

Science for Environment Policy

Corporate sustainability does improve financial stability

'Doing good' can lead to 'doing well' for companies that implement corporate sustainability, according to a new study by Polish researchers. Eighty-five American companies that met corporate sustainability criteria proved to have better returns and greater stability in stock price than average, and better growth rates than their less sustainable counterparts.

In recent years, corporate sustainability has become something of a buzzword. Although similar to corporate social responsibility, it is more holistic in its approach, highlighting the need to manage financial, social and environmental aspects of a business at the same time to minimise potential conflict. The study explored whether implementing corporate sustainability can lead to higher than average market valuations, so that companies do not have to depart from their economic objectives to reach their social and environmental targets.

To ensure a sample of companies practising corporate sustainability in a co-ordinated and balanced manner, the researchers investigated all companies in the Standard & Poor's 500 (S&P 500) index, which is the 500 leading US-based companies. Financial data were sourced from detailed balance sheets and cash-flow statements, whilst social and environmental data were retrieved from company websites.

To be included in the corporate sustainability sample, companies had to meet certain criteria, for example, they had to demonstrate that social activities were integrated into their core business strategy and that they had a coherent environmentally-friendly management system. This narrowed the 500 companies down to 85.

The research investigated selected aspects of shareholder wealth for these companies between 2006 and 2010 and compared it to the performance of the full 500 index. In terms of shareholder returns, an investment of \$1 (€0.77) in the corporate sustainability companies in 2005 would have grown to \$1.59 (€1.23) in 2010, whereas an investment in the S&P 500 index would have grown to only \$1.01 (€0.78) over the same period.

Further analysis also indicates greater resistance to stock market crashes for the corporate sustainability companies. In the crash of 2008, returns for the corporate sustainability companies declined by 30.3%, whereas the decline in the S&P index was 38.5%.

In terms of revenue growth, which indicates a business's capability to cover expenditure, the research directly compared the 85 corporate sustainability companies with the 415 companies that did not reach the study's corporate sustainability criteria. Between 2006 and 2010, the annual rate of growth of revenue was 4.5% for the corporate sustainability companies, whilst it was 8.5% for the less sustainable companies.

However, this low growth rate is not surprising since corporate sustainability aims to produce longer-lasting sustainable growth, which increases more gradually over time. This was reflected in annual figures for growth, which fluctuated much more for non-corporate sustainability companies, whereas corporate sustainability companies demonstrated much smoother patterns of growth. Further evidence for better stability and sustainability for corporate sustainability companies was demonstrated by more predictable, less changeable patterns for the market cycle.

The results suggest that companies and shareholders generally benefit from investing in sustainability. The research was restricted to the US financial market and cannot be generalised, especially to emerging markets. However, it does indicate that policymakers have the scope to strengthen requirements for corporate sustainability to ensure it becomes more widespread.



6 December 2012
Issue 309

Subscribe to free
weekly News Alert

Source: Przychodzen, J. & Przychodzen, W. (2012) Corporate sustainability and shareholder wealth. *Journal of Environmental Planning and Management*.
Doi:
10.1080/09640568.2012.685927.

Contact:
wojciechp@alk.edu.pl

Theme(s): Sustainable business, Sustainable development and policy assessment

The contents and views included in Science for Environment Policy are based on independent, peer-reviewed research and do not necessarily reflect the position of the European Commission.

To cite this article/service: "[Science for Environment Policy](#)": European Commission DG Environment News Alert Service, edited by SCU, The University of the West of England, Bristol.