Sustainability leads to profitability, reveals major new report from the University of Oxford

Posted Sep 15 2014 by Omar Selim

Report 'From the Stockholder to the Stakeholder' identifies correlation between sustainability and stock price performance

London, England, September 15 2014 – A major new report released today by the Smith School of Enterprise and the Environment (SSEE) at the University of Oxford and Arabesque Asset Management provides the clearest academic evidence to date of the financial rewards of corporate sustainability.

The enhanced meta-study, entitled *From the Stockholder to the Stakeholder*, is one of the most extensive reports of its kind on the effects of sustainability on financial performance, based on almost 200 academic studies, industry reports and books.

The report reveals a strong correlation between corporate sustainability and stock price performance, with 80 per cent of research sources showing that stock prices are positively influenced by good sustainability practices.

From the Stockholder to the Stakeholder also reveals that 88 per cent of studies link strong Environmental, Social and Governance (ESG) practices with better operational performance in a company, ultimately translating into cashflows. Factors ranging from good workforce relations, environmental management and executive compensation are cited as amongst the most impactful on improved operational performance.

Ninety per cent of analysed studies reveal that high ESG standards will lower the cost of capital for companies, with superior sustainability standards improving a corporation's access to capital.

In the report, authors Professor Gordon L Clark (Director, SSEE, University of Oxford), Andreas Feiner (Head of Values Based Research and Advisory, Arabesque Asset Management) and Michael Viehs (Research Fellow, SSEE, University of Oxford) predict that the inclusion of sustainability parameters into the investment process will become the norm in the years to come. This, they believe, will be amongst others influenced by a drive from regulators to increase companies' transparency and performance on environmental and social issues, on improving corporate governance and on corporate social responsibility.

Based on the economic impact, the report's authors argue that it is in the best interests of investors and corporate managers to incorporate sustainability criteria into their decision making processes. Growth in 'Active Ownership' is predicted over the coming years, with multiple stakeholder groups including investors and consumers seeking to influence corporate behaviour and benefit financially from improvements in more sustainable business practices.

Commenting on the report, Andreas Feiner from Arabesque Asset Management said: "Based on the growing trend that we are seeing of sustainability entering the corporate mainstream, we believe that the most successful future investors will be those with continuous research programmes that analyze a range of ESG factors. Sustainability and profitability can go hand in hand."

University of Oxford's Professor Gordon L Clark said: "This report very clearly demonstrates the economic relevance of sustainability for corporate management and for investors. The breadth of research analyzed in our study brings us to the conclusion that ESG can and will add significant value for companies and their investors."