



The Business Case for Corporate Investment in Sustainable Practices



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It may be time to declare the Friedman Doctrine dead. Economist Milton Friedman's often repeated and frequently embraced truism that the primary role of business—its societal responsibility, if you will—is to maximize shareholder profits almost has a quaint ring these days as evidence mounts that sustainable business practices are enhancers of, not detractors from, profit maximization.

Today a growing body of research based on quantifiable bottom-line results shows that investments in environmental, social, and governance (ESG) initiatives produce a positive impact on financial market performance. In other words, there is “proof that it pays.” The once common notion that some sort of trade-off exists between the development of a sustainable business model and profit maximization is falling out of market favor. It looks like Mr. Friedman may have lost the debate.

There is also evidence that CEOs are embracing the concept of sustainability and recognizing the matrixed relationships between sustainability, innovation, customers and market share, reputation, trust building, talent retention, and business growth. For the first time since it was included as an option in 2011, **Sustainability** rises to a global top-five challenge in the 2015 edition of *The Conference Board CEO Challenge*[®]—a global survey of close to 1,000 CEOs. However, there is considerable variation between regions, with CEOs in Asia, particularly China and India, giving it a significantly higher rank than their colleagues in both the United States and Latin America. The relatively tepid embrace of sustainability by CEOs in the United States is not without risk. Failure to proactively adopt sustainable practices means government regulators, not business, will dictate the future. In many cases, CEOs are waiting for the stick because they are having problems seeing the carrot. Research shows it is a missed opportunity.

As companies move further along the sustainability continuum and gather their scattered environmental and compliance initiatives into a cohesive sustainability strategy that aligns with their core business objectives,

markets are responding. Growing market awareness of a company's adherence to the best ESG standards in the field not only lowers that company's risk profile (and hence borrowing costs), but can also serve as an innovation driver that contributes significantly to the company's growth strategy and competitive advantage.

Doubters should consider:

- New research by The Conference Board that looks at 12 S&P Global 100 companies with clearly identifiable and measurable sustainable product portfolios shows that revenues from sustainable products and services at these firms grew at almost six times the rate of overall company revenues. Between 2010 and 2013, revenues from sustainable products and services among sample companies grew by an average of 91 percent, while overall company revenues grew by 15 percent over the same period.¹
- 100 percent of the academic studies Deutsche Bank examined in one of the most comprehensive “study of studies” so far produced on the subject indicated that companies with high ratings for corporate social responsibility (CSR) and ESG factors have a lower cost of capital in terms of debt (loans and bonds) and equity. The report's conclusion: meeting high standards of ESG practices is synonymous with lower risk and is thus rewarded by capital markets. “This finding alone should put the issue of Sustainability squarely into the office of the Chief Financial Officer, if not the board, of every company,” says the report.²

1 For more information, see: Thomas Singer, *Sustainable Products, Innovation, and Business Growth—An Analysis of S&P Global 100 Companies*, The Conference Board, forthcoming 2015.

2 “Sustainable Investing: Establishing Long-Term Value and Performance,” Deutsche Bank Group, DB Climate Change Advisors, June 2012.

- An overwhelming majority of the research in the same “study of studies” concluded that companies with high ESG ratings performed better than those with lower ESG ratings according to both market-based and accounting-based criteria. The report rated good governance as the most important component of successful ESG programs. According to Deutsche Bank: “Any company that thinks it does not need to bother with improving its systems of corporate governance is, in effect, thumbing its nose at the market and hurting its own performance all at the same time.”
- There is clear evidence that environmental missteps are costly. Shareholder value drops precipitously when a company faces fines and liabilities as an environmental regulations transgressor. How costly can it be? In its *Carbon Disclosure Project 2010 Global 500 Report*, Samsung Electronics quantified its exposure to the loss of brand value this way: “A 1 percent decrease in brand value of the company due to unfavorable evaluations from investment organizations and/or NGOs caused by insufficient climate change response is equivalent to losing about US\$200 million.”³

While the evidence mounts in support of ESG initiatives, it is only fair to mention that doubters do exist, especially in academia. However, the few analyses revealing negative correlations between corporate investment in ESG and firm performance tend to be the oldest and to rely on small data samples. They also fail to take account of the changes in the business and regulatory environment as well as customer expectations.

DEFINING SHARED VALUE

Michael Porter’s concept of creating shared value means that for a company to thrive, society must also thrive:

They (companies) continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell?

The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking.

Source: Michael Porter, “Creating Shared Value,” *Harvard Business Review*, January 2011.

³ “Data from the Carbon Disclosure Project 2010,” AT Kearney as reported by The Conference Board in the research report *Sustainability Matters 2014: How Sustainability Can Enhance Corporate Reputation*, January 2014.

Customers Are Helping to Drive the Movement

The number one hot-button issue for CEOs in every region of the globe, according to *The Conference Board CEO Challenge*[®] 2015 survey, is *changes in customer behavior*.⁴ CEOs interviewed for the report said these behavioral changes appear related to growing demands and expectations among customers for eco-friendly, sustainable products and services and a desire for a more healthy lifestyle.

In a 2012 survey of more than 1,300 consumers in the United States, United Kingdom, China, and Brazil by Weber Shandwick, a global brand and public relations consulting firm, 78 percent of respondents said they do not buy a product if they do not like the parent company, and 67 percent said they check product labels to find the parent company. A total of 56 percent would think twice about a purchase if they could not find information about the company behind it.

The survey showed that more internet-connected consumers in emerging markets and elsewhere are progressively making the link between a company's reputation and its product brands—a possible game changer in branding that underscores the importance of corporate reputation.⁵

A 2006 study published in the *Journal of Marketing* rated companies based on their performance across a range of environmental and social issues and determined that a single-unit increase in the rating would result on average in approximately \$17 million of additional annual profit in the years following the increase.⁶ The study argues that customer satisfaction has a clear impact on the relationship between ESG factors and performance, given the increasing sensitivity to these factors displayed by the consumer market. For this reason, the correlation can be observed more prominently among companies in the business-to-consumer segments of the market.

4 CEOs were asked to choose their top five hot-button issues from a list of 20 supplied by The Conference Board.

5 "The Company behind the Brand: In Reputation We Trust," Weber Shandwick and KRC Research, 2012.

6 Xueming Luo and C.B. Bhattacharya, "Corporate Social Responsibility, Customer Satisfaction, and Market Value," *Journal of Marketing* 70, no. 4, 2006, pp. 1-18.

Five Pillars of Value

In its review of available research on the subject, The Conference Board has identified five pillars supporting the business case for ESG initiatives and corporate sustainability.

Corporate investment in ESG:

- 1 enhances market and accounting performance;
- 2 lowers the cost of capital;
- 3 generates trust and loyalty and is a means of engagement with key shareholders;
- 4 improves business reputation; and
- 5 fosters new revenue growth when channeled to product innovation.

In a joint research report, McKinsey & Company and Boston College, Carroll School of Management identify what they view as the most significant opportunities that the adoption of best-in-class ESG standards and a sustainable approach to business provides.

Among them:⁷

- Strengthening competitive position
- Improving risk management
- Maintaining a good corporate reputation and/or brand equity
- Attracting, motivating, and retaining talented employees
- Meeting society's expectations for good corporate behavior
- Improving operational efficiency and/or decreasing costs
- Opening new growth opportunities
- Improving access to capital

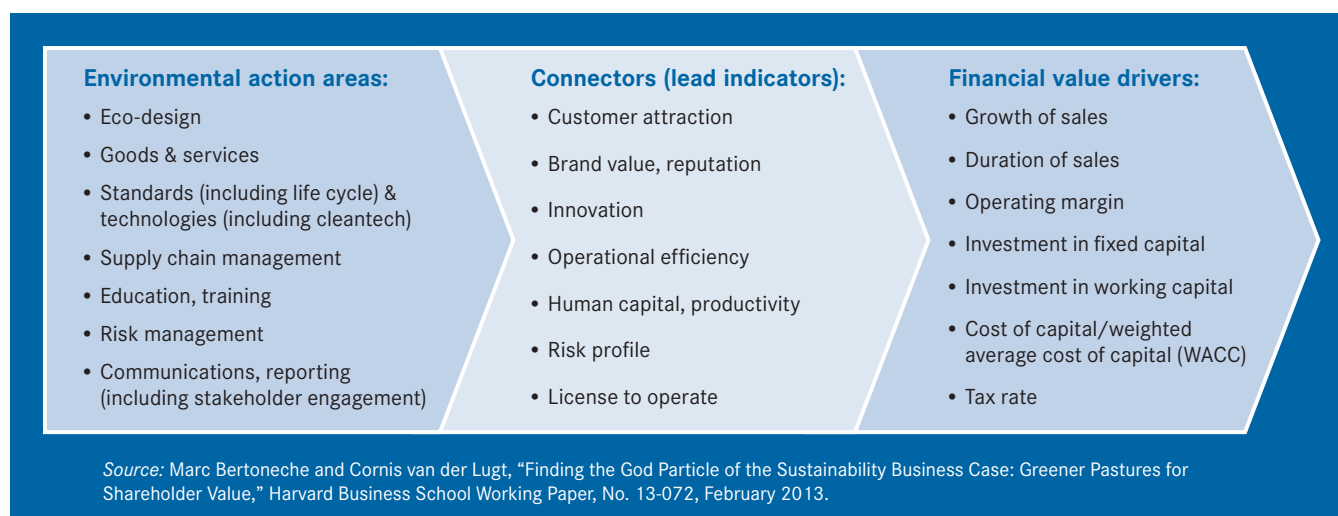
7 "How Virtue Creates Value for Business and Society: Investigating the Value of Environmental, Social and Governance Activities," Boston College Center for Corporate Citizenship, Carroll School of Management, 2009.

1 Corporate investment in ESG enhances market and accounting performance One of the most recent and authoritative studies proving a positive correlation between ESG initiatives and improved performance is *The Impact of Corporate Sustainability on Organizational Processes and Performance*, which first appeared as a Harvard Business School article and is to be released shortly in the journal *Management Science*.⁸ The study found that a sample of high sustainability firms—those that had adopted a substantial number of environmental and social policies for many years (back to the mid-1990s)—significantly and consistently outperformed, over time, others in the sample that had introduced none of the environmental and social policies in question. The authors suggest that such outperformance may be a function of certain governance traits that appear to be commonly adopted in conjunction with those environmental and social policies—namely, the explicit assignment to the board of directors of the responsibility for sustainability oversight, the use of sustainability metrics as objectives in executive compensation packages, and the propensity to engage with stakeholders and disclose nonfinancial information to the market. The findings suggest that companies can adopt environmentally and socially responsible policies *without* sacrificing shareholder wealth creation.

2 Corporate investment in ESG lowers the cost of capital An abundance of research shows that publicly traded firms can reduce their cost of capital by adopting strong ESG practices. Most of the analyses find that mitigation of business risks results from the adoption of superior governance practices (including a diversified and independent board of directors, a system of shareholder rights, and the elimination of unreasonable barriers to takeovers that would hinder a competitive market for corporate control). In general, lenders believe that better-governed companies are subject to fewer cases of shareholder suits or government investigations and that they are less exposed to disruptions by activist investors.

8 Robert G. Eccles, Ioannis Ioannou, and George Serafeim, "The Impact of Corporate Sustainability on Organizational Processes and Performance," Harvard Business School, 2011.

THE GREEN BUSINESS CASE MODEL



Many past sustainability business case analyses have not effectively incorporated key financial value drivers into the discussion. The Green Business Case Model described here provides a framework for companies to use "connectors," or leading indicators such as customer attraction and brand value, to link environmental action areas with core financial value drivers that are well known to finance officers and investors.

Reprinted from: Thomas Singer, *Sustainability Matters 2014: How Sustainability Can Enhance Corporate Reputation*, The Conference Board, January 2014.

According to an article published in 2011 by the *Journal of Banking and Finance*, firms publicly exposed to environmental and social concerns face shorter maturities and higher loan spreads—paying for their borrowed capital, on average, 7 to 18 basis points more than companies that are more socially responsible.⁹

3 Corporate investment in ESG generates trust and loyalty and is a means of engagement with key shareholders Today, socially responsible investment funds (SRIs) have evolved from a negative screening practice to a series of sophisticated ESG incorporation strategies spanning a wide range of asset classes (equity and fixed income but also alternative investments such as event-driven and activist arbitrage and asset-backed securities).

Moreover, thanks in particular to initiatives such as the United Nations' Principles for Responsible Investment (PRI),¹⁰ an increasing number of public pension funds and investment entities affiliated with labor unions have become receptive of ESG-driven investment strategies, either by launching their own SRI vehicles or by exercising pressure on companies to introduce environmental and social reforms to their business practices (see "Shareholder Proposals on Social and Environmental Issues—A 2014 Update" on page 8). The growth of this segment of the asset management industry has been dramatic.

⁹ Allen Goss and Gordon S. Roberts, "The Impact of Corporate Social Responsibility on the Cost of Bank Loans," *Journal of Banking & Finance* 35, no. 7, 2011. In the social area, in particular, a 2009 study by Bauer et al. found that debt financing tends to be less expensive to companies with stronger employee relations.

¹⁰ Established in 2005 in response to an invitation by then-UN Secretary General Kofi Annan, the Principles for Responsible Investment are based on the notion that ESG issues such as climate change and human rights can affect the performance of investment portfolios and should therefore be considered alongside more traditional financial factors if investors are to properly fulfill their fiduciary duties. As of December 2014, PRI signatories include 285 asset owners and 863 investment managers, including large US public pension funds such as CalPERS and TIAA-CREF. For more information, visit www.unpri.org

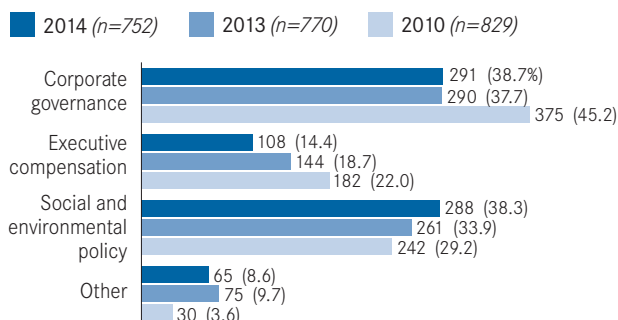
Shareholder Proposals on Social and Environmental Issues—A 2014 Update

The volume of proposals on social and environmental policy issues rose to unprecedented levels in 2014, although voting support for the proposals remains far below the majority threshold. These requests represented the single most frequent subject of resolutions filed in the S&P 500 in the January 1-June 30, 2014, period (249 proposals, or 43 percent of the total filed at companies in that index) and more than one-third of the total submitted at Russell 3000 companies (288 proposals, or 38.3 percent).

Widely diversified (ranging from political contribution disclosure to compliance with human rights and from sustainability reporting to the adoption of a climate change policy), these issues are pursued by multiple investor types, with the highest concentration among individuals (58 filed proposals in 2014), public pension funds (49 proposals), and other stakeholders like the Humane Society of the United States and the National Center for Public Policy Research.

Shareholder Proposal Volume in the Russell 3000, by Subject (2010, 2013, and 2014)

Number of shareholder proposals (percentage of total)

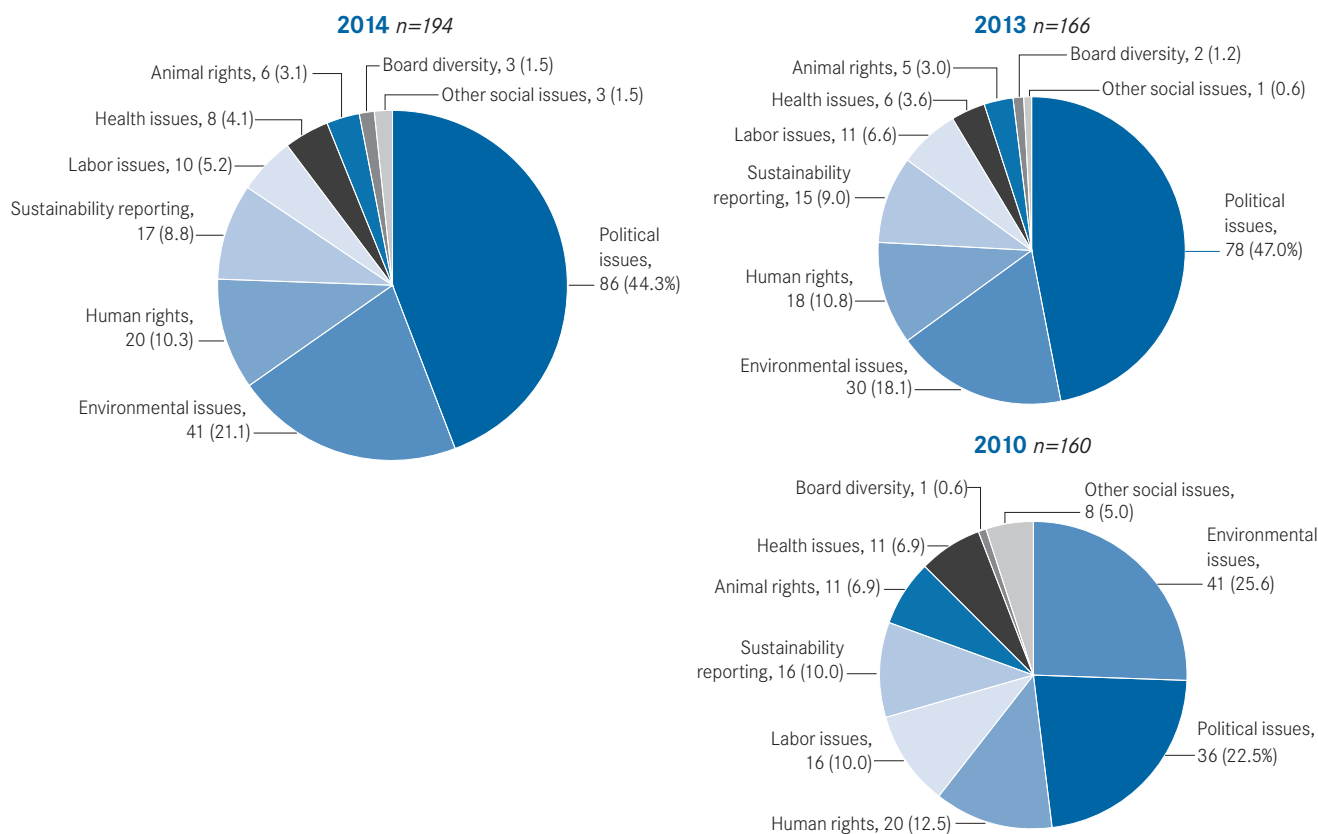


Note: In some instances, this report revises calculations published in the 2013 edition to reflect updates to the dataset and, in particular, information on AGMs that was not yet reported or captured as of July 10, 2013. For this reason, direct year-on-year comparisons with the 2013 edition are not always valid.

Source: The Conference Board/FactSet, 2014.

Shareholder Proposal on Social and Environmental Policy in the Russell 3000, by Topic (2010, 2013, and 2014)

Number of voted shareholder proposals (percentage of total)



Source: Matteo Tonello and Melissa Aguilar, *Proxy Voting Analytics (2010-2014)*, Research Report No. 1560, The Conference Board, 2014. Also see Thomas Singer and Melissa Aguilar, "Shareholder Proposals on Social and Environmental Issues," *Director Notes* No. 16/2014, The Conference Board, December 2014.

According to the latest official survey of the industry, as of early 2014, assets managed by US-based firms considering corporate ESG practices as investment criteria had grown to \$4.8 trillion, or more than twofold, since the level registered in early 2012 (\$1.4 trillion).¹¹

In further proof that individual investors are more sustainability aware than ever before, a 2014 report by the Morgan Stanley Institute for Sustainable Investing found:

- 71 percent of individual investors are interested in sustainable investing
- 54 percent believe choosing between sustainability and financial gains is a trade-off
- Compared to the overall individual investor population, millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes
- Female investors are nearly twice as likely as male investors to consider both rate of return and positive impact when making an investment
- 65 percent of individual investors expect sustainable investing to become more prevalent in the next five years¹²

4 Corporate investment in ESG improves business reputation

When it does not satisfy immediate operational and financial needs, corporate investment in ESG can be strategic and long term and enhance relations with key stakeholders (whether employees, customers, suppliers, or local communities where the company operates). Over time, the improved perception of the corporate brand benefits the company: talent recruitment and retention, customer satisfaction, and the quality of media coverage are areas of intangible business success where, thanks to today's technology, the effects of an ESG program can be easily monitored.

Research published in 2014 by The Conference Board in collaboration with CSRHub explored the link between sustainability performance and Brand Finance's Brand Strength Index (BSI), a proprietary methodology to calculate the brand value of more than 5,000 leading global companies. The study revealed that about 22 percent of the variation in BSI can be explained by changes in perceived ESG performance.¹³ Corporate reputation and sustainability are therefore related, and a company that seeks to do well in one area should also consider investing in the other.

Rating and ranking providers are also more likely to recognize companies committed to standardized sustainability disclosure. In fact, an empirical review conducted by G&A—Governance & Accountability Institute showed a positive correlation between a firm's adoption of the GRI guidelines on ESG reporting and its performance vis-à-vis prominent indicators of corporate reputation, such as:¹⁴

- Inclusion in Ethisphere's World's Most Ethical Companies
- Inclusion in the Dow Jones Sustainability Index
- Inclusion in CR 100 Best Corporate Citizens (*CR Magazine*)
- Inclusion in *Newsweek's* Greenest Companies
- More favorable Glassdoor ranking
- More favorable CSRHub ranking
- Higher Bloomberg ESG disclosure scores

11 *Report on US Sustainable, Responsible, and Impact Investing Trends 2014*, US SIF Foundation, November 20, 2014.

12 *Sustainability Signals: The Individual Investor Perspective*, Morgan Stanley Institute for Sustainable Investing, 2014.

13 Bahar Gidwani, "The Link between Sustainability and Brand Value," in Thomas Singer (Ed.), *Sustainability Matters 2014*, The Conference Board, 2014, p. 25.

14 *2012 Corporate ESG/Sustainability/Responsibility Reporting. Does It Matter? Analysis of S&P 500 Companies' ESG Reporting Trends and Capital Markets Response, and Positive Association with Desired Rankings & Ratings*, G&A—Governance & Accountability Institute, December 2012 (http://www.ga-institute.com/fileadmin/user_upload/Reports/SP500_-_Final_12-15-12.pdf).

5 Corporate investment in ESG fosters new revenue growth when channeled to product innovation

A new study from The Conference Board finds that among the 12 companies of the S&P 100 with a clearly definable portfolio of sustainable products (SPP), these products make an outsized contribution to overall company revenue growth. Revenue from these products grew by 91 percent between 2010 and 2013, while overall company revenues grew by 15 percent.

A corporate sustainability strategy can be an effective way to manage risks, reduce environmental impacts, improve efficiencies, and lower costs while paving the way for product innovation and

new sources of significant revenue growth. General Electric's often cited *ecomagination* initiative—the company's sustainability program that seeks to create innovative solutions to today's environmental challenges while driving economic growth—provides a good example. In the last five years up to 2014, *ecomagination* has generated more than \$130 billion in revenue for GE. In 2014 alone, revenue from *ecomagination* totaled \$34 billion, accounting for about 22 percent of the company's total revenue. Revenue from *ecomagination* increased 89 percent from 2010 to 2014, a period during which revenue for GE's Industrial segment increased just 29 percent.

Table 1

Revenue from Sustainable Products and Services

Percentage of Total Revenue

Company (Industry)	2010	2013
Caterpillar (Industrials)	n/a	18%
GE (Industrials)	21%	30
Philips (Industrials)	36	50
Siemens (Industrials)	41	43
Toshiba (Industrials)	n/a	25
BASF (Chemicals)	12	9
Dow Chemical (Chemicals)	4	10
DuPont (Chemicals)	5	7
Panasonic (Household Durables)	n/a	10
Kimberly-Clark (Household Products)	10	37
Johnson & Johnson (Pharmaceuticals)	n/a	11
Allianz (Insurance)	n/a	1
Average	18%	21%

Notes: "n/a" for figures from 2010 to 2013 indicates data were not tracked at that time.

Sources: Figures were calculated by The Conference Board with data from the following company-defined portfolios: Caterpillar "Sustainable Progress," GE "ecomagination™," Philips "Green Products," Siemens "Environmental Portfolio," Toshiba "Excellent ECPs," BASF "climate protection products," Dow Chemical "products highly advantaged by sustainable chemistry," DuPont "products that reduce GHG emissions," Panasonic "Superior Green Products," Kimberly-Clark "ecoLOGICAL," Johnson & Johnson "Earthwards®," and Allianz "Green Solutions." For full source information, please see "Revenue Data" in the Appendix.

Table 2

Change in Revenue from Sustainable Products and Services vs. Change in Total Company Revenue

2010–2013

Change in Revenue from Sustainable Products and Services

91%

Change in Total Company Revenue

15%

Average, 2010–2013

Company (Industry)	Change in Revenue from Sustainable Products and Services	Change in Total Company Revenue
GE (Industrials)	72%	22%
Philips (Industrials)	60	14
Siemens (Industrials)	19	13
BASF (Chemicals)	-13	16
Dow Chemical (Chemicals)	147	6
DuPont (Chemicals)	56	29
Kimberly-Clark (Household Products)	296	7
Average	91%	15%

Sources: Figures were calculated by The Conference Board with data from the following company-defined portfolios: GE "ecomagination™," Philips "Green Products," Siemens "Environmental Portfolio," BASF "climate protection products," Dow Chemical "products highly advantaged by sustainable chemistry," DuPont "products that reduce GHG emissions," and Kimberly-Clark "ecoLOGICAL." For full source information, please see "Revenue Data" in the Appendix.

Clearing the Haze in China

Why Getting Ahead of the Enforcement Curve Can Create Real Value for MNCs

Multinational corporations (MNCs) in China would be well advised to ensure that their “sustainability house” is in order. Faced with an environmental nightmare stemming from unbridled economic growth, China is intensifying policy and regulatory action to combat pollution and reverse the acute environmental degradation that now plagues the country and agitates its populace. The Conference Board China Center for Business and Economics expects that the government will increasingly push companies to contribute to solving environmental problems and that MNCs will be at the forefront. With MNCs already under scrutiny for a wide range of “transgressions”—product quality and safety, monopolistic practices, misleading advertising, and tax evasion, among others—it stands to reason that regulatory scrutiny will eventually (and likely soon) turn to the environmental performance of MNCs in China.

On January 1, 2015, the revised Environmental Protection Law went into effect in China—the first such revision in 25 years. The new law brings stronger positive incentives, along with tighter controls and higher fines. It also permits approved nongovernmental organizations to whistle-blow polluters and raise civil suits on behalf of the Chinese public—a tacit acknowledgement that the government does not have the means to adequately enforce environmental compliance and is thus enabling the private sector to help.

The current weak public disclosure practices of MNCs in China present a target for the government’s newfound antipollution zeal. While the changes currently underway point toward heightened regulatory intensity, costs, and penalties for firms with deficient environmental practices, they also portend opportunities for brand and reputational enhancement and new competitive differentiation points for firms that can demonstrate excellence and leadership in corporate sustainability.

To avoid regulatory and public scrutiny and exploit potential differentiation opportunities, companies must bring their environmental measurement, management, compliance, and reporting in China to world-class standards.

For leading MNCs, there is a window of opportunity to steward global best practices into China, and in doing so perhaps help to level the competitive playing field by forcing a higher bar to be applied to local firms. But this will require investment, resourcing, and commitment. Buy-in and coordination will be required across all corporate functions. In China, benefits for strategic decision making from measuring and reporting on sustainability can be significant, including:

- minimizing future risk by understanding the extent of the company’s environmental footprint in China relative to other countries, and if it is adequately matched with comprehensive management and remediation practices;
- measuring the impacts supply chains have on environmental performance locally, so that areas yielding the highest gains or losses (e.g. efficiency) can be identified and leveraged or remedied;
- understanding whether key stakeholder demands (regulatory, public, employees, etc.) are adequately addressed/satisfied globally and locally, and if not, developing differentiated strategies for each stakeholder group;
- identifying opportunities where investments in increased efficiency or productivity can reduce cost;
- identifying opportunities where investments in new sustainability-centric products or services can create new revenue streams;
- reducing the company’s exposure to legal liabilities, current and future;
- reducing a company’s exposure to civil penalties and criminalization of corporate behavior, which affect profitability and corporate reputation and can destroy brand value; and
- identifying best practices in environmental management that work well globally and in a China-specific context—these practices can then serve to inform business practices in other emerging markets where the company operates.

Source: Anke Schrader, Minji Xie, and Melinda Zhang, *China Wants to Go Green: Sustainability Imperatives for Multinationals*, The Conference Board, March 2015.

Don't Underestimate the Importance of Communication

ESG performance alone isn't enough to generate competitive advantage. That performance must be communicated. However, communicating the value of sustainability in concrete terms and sharing information on sustainability initiatives with stakeholders are still unmet challenges in most companies, The Conference Board Research Working Group on Communicating Social Impact recently concluded.

The group believes that important ESG-related accomplishments and relationships are often hard to convey. When ESG is done well, companies can benefit through increased customer loyalty, higher employee engagement, stronger relationships with influencers and regulators, and better identification of potential program partners. But there is a fine line to strike—communications and corporate citizenship professionals are challenged with how best to publicize positive aspects and serious social engagements to a skeptical audience, while being authentic and long-term driven.

The goal of an effective ESG-related communications program is a broader social impact narrative that helps stakeholders know what the brand stands for, rather than what individual business units find important. Without an enterprise-wide narrative, the company is not fully using the power of its CSR communications.

At a time when the public increasingly expects brands to be socially conscious, this concept of an overarching social impact narrative—one that crystallizes the essence of your CSR commitment and can engage and activate your stakeholders—makes clear sense. Nonetheless, CSR communicators in this working group acknowledged that pulling all the disparate messages a company may be delivering about social impact onto one unified communications platform that is flexible, scalable, and data driven can be a significant challenge, not only because of the profusion of initiatives that may be under the CSR/ESG umbrella, but also because they emanate from various parts of the business. The challenge is to bring everyone together to speak with one voice.

Conclusion: Managing Risk, Opportunity, and Scarcity

Three words define today's global business environment: risk, opportunity, and scarcity. To date, research has been more successful in identifying situations where it is costly to be brown than situations where it pays to be green. Nonetheless, there is solid evidence that shareholder value drops when investors learn that a firm has increased its emissions of pollutants or faces government regulatory penalties or legal liability.

Corporations have been investing in ESG practices more frequently in the last decade. In the past, these resource allocations were often a response to immediate business needs rather than a strategic and cohesive sustainability program intended to enhance key intangible assets in the environmental, social, and governance spheres for the long term. But that is clearly starting to change.

While there are some naysayers among academic researchers in this field, a preponderance of evidence from respected academic and business institutions shows that a company can be rewarded for adopting best in class in ESG practices. Higher profits and stock return, a lower cost of capital, and better corporate reputation scores are the key benefits enjoyed in return for this type of investment. As companies continue to adhere to harmonized reporting standards and verified data becomes more readily accessible, researchers will be able to continue this course of investigation to definitively prove once and for all that ESG-related corporate expenditures do pay off.

The Conference Board Governance Center

supports research on longer-term thinking, trust in business, and the value of intangible assets such as resilience in the creation of corporate value.

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For more information on our work in sustainable value creation, please see

www.conference-board.org/governance

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<https://www.ced.org/projects/single/sustainable-capitalism-project/all>

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