other organizations should carry out investor education activities to popularize ESG investment concepts and evaluation methods, improve investors' knowledge and understanding of ESG, and guide investors to pay more attention to the long-term sustainable development ability of enterprises, so as to form a market conducive to ESG investment.

### **5.2.3. Government supervision level**

First of all, relevant government agencies should improve ESG information disclosure laws and regulations, clarify the minimum standards and specific requirements for ESG information disclosure of enterprises, make detailed provisions on the scope, content and method of negative disclosure, increase the punishment for violations of information disclosure, increase the cost of illegal information disclosure of enterprises, and protect investors' right to know. Secondly, ESG incentive policies should be introduced, including tax incentives, financial subsidies and project support, to encourage enterprises to increase investment and innovation in ESG. For example, tax breaks will be granted to enterprises with outstanding performance in environmental protection technology research

and development and labor rights protection, and financial support will be provided to green investment projects that meet ESG standards. Finally, cross-department collaborative supervision should be strengthened, information sharing, communication and cooperation should be strengthened to ensure the compliance operation of enterprises in environmental, social, governance and other aspects, and promote the effective implementation of ESG practices of enterprises.

### 5.3. Research Limitations and Future Research Prospects

The research mainly adopts the case analysis method and literature research method, which lacks the support of quantitative research methods. Although case analysis method can dig deeply into case details, it is difficult to carry out large-scale data verification and statistical inference, and it cannot accurately measure the influence degree and weight of various dimensions of ESG on different indicators of financial performance. Based on this, the objectivity and persuasiveness of the research conclusions are limited to a certain extent.

What's more, the paper mentioned that Tesla has the characteristics of magnitude in ESG information disclosure, but its own research is also limited by the data disclosed by Tesla, and the undisclosed key information cannot be obtained, which affects the accuracy of research conclusions to a certain extent.

Finally, future research can expand the research sample of the automobile industry and include multi-dimensional variables, combine quantitative methods to analyze the relationship between ESG and financial performance, expand data sources and update data timeliness, so as to improve the comprehensiveness and practicality of research conclusions. It can also focus on the new dynamics of Tesla's subsequent ESG practice and explore the new rules of its interaction with financial performance.

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