Why reporting does matter

Posted by Hank Boerner [1] on Jan 22, 2013

New research shows how companies reporting on sustainability out perform their peers

An important question often posed by corporate board members and executives: does disclosure and structured reporting on corporate sustainability and responsibility really matter to investors and key stakeholders?

This and related questions are often hotly debated inside US companies. What is the measurable payoff (if any) for corporate sustainability and responsibility efforts? What is the cost of instituting these programmes? Who really keeps track of this in the capital markets? How is the information used by investors or stakeholders? What does it take to move beyond PR greenwashing and into substantive strategies and programmes?

What is the business case for corporate responsibility? (And, more recently) what is our competition doing?

The answers to these questions are explored in the Governance & Accountability Institute's [2] 2012 analysis of America's large-cap companies.

Non-reporters the minority

One top-line finding: if your company is included in the S&P 500 Index and is not reporting on its sustainability and ESG strategies, programmes, initiatives, performance, and progress (or lack of) toward certain goals, it is now clearly in the minority. From 19% of S&P 500 companies reporting in 2010 the percentage rose to 53% in 2011.

The S&P 500 Equal Weight Index is a very important investment and "corporate health" benchmark in the US. This is the preferred single gauge of the large-cap US equities market, and includes 500 leaders in various industries of the US economy, capturing about 80% of all US equities. Sectors include energy, materials, consumer goods, transport, healthcare, financial services, information technology, telecom, and utilities. Almost $5tn in assets under management (AUM) are benchmarked against this index.

Similarly, looking at the rankings of US companies included in the Fortune 500 universe, the percentage of companies reporting was 57% in 2011. Again, if your company is included in the Fortune 500 and is not reporting, it is in the minority of companies in this important ranking.

In 2011 we looked in depth at the Fortune 500 companies and their reporting on corporate responsibility, sustainability, citizenship, ethical behaviour, environmental performance, and other aspects that are assigned these titles. The naming varies from company-to-company. GE prefers the traditional "citizenship" reporting, while other large-cap companies are embracing sustainability or responsibility for their structured reporting.

The Governance & Accountability Institute team expanded its analysis in 2012 to include the S&P 500 Index, which is closely tracked by investors. If there were discernable differences between sustainability/responsibility reporters and non-reporters, this would seem to bolster the case forexpanded disclosure and reporting. Especially for companies whose industry or investment peers werenowreporting. (In all there are about 700 companies in the two indexes; many S&P 500 companies are also F-500 ranked.)

Reporter advantages

So what advantages or benefits did we find for reporters in the 2012 analysis? Does it support the business case for reporting?

Summing up, if your management is really interested in being named to a credible ranking, rating or independent list of "leaders," the advantage seems to go to the reporting companies; reporters are more likely to enjoy:

- Higher Bloomberg ESG Disclosure Scores (these are published on more than 325,000 Bloomberg market terminals installed worldwide; the Bloombergs deliver comprehensive ESG information on more than 4,000 companies now).
- Being included in the Dow Jones Sustainability Index for North America, and the prestigious DJSI World Index.
- Inclusion in the Nasdaq OMX CRD Global Sustainability Index.
- More favourable Glassdoor ratings (these are on-line opinions generated by employees of private sector companies reflecting their feelings on their employer).
- More favourable CSR Hub rating.
- Higher Carbon Disclosure Project (CDP) Disclosure Score.
- Higher CDP Performance Score.
- More favourable placement in Brandlogic's and CRD Analytics' Corporate Sustainability IQ Matrix.

Financial benefits

No doubt the important "money question" will come up. The G&A Institute research shows that over a five-year period (2007-2011) reporting companies typically outperformed the broad equity market.

Boards and executives look at the S&P 500 Index as a benchmark for their own companies. So, this example of market performance may get their attention: starting in 2007 with an initial investment of $10,000 in the broad S&P 500 Index, an investor would have seen that sum shrink in the market debacle of 2008 to $6,231.

Remember, around 20% of the S&P companies were reporting on their sustainability at that time. As the equity market recovered, more companies began reporting, and those companies appear to outpace their non-reporting peers. The investment in the S&P 500 benchmark at the end of 2011 stood at $11,035 – while investment in the S&P 500 companies that were reporting would be higher, at $12,204. (The Fortune 500 reporting companies were at $12,089.)

And at the cutoff of the G&A analysis in September 2012, the $10,000 invested in 2007 would have grown to $12,795 in the overall index as the market steadily improved – and to $14,075 for the reporting companies!

Of course, there are many factors that determine share price, price movement, overall valuation of a public company, and the analytic factors that lead an investor to come to a decision to buy, sell or hold.

But when a majority of companies in the S&P 500 Index believe it is to their advantage to adopt sustainability strategies, organise teams inside to lead the process, invite all employees to become part of the effort, adopt ESG performance goals, and then structure disclosure and reporting on their progress … something different is going on.

Does it matter?

The title of the G&A Institute analysis for 2012 is, Corporate ESG / Sustainability / Responsibility Reporting – Does It Matter? The "matter" relates to reporting trends, capital market (investor) response, and possible associations with the ratings, rankings and "best of" lists that corporate managements seek.

The answers that researchers came up with were yes, yes, yes and yes to the following questions.

- Regarding financial performance – do companies that report on their ESG performance appear to perform better in the capital markets over the long-term? Are there discernible share price advantages for corporate reporters?
- Equity indexes – are companies reporting on their sustainability performance more likely to be included in popular sustainability equity indexes such as the Dow Jones Sustainability indices?
- Key corporate reputational lists, awards and recognitions – are reporting companies selected more often for credible reputational lists such as Newsweek'sGreenest US Companies (list)?
- Key corporate ratings and rankings – are higher ratings and rankings achieved by reporting companies in the closely-followed Carbon Disclosure Project (CDP) performance scores?

Each of these findings, we believe, helps to make the case for sustainability reporting in those companies that have not yet started to do so.

Hank Boerner is chairman of the Governance & Accountability Institute. He was recently named by the US National Association of Corporate Directors as "one of the people to watch in corporate governance". G&A Institute is the data partner for the Global Reporting Initiative in the US, UK and Republic of Ireland. Its 2012 report is available at: www.ga-institute.com [3]

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