CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY REPORTING: CREATING VALUE FOR SHAREHOLDERS AND SOCIETY

Olga I. Nagdaseva, Undergraduate Student, Cleveland State University,
The Monte Ahuja College of Business-Department of Management
2121 Euclid Avenue, Cleveland, Ohio 44115
nagdaseva@gmail.com
(440) 281 – 9454

ABSTRACT

Corporate social responsibility (CSR) and sustainable business practices are strategic in nature. Accordingly, corporations should provide disclosure and report such initiatives to shareholders and stakeholders. The value is reflected in the share price of a public corporation. The increase in share value of socially responsible corporations outperforms corporations that do not engage in the reporting of socially responsible behavior. The research methodology includes a survey of 30 Dow Jones Industrial Average companies and an historical analysis of the share price based upon when the reporting formally commenced. CSR reporting has a positive impact on share price, which exceeds the financial performance of those who have been slower to respond.

Keywords: Corporate Governance, Value Creation, Corporate Social Responsibility (CSR), Chief Sustainability Officer (CSO), Global Reporting Initiative (GRI).

CORPORATE GOVERNANCE

According to the United Nations Global Compact, “corporate governance refers to the way that Boards oversee the running of a company by its managers, and how Board members are held accountable to shareowners and the company” [2, p. 4]. The guide for corporate governance is often the Organization for Economic Co-Operation and Development (OECD) Principles of Corporate Governance, which “provide practical guidance for corporate best practices, including protection of shareowner rights and board responsibilities, to stock exchanges, investors, corporations and others” [2, p. 4]. Moreover, external oversight has a tremendous effect on investors, shareholders, employees, stakeholders, corporate reputation and trust. In fact, “research shows that responsible management of environmental, social and governance issues creates a business ethos and environment that builds both a company’s integrity within society and trust of its shareowners” [2, p. 4].

CORPORATE SOCIAL RESPONSIBILITY AND THE TRIPLE BOTTOM LINE

In 1953, American economist and the author of a famous manuscript, *Social Responsibilities of a Businessman*, Howard Bowen, discussed a catalyst idea, corporate social responsibility (CSR), explaining that “corporations have an obligation extending beyond economic performance” [3]. CSR embodies corporate economic, social and environmental indices, carried out for the benefit of the stakeholders and the society, and not the mere achievement of economic growth, ROI or minimum compliance with the legal framework. Thus, corporate social responsibility is defined as “a view of the corporation and its role in the society that assumes a responsibility among firms to pursue goals in addition to profit maximization and a responsibility among a firm’s stakeholders to hold the firm accountable for its actions” [4, p. 5]

In 1994, John Elkington portrayed by the Businessweek as “a dean of the corporate responsibility movement for three decades,” was first to describe the triple bottom line (TBL) concept, which consists of the three Ps: Profit, People and Planet [5]. His view evolved from his original theory: If a cannibal learns how to use a fork, will it make him a better cannibal? The same is transparent for corporate behavior: Will the corporation become better if it embodies sustainability in its business operations? Thus, each bottom line, Profit, People, Planet, takes into the account the value, which the company produces for its shareholders and the society. “The Triple Bottom Line (TBL) captures the essence of sustainability by measuring the impact of an organization’s activities on the world. A positive Triple Bottom Line reflects an increase in the company’s value, including both its profitability and shareholder value and its social, human, and environmental capital” [6].

Currently, the two terms, corporate social responsibility (CSR) the triple bottom line (TBL) are used interchangeably, while the three pillars emphasize that corporations should not exist solely for profit, but also benefit the society and itself economically, socially and environmentally. Aside from substantially benefitting the bottom line, sustainability and socially responsible business operations directly correlate to strategic advantage.

CORPORATE SUSTAINABILITY

The definition of sustainability varies and is rather broad. For this paper, the United Nations Global Compact’s definition of sustainability was adopted. Thus, the definition of corporate sustainability is “a company’s delivery of long-term value in financial, social, environmental and ethical terms [7]. Maintaining a regenerative society involves higher level of responsibility and more significant efforts in preserving the existing ecosystems. Peter Senge described five stages and emerging drivers of sustainability where the most advanced and innovative companies integrate sustainability into every aspect of corporate strategy and core values [8, p. 115]. Gradually, sustainability has become a high priority and one of the core values of a socially and environmentally responsible company. Moreover, “reports increasingly suggest that there is a growing financial risk for any corporation not conducting business in what is considered an appropriate manner by contemporary society,” leading to voluntary corporate reporting rather than corporate regulatory compliance imposed by the government [4, p. 321].

THE EVOLUTION OF CHIEF SUSTAINABILITY OFFICER (CSO)

Senior management’s commitment to sustainability is vital. Chief Sustainability Officer (CSO) is “the senior-most executive in charge of a company’s sustainability” [9, p. 4]. Depending on the industry and corporate culture, CSO role might embody other tasks, hold a different title, or be assumed by the Board. Other distinct characteristics of Chief Sustainability Officer are that he also “sits amongst the top leaders of the company to make key strategic decisions” and, oftentimes, is “listed on the company’s 10K, the SEC filing that identifies the corporation’s accountability to shareholders” [10]. CSO role is new and still evolving, but “the evolution was probably inevitable” [11]. Presently, “sustainability is becoming a corporate priority at the CEO and board levels,” which triggered the creation of CSO role [8, p. 102]. Furthermore, the role of CSO has evolved parallel to the development of the concept of sustainability, from compliance to integration into strategy and aligning with core values. CSO role was elicited by growing complexity of Global Reporting Initiative (GRI), accountability, the necessity for CSR reports, competitive pressure, and strategic vitality of sustainability. Therefore, “in 2004, DuPont appointed Lisa Fisher as its Chief Sustainability Officer, making her the first CSO among America’s publicly traded companies” [9, p. 7]. In 2011, 29 Chief Sustainability Officers were appointed in publically traded U.S. companies.

Seven out of 30 surveyed companies in the Dow Jones Industrial Average created a separate CSO position at top executive level within the last three years, including Alcoa, AT&T, Coca-Cola, DuPont, General Electric, United Technologies and Verizon. The majority of the companies have CSO functions performed at top executive or Board level. At some, functions are combined (CEO/CSO, VP/CSO). Thus, Boeing has VP of Environmental, Health and Safety, while HP’s executive has VP, Sustainability and Social Innovation. At several companies, CSO role is performed by the Board as a Committee or a Council such as the EcoBoard (Cisco), Public Responsibility Committee (JP Morgan Chase), Corporate Responsibility Committee (McDonald’s), CSR Senior Executive Council (IBM), and others. The transition of the CSO function to the top level started primarily in 2004-2005 and concluded by 2010.

CSR REPORTING

Peter Senge stated that “when you align business priorities with the new forces at play in the world, you create long-term sustainable value for all stakeholders, beginning with shareholders” [8, p. 119]. Currently, there is more pressure on individual companies from stakeholders who are becoming more environmentally and socially aware and concerned. “The sustainability effort has to provide an enhanced financial bottom line, and the way to do this is through increasing market share, reducing cost of product, and improving value for the customer”. [8, p.132]. J. Daum noted that “20% of a company’s value is reflected in the accounting system” [12]. Other factors, like reputation, brand, and public image are becoming more important for consumers, shareholders, and companies. Efforts in CSR and sustainability add value to companies, including savings, competitiveness, innovation, reputation, and competitive advantage in the global marketplace. Voluntary sustainability reporting or integrated reporting, containing financial and non-financial information, is increasingly popular amongst global corporations. Furthermore, corporations obtain reporting guidelines and report through The Global Reporting Initiative (GRI) and The United Nations Global Compact. Unlike government regulated financial reporting to the SEC, CSR Reporting is voluntary.

In 2000, GRI, supported by the United Nations, issued its first guidelines, Sustainability Reporting Framework. With application of performance indicators, companies use “the Sustainability Reporting Framework,” which “consists of the Sustainability Reporting Guidelines, Sector Supplements, and the Technical Protocol” [13] Furthermore, GRI measures the company's sustainability initiatives based on content, including Materiality, Stakeholder Inclusiveness, Sustainability Content, and Completeness. Corporate sustainability reports are graded with Sustainability Reporting Framework, assigning companies A, B, or C rating. In fact, research shows that companies with higher ratings (A or B), "generally enjoy a better reputation for sustainability performance" [14]. United Nations Global Compact ensures transparency and accountability, but, like GRI, is not government mandated. In fact, "the UN Global Compact is the world's largest voluntary corporate sustainability initiative" [15]. UN Global Compact's reporting focuses mainly on four areas with ten embedded principles based on Human Rights, Labor, Environment and Anti-Corruption values and reporting.

SURVEY

A survey was administered by email and phone to the persons responsible for CSR and sustainability efforts at 30 companies in Dow Jones Industrial Average. The titles of interviewed corporate representatives ranged from Vice President of Corporate Environmental Affairs and Product Safety, Director of Environmental Initiatives, Director of Corporate Affairs, Sustainability Manager, and other employees from Corporate Media, Investor Relations and Public Affairs. The questions included: 1). Do you have a Chief Sustainability Officer? When was the position created? 2). Do you formally report sustainability and corporate social responsibility initiatives? When did this begin (month and year)? An optional question regarding the method of reporting (i.e. included in the annual report, use the Global Reporting Initiative – GRI, issue separate sustainability or Corporate Social Responsibility – CSR publication) was added.

Out of 30 surveyed companies, 28 responded. Results of the survey were aggregated in an Excel spreadsheet and comparison was made to stock prices in order to verify the hypothesis that the establishment of a Chief Sustainability officer function at the executive or board level and the involvement in CSR or Sustainability reporting creates value. Historical analysis was performed. For comparative purposes, stock value was used for June 30 of the year a company introduced Reporting. If a company started reporting prior to 2002, the year of 2002 was used for reflecting a 10-year period. Comparative analysis was not performed for the 2 companies (Home Depot and Travelers Companies), which do not actively engage in CSR reporting yet.

CONCLUSION/RESULTS

All surveyed companies from the Dow Jones Industrial Average are involved in some type of CSR reporting. The first initiatives of developing environmental reporting began in 1990-1991 (Hewlett Packard and IBM). In 2002, first reports titled Sustainability were created. It was also observed that most companies transitioned to CSR reporting in 2005-2007. . Also, the title, content, and format of reporting evolved from environmental reports to CSR or Citizenship reports. Only a couple of companies are behind and just began reporting. For instance, Home Depot is planning to start CSR reporting in 2012. Further, research indicated that most companies have adopted GRI guidelines.

Most companies are showing increase in value after they began adopting Sustainability or CSR reporting. Companies that started early (in the 1990s or early 2000s) significantly outperformed the later entrants. The leaders that pioneered reported and demonstrated measurable increase in stock prices include Coca-Cola, Hewlett Packard, IBM, Procter and Gamble, McDonalds, and United Technologies Corporation. This supports the hypothesis that adherence to CSR principles and involvement in voluntary reporting increases value of companies which is reflected in share price. The longer term results are more visible as financial gain from socially and environmentally responsible behavior is reflected in the increase in share price. Some companies, especially financial institutions, were adversely affected by the recession, which officially began in 2007. It is difficult to measure if the decline would have been worse if the companies did not exercise socially responsible corporate behavior.

Further research is recommended which could focus on longer term correlation between socially responsible actions and the increase in share prices. It could also be expanded to include broader indices and more companies, i.e. S&P. In the future, since there are a lot of initiatives developing in the European Union, research could focus on European indices as comparative indicator.

APPENDIX: DOW JONES COMPANIES CSR REPORTING AND VALUE CREATION

Name	Symbol	CSR Office/ Officer	Reporting Year	Start Price	Current Price
3M Co	MMM	Y	2005	$74.24	$89.88
Alcoa Inc	AA	Y	2002	$33.15	$10.40
American Express Co	AXP	Y	2007	$61.65	$57.31
AT&T Inc	T	Y	2006	$27.71	$31.70
Bank of America Corp	BAC	Y	2005	$46.41	$9.41
Boeing Co	BA	Y	2006	$82.99	$75.76
Caterpillar Inc	CAT	Y	2005	$48.15	$114.02
Chevron Corp	CVX	Y	2006	$62.45	$110.41
Cisco Systems Inc	CSCO	Y	2005	$19.44	$20.01
E.I. du Pont de Nemours and Co	DD	Y	2005	$44.08	$53.84
Exxon Mobil Corp	XOM	Y	2006	$62.65	$86.20
General Electric Co	GE	Y	2005	$35.00	$20.26
Hewlett Packard Co	HPQ	Y	1991	$15.28	$24.26
Home Depot Inc	HD	Y	2012	N/A	$49.45
Intel Corp	INTC	Y	2002	$18.27	$27.82
International Business Machines Co	IBM	Y	1990	$72.00	$207.03
Johnson & Johnson	JNJ	Y	2003	$51.70	$65.20
JP Morgan Chase and Co	JPM	Y	2007	$49.23	$44.87
Kraft Foods Inc	KFT	Y	2010	$28.27	$38.45
McDonald's Corp	MCD	Y	2002	$28.45	$98.42
Merck & Co. Inc	MRK	Y	2004	$47.50	$38.17
Microsoft Corp	MSFT	Y	2003	$25.64	$32.91
Pfizer Inc	PFE	Y	2007	$25.77	$21.94

Procter & Gamble Co	PG	Y	1999	$44.65	$67.83
The Coca-Cola Company	KO	Y	2001	$56.00	$70.38
Travelers Companies Inc	TRV	N	N/A	N/A	$59.68
United Technologies Corp	UTX	Y	2002	$33.95	$87.00
Verizon Communications Inc	VZ	Y	2004	$32.48	$39.62
Wal-Mart Stores Inc	WMT	Y	2007	$48.50	$61.41
Walt Disney Co	DIS	Y	2006	$29.46	$43.42

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