Exploring the influence of company sustainability performance on financial performance within and across GICS sectors

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ABSTRACT

Private firms play a significant role in generating the social and environmental issues addressed by the UN's Sustainable Development Goals (SDGs) and are key actors in the implementation of solutions. Ideally, the socio-economic framework in which they operate would be configured so as to reward firms exhibiting superior sustainability performance in order to incentivize further action. According to the results of this study, that is not the world in which we live.

This study employs a quantitative approach to examine the impact of sustainable company performance on financial performance using secondary data collected from the 324 GRI-compliant S&P 500 companies. Data on twelve sustainability indicators considered applicable across the 11 GICS sectors were sourced from the companies' most recent sustainability reports, while data on ten financial measures of business performance were obtained from the latest annual reports, resulting in 3,346 observations. Based on the prescriptions of legitimacy- and stakeholder-theory, regression analyses explored the relationship between sustainable performance indicators (as predictors) and financial performance metrics (as dependent variables), both within and across GICS sectors.

In the 110 regression models for individual sectors, the various sustainable performance indicators were insignificant predictors of financial performance in 93.7% of cases, significant positive effects were observed in 3.1% of cases, and negative effects were observed in 3.2% of cases. While this is not what would be expected in the ideal socio-economic framework described above, the insignificant findings can be interpreted as suggesting that there is no reason not to perform more sustainably in those areas. The impact on financial performance differs by sustainability indicator, whereby better performance on 'grid electricity' showed the overall most positive impact, and on 'scope 3 emissions intensity' showed the overall most negative impact. By sector, business performance was most positively impacted by sustainability performance in the IT sector and most negatively in the Real Estate sector. The economywide analysis across all sectors painted a less promising picture. Sustainable performance was associated with better business outcomes in only 4.1% of cases and with worse business outcomes in 8.3% of cases. This finding has worrying implications, as, ceteris paribus, investors that are otherwise indifferent between the sectors will be drawn towards less sustainable sectors.

This research contributes to the plethora of existing literature suggesting theoretical advantages of sustainable performance through a detailed empirical analysis. The suggested positive relationship was found within individual GICS sectors, but overall negative relationships were found in other sectors and economywide. The methodology precludes interpretation of effect sizes, which is among the limitations listed for future research to address. The research further suggests which sustainability metrics are currently rewarded in the market and which might require regulatory and/or market reforms to incentivize.

Keywords: Sustainability performance, Financial performance, Corporate sustainability, S&P 500, Global Classification Standard (GICS), Global Reporting Initiative (GRI).