By Tim Smith and Carly Greenberg

Corporate Commitment to Sustainability and CSR Reporting: An Enduring Trend

"The majority of S&P 500 companies now publicly declare their commitment to act as responsible corporations and do some sort of CSR or sustainability reporting."

In the last 25 years there have been countless, notable changes in governance policies and practices by corporations. These changes mirror a shift in thinking and behavior by companies and investors where both attitudes and actual behavior have changed dramatically since 1985.

One remarkable change for both investors and companies has been the rapidly expanding support for corporate social responsibility (CSR) leadership, as well as sustainability reporting.

The majority of S&P 500 companies now publicly declare their commitment to act as responsible corporations and do some sort of CSR or sustainability reporting. Similarly, there is a surge of commitment by global investors who integrate Environmental, Social, and Governance (ESG) issues into the investment process and support meaningful transparency and business leadership in CSR.

The expansion of company CSR work and reporting is global and growing. In 2008, the consulting group KPMG reported that 79 percent of the largest 250 global companies produce CSR reports. Overall support for this trend is growing in all industries and countries, while the level of importance placed on CSR depends on the company's individual industry and geographic location. A new Accenture study titled, "A New Era of Sustainability: UN Global Compact-Accenture CEO Study 2010," shows that companies involved in the Automotive, Banking, Mining, Energy, and Utilities industries see sustainability issues as very important compared to companies in the communications and IT fields.

The business case for CSR leadership and sustainability is multifaceted. Some compelling points are summarized below.

DECREASE REGULATORY AND LITIGATION RISKS

The business world is changing. "All companies face a direct impact from decreasing natural resources, rising populations, and disruption from climate change. And what may be a subtle effect now will only become more intense over the next five to ten years," according to Mark Parker, CEO of Nike.

Meanwhile, these global challenges are already stimulating new legislation and future regulations. Companies that are committed to CSR are likely better equipped to face such challenges. For example, a company that is already monitoring and setting goals to reduce its carbon emissions will be ahead of the crowd when carbon pricing becomes the regulatory norm.

And, as we know "what is measured is managed." A commitment to CSR reporting can help decrease a company's general business risks. A management committed to in depth reporting will know which ESG operations need improvement and take the necessary measures to do so, reducing possible liability. Conversely, ignoring these risks enhances the possibility that a company will face an ESG related legal or regulatory risk.

AVOID REPUTATIONAL RISK AND BUILD PUBLIC TRUST

In light of the recent economic meltdown, public trust in business has substantially declined. The 2009 Edelman Trust Barometer reported that American trust in corporations declined from 58 percent in 2008 to 38 percent in 2009. Trust is a crucial factor for future long-term business prosperity considering many consumers make purchasing decisions based on their perception of company trustworthiness. According to Accenture, "in 2008, 91 percent of consumers said they had bought a product or service from a company they trusted, whereas 77 percent had refused to buy a product or service from a distrusted company." Accenture also states that "sustainability has long been viewed as one of many elements in companies' strategies to build their market reputation." A commitment to CSR reporting can help prove to stakeholders and consumers that a company is accountable and trustworthy. The Dell 2009 Corporate Responsibility Report highlights this stating, "during times like these, we must continue to build trust with customers and stakeholders by demonstrating our positive impact on society and the planet and developing meaningful measures for reporting our progress."

OPPORTUNITIES TO REDUCE COSTS AND ENHANCE REVENUE

Many companies have already found multiple ways to cut operational costs utilizing their sustainability

ISS An MSCI Brand

programs as a guide. For example, Apple reduced packaging for their computers. This initiative enabled them to fit more products into a cargo hold and reduce waste, transportation, and fuel costs by using fewer shipment carriers while still shipping the same number of computers. Other companies have been able to save costs by exploring new materials for their products, improving energy efficiency at facilities, and by enhancing workforce safety programs.

Leadership in CSR can also improve a company's efficiency, productivity, competitive edge, long-term survival, and ability to attract labor, investors, and consumers. CSR Reporting also helps companies better integrate and gain strategic value from existing sustainability efforts, and identify gaps and opportunities to enhance their revenue in their operations.

The number of companies that provide sustainability reporting is increasing. Therefore, if a company does not do CSR reporting, it is highly likely that its competitors are and that it is lagging behind its peers.

"The number of investors and dollars that publicly support the PRI principles is growing at a rapid rate."

ADVANTAGES IN RECRUITING LABOR

A company that understands CSR issues and discloses its safety practices, non-discrimination policy, worker benefits, etc., will be seen as a good employer and be better able to compete for top talent in its industry. Interestingly, sustainability is also already becoming an important concern for prospective workers. A European banking CEO told Accenture that, "a survey of graduates seeking employment in two of the company's key markets cited performance on sustainability issues as the most important factor in helping them choose a potential employer." Additionally, companies with appreciative employees have less employee turnover and can save new-hire training costs.

ADVANTAGES IN BEING RESPONSIVE TO ESG INVESTORS

According to the Principles for Responsible Investment (PRI), "there is increasing evidence that ESG issues can be material to performance of portfolios, particularly over the long term." Increased savings and profit derived from corporate sustainability will obviously result in better shareholder returns. Moreover, for the long-term investor, a company with a forward-looking view on managing sustainability issues is encouraging.

The number of investors and dollars that publicly support the PRI principles is growing at a rapid rate. Recently support for the PRI grew from 362 signatories and $14.778 trillion in 2008 to 785 signatories and approximately $20 trillion in 2010. As support for PRI and its principles grow, it will be advantageous for companies to improve their sustainability initiatives and transparency. It is also notable that many mainstream financial institutions such as Goldman Sachs and JP Morgan currently acknowledge the importance of ESG to investments.

More and more companies are urging their suppliers to meet high standards in ESG. Supply-chain guidelines often include requiring suppliers to meet specified environmental, social, and governance performance levels or strongly encouraging them to publish a CSR report. As this trend develops, it is likely that many companies will begin to face pressure to do CSR reporting from their corporate customers.

In summary, one of the remarkable changes in the last quarter century has been the considerable growth of commitment by corporations to CSR and sustainability reporting. There are many reasons for companies to move in this direction, but the bottom line is that it is good for business.

Here are some quotes from corporate leaders that illustrate this view:

"Our approach has created value not only for our stakeholders and society, but also for Intel"
—Paul S. Otellini, President and CEO of Intel

"It is our view that successful companies are those that see business objectives and sustainability objectives as interlinked"
—ExxonMobil's 2009 Corporate Citizenship Report

"We also know that the successful companies of the 21st century will be those that understand global sustainability issues and offer viable solutions."
—Alan Mulally, President and CEO of Ford Motor

"Good things happen when we integrate sustainability into our products, services and solutions. We improve our competitiveness and create and capture customer value. We save money, reduce our environmental impact and improve employee satisfaction.
—Jim Owens, Chairman and CEO of Caterpillar

ISS
An MSCI Brand

About the Author

Tim Smith is a senior vice president at Walden Asset Management, and Carly Greenberg is a Walden summer associate and a student at Brandeis University.