Empirical analysis of corporate sustainability impact on the financial performance of the company

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Lately, more and more companies around the world are starting to apply the practices of socially responsible investment, aimed at achieving corporate sustainability. These companies are starting to care about the environment, local communities and strive to maintain ethical business practices. Some of them carry out this transition voluntarily, others are forced to adapt to legislative changes in their home countries. Nevertheless, the empirical research does not display definitive results in support of the idea that corporate sustainability practices have positive impact on the financial results of the companies that employ them. Most studies consider either individual countries or a small sample of companies, or a short time interval, and that may be one of the reasons for variability in results. In this study, we have attempted to eliminate these shortcomings and to undertake a comprehensive analysis of the impact corporate sustainability practices have on financial results, based on a broad sample of companies and over long time interval.

As a key measure of a company sustainability, we have taken the fact of its presence in the Dow Jones Sustainability Index (according to RobecoSAM). The financial results of the company were assessed according to internal (financial and accounting) and external (market) company performance reports, including data of enhanced (social and environmental) reports from the Bloomberg database. Additionally, we have used the ACSI consumer satisfaction index to evaluate the impact of corporate sustainability of a number of US-based companies at the company's consumer perception. The sample of the study amounted to 300 companies from 10 countries (Brazil, China, Germany, India, Mexico, Russia, South Africa, Spain, Thailand, United States) for 10 sectors of the economy (Banks, Consumer durables (Homebuilding) Diversified Financials (Services and Capital Markets), Energy (Oil and Gas Upstream, & Storage and Transportation), Food Staples, Retailing & Materials (Mining, Metals, Steel, Chemicals), IT services, Telecommunication, Transportation (Airlines) and Electric utilities) for the period from 2010 to 2016. For panel data we have used the regression analysis.

As a result, we have discovered that companies applying corporate sustainability practice are characterized by high levels of market capitalization, a larger amount of free cash flow, strong dividend policy (income shares), the optimal values of financial leverage, but on a number of sectors they were also characterized by lower values of profitability (ROE, ROA, ROIC), higher values of WACC and suboptimal liquidity. It is also worth noting that materials, energy and high-tech IT companies have shown to be more sensitive to the fact of making it into DJSI: most of the differences caused by the corporate sustainability financial indicators were displayed in these sectors.

Based on the panel data, we have established positive relationship of internal company performance results (represented by ROA, ROE and revenue growth) and external results presented by size of market capitalization, Tobin's Q and a Price to book ratio. With exception of the financial sector, where corporate sustainability growth has reduced the internal performance values. Most likely, this suggests that environmental and social costs in this industry don't instantly raise internal results, but directly increase investment costs, which reduces the efficiency of the asset usage. For investors, these investments are a good sign, pointing to the long-term sustainability of the company, which corresponds to the signal theory, therefore, corporate sustainability has a positive effect on market evaluation.

Analysis of the consumer satisfaction index correlation with the DJSI has revealed the lack of statistically significant link, although a number of intermediate indicators of sustainability, such as GRI compliance and Amount of Environmental Fines showed a strong correlation.