SUSTAINABLE BRANDS

22 RESEARCH STUDIES PROVING THE ROI OF SUSTAINABILITY

INTRODUCTION

As a global media platform, Sustainable Brands is in touch with hundreds of thousands of sustainability, brand strategy, marketing and innovation leaders on six continents. Thematically, we cover a lot of ground within our live events, Corporate Member Network and digital content, but there is one aspect to every topic that tends to be brought up all the time, everywhere: **the ROI of sustainability**. We've been doing our best to help answer the multiple omnipresent questions that surround it. It has been addressed at virtually all Sustainable Brands events, and regularly appears in our digital content under tags such as #Business-Case and #NewMetrics.

In a continued effort to distill and curate valuable content for our community, we have put together this complimentary compilation of 22 research studies that collectively demonstrate the positive ROI of sustainability from a variety of angles, including company revenue, stock performance, product-level profitability, brand reputation, employee and consumer engagement benefits, accounting for externalities, reduced risk exposure, and more. Needless to say, this is not a comprehensive collection; think of it, rather, as our 'greatest hits,' or the studies that we like to keep in our back pocket for when our readers or event attendees ask us about the most compelling research showing positive ROI of corporate sustainability. There are, of course, a number of individual company case studies that address this topic as well, and we invite you to stay tuned for another summary report on those in the near future.

For the time being, enjoy this collection, make the most of it, show it to your boss, and let us know what you think!

WHAT YOU WILL LEARN:

- How leading researchers are analyzing the ROI of sustainability on multiple levels, including company revenue, stock performance, product-level profitability, valuation of employee and consumer engagement, and more
- Why investing in companies with strong sustainability credentials is proving to be a consistently good bet, and why Modern Portfolio Theory may be significantly outdated
- How measurable and manageable brand reputations are related to factors such as sustainability initiatives, quality of management, employee engagement, use of corporate assets, innovation, quality of products and global competitiveness
- What advantages climate leaders among S&P 500 companies create for themselves, and how they outperform their peers
- How the world's largest 500 companies are decoupling revenue growth from GHG emissions, and what that means for the future of climate and business leadership

IO SUSTAINABILITY AND BABSON COLLEGE: PROJECT ROI

This far-reaching study summarized over 300 leading research studies and concluded that well-run corporate sustainability programs consistently bring multiple types of benefits, including **increased sales, growing market value, higher employee productivity, and reduced risk exposure**, among others. Specifically, the study finds that well-run corporate sustainability programs at publicly traded companies increase **revenue by as much as 20%**, increase **market value by as much as 6%**, increase **employee productivity by up to 13%, reduce the company's turnover rate by up to 50%**, and **provide risk protection of up to 7% of company value.**

PROJECT ROI

SOURCES:

http://projectroi.com/

http://www.sustainablebrands.com/news_and_views/new_metrics/steve_rochlin/why_corporate_responsibility_has_potential_deliver_financia

FREYA WILLIAMS: THE GREEN GIANTS

In her book Green Giants: How Smart Companies Turn Sustainability into Billion-Dollar Businesses, Freya Williams explores what underlies the success of the world's first nine billion-dollar sustainable brands: Tesla, Chipotle, Nike, Whole Foods, Unilever, GE, Toyota Prius, Natura and IKEA. The book profiles these nine companies and shows how each of them has succeeded in generating **a billion dollars or more in annual revenue from products or services with sustainability or social good at their core**. Less than a year after publishing the book, the author added a new set of eight more Green Giants to this elite billion-dollar club: Organic Valley, REI, Target, Walmart, Vestas, Costco, Kroger and Hain Celestial.

A pair trade analysis that compared the stock market performance of the original nine Green Giants to a set of comparison companies between June 29, 2010 and March 2, 2015 found that **Green Giants performed 11.7% (23.2% - 11.5%) better than their leading competitors** over that 5-year period. On average, Green Giants stock prices outperformed the S&P 500 by 6.8% per year, which the comparison companies trailed by 4.9%. If you remove Tesla (due to its spectacular growth), the stock values of the remaining eight Green Giants still outperformed their competitors.

SOURCES:

http://www.greengiantsbook.com/

http://www.sustainablebrands.com/news_and_views/stakeholder_trends_insights/freya_williams/welcome_new_green_giants

HAVAS MEDIA GROUP: MEANINGFUL BRANDS

Meaningful Brands® is Havas Media Group's index that measures the potential business benefits gained by a brand when it is seen to improve our wellbeing and quality of life. The latest Meaningful Brands study, released in 2015, revealed that a brand's "Share of Wallet" – a marketing metric used to measure the percentage spent with a brand vs. the total annual expenditure within its category – is on average 46% higher for Meaningful Brands. In addition, **top scorers in Meaningful Brands 2015 outperformed the stock market by 133%**, up from 120% in 2013.

SOURCES:

http://www.meaningful-brands.com/

http://www.sustainablebrands.com/news_and_views/new_metrics/caitlin_kauffman/return_meaning%E2%80%99_top_meaningful_brands_enjoy_46_higher_sh

MORGAN STANLEY INSTITUTE FOR SUSTAINABLE INVESTING: SUSTAINABLE REALITY

In 2015 Morgan Stanley Institute for Sustainable Investing reviewed a range of studies on sustainable investment performance and examined performance data for 10,228 open-end mutual funds and 2,874 Separately Managed Accounts (SMAs) based in the United States and denominated in US dollars. In the scope of the review, the company ultimately found that **investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments.** This is on both an absolute and a risk-adjusted basis, across asset classes and over time.

SOURCES:

http://www.morganstanley.com/sustainableinvesting/pdf/sustainable-reality.pdf

http://www.sustainablebrands.com/news_and_views/ict_big_data/caitlin_kauffman/sustainable_investments_outperforming_traditional_inves

HIP INVESTOR: EVOLVING BEYOND MODERN PORTFOLIO THEORY

We have observed for at least a few years now that roughly 84% of S&P 500 stock market value is driven by factors that are not accurately captured and valued on financial statements — including people, natural resources and trust, among others. In a breakthrough new research project, HIP Investor showed how **sustainability considerations can lower risk and enhance financial returns for investment portfolios, all while creating net benefit for society**. Moreover, not only can sustainability-driven investment portfolios outperform traditional ones, but they also **strongly suggest that Modern Portfolio Theory may be significantly outdated.**

SOURCES:

http://hipinvestor.com/

http://www.sustainablebrands.com/digital_learning/slide-show/new_metrics/how_sustainable_portfolios_can_out-perform_traditional_investi

CDP: CLIMATE ACTION AND PROFITABILITY

A 2014 research study by the CDP found that climate change management S&P 500 industry leaders generate superior profitability – **their average ROE is 18% higher than that of low scoring peers and 67% higher than non-responders**. In addition, climate industry leaders have enjoyed **50% lower volatility of earnings** over the past decade compared to low scoring peers. Last but not least, climate industry leaders have consistently exhibited value attributes attractive to equity investors, all while **growing dividends to shareholders 21% stronger than low scoring peers**.

SOURCES:

https://www.cdp.net/CDPResults/CDP-SP500-leaders-report-2014.pdf

CDP™

DRIVING SUSTAINABLE ECONOMIES

HARVARD BUSINESS SCHOOL: SUSTAINABILITY AND ORGANIZATIONAL PERFORMANCE

This Harvard Business School paper investigates the effect of corporate sustainability on organizational processes and performance. Using a matched sample of 180 US companies, the authors find that corporations that voluntarily adopted sustainability policies by 1993 (termed as High Sustainability companies) exhibited by 2009 distinct organizational processes compared to a matched sample of firms that adopted almost none of these policies (termed as Low Sustainability companies). In addition, they also find that the boards of directors of these companies were more likely to be formally responsible for sustainability and top executive compensation incentives are more likely to be a function of sustainability metrics.

High Sustainability companies were shown to be more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of nonfinancial information. Last but certainly not least, the paper showed evidence that **High Sustainability companies significantly outperformed their counterparts over the long-term, both in terms of stock market as well as accounting performance.**

SOURCES:

http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf

HARVARD BUSINESS SCHOOL: MATERIALITY AND VALUE CREATION

This is another highly influential Harvard Business School study aiming to distinguish between investments in material versus immaterial sustainability issues. The authors develop a novel dataset by hand-mapping data on sustainability investments classified as material for each industry into firm-specific performance data on a variety of sustainability investments. This allows them to present new evidence on the value implications of sustainability investments. Using calendar-time portfolio stock return regressions, they find that **firms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues, suggesting that investments in sustainability issues are shareholder-value enhancing.** Further, firms with good performance on sustainability issues not classified as material do not underperform firms with poor performance on these same issues, suggesting investments in sustainability issues are at a minimum not value-destroying.

SOURCES:

https://dash.harvard.edu/handle/1/14369106

HARVARD
BUSINESS SCHOOL

REPUTATION DIVIDEND: COMPONENTS OF REPUTATIONAL VALUE

This results of this study clearly indicate that the measurable and manageable reputations of firms can causally, and with scientific rigor, be tied to their market values, and that their sustainability performance, in turn, contributes to their reputations. The methodology used by Reputation Dividend makes it possible to determine what the reputation contribution is for each of the following nine components to the market cap of a firm: quality of management, employee engagement, long-term investment potential, financial soundness, use of corporate assets, innovation, CSR, quality of products and global competitiveness. At the end of 2014 **CSR was responsible for 10.7% of the total reputational value of S&P 500 companies.** That is a **conservative estimate** of the value of CSR, given that at many companies CSR heavily influences many of the other right components of reputational value.

REPUTATION DIVIDEND What's your reputation worth?

SOURCES

http://www.reputationdividend.com/recent-studies/

http://www.sustainablebrands.com/news_and_views/new_metrics/mark_mcelroy/last_business_case_csr_even_milton_friedman_could_love_susta

CSRHUB AND BRAND FINANCE: SUSTAINABILITY AND BRAND STRENGTH

For a few years now CSRHub, the world's largest database of sustainability information, has partnered with Brand Finance, creator of the world's largest database of brand values, to combine analytical powers and examine the relationship between brand strength and corporate sustainability across a wide range of global companies. The team found a relatively **strong positive correlation between brand strength and sustainability.** The correlation is consistent across a wide range of companies, from various industries, regions, and enterprise values. The most important drivers of the correlation appear to be how well a company treats its employees and its environmental policies.

SOURCES:

https://www.csrhub.com/content/csr-drives-brand-strength/

http://www.sustainablebrands.com/digital_learning/slide-show/marketing_comms/how_correlation_between_sustainability_brand_strength_has

THOMPSON REUTERS: DECOUPLING REVENUE AND GHGS

For the first time, data has shown a decoupling between revenue growth and greenhouse gas (GHG) emissions output among the world's 500 largest businesses, according to a Thompson Reuters report released in June 2016. The Global 500 currently represents about 28% of the world's GDP and collectively emitted 10% of the world's GHGs over the last five years. **Revenues for these companies grew roughly 5%, while their emissions only increased by 1%** over the most recent four-year period for which complete and comparable data is available.

SOURCES

http://thomsonreuters.com/content/dam/openweb/documents/pdf/corporate/Reports/global-500-greenhouse-gases-performance-2010-2015.pdf

http://www.sustainablebrands.com/news_and_views/organizational_change/sustainable_brands/worlds_500_largest_companies_decoupling_emis

PURE STRATEGIES: BENEFITS OF PRODUCT-LEVEL SUSTAINABILITY

Improving the sustainability performance of both new and existing products requires a method for evaluating the products' sustainability, as well as respective value to the company, sometimes along multiple and complex dimensions. In recent years, numerous corporations have created in-house programs to help them perform these evaluations and to help drive sustainability innovation in their product lines. Pure Strategies surveyed 100 global food and beverage, apparel and footwear, home and personal care, toy, and electronics companies involved in product sustainability to find out what financial and organizational benefits they are reaping from product-level sustainability efforts. The business benefits were easy to spot: **79% of respondents reported having already achieved manufacturing cost savings, 74% had measured a rise in employee engagement and productivity, 71% saw trust and brand enhancement, 64% registered logistical and supply chain savings, and 62% were able to better meet consumer demands.**

SOURCES:

http://info.purestrategies.com/hs-fs/hub/152913/file-798268077-pdf/Pure_Strategies_(2014)_The_Path_to_Product_Sustainability-_A_Pure_Strategies_Report._Gloucester,_MA-1.pdf

ALEX EDMANS: JOB SATISFACTION AND FIRM VALUE

Alex Edmans has spent years tackling some long-standing management questions around the link between job satisfaction and firm value. In one notable paper, he focused on the effect of job satisfaction on firm-level value by measuring firm value using future stock returns, controlling for risk, firm characteristics, industry performance, and outliers. His main finding was unmistakably clear: **companies listed in 100 Best Companies to Work For in America generated 2.3% to 3.8% higher stock returns per year than their peers from 1984 to 2011.** In a follow-up research project extending that study to 14 countries, he finds that the U.S. **results in the original paper are not anomalous.** In fact, the returns to the Best Companies in the U.S. are the 10th highest out of the 14 countries.

SOURCES:

http://faculty.london.edu/aedmans/RoweAMP.pdf

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2461003

WESPIRE: THE ROI OF EMPLOYEE ENGAGEMENT

WeSpire is a cloud-based engagement platform that helps companies engage employees in sustainability and responsibility initiatives with persuasive technology that builds awareness and drives behavior change, mostly through smart gamification of incentives to take simple actions. After crunching a big amount of its data from multiple clients in 2014, the company estimated that **the average amount saved per employee per year is $250** – not at all trivial, given that thousands or even hundreds of thousands of employees may be involved, collectively taking millions of pro-sustainability actions. As an illustration, MGM Resorts has engaged over 19,500 employees, or about 31% of its employee base, in its WeSpire program, and those 19,500 people have collectively taken a few million green actions to date, resulting in operating cost savings of some $5 million per year.

SOURCES:

http://www.wespire.com/the-real-deal-with-roi-of-employee-engagement/

http://www.sustainablebrands.com/digital_learning/audio/new_metrics/demonstrating_value_employee_engagement_case_studies

WeSpire

IMPERATIVE: THE WORKFORCE PURPOSE INDEX

In its comprehensive study of purpose in the U.S. workforce, the Workforce Purpose Index, social enterprise Imperative and its partners found that 28% of the 150 million-member U.S. workforce defines the role of work in their lives primarily as a source of personal fulfillment and a way to help others. These Purpose-Oriented Workers, roughly 42 million strong, not only seek out purpose in their work, they create it, and as a result, outperform the rest of the workforce. In particular, **purpose-oriented workers were found 65% more likely to experience a high level of fulfillment in their work and 50% more likely to be at top positions within their organizations.**

SOURCES:

https://www.imperative.com/index2015

NIELSEN: GLOBAL SURVEY OF CSR AND SUSTAINABILITY

In a world of choice, the reasons we purchase one product over another can be driven by a multitude of factors. Nielsen polled 30,000 consumers in 60 countries and asked them to indicate what factors had the most influence on their purchasing habits of a wide range of products. The 2015 results showed that consumers are increasingly willing to pay more for socially responsible products. In fact, **66% of respondents say they're willing to pay more for products and services that come from companies who are committed to positive social and environmental impact**, up from 55% in 2014 and 50% in 2013. In addition, companies that hope to make a big impression with consumers need to know that **brand trust topped the list of purchase influencers for more than half (62%) of global respondents** surveyed.

SOURCES:

http://www.nielsen.com/us/en/insights/news/2015/sustainable-selections-how-socially-responsible-companies-are-turning-a-profit.html

http://www.nielsen.com/us/en/insights/reports/2015/the-sustainability-imperative.html

HOWGOOD: PRODUCT LABELS AND PURCHASING BEHAVIOR

How Good is a rating system aiming to serve as a tool that grocery shoppers can use to identify the healthiest, most sustainable food products. The How Good team works closely with academics, industry experts and farmers to review the impact products make on the entire food system, and then crunches the data down to simple and elegant labels added directly to grocery store shelves. Customers in pilot stores have reacted notably positively, contributing to significant shifts in purchasing behavior across a number of locations and product categories. **HowGood product labels on grocery store shelves lifted monthly sales for the whole store by 3% per month, on average, while products labelled 'Great' saw a 31% increase in sales**, on average, in a pilot program carried out at 8 stores in the U.S.

Which milk should you buy?

SOURCES:

https://howgood.com/#/

http://www.sustainablebrands.com/digital_learning/event_video/new_metrics/enabling_informed_impactful_purchasing_decisions_through_ef

TRUST ACROSS AMERICA: THE VALUE OF CONSUMER TRUST

Trust Across America, via its FACTS® Framework, has been tracking market performance of the most trustworthy public companies for over 5 years, and the results are nothing short of staggering. **Between August 2012 and July 2014 trustworthy companies produced an 82.9% return vs. the S&P 500's 42.2% for the same period**. This finding is consistent with research by Havas Media Group and Accenture, which concluded that, **"trust is the most sought-after, yet elusive pillar for long-term commercial advantage."**

SOURCES:

http://www.trustacrossamerica.com/blog/?p=1322

http://www.fairtrade.travel/uploads/files/Accenture-Consumer-Study-Marketing-Mattering_2014.pdf

IMPERIAL COLLEGE LONDON AND ICROA: THE HIDDEN VALUE OF CARBON OFFSETTING

Offsetting one ton of carbon dioxide brings an additional $664 in benefits to the communities where carbon reduction projects are based, according to a highly influential study by Imperial College London and the International Carbon Reduction and Offsetting Alliance (ICROA). For many years there has been anecdotal evidence that investing in a carbon offset program delivers a wide range of positive social and economic benefits beyond just carbon reduction, and now the evidence has been quantified to show substantially more benefits than expected – demonstrating value that might previously have been hidden.

SOURCES:

http://www.sustainablebrands.com/digital_learning/research_report/new_metrics/unlocking_hidden_value_carbon_offsetting

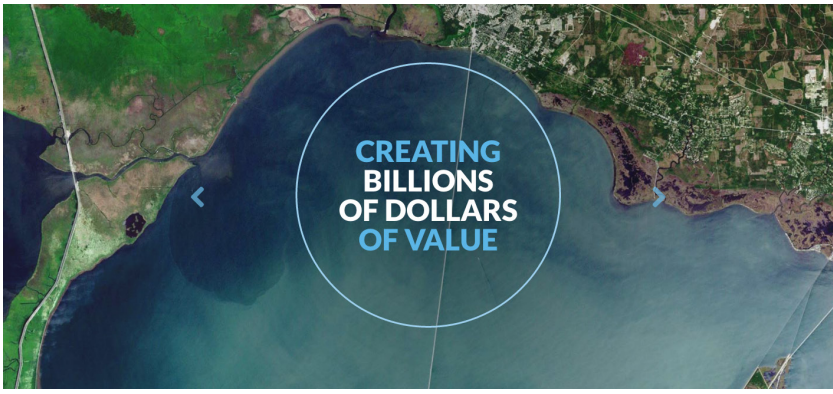
http://www.sustainablebrands.com/news_and_views/new_metrics/mike_hower/report_carbon_credits_bring_664_ton_additional_benefits_local

RESTORE THE EARTH: THE VALUE OF RESTORATION

Restore the Earth Foundation is an ambitious non-profit that has unlocked the business case for landscape scale restoration and is using it to restore 1 million acres in the Mississippi River Basin, North America's Amazon. The key tool enabling them to pursue this mission is a valuation model showing that **every $1 of private investment can be turned into $9 or more of value** in a way that aligns with International Integrated Reporting standards.

SOURCES:

http://restoretheearth.org/



TRUCOST: THE TOP 100 EXTERNALITIES OF BUSINESS

Undertaken on behalf of the TEEB for Business Coalition, this Trucost study aimed to build on TEEB's The Economics of Ecosystems and Biodiversity in Business and Enterprise and the World Business Council for Sustainable Development's Guide to Corporate Ecosystem Valuation by estimating in monetary terms the financial risk from unpriced natural capital inputs to production, across business sectors at a regional level. By using an environmentally extended input-output model (EEIO), it also estimated, at a high level, how these unpriced natural capital inputs may flow through global supply chains to producers of consumer goods. The research found that **the global top 100 environmental externalities are costing the global economy $4.7 trillion a year in terms of the economic costs of greenhouse gas (GHG) emissions, loss of natural resources, loss of nature-based services such as carbon storage by forests, climate change and air pollution-related health costs**. The most significant impacts making up the $4.7 trillion were found to be GHGs (36%), water use (26%) and land use (25%).

SOURCES:

http://www.trucost.com/published-research/99/natural-capital-at-risk-the-top-100-externalities-of-business

http://www.sustainablebrands.com/news_and_views/articles/report-top-100-environmental-externalities-cost-global-economy-47-trillion-a

WITOLD HENISZ: CORPORATE DIPLOMACY

Many multinational brands are struggling to win the strategic competition for the trust of external stakeholders, especially suppliers, employees and local communities in remote locations. The fact of the matter is that often these stakeholder groups differ significantly in values from said multinationals. There are many reasons behind these gaps, such as differences in understanding of how market economies are supposed to function, or differences in hopes and fears for the future, among others. In Corporate Diplomacy: Building Reputations and Relationships with External Stakeholders, author Witold Henisz argues that the strategic management of relationships with external stakeholders is not simply PR, but a serious set of opportunities to create real lasting brand value. As a perfect illustration to this assertion, the author showed that **markets value stakeholder engagement twice as much as the net present value of the gold ostensibly controlled by 19 publicly traded gold mining companies.**

SOURCES:

https://www.amazon.com/Corporate-Diplomacy-Reputations-Relationships-Stakeholders/dp/1783530553

https://mgmt.wharton.upenn.edu/profile/1327/print-Friendly

Wharton
UNIVERSITY of PENNSYLVANIA

ABOUT SUSTAINABLE BRANDS

Sustainable Brands® is the premier global community of brand innovators who are shaping the future of commerce worldwide. Since 2006, our mission has been to inspire, engage and equip today's business and brand leaders to prosper for the near and long term by leading the way to a better future. Digitally published news articles and issues-focused conversation topics, internationally known conferences and regional events, a robust e-learning library and peer-to-peer Corporate Member Network groups all facilitate community learning and engagement throughout the year.

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www.SustainableBrands.com/library

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