Investing in ESG Initiatives Can Benefit Your Bottom and Top Lines

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In recent years, an increasing number of public companies have embraced environmental, social and governance (ESG) practices — not only because they believe it's the right thing to do, but also because they believe these practices will produce significant financial benefits. And, increasingly, this view is being supported by academic research.

Understand the research

In a 2015 report, the Conference Board, a global, independent business membership and research association, reviewed empirical analyses of the return on investment produced by ESG initiatives and presented the business case for "corporate sustainability." This is the pursuit of a business growth strategy by allocating financial or in-kind resources to ESG practices. According to the report, empirical research supports the conclusion that corporate investment in strong ESG practices:

- Enhances market and accounting performance, in the form of higher profits, lower capital expenditures and higher stock returns,
- Reduces the cost of capital by mitigating business risks,
- Improves engagement with key shareholders, and
- Improves business reputation.

In addition, evidence indicates that ESG investments can boost top-line growth through product innovation. For example, companies that develop products that use fewer materials, last longer or are free of hazardous substances often enjoy significant revenue growth.

A recent "meta-study" conducted by the University of Hamburg and Deutsche Asset and Wealth Management analyzed more than 2,200 studies of ESG investments dating back to the 1970s. The authors concluded that the business case for ESG investing is "empirically well founded" and "appears to be stable over time." The studies displayed an "overwhelming share of positive results," with only 10% showing a negative correlation between ESG investments and corporate financial performance.

Take advantage of sustainability reporting

One of the keys to unlocking ESG investment benefits is to incorporate sustainability into your corporate reporting. Sustainability reports can offer a more accurate picture of your company's long-term value-creation potential than traditional financial statements, particularly when you combine the information with financial data in an integrated report.

Sustainability reports aren't mandatory in the United States. However, they can be a powerful tool for identifying ESG strategies and communicating them to investors and other stakeholders.

Getting started

If your company plans to invest in ESG initiatives, ask your accountants to help you adopt a framework for reporting nonfinancial information, such as the one developed by the Sustainability Accounting Standards Board (SASB). Recently, the SASB released its Implementation Guide for companies looking to incorporate sustainability into their existing corporate reporting. This is a good starting point for your company.