K4D Knowledge, evidence and learning for development

The financial and commercial impact of responsible and sustainable business practice

Stephen Thompson
Institute of Development Studies
27.01.2017

Question

Does responsible and sustainable business practice result in commercial and financial advancement? Does research illustrate the business/commercial benefits of using responsible business techniques including sustainability standards, sustainability reporting and codes of conduct? Are firms who take action to eradicate human rights abuses more profitable and sustainable? What is the evidence that being a more transparent and responsible business benefits firms in the long term? Where are the key evidence gaps?

Contents

1. Overview

Corporate Social Responsibility and Corporate Financial Performance

Corporate Social Responsibility (CSR) refers to business contribution to sustainable development (Mulyadi and Anwar 2012). There is a comprehensive literature exploring the relationship between CSR and Corporate Financial Performance (CFP). Since social responsibility was first discussed in the 1920s, a plethora of papers have been written on the topic. A number of reviews have been published focusing on the relationship between CSR and CFP. Margolis and Walsh (2001) reported mixed results. A review by Lu et al (2014) proved inconclusive. Baron, Harjoto and Jo (2009) report mixed results. For consumer industries greater Corporate Social Performance (CSP) is associated with better CFP, and the opposite is true for industrial industries.

Carroll and Shabana (2010) argue that in general the research indicates the existence of a positive relationship between CSP and CFP, although some inconsistencies exist. Orlitzky et al (2003) reported a positive correlation between CSP and CFP. Beurden and Gossling (2008) reported clear empirical evidence for a positive correlation between corporate social and financial performance. Thorpe and Prakash-Mani (2003) report that in emerging markets there are compelling commercial reasons for firms to take CSR action. A meta-analysis of the relationship between CSR and CFP by Wang, Dou and Jia (2015) found that CSR does enhance financial performance.

A study on Indonesian firms found CSR did not have a significant relationship on either profitability or firm value (Mulyadi and Anwar 2012). Aras, Aybars and Kutlu (2010) investigated corporate activity in Turkey and found no significant relationship between CSR and CFP. A study by Nelling and Webb (2009) reported that CSR activities do not affect financial performance.

Robins (2015) argues that CSR offers potential benefit to corporate profits but that the question of causation remains unanswered. It is unclear if high profits enable greater spending on CSR, or whether CSR itself creates higher profits. The literature suggests the relationship between CSR and CFP is complex. The benefits are not homogeneous and initiatives are not generic (Carroll and Shabana 2010). The causal link between the two is not always evident (Blowfield 2007, Robins 2015).The relationship is complex and depends on many factors. For example, the political context has an influence on the strength of the relationship (Baron, Harjoto and Jo 2009). The relationship is thought to change over time (Lu et al 2014). Studies that try to explain the relationship face many of methodological challenges.

Some evidence suggests that CSR can lead to reduced costs, increased sales, reduced risks, development of human capital, improved reputation, enhanced access to capital, improved environmental practices and increase investments in social and economic development (Thorpe and Prakash-Mani 2003). The majority of evidence that does exist is focused on industrialised countries (Blowfield 2007). The evidence that does include developing economies suggests that the link between CSR and CFP is stronger for firms from advanced economies than for firms from developing economies (Wang, Dou and Jia 2015).

The motive for pursuing CSR is not always clear (Blowfield 2007). Jamali (2007) argues that all CSR activities are disguised profit-motivated expenditures. CSR in this light is integrated with the systematic pursuit of corporate strategic interests. Strategic CSR implies the integration of philanthropy into the corporate strategic management process.

A package of resources presented by Natural Capital Solutions (2012) suggests there is a business case for corporations to invest in sustainability. It argues that business leaders can profit by integrating sustainability into their strategy and value-chain while securing a competitive advantage.

Sustainability standards

Sustainability standards can be either formally or informally recognised, with the aim of boosting profits (Thorpe and Prakash-Mani 2003). As consumers' interest in humanitarian and environmental affairs increase, businesses need to adopt more sustainable behaviours. Having a discerning sustainability strategy is one way to demonstrate commitment to sustainability (Neilsen 2015). B Lab is a non-profit organisation offering certification to companies that meet rigorous standards of social and environmental performance, accountability, and transparency. There are over 1,600 certified B Corps from 42 countries and over 120 industries (Stammer 2016). Introducing sustainability standards provides the opportunity for to change whole-systems thinking around social and environmental practices, leading to cost cutting and strengthening of brand reputation as a sustainability-minded company. Through B Lab certification companies can access best practices across different industries, enabling companies to compare and constantly improve their social and environmental programs. Certification may reduce waste and operational inefficiencies. Sustainability standards also allow firms to attract top talent, by promoting and validating employee-centric culture (Stammer 2016).

Sustainability reporting

Sustainability Reporting (SR) has been around for over 30 years and is regarded as a mechanism through which business organisations express their concern and consciousness about sustainability. However, the majority of business organisations do not undertake SR (Stubbs, Higgins and Milne 2013). Evaluation practices still tend to focus on counting inputs and outputs, and telling stories (Jackson 2013). To date, reports on CSR are often based on either case studies or overall analyses of the business case for CSR, thereby overlooking the heterogeneity of the business landscape and the wide variety of CSR initiatives (Pedersen 2007). In addition, theory of change in reports are too often underdeveloped, invisible, not explicit or missing altogether. A blend of qualitative and quantitative methods combined with the theory of change approach, would improve the accountability and learning, helping to build an impact investing industry that is adaptive, transparent and self-sustaining (Jackson 2013).

Impact measurement and evaluation are accepted as important, yet there is little consensus on what to assess, and how. Reporting should involve a greater crossover between impact assessment and development evaluation (Koenig and Jackson 2016). Most assessment models focus on outputs (measurable results) and outcomes (changes in social systems and context). The measurement of incremental economic impact of CSR in monetised form remains underdeveloped (Jamali and Vanhonacker 2015).

SR is often perceived to be unnecessary or irrelevant. A lack of pressure reduces motivation to bring about change, despite decision makers having a knowledge of sustainability (Stubbs, Higgins and Milne 2013). Companies have poor track records with regards to evaluating their

CSR performance. A lack of feedback loops in the auditing process restricts beneficiaries from interacting with intervention planning (Flynn, Young and Barnett 2015).

However, the amount of information being reported for CSR is increasing organically, reducing the demand for imposed standards, like those that dominate financial reporting. CSR reporting standards are found to be evolving to take into account a whole range of stakeholders and their actions (Aras and Crowther 2008).

Traditional corporate reporting is increasingly viewed as insufficient to meet the information needs of a variety of stakeholders (Cheng et al 2015). Many of the benefits of CSR may not show up readily on the bottom line. Leading companies increasingly report their performance more holistically, using an integrated bottom line (Natural Capital Solutions 2012). However, Cheng et al (2015) argue that currently, very few companies are integrating their financial and non-financial information.

The benefits of reporting CSR and sustainability activity are generally accepted. However, debate is needed regarding the meaning of sustainability (Aras and Crowther 2009). New regulatory requirements regarding the content and form of annual reports would help to shift management thinking by more than what extensive and detailed operational monitoring delivers (Stubbs, Higgins and Milne 2013).

Codes of conduct

Codes of conduct are the ethical principles guiding CSR by govern employee behaviour and establish a socially responsible organisational culture (Erwin 2011, Lund-Thomsen 2008). Their effectiveness has been widely researched, yet results are inconclusive. This inconsistency may be explained by multiple ancillary factors. Despite the inconsistencies, studies have shown that companies maintaining high quality codes of conduct were significantly linked to corporate citizenship, sustainability, ethical behaviour, and public perception (Erwin 2011). A study into the codes of conduct of multinational companies found that corporate responsibility itself constitutes only a small part of the text of the codes. The codes were found to targets employees to undertake the implementation of the principles stated in the codes (Béthoux, Didry and Mias 2007).

Lund-Thomsen (2008) argues that the benefits to stakeholders of codes in the developing world may be exaggerated and that they may do more harm than good. Academic and policy-oriented may be divorced from reality. Beneficiaries must be involved in the design, implementation, monitoring and impact assessment of the codes. Governments and international organisations must support codes for them to be effective. Long term engagement between stakeholders is needed. Social, economic, environmental and linguistic contexts must be considered. (Lund-Thomsen 2008).

Different companies in different contexts will react differently to different sources of pressure (Perez-Batres et al 2012). Codes of conduct therefore help us to understand the key characteristics of the companies which made them (Béthoux, Didry and Mias 2007). The type of code adopted may reflect these contexts and pressures. Self-regulatory codes (SRC) such as the United Nations Global Compact (UNGC) and the Global Reporting Initiative (GRI) can encourage corporations to contribute positively to the environment in which they operate (Perez-Batres et al 2012).

Human rights abuses and profitability

Costs can be saved and productivity boosted by corporations who employ effective human resource management. Fair wages, decent working environment, training opportunities and health and education benefits can increase morale and productivity while reducing absenteeism and costs such as recruitment and training linked to staff high turnover (Thorpe and Prakash-Mani 2003). There is some concern that in some sectors, CSR language refers to key issues, without actually making a difference to the lives of workers. CSR may boost corporate credibility, without confronting human rights abuses (Jamali, Lund Thomsen and Khara 2015). CSR rhetoric may act as a smokescreen or a façade suggesting corporate complying with social and environmental standards, without actually improving the condition for workers (Jamali, Lund Thomsen and Jeppsen 2015).

Transparency and profitability

The evidence on the positive impact of transparency and responsibility on firms in the long run is very thin. Transparency is necessary for companies to establish trust with stakeholders. Strategic communication is useful for the management of CSR. Communicating about CSR can be challenging and careful planning is needed for firms not appear simply as self-serving. Transparency presents an opportunity to illustrate alignment between the talk and action of CSR, which is important as criticism of CSR is often rooted in unmet expectations created by the corporate discourse of CSR. Transparency around CSR can involve providing proof through numbers, statistics and examples of outcomes and impacts. Having a credible third party verify the work can also be a positive step (Ihlen, Mays and Bartlett 2014).

Key evidence gaps

The main evidence gaps identified in the literature are as follows:

- Further research to understand the relationship between CSP and CFP over time (Lu et al 2014)
- Investigation into the causation between CSR and profit, to include mediating variables and situational contingencies (Carroll and Shabana 2010).
- The impact of CSR in developing countries, including research into the difference between communication about CSR and the actual reality of implementation on the ground (Jamali, Lund Thomsen and Jeppsen 2015).
- Research into the extent to which CSR improves or worsens SME profitability, workers' conditions, and environmental pollution emissions in developing countries (Jamali, Lund Thomsen and Jeppsen 2015).
- The role of micro-firms and informal enterprises in CSR as well as the informal aspects of CSR practice in SMEs (Jamali, Lund Thomsen and Jeppsen 2015).
- The potential and limitations of international organisations and support agencies in facilitating or undermining the adoption of CSR practices among SMEs in the South (Jamali, Lund Thomsen and Jeppsen 2015).
- Research into the meaning of the term sustainability and how it is used (Ihlen, Mays and Bartlett 2014).
- Cross-fund comparative research is needed on the set-up and operating costs of high-impact, scaled funds (Koenig and Jackson 2016).

- Field-based research is also required to examining the links between impact investments and development outcomes within the framework of the Sustainable Development Goals (SDGs) (Koenig and Jackson 2016).
- Research on CSR including a theory of change element, is needed (Jackson 2013).
- Future research efforts into codes of conduct and CSR should transcend traditional comparisons based on the presence or absence of ethical codes and begin to examine the essential factors leading to the effective establishment of CSR policies and sustainable business practices in corporate culture (Erwin 2011).
- Future research is needed to assess the ultimate impact of codes of conduct as opposed to simply assessing compliance with their stated requirements (Lund-Thomsen 2008).
- There is potential for research to explore when and how companies can reap benefits from corporate sustainability. Moreover, there is an emerging interest in how technologies and tools understood broadly provide barriers and opportunities for sustainability.

2. Does responsible and sustainable business practice result in commercial and financial advancement?

Background to Corporate Social Responsibility

CSR can be defined as business contribution to sustainable development. It commonly follows a concept known as 3P (profit, people and planet). It refers to relationships between corporation and all stakeholders, including customers, employees, investors, suppliers, government, and even their competitors (Mulyadi and Anwar 2012).

There is long history of studies exploring the relationship between CSR and CFP. Social responsibility was discussed in depth from the 1920s, but it was not until the 1950s that the phrase CSR was first used by Howard Bowen in his book ‘Social Responsibilities of the Businessman’. In the 1960s, Milton Friedman argued in his book ‘Capitalism and Freedom’ that socially desirable goals, if at the expense of profitability, should be disconnected from a company's fiduciary responsibilities. He argued that the use of corporate resources for anything other than profit maximisation is theft. The work of Edward Freeman on stakeholder theory brought CSR into the spotlight in the 1980s. Stakeholder theory states that stakeholders have different interests in a corporation and have different impacts upon it, which may be positive or negative. The corporation is seen to be responsible to meet their interests. Despite the plethora of papers written on CSR, no consensus exists on what is meant by the phrase. Some research interchanges CSP and CSR, while others attempt to distinguish the two concepts (Lu et al 2014).

Since the millennium, there have been a number of reviews focusing on the relationship between CSR and CFP. Margolis and Walsh (2001) identified 95 empirical studies published since 1972, and the same authors identified 127 studies in a later paper (Margolis and Walsh, 2003). Most of the studies analysed reported mixed results, with positive, negative, or neutral CSP-CFP relationships found. Orlitzky et al (2003) criticised the methodology used by Margolis and Walsh (2001) for coding the studies, arguing that the conclusions are likely to be false. Based on a meta-analysis of 52 studies, Orlitzky et al (2003) reported a positive correlation between CSP and CFP. Beurden and Gossling (2008) reviewed the literature on the relationship between CSP and CFP since 1990. They conclude that good ethics is good business, arguing there is clear empirical evidence for a positive correlation between corporate social and financial performance.

Recent evidence of the link between Corporate Social Responsibility and profit

The impact of CSR initiatives on firm financial performance is complex. The benefits are not homogeneous and initiatives are not generic. Effective CSR may rely on the development of an appropriate CSR strategy, directed at improving stakeholder relations and improving social welfare, demonstrating a convergence between economic and social goals. Benefits of CSR are dependent on mediating variables and situational contingencies. Justifications may be required to explain a negative relationship between CSR and financial performance. Costs may be lowered as firms use CSR to realise tax benefits or avoid regulation. CSR may strengthen a firm's legitimacy and reputation by demonstrating that it can meet the competing needs of its stakeholders and at the same time operate profitably. Competitive advantage may be gained by adopting CSR activities to build strong relationships with stakeholders and gain support of employees. Through synergistic value creation, CSR activities may present opportunities for a firm that would allow it to fulfil the needs of its stakeholders and make profit at the same time. The relationship between CSR and financial performance is not always positive. Companies must aim for convergence between economic objectives and the social objectives of society. CSR activities must be supported by stakeholders for there to be a market for virtue and a business case for CSR (Carroll and Shabana 2010).

In a critical review by Lu et al (2014), an analysis of research papers is presented that aims to provide economic justification for socially responsible business practice by illustrating an empirical link between CSR/CSP and CFP. The review presents an analysis of 84 empirical studies on this topic that were published between 2002 and 2011. The results indicate that the nexus between CSP and CFP remains inconclusive. The findings suggest the relationship changes over time (Lu et al 2014).

The purpose of socially responsible investment is to establish a link between wealth creation and social and environmental issues. However, evidence illustrating positive or negative action by financial markets as a result of social performance is lacking. Some anecdotal evidence suggests that employees and prospective applicants value CSR and a corporate image. Firms with good CSR reputations may be able to lower their wage premiums to attract talent, although the overall evidence is unclear. Good internal CSR practices, such as attention to work – life balance, may improve productivity and staff retention. This causal linkage is not always evident. Consumer behaviour may illustrate impact of financial return, with CSR helping to avert boycotts of brands and increase consumer loyalty (Blowfield 2007).

Thorpe and Prakash-Mani's (2003) state that the body of evidence showing the link between corporate action on sustainability and improved financial performance focuses on developed markets. Their paper presents a useful business case for sustainability in emerging markets. They analysed over 240 case studies from over 60 countries. Overall, the evidence analysed suggests that there are compelling commercial reasons for emerging market companies to take action on sustainability. Such action can lead to reduced costs, increased sales and reduced risks. It can also help develop human capital, build reputation and enhance access to capital from better corporate governance. It can also improve environmental practices, and increase investments in social and economic development.

Blowfield (2007) confirms that the majority of CSR evidence is focused in industrialised countries, reporting that there is limited evidence available on the outcomes of CSR interventions from developing countries. In this context, the claims about the relationship between CSR and social and economic development are largely unsubstantiated. Based on the evidence available Blowfield (2007, p. 683) argues that “we know most about CSR’s impact on business itself and the benefits for business, and least about how CSR affects the major societal issues it was intended to tackle”.

Jamali (2007) contends that arguments against CSR can easily be refuted, if it is understood that all contributions are disguised profit-motivated expenditures. The motivation for engaging in CSR could be argued to be always driven by self-interest, regardless of whether the activity is strategically driven for commercial purposes alone, or whether it is also partly driven by what appears as an altruistic concern. Promoting societal welfare does not preclude the systematic pursuit of corporate strategic interests. Strategic CSR implies the integration of philanthropy into the corporate strategic management process.

CSR can be used as a market differentiator, preventing harm being done to a brand, rather than to promoting a positive brand image. Blowfield (2007, p. 690) argues that the “strongest link between financial and non-financial performance is probably CSR’s impact on environmental management. The often significant improvements in environmental management cited earlier are largely attributed to their neutral or positive impact on the financial bottom line”. It is hard to establish whether companies are using CSR to address genuine priorities or simply the most financially advantageous ones.

Aras, Aybars and Kutlu (2010) investigated the relationship between CSR and firm financial performance by investigating the Istanbul Stock Exchange (ISE) 100 index companies and their social responsibility policy and financial indicators. The authors found a relationship between firm size and corporate social responsibility. However no significant relationship was found between CSR and financial performance/profitability

The analysis by Thorpe and Prakash-Mani (2003) reports that many businesses in emerging markets have become more competitive and benefited from initiatives that help progress towards sustainable development: good corporate governance, sound environmental practice, and social and economic development. There are compelling commercial reasons for firms to take action. However, it should be noted that although sustainability can contribute to success, it will not offset poor business practices or compensate for bad decisions in conventional aspects of marketing, production or financial control. The risks, costs and benefits of sustainability action must be analysed. The business case for incorporating sustainability into business strategies is evolving. The more action that is taken in this area, the better the risks and opportunities will be understood and managed.

Wang, Dou and Jia (2015) contribute a meta-analysis of the relationship between CSR and CFP. They argue that prior empirical studies on this topic provide indefinite conclusions. Their review systematically quantifies the link between CSR and CFP through a meta-analytic framework. Based on 119 effect sizes from 42 studies, they estimate that the overall effect size of the CSR–CFP relationship is positive and significant. Based on the evidence assessed, it can be argued that CSR does enhance financial performance. In terms of the causal relationship between CSR and CFP, subsequent financial performance is associated with prior social responsibility, while the reverse direction is not supported. CSR undertaken in the context of a relatively mature institutional system with an efficient system market mechanism, as found in the developed world, will be more visible than CSR in the context of the developing world. The link between CSR and CFP is reported to be stronger for firms from advanced economies than for firms from developing economies.

Mulyadi and Anwar (2012) examined the impact of CSR on firm value and profitability in 30 listed Indonesian firms. Financial data, stock price and information on CSR activities was extracted from annual reports. Profitability was tested using three indicators - Return on Asset (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). No significant relationship was found between CSR and profitability. Also, no significant relationship was found between CSR and firm value.

Nelling and Webb (2009) examine the causal relation between CSR and financial performance. Consistent with existing literature, traditional statistical techniques suggest a relationship between the two variables. However, analysing 2,800 firm-year observations with a time series fixed effects approach, the relation between CSR and financial performance is found to be much weaker than previously thought. The study suggest that strong stock market performance leads to greater investment in employee relations and CSR, but that CSR activities do not affect financial performance.

In an article published by the magazine Business Ethics, Robins (2015) considers the link between CSR and profits. Although the methodology employed is unclear, the research presented generally indicates that CSR offers potential benefit to corporate profits. The question of causation remains unanswered. It is unclear if high profits enable greater spending on CSR, or whether CSR itself creates higher profits. Despite the difficulties defining CSR and its link to profits, no large public company would want to be seen unengaged in CSR, indicating how important CSR might be to their bottom line.

Focusing on the economics and politics of CSP, Baron, Harjoto and Jo (2009) estimate a three-equation structural model based on a theory that relates CFP, CSP, and social pressure. The results indicate that CFP is independent of CSP and decreasing in social pressure, and CSP is independent of CFP and increasing in social pressure. Social pressure is increasing in CSP and decreasing in CFP. The political context has an influence on the strength of the relationship. Disaggregating the measure of social pressure indicates that the relations among CFP, CSP, and social pressure are due to private politics and not public politics. For consumer industries greater CSP is associated with better CFP, and the opposite is true for industrial industries.

In their review paper, Carroll and Shabana (2010) consider the underlying arguments and rationales supporting or documenting why the business community should accept and advance CSR. After introducing the relevant historical context, the authors offer a review of recent CSP–CFP studies. In general the research indicates the existence of a positive relationship between CSP and CFP, although some inconsistencies exist. A narrow view of the business case justifies CSR initiatives by focusing on the impact of immediate cost savings on financial performance. A broad view of the business case justifies CSR initiatives when they produce direct and indirect links to firm performance. This broad view allows the firm to benefit from CSR opportunities, enhancing its competitive advantage and creating win–win relationships with its stakeholders, as well as realising gains from cost and risk reduction and legitimacy and reputation benefits. The broad view enhances the acceptance of the business case for CSR, because it acknowledges the complex and interrelated nature of the relationship between CSR and firm financial performance.

After providing a brief history of CSR, Jamali (2007) offers an analysis of the CSR activities of eight companies operating in Lebanon in 2005. The sample was selected as a result of their reputation and CSR involvement. The results indicate that CSR is largely perceived as comprising the voluntary philanthropic contributions made by companies over and above their mainstream contributions. Social philanthropic contributions were found to qualify as altruistic in nature. Social interventions were found to be distant from core business competency areas and long-term strategic goals. In a global age, local companies face global competition. The reconciliation of societal concerns with bottom-line performance will become even more compelling. International corporations are actively engaging with action to align self-interest and the larger social good. Companies in developing countries must follow suit. This is likely to be a continuing trend and an important cue for developing country managers to follow suit. The research reveals a strong sense of social responsibility among local managers that needs to be further nurtured and properly channelled over time.

Cheah et al (2011) conducted an investigation into drivers of CSR attitudes by studying the responses of 2,464 socially responsible investors (SRIs) from 20 countries. The results show that younger and female SRIs are more likely to believe that a company's social and environmental performance is as important as its financial performance. Female SRIs and those with high incomes are the most likely to believe that companies should be as responsible to their shareholders as to the broader society. In addition, younger SRIs, those with high incomes and those who have attained higher education levels regard socially responsible companies as at least as profitable as other companies. The benefits which companies can derive from understanding the demographic profile of SRIs are examined, including a potentially lower cost of capital, improved CSR rankings and business policy formulation and communication consistent with CSR views held by specific groups of SRIs.

A collection of reports, studies, and white papers collected by Natural Capital Solutions (2012) present a business case for sustainability. This annotated list describes the ever-growing number of studies, most by conventional management consulting houses, academic institutions and similar establishment entities that prove the assertion that companies involved in sustainability and good governance policies have a higher stock value than their less sustainable competitors. As climate change, natural resource constraints, rapid development in emerging economies, and a host of other factors drive unprecedented changes in business, this will only grow stronger. The document list provided by Natural Capital Solutions (2012) illustrates how business leaders can profit by integrating sustainability into their strategy and value-chain while securing a competitive advantage.

Businesses can improve short- and long-term profitability through the adoption of sustainable practices in the following areas:

- **Natural Resource, Energy, and Operational Efficiency -** Reduce input and overhead costs, militate regulatory sanctions, hedge exposure to volatile prices and supply chain disruptions, and mitigate environmental degradation, and conserve capital for implementing a long-term growth strategy.
- **Human Resources Management** - Retain experienced workers, prevent the loss of corporate knowledge, lower training costs, reduce employee absenteeism, improve worker productivity, and recruit the best talent.

- **Financial Operations** - Increase market capitalisation and stock growth, improve investor relations, lower insurance premiums, decrease borrowing costs, and improve access to capital.
- **Marketing and Communication -** Expand customer base, differentiate products, improve brand image, and secure customers that are less sensitive to price, have greater brand loyalty, and purchase more and more frequently.
- **Collaboration with NGOs and Government** - Gain access to new markets, better supply-chain management, strengthen regulator and community relations, improve brand image, mitigate risks to brand reputation, militate government sanction.
- A table included in Annex A illustrates examples provided by Natural Capital Solutions (2012), detailing how corporations have achieved the above through integrating sustainability and business strategy.

3. Are there business/commercial benefits of using the following responsible business techniques?

Sustainability standards

Companies that take action to improve the environment may boost their revenues, as well as benefiting the environment. Approaches including viewing waste as by-products, and making existing products more attractive to concerned customers may improve environmental impacts. By meeting certain standards and obtaining either formal or informal recognition as a responsible producer, profits can be boosted (Thorpe and Prakash-Mani 2003).

Neilsen (2015) report that due to humanitarian and environmental pressures, many consumers have adopted more sustainable behaviours. Others are working for or supporting organisations dedicated to social and environmental change. Consumers are trying to be responsible citizens of the world, and they expect the same from corporations. The results of an online survey of 30,000 consumers in 60 countries, reports that results confirm conventional wisdom that the market for sustainable goods continues to expand. Two-out-of-three (62%) consumers globally were found to have been influenced by brand trust. Having a discerning sustainability strategy is one way to demonstrate commitment to sustainability.

B Corps are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. There are over 1,600 certified B Corps from 42 countries and over 120 industries. In an article published by the Harvard Business Review, the senior executive vice president of a US based creamery cooperative explains how it became a certified B Corp in 2012 (Stammer 2016). Management was sceptical at first, but pursued certification in response to pressure from a retail partner for an objective measure of the impact of their sustainability programmes. B Corp certification encouraged whole-systems thinking around social and environmental practices, leading to the introduction of robust customer and consumer programs, which cut operating costs, and strengthen brand reputation as a sustainability-minded company. B Corp certification objectively demonstrates a strong commitment to sustainability at a time when more consumers support companies dedicated to social and environmental change, and as investors, the public, and the media hold companies to higher standards.

Global consumers are willing to pay more for sustainable consumer brands. Consumers are rewarding values-based businesses, but are not accepting brands' social and environmental claims at face value. Companies must take steps to convince consumers that they are committed to social and environmental change. Certification allows access to best practices across different industries, enabling companies to compare and constantly improve their social and environmental programs based on data from the B Corp community. Certification may also help root out waste and operational inefficiencies in areas such as energy and water usage. B Corps can attract top talent, especially among younger employees who seek meaning in their careers. Certification helps promote and validate employee-centric culture, which attracts great candidates as a company's reputation improves. B Corps ensure that the social responsibility of business is not only about profits, but also contributing solutions to the world's most pressing problems (Stammer 2016).

Sustainability reporting

SR emerged on the corporate scene nearly 30 years ago as a key mechanism through which business organisations would manage a transition to a new business landscape dominated by greater concern and consciousness about sustainability. While it has become something of a feature on the corporate agenda in some parts of the world, the majority of business organisations do not undertake this type of reporting. Stubbs, Higgins and Milne (2013) explore why 23 of Australia's top 200 companies do not undertake SR. Their study found that the social and organisational factors found to explain non-reporting were similar to early explorations of the barriers and disincentives associated with environmental reporting. SR was perceived to be unnecessary or irrelevant. The business case for SR was rejected because a lack of pressure means there is no motivation to bring about the structural and cultural changes necessary to facilitate it. SR was found to be regarded as a luxury (nice to do but not a must do). The managers interviewed were not ignorant about sustainability or unaware of the social and environmental impacts of their operations. Early studies of SR argued that legitimacy was a key motivating driver. The firms analysed did not experience sustained, societal and stakeholder pressure about their social/environmental performance, nor are there stakeholder demands for information about their performance (Stubbs, Higgins and Milne 2013).

Aras and Crowther (2008) evaluated the development of reporting standards for both financial reporting and for CSR reporting. They find that there is a stark contrast between the development of standards for financial reporting and the development of standards for CSR reporting. For financial reporting, two sets of standards are competing for global dominance. A masquerade of the reduced cost of information leading to reduced cost of capital diverts attention from the essentially exploitative nature of the way of standard operations. Conversely, for CSR the amount of information being reported has gradually increased and become more meaningful without the need for any imposed standards, despite attempts from interested parties to colonise the standard setting arena. At the same time, the evidence concerning standard setting suggests that effective standards are derived by consensual agreement rather than by being imposed. CSR reporting standards are found to be evolving to take into account a whole range of stakeholders and their actions – to address the requirements of interested parties while financial reporting standards simply address the needs of the powerful who can lobby for their own interest most effectively.

All businesses recognise the business benefits of CSR activity in their reporting. Equally all businesses recognise that sustainability is important and it features prominently in their reporting.

In reporting by extractive industries - which by their very nature cannot be sustainable in the long term - sustainability is made a very prominent issue. Any analysis of these statements regarding sustainability quickly reveals the uncertainty regarding what is meant by this sustainability. There is the need for a rigorous debate about the meaning of sustainability. Reporting sustainability in this way is actually disingenuous and disguises the very real advantages that corporations obtain by creating such a semiotic of sustainability (Aras and Crowther 2009).

Leading companies increasingly will evaluate their performance using an integrated bottom line. This new measure places financial performance in the context of a firm's environmental and social impacts to gauge its competitiveness in the marketplace more holistically. It recognises the interdependent relation between business, environment, and society and emphasises that businesses gain by identifying shared opportunities to support all three (Natural Capital Solutions 2012).

Firms may be finding more effective and direct ways of dealing with issues that arise than by devoting resources to SR. Sustainability, more generally, is perceived mostly as a risk management issue – but not something that raises new accountability considerations. The non-reporting firms take a very specific 'decision-usefulness' view of their communications and disclosure. Stubbs, Higgins and Milne (2013) report that firms did not report because no-one asked them to. They do not believe they have a duty to discharge accountability for their impacts under any notion of a 'social contract'. The 'business case' arguments for reporting are regarded as unconvincing. The route to encouraging greater (and better quality) uptake of SR rests on stakeholders (e.g. government, industry associations, institutional investors) exerting pressure for better and more detailed disclosure from business firms. Interest groups and regulators must engage more widely to understand the sort of information that is desired by stakeholders seeking to influence business activity. Firms are responsive to stakeholders they perceive as possessing power, legitimacy and urgency. Firms are responsive to regulatory demands, and this may generate improved disclosure and reporting, generating a compliance culture. Social and environmental matters are outsourced or dealt with by specialists with little connection to corporate governance, strategy and decision-making. New regulatory requirements must be carefully designed to deliver corporate as well as operational outcomes. Changes to the regulations surrounding the content and form of the annual report would help to shift management thinking by more than what extensive and detailed operational monitoring delivers (Stubbs, Higgins and Milne 2013).

Flynn, Young and Barnett (2015) consider modalities of socially-orientated investments in their literature review of impact investments. They found that the literature reports a poor track record of companies evaluating the performance of CSR. This is partially explained by the omission of feedback loops in the auditing process, which would allow beneficiaries to interact and be involved in the intervention planning.

Cheng et al (2015) report that evidence suggests traditional corporate reporting is increasingly regarded as insufficient to meet the information needs of a variety of stakeholders. To address these concerns, traditional financial reporting is being supplemented with non-financial information including SRs, CSR reports or within the annual reports. Such reports can be overwhelming and do not facilitate stakeholder understanding of the company. Very few companies are integrating their financial and non-financial information. In 2010, the International Integrated Reporting Council (IIRC) proposed that companies provide a clear link between the reported non-financial information and the financial information in a manner allowing an assessment of the ongoing future performance of the company. This integrated report would detail value creation over time.

Higgins, Stubbs and Milne (2015) analysed companies that do not produce a sustainability report in contexts where institutionalisation is assumed. Analysis of interaction patterns between non-reporting companies, sustainability interest groups, and peer organisations, the authors report patterns of discursive and material isomorphism, suggesting that SR is confined to an issues-based field, rather than spreading as an institutionalised practice across the business community. It is argued that the issues-based field exerts only weak pressure for SR, and that encouraging more firms to report rests on understanding what influences companies to interact more widely to become part of this field.

Stubbs and Higgins (2014) undertook 23 in-depth semi-structured interviews with people responsible for reporting for Australian businesses to investigate the internal mechanisms employed by early adopters of integrated reporting to manage their reporting process. Their study found that while the organisations that are producing some form of integrated report are changing their processes and structures, or at least talking about it, their adoption of integrated reporting has not necessarily stimulated new innovations in disclosure mechanisms. This study did not uncover radical, transformative change to reporting processes, but rather incremental changes to processes and structures that previously supported SR. The small sample size is a major limitation of this study. Those working in finance and accounting were under-represented. External stakeholders were not included.

There is a substantial literature that attempts to uncover the business case of CSR. Reports on CSR are often based on either case stories or overall analyses of the business case for CSR, thereby overlooking the heterogeneity of the business landscape and the wide variety of CSR initiatives. Pedersen (2007) focuses his analysis on a single aspect of the blurry CSR concept, examining how European organisations perceive the motives, costs and benefits associated with EMAS (Environmental Management and Audit Scheme) registration. A case analysis of Copenhagen Zoo is presented as well as the findings of a web survey of 162 EMAS-registered organisations. His study concludes that the respondents often perceive EMAS as a success even though they believe that the monetary costs from adopting the system outweigh the benefits.

Koenig and Jackson’s (2016) report summarises the findings of a study on the strategies and tools available to donor agencies and their partners to leverage and deploy private capital for sustainable development. Reviewing experience with funds and investment vehicles in the fields of innovative finance and impact investing, the study is intended to inform the future engagement bilateral donor agencies in these fields. In terms of impact assessment, Koenig and Jackson (2016) find that there is wide agreement by proponents of impact investing and innovative finance that impact measurement and evaluation are important. However, there is little consensus, beyond a few core indicators, on what to assess, and how. There is insufficient dialogue between the fields of impact assessment and development evaluation. Nor is there systematic knowledge and data sharing across industry-wide systems and standards, on the one hand, and customised systems, on the other.

Over the past 5 years, there has been solid progress in developing social impact metrics at the industry-wide, firm and investment levels and the industry is becoming increasingly data-rich. However, evaluation practices still tend to focus on counting inputs and outputs, and telling stories. Theory of change is too often underdeveloped, invisible, not explicit or missing altogether. Jackson (2013) reviews cases where theory of change has been used to good effect at various levels of the impact investing industry. He argues that a range of qualitative and quantitative methods can be usefully blended with the theory of change approach, and affirms the equally important imperatives of accountability and learning across all combinations of methods. A more comprehensive application of theory of change to all levels of the field is required – and especially to the micro-level of individuals, households and communities, where the results of impact investments matter most. Such an approach can help build an impact investing industry that is adaptive, transparent and self-sustaining.

The assessment of monetised value associated with social interventions is crucial. Despite the development of indices and models of social impact, Jamali and Vanhonacker (2015) argue that the measurement of incremental economic impact in monetised form is underdeveloped. Most assessment models focus on outputs (measurable results) and outcomes (changes in social systems and context). Not all elements of social impact lend themselves to measuring financial gains, but conservative estimates arrived at by confinement to measurable impact factors results in surprisingly sizable amounts. Incremental economic gains of some social programmes can be quite substantial.

Codes of conduct

Codes of conduct are a practical CSR instrument commonly used to govern employee behaviour and establish a socially responsible organisational culture (Erwin 2011). Codes of conduct are the ethical principles that companies use to guide their CSR practices (Lund-Thomsen 2008).

The effectiveness of these codes has been widely discussed on theoretical grounds and empirically tested in numerous previous reports that directly compare companies with and without codes of conduct. Empirical research has yielded inconsistent results that may be explained by multiple ancillary factors, including the quality of code content and implementation, which are excluded from analyses based solely on the presence or absence of codes. Erwin (2011) investigated the importance of code content in determining code effectiveness by examining the relationship between code of conduct quality and ethical performance. The study found that companies maintaining high quality codes of conduct were significantly more represented among top CSR ranking systems for corporate citizenship, sustainability, ethical behaviour, and public perception. Further, a significant relationship was observed between code quality and CSR performance, across a full range of ethical rankings. Erwin's (2011) results suggest code quality may play a crucial role in the effectiveness of codes of conduct and their ability to transform organisational cultures.

Lund-Thomsen (2008) explains how codes of conduct have been at the heart of the debate about how global companies should manage their supply chains in a socially and environmentally responsible manner. Claims about the benefits that codes bring to workers and the environment in the developing world may be exaggerated. There is a risk that codes of conduct may do more harm than good. Much of the academic and policy-oriented rhetoric on the topic is largely divorced from the realities faced by many developing country suppliers, workers and communities. Research based on stakeholder interviews in Pakistan suggests that the way we assess codes of conduct must be reformed. The UK Ethical Trading Initiative is given as an example of an attempt to devise more appropriate ways of understanding the actual as opposed to postulated effects of codes of conduct.

To encourage corporations to contribute positively to the environment in which they operate, voluntary SRC have been enacted and refined over the past 15 years. Two of the most prominent are the UNGC and the GRI. The UNGC emphasises a more symbolic management of CSR, while the GRI emphasises substantive adherence to a standard. Perez-Batres et al (2012) explore the impact of different stakeholders' pressures on the selection of strategic choices to join SRCs. Their results show that corporations react differently to different sets of stakeholder pressures and that the SRC selection depends on the type and intensiveness of the stakeholder pressures as well as the resources at hand to respond to those pressures.

In the current context of economic globalisation, CSR is often considered to be a new mode of governance which can overcome the weakening of labour laws whose effects are confined within national boundaries. It appears to be a voluntary or spontaneous solution to issues of working conditions and environmental protection, especially in developing countries where multinational companies operate. Codes of conduct have been adopted by a growing number of multinational companies (MNCs). Béthoux, Didry and Mias (2007) undertook an analysis of the corpus of multinationals' codes of conduct on CSR issues, collated by the International Labour Organisation (ILO). The study found that the issue of corporate responsibility itself constitutes only a small part of the text of the codes. Their main targets are employees, who are charged with ensuring the implementation of the principles stated in the codes, as well as protecting the assets of the company. Codes of conduct therefore help us to understand the key characteristics of the companies which made them.

Lund-Thomsen (2008) provides several recommendations for ways that codes of conduct could be improved. For example the social, economic, environmental and linguistic contexts must be considered if unintended, often negative consequences for the supposed beneficiaries of codes are to be avoided. Codes must be translated into a language the workers understand and be available for them to read. Governments and international organisations have a role to play in ensuring responsible social and environmental behaviour on the part of companies in the developing world. If the efforts of global sourcing companies and local suppliers to implement codes of conduct occur in isolation, they are unlikely to bring about sustained improvements in working conditions. Also, global sourcing companies that want to act in a socially responsible manner need to engage with suppliers over the longer term, to provide the necessary resources and expertise that will enable them to improve their social and environmental performance. To avoid codes of conduct negatively affecting beneficiaries, or having virtually no influence over the CSR initiatives that are supposed to help them, there must be an emphasis on incorporating their concerns and voices in the design, implementation, monitoring and impact assessment of the codes (Lund-Thomsen 2008).

4. Are firms that take action to eradicate human rights abuses more profitable and sustainable?

Thorpe and Prakash-Mani (2003) report that costs can be saved by corporations who treat their employees well. Costs can be cut and productivity can be boosted through effective human resource management. Sound employment practices such as fair wages, a clean and safe working environment, training opportunities and health and education benefits for workers and families can all increase morale and productivity while reducing absenteeism and staff turnover. Companies who undertake such activities will benefit not only from increased productivity but they can also save recruitment and training costs of new employees.

An article by Jamali, Lund-Thomsen and Khara (2015) examines joint action initiatives among small- and medium-sized enterprises (SMEs) in the manufacturing industries in developing countries in the context of the ascendancy of CSR and the proliferation of a variety of international accountability tools and standards. Institutionalised power dynamics are found to be perpetuating competitive and profit objectives against fair wages and the plight of workers in the developing world. Analysis of the joint CSR initiatives of local SME manufacturers in the Jalandhar cluster in North India reveals a pattern of skilful coupling with one aspect of the CSR agenda, counterbalanced with various manoeuvring, overlooking, avoidance, and buffering strategies to preserve credibility in the eyes of external stakeholders. In this instance local SME manufacturers coupled CSR to the popular theme of eradicating child labour, while continuing to decouple the technical core pertaining to the plight of workers, leaving those stitching footballs toiling in conditions of poverty and destitution. SMEs avoid the loss of legitimacy in the eyes of international constituencies through CSR, yet circumvent local labour laws by outsourcing labour intensive work.

In an introduction to a special issue in *Business & Society* on SMEs and CSR in Developing Countries, Jamali, Lund Thomsen and Jeppsen (2015) argue that SMEs' track record in relation to CSR is not always positive. SMEs CSR activity is sometimes perceived as a smokescreen or a façade allowing SMEs to appear to be complying with social and environmental standards which are increasingly a precondition for global business engagement, while buffering their non-compliance with fundamental principles and basic tenets of CSR. SMEs are often responsible for some of the worst labour rights abuses including the use of child labour, forced labour, sexual harassment, and human trafficking in developing countries.

5. Does transparency and responsibility benefit firms in the long term?

In their literature review, Ihlen, Mays and Bartlett (2014) address the question of how communication studies can prove its value in relation to CSR. Among other findings, they report that the literature points to transparency being vital to assist organisations to come across as trustworthy actors. Strategic communication is therefore regarded as useful for the management of CSR. Communicating about CSR can be challenging with evidence suggesting that CSR efforts can backfire if corporations are seen to be flaunting themselves and appear as self-serving. Stakeholders require an alignment between the talk and action of CSR. Criticism of CSR is often rooted in disappointment of CSR practices not meeting expectations created by the corporate discourse of CSR. To address this, corporations should be transparent about their activities, providing proof through numbers, statistics and examples of outcomes and impacts, and have credible third parties attest to their work. Transparency about CSR may create trust, credibility, respect, fairness, and a sense of procedural justice. Transparency gives credence to the framing of CSR that sees voluntary responsibility measures as preferable to mandatory ones.

6. Key evidence gaps

Despite the enormous amount of studies on CSP and CFP, the relationship remains inconclusive. With globalisation, CSR has spread internationally, with practices exported and imported by international companies aiming to achieve competitiveness in host communities. Such variables provide opportunities for further research. The idea that CSR will have an immediate and unchanging impact on CFP is reported to be largely flawed. Impact may take time. The relationship between the two is not static. The effect of time on CSR and CFP is another area for future research to explore (Lu et al 2014).

In an article published in *Business Ethics Magazine*, Robins (2015) argues further research is needed to address question of causation between CSR and profit. Further investigation is needed to establish if high profits enable greater spending on CSR, or whether CSR itself creates higher profits. Carroll and Shabana (2010) contend that as well as exploring methodological differences and interpretation biases, future research on the relationship between CSP and CFP should examine the existence of mediating variables and situational contingencies that may influence the relationship.

Jamali, Lund Thomsen and Jeppsen (2015) argue that there is an evidence gap regarding what we know about SMEs and CSR in developing countries. Important research themes that could be pursued in a more systematic manner in future include:

- The gap which may exist between SMEs' communication about CSR and the actual reality of CSR implementation on the ground in developing countries.
- The extent to which SME engagement in CSR improves or worsens SME profitability, workers' conditions, and environmental pollution emissions in developing countries.
- The role of micro-firms and informal enterprises in CSR as well as the informal aspects of CSR practice in SMEs.
- The potential and limitations of international organisations and support agencies in facilitating or undermining the adoption of CSR practices among SMEs in the South.

The role of communication in CSR strategy has been relatively underexplored despite its prevalence in demonstrating and shaping social responsibility positions and practice, leaving room for further investigation (Ihlen, Mays and Bartlett 2014). In the literature that does exist, sustainability is a theme often included, yet there is uncertainty regarding what is meant by sustainability in this context of corporations. For future research, there is the need for a rigorous debate about the meaning of sustainability (Aras and Crowther 2009). In addition, donors could commission research on issues critical to the growth and effectiveness of innovative finance and impact investing. Cross-fund comparative research is needed on the set-up and operating costs of high-impact, scaled funds. Also, research into cross-fund analysis of how much of an orientation to poverty, risk and complexity is possible when the private sector is involved in development financing is also needed. Case study examples would assist our understanding of investee success or failure in high impact sectors and communities. Field-based research is also required to examining the links between impact investments and development outcomes within the framework of the SDGs (Koenig and Jackson 2016).

Evaluation practices are also often found to be missing a theory of change element, focusing instead on measuring inputs and outputs, or presenting anecdotal evidence. Evaluations could be strengthened by using a mixture of qualitative and quantitative methods that incorporate a theory of change approach. Therefore, creation of a dialogue between the development evaluation field and the impact investing industry, and designing and launching new education and training initiatives, will be important themes for research going forward (Jackson 2013).

Future research efforts into codes of conduct and CSR should transcend traditional comparisons based on the presence or absence of ethical codes and begin to examine the essential factors leading to the effective establishment of CSR policies and sustainable business practices in corporate culture (Erwin 2011). Future research is needed to assess the ultimate impact of codes of conduct as opposed to simply assessing compliance with their stated requirements (Lund-Thomsen 2008).

7. References

Aras G, Aybars A and Kutlu O. 2010. Managing Corporate Performance: Investigating the Relationship between Corporate Social Responsibility and Financial Performance in Emerging Markets", International Journal of Productivity and Performance Management; 59 (3) http://www.emeraldinsight.com/doi/pdfplus/10.1108/17410401011023573

Aras G and Crowther D. 2008. Developing sustainable reporting standards. Journal of Applied Accounting Research; 9 (1) http://www.emeraldinsight.com/doi/pdfplus/10.1108/09675420810886097

Aras G and Crowther D. 2009. Corporate Sustainability Reporting: A Study in Disingenuity? Journal of Business Ethics; 87(Suppl 1). http://link.springer.com/article/10.1007/s10551-008-9806-0

Baron D, Harjoto M and Jo H. 2009. The Economics and Politics of Corporate Social Performance. Stamford Research Paper No. 1993R. https://www.gsb.stanford.edu/gsb-cmis/gsb-cmis-download-auth/318906

Béthoux E, Didry C and Mias A. 2007. Codes of Conduct Tell Us: corporate social responsibility and the nature of the multinational corporation. Corporate Governance; 15 (1) http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8683.2007.00544.x/full

Beurden P and Gossling T. 2008. The worth of values - a literature review on the relation between corporate social and financial performance. Journal of Business Ethics; 82 https://pure.uvt.nl/ws/files/1027574/artikelGoessling.pdf

Blowfield M. 2007. Reasons to be cheerful? What we know about CSR's impact. Third World Quarterly; 28 (4) https://www.jstor.org/stable/20454956?seq=1#page_scan_tab_contents

Carroll A and Shabana K. 2010.The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice. International Journal of Management Reviews;12(1) http://f2.washington.edu/fm/sites/default/files/Business%20Case%20for%20CSR%20Review%20of%20Concepts,%20Research%20and%20Practice.pdf

Cheah J, Jamali D, Johnson J and Sung M. 2011. Drivers of CSR attitudes: The role of demography of socially responsible investors. British Journal of Management; 22 (2) http://onlinelibrary.wiley.com/doi/10.1111/j.1467-8551.2011.00744.x/abstract

Cheng M, Green W, Conradie P, Konishi N and Romi A. 2015. The International Integrated Reporting Framework: Key Issues and Future Research Opportunities. Journal of International Financial Management & Accounting; 25 (1) http://onlinelibrary.wiley.com/wol1/doi/10.1111/jifm.12015/full

Erwin P. 2011. Corporate Codes of Conduct: The Effects of Code Content and Quality on Ethical Performance. Journal of Business Ethics; 99 (4) http://link.springer.com/article/10.1007%2Fs10551-010-0667-y?LI=true

Flynn J, Young J and Barnett C. 2015. Impact Investments: A Literature Review. CDI Paper. Brighton: IDS.
https://opendocs.ids.ac.uk/opendocs/handle/123456789/6820

Higgins C, Stubbs W and Milne M. 2015. Is Sustainability Reporting Becoming Institutionalised? The Role of an Issues-Based Field. Journal of Business Ethics
http://link.springer.com/article/10.1007/s10551-015-2931-7

Ihlen O, Mays S and Bartlett J. 2014. Four aces: Bringing communication perspectives to corporate social responsibility, Communicating corporate social responsibility: Perspectives and practice. Critical Studies on Corporate Responsibility, Governance and Sustainability, Volume 6.
http://www.emeraldinsight.com/doi/pdfplus/10.1108/S2043-9059%282014%290000006023

Jackson E. 2013. Interrogating the Theory of Change: Evaluating Impact Investing Where It Matters Most. Journal of Sustainable Finance and Investment; 3 (2)
http://www.tandfonline.com/doi/pdf/10.1080/20430795.2013.776257

Jamali D. 2007. The case for strategic corporate social responsibility in developing countries. Business and Society Review; 112 (1)
http://onlinelibrary.wiley.com/wol1/doi/10.1111/j.1467-8594.2007.00284.x/abstract

Jamali D, Lund Thomsen P and Jeppsen S. 2015. SMEs and CSR in Developing Countries. Business and Society; 56 (1)
http://journals.sagepub.com/doi/abs/10.1177/0007650315571258

Jamali D, Lund Thomsen P and Khara N. 2015. CSR Institutionalized myths in developing countries: An imminent threat of selective decoupling. Business and Society
http://journals.sagepub.com/doi/pdf/10.1177/0007650315584303

Jamali, D. and Vanhonacker, W. 2015. A Win Model for Shared Value Corporate Strategic Philanthropy. European Financial Review, April.
http://www.europeanfinancialreview.com/?p=4378

Koenig A and Jackson E. 2016. Private Capital for Sustainable Development - Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance. Danida, Copenhagen.
http://www.arthaplatform.com/assets/b4ffa1a1-8654-4d4e-ba2f-5af8869ecec9_201602StudyPrivateCapital.pdf

Lu W, Chau K, Wang H and Pan W. 2014. A decade's debate on the nexus between corporate social and corporate financial performance: a critical review of empirical studies 2002–2011. Journal of Cleaner Production; 79
http://www.sciencedirect.com/science/article/pii/S0959652614004351

Lund-Thomsen P. 2008. The Global Sourcing and Codes of Conduct Debate: Five Myths and Five Recommendations. Development and Change; 39 (6)
http://onlinelibrary.wiley.com/doi/10.1111/j.1467-7660.2008.00526.x/full

Margolis J and Walsh J. 2001. People and Profits? The Search for a Link between a Company's Social and Financial Performance. Lawrence Eribaum, Mahwah, NJ.
http://www.hbs.edu/faculty/Pages/item.aspx?num=7165

Margolis J and Walsh P. 2003. Misery loves companies: rethinking social initiatives by business. Administrative Science Quarterly; 48 (2)
http://journals.sagepub.com/doi/pdf/10.2307/3556659

Mulyadi M, and Anwar Y. 2012. Impact of corporate social responsibility toward firm value and profitability. The Business Review, Cambridge; 19 (2)
https://www.researchgate.net/profile/Martin_Mulyadi/publication/275956308_Impact_of_corporate_social_responsibility_toward_firm_value_and_profitability/links/5729b94d08ae2efbfdb91d71.pdf

Natural Capital Solutions. 2012. Sustainability Pays Studies That Prove the Business Case for Sustainability. Accessed on 26 January 2017 at:
http://mvonederland.nl/system/files/media/sust_pays-businesscase-reports.pdf

Neilsen. 2015. The sustainability imperative - new insights on consumer expectations. Accessed on 26 January 2017 at:
http://www.nielsen.com/us/en/insights/reports/2015/the-sustainability-imperative.html

Nelling E and Webb E. 2009. Corporate social responsibility and financial performance: The “virtuous circle” revisited. Review of Quantitative Finance and Accounting; 32
http://link.springer.com/article/10.1007/s11156-008-0090-y

Orlitzky M, Schmidt F and Rynes S. 2003. Corporate social and financial performance: A meta-analysis. Organization Studies; 24 (3)
http://community-wealth.org/content/corporate-social-and-financial-performance-meta-analysis

Pedersen E. 2007. Perceptions of Performance: How European Organizations Experience EMAS Registration. Journal of Information Technology; 14 (2)
http://onlinelibrary.wiley.com/doi/10.1002/csr.118/epdf

Perez-Batres L, Doh J, Miller V and Pisani M. 2012. Stakeholder pressures as determinants of CSR strategic choice: why do firms choose symbolic versus substantive self-regulatory codes of conduct? Journal of Business Ethics; 110 (2)
http://link.springer.com/article/10.1007/s10551-012-1419-y

Robins R. 2015. Does Corporate Social Responsibility Increase Profits? Business Ethics. May. Accessed on 25 January 2017 at:
http://business-ethics.com/2015/05/05/does-corporate-social-responsibility-increase-profits/

Stammer R. 2016. It Pays to Become a B Corporation. Harvard Business Review. December.
https://hbr.org/2016/12/it-pays-to-become-a-b-corporation

Stubbs W, Higgins C and Milne M. 2013. Why Do Companies Not Produce Sustainability Reports? Business Strategy and the Environment; 7 (2)
http://onlinelibrary.wiley.com/doi/10.1002/bse.1756/abstract

Stubbs W and Higgins C. 2014. Integrated reporting and internal mechanisms for change. Accounting, Auditing and Accountability Journal; 27 (7)
http://www.emeraldinsight.com/doi/abs/10.1108/AAAJ-03-2013-1279

Thorpe J and Prakash-Mani K. 2003. Developing value the business case for sustainability in emerging markets. Greener Management International 44.

http://libroweb.alfaomega.com.mx/book/733/free/ovas_statics/unid2/PDF_Ingles/Developing_Value.pdf

Wang Q, Dou J and Jia S. 2015. A Meta-Analytic Review of Corporate Social Responsibility and Corporate Financial Performance - The Moderating Effect of Contextual Factors. Business and Society; 55 (8)
http://journals.sagepub.com/doi/pdf/10.1177/0007650315584317

8. ANNEX

Annex A - Studies that prove the business case for sustainability Adapted from data provided by Natural Capital Solutions (2012) on studies that prove the business case for sustainability.

Company	Year	Summary
Goldman Sachs	2007	Goldman Sachs Sustain investing framework incorporates 25 quantifiable, environmental, social, and corporate governance (ESG) indicators to identify investment opportunities. The firms on the list outperformed the MSCI world index between 2005 and 2007 by 25% with a success rate of 72%. Key findings of this report: • There is "dramatic increase in the number of investors seeking to incorporate ESG factors into their investment portfolios" • ESG indicators are "a good overall proxy for the management quality of companies relative to their peers" • To attract and retain Generation-X employees companies "need to provide rewards beyond financial gain", by aligning corporate values with employee values" • Increasing numbers of consumers identify themselves as "being socially responsible" and firm's ESG is a major factor influencing brand loyalty (35%) • There is unprecedented transparency in the operating environment of firms, and consequently firm's ESG programs are receiving increased scrutiny
Accenture	2010	This is an extensive study on CEO's perspectives of sustainability issues, totaling 766 respondents from 26 countries and a wide array of industries. It was the largest and most extensive survey ever conducted on the topic of sustainability. The study examined how CEOs' strategies are evolving, and the conditions necessary to shift the market, toward greater social and environmental responsibility. Key findings include: • Over 93% of CEOs see sustainability as crucial business success, with 88% stating such issues are fully embedded into their strategy and operations • 72% of CEOS believe strengthening brand reputation and trust among consumers and governments is the "strongest motivator for taking action on sustainability" • Greatest barrier in implementing sustainability occurs in a company's supply chain and subsidiaries. While 91% and 88% (respectively) agreed that sustainability should be incorporated into each, only 59% and 54% acknowledged it had been.

		• Many CEOs believe the investment community is not supporting corporate efforts to create value through sustainable products and services by failing to factor sustainability performance into valuation models. However, others such as Goldman Sachs (see above) disagree
Accenture	2012	As sustainability concerns increasingly arrive at the desks of CEOs, many business leaders are debating how to manage and lead their organizations strategy and initiatives. Some CEOs have decided to grant sustainability a position in the C-Suite with the creation of a new position: chief sustainability officer. Others, however, have pursued a decentralized approach and have allocated various sustainability responsibilities throughout departments and levels of management. This report examines how CEOs are managing sustainability, and how to ensure successful integration of sustainability throughout an organisation.
AT Kearney and Institute for Supply Management (ISM)		This report highlights how 25 leading companies are engaging on sustainability and how, “management can use sustainability to improve profitability”. The survey revealed that a majority of companies recognize that addressing sustainability is a core business concern and needs to be integrated directly into business strategy. Yet, many lack the formal direction and processes necessary to implement sustainability such as tracking sustainability metrics, or a method for identifying supply-chain risks.
Atos Origin	2009	This report is based on an extensive study of senior managers and executives at 165 European companies and trade association. It concludes that, “the business case for environmental excellence is real” and environmental sustainability “deliver[s] additional profits and competitive advantage” for companies. The authors effectively argue the business case for sustainability, outline a method for creating a profitable environmental program, and discuss the benefits and elements of such. In particular, this report provides detailed insight into sustainable business opportunities for the automotive, technology, chemical, consumer goods, and retail industries to mitigate supply-chain and regulatory risks while improving profitability.
Deloitte	2007	This report closely examines the drivers and implications of sustainability in the retail and consumer products industries; discussions of market leaders’ sustainability initiatives; an evaluation of current business models’ ability to adapt; and how to structure and execute a successful sustainability program. It also provides a discussion of the environmental, consumer, brand, governance, and compliance implications of sustainability. Lastly, it details how

		sustainability should be integrated into business strategy, operational process, an internal governance and employee engagement infrastructure, and supported by collaboration with NGOs, activist organisations, and governmental agencies
Deloitte	2009	This survey of over 6,000 retail customers focuses on the consumer product industry and how retailers can profit from integrating sustainability through their value-chain, with a specific focus on retail operations. It discusses how the sustainable consumer segment is evolving, and how firms wishing to capitalize on this "high-value" segment should form a strategy. Key highlights include: • Green consumers shop more frequently, purchase more per trip, and are less price sensitive than the average shopper • Green shoppers tend to become loyal to green products once they have tried them • Sustainability considerations drive or influence the buying decisions of more than half the shoppers interviewed
Economist Intelligence Unit	2008	This extensive survey of business leaders covers a wide range of topics pertaining to how businesses perceive, adapt, and implement strategies in response to sustainability concerns. Issues covered include: • Business leader motivations for pursuing sustainability initiatives • Implementing sustainability throughout a business • How globalisation is increasing stakeholder demands of business because companies in under-developed regions are often the only institution capable of solving pressing social and environmental problems • Perspectives of sustainability and the role that government, institutions, and consumers play in supporting sustainable objectives • Evolving relations between business and NGOs from confrontation to cooperation
Economist Intelligence Unit	2008	In September of 2008 the Economist Intelligence Unit conducted a survey of 566 US-based executives. The final report discusses the necessary foundations for creating profitable corporate citizenship (CC) initiatives and strategies. Some key findings include: • Respondents who claimed CC is "very important" to their firm's overall business strategy reported their profitability and revenue growth is "stronger" (57%) or "much stronger"(52%) than their closest competitor's, compared to • 41% and 38%, respectively, for those who do not see their

		strategy in this regard. • Corporate citizenship must be driven from the top, but leadership from all levels is crucial because strategy is only as good as its execution. • Successful companies find ways to channel the passion of their employees into corporate citizenship activities, which helps employee recruitment and lowers employee turnover. • Financial returns are critical for convincing senior executives that CC is important. This requires solid measurements and metrics for tracking progress, and linking these to financials. • Non-traditional partnerships with local, state and federal government, and NGOs are important for securing significant financial advantages.
Economist Intelligence Unit	2011	This survey collected responses from 379 senior level managers in “all major industries” regarding their firm’s approach to improving corporate productivity. Highlights include: • 85% of companies believed that managing human capital was the most important method for improving productivity • "Many leading companies” claimed that “engaging employees on sustainability” is a “powerful motivating tool”, and “improved customer satisfaction, increased productivity, and reduced employee turnover and absenteeism” • Focusing too much on cutting costs rather than maximize existing resources and labor was cited as the most common strategic problem
Gallup	2009	This meta-analysis evaluated numerous studies linking employee engagement to key business units and finds that business can secure greater profitability by actively engaging employees. Comparing top-quartile to bottom quartile engagement business units resulted in median percentage differences of: • 16% in profitability • 18% in productivity • 25% in turnover for high-turnover companies (those with 60% or higher annualized turnover) • 49% in turnover for low-turnover companies (those with 40% or lower annualized turnover) • 12% in customer loyalty • 49% in safety incidents • 27% in shrinkage • 37% in absenteeism • 41% in patient safety incidents

		• 60% in quality (defects)
Harvard Business Review	2010	Executives are increasingly recognising sustainability as the next megatrend (an “incipient societal economic shifts”, like globalization or the information technology revolution). Yet, as business leaders launch a, “hodgepodge of initiatives” to address sustainability they often fail to recognise the holistic, multistage strategy necessary to succeed in today’s rapidly evolving marketplace. By researching numerous, past megatrends, the authors have identified four stages that firms who became market leaders progressed through: • Stage 1: Reduce waste, risks, and costs • Stage 2: Redesign products, processes, and functions to optimize performance • Stage 3: Integration of sustainability with corporate strategy • Stage 4: Differentiation and creating a new business model Using this insight, the authors discuss in detail how; leadership, reporting and communication, methods for assessing value, strategy development and management integration are critical for creating a sustainability performance management system and how today’s executives can help their firms Capture the Eco-premium.
IBM Global Business Services	2008	This report is based upon a survey of 250 business leaders worldwide and numerous interviews. It discusses the increasing importance CSR has on business strategy and covers three business dynamics that businesses need to understand when approaching CSR: its impact on business profitability and growth; the benefits of transparency; and the advantages provided by interorganisational collaboration. Key findings include that companies that report they are substantially outperforming their competitors are more than twice as likely to: • Be transparent about the sourcing, composition, and impacts of their products, services, and operations • Engage all employees in CSR initiatives • Place critical importance on aligning philanthropy and business priorities • Consider themselves very effective at developing products and services with a positive societal or environmental impact
Innovest	2007	This report details an investment framework designed to hedge against climate change risks, specifically those associated with carbon emissions that affect investments’ financial performance. It provides an explanation of the how, and what, certain companies’ exposure to carbon emission in carbon-restrained economy may be and how they would affect financial feasibility. It addresses risks that firms face both directly and in-directly, and specifically discusses the regional

		differences that exist across the globe. It concludes by providing various statistical analyses that demonstrate market leaders in reducing carbon risk have outperformed their peers in regards to stock growth and market capitalisation.
McKinsey	2011	This survey, the sixth conducted by McKinsey, discusses how executive “understand and manage issues related to sustainability”. This year’s results reveal that addressing sustainability is current rapidly evolving business trend. “More executives are reporting that sustainability initiatives are adding shareholder value” in both the short- and long-term. The report provides a discussion of how senior manager’s approaches to sustainability are changing, where their focus is, the barriers they are encountering, and the most achievable opportunities to add sustainable value.
National Environmental Education Fund	2010	This study, conducted in conjunction with GreenBiz, provides a number of case studies on employee engagement (EE) through environmental and sustainability education (E&S). Key findings include: • “Losing and replacing a good employee costs companies between 70%– 200% of an employee’s annual salary” and that “employee engagement has resulted in increased employee loyalty, more company pride, and improved morale.” • “Front-line employees are often in the best position to identify inefficiencies and propose improvements. E&S education of employees can improve profitability by supporting greater efficiency through less waste, water and energy usage” • Companies that equip employees in sales, marketing and other customer oriented positions with knowledge of the environmental attributes of offerings, and environmental issues to place those attributes in context, will strengthen relationships with customers who have similar values or interests.
Pricewaterhousecooper	2012	This thorough analysis of global mineral and metal scarcity demonstrates that significant drivers of sustainability principles relate to geo-economic and –political concerns. Key quotes include: • “The risk of scarcity is expected to rise significantly, leading to supply instability and potential disruptions in the next five years, but this also creates opportunities for competitive advantage” • “Economic and political drivers of scarcity are generally seen as much more important than physical drivers” • “Efficiency is seen as most plausible response to scarcity”
Sustainable Asset	2008	This annual publication, conducted in conjunction with Price Water house Cooper, discusses sustainability trends within a wide array of corporate sectors. It covers consumer products companies’ greater

Management		engagement with sustainable product design, and addressing the full life-cycle impacts of their products or services. It reviews an empirical analysis and implications of how sustainability performance effects financial valuations. It discusses the failure of water markets, and the investment opportunities that exist for firms in efficiency technologies. The report provides an “at a glance” review of the implications of sustainability for a wide array of industries. A few quotes include: • “There is a positive, statistically significant, linear association between sustainability and CFP” • “More and more companies consider the consequences of finite natural resources, climate change effects, impacts of emissions to air, water and soil and implications of unethical business behavior in their business models and embed their actions into consumer propositions to gain competitive advantage”
University of California, Berkeley & University of California	2012	This study examines how shareholder valuations change following firms’ voluntary disclosure of greenhouse gas emissions and management strategies. Key findings include: • On average, disclosing carbon emissions, reduction targets, and relevant management strategies, increases firms’ market capitalisation • Voluntary carbon disclosure produces positive returns to shareholders • Small companies tend to receive relatively greater returns than larger companies
McKinsey	2007	This study provides valuable insights for business on the most cost-effective measures to reduce greenhouse gas emissions (GHG), and the potential strategies that policy-makers may adopt pertaining to GHG regulations. Finds include: • Approximately 25% of initiatives discussed offer the potential GHG reductions with a zero or negative net life cycle cost, mainly in transportation and building efficiency. • Power generation and manufacturing industries accounted for less than half of the low-cost potential for reducing GHG emissions, indicating regulations may target the transportation, buildings, forestry, and agriculture sectors • Heightened GHG regulation will significantly impact the energy intensive industry’s production economics, cost competitiveness, investment decisions and the value of various assets.

McKinsey	2008	"The economic case for energy productivity investments has never been stronger." This report recommends that $170 billion be invested globally ($57 billion in the US) in energy efficiency (EE) by 2020. It states that this investment would halve global growth in energy demand and curb GHG concentrations at 450ppm, while achieving attractive financial returns. The recommended investments average a 17% internal rate of return (IRR), and at minimum provide a 10% IRR. The report provides a general discussion of where EE investments should be made in industrial, residential, commercial, and transportation sectors; how financing may be secured; and the current barriers to investment.
U.S. Department of Energy: Building Technologies Program	2011	Buildings accounted for 40% of U.S. primary energy consumption in 2008. This report identifies and characterizes numerous energy efficiency technologies that are categorized into three groups: commercially available products, emerging technologies, and potential technologies. Specifically, the report focuses on four types of technologies: envelope materials, HVAC and water systems, lighting, and windows. It also found that private companies are driving investment in energy efficiency technologies for buildings, and are responsible for ~75% of all commercially available and emerging technologies.

Suggested citation

Thompson, S. (2017). *The financial and commercial impact of responsible and sustainable business.* K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

About this report

This report is based on five days of desk-based research. The K4D research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development. For any enquiries, contact helpdesk@k4d.info.

K4D services are provided by a consortium of leading organisations working in international development, led by the Institute of Development Studies (IDS), with Education Development Trust, Itad, University of Leeds Nuffield Centre for International Health and Development, Liverpool School of Tropical Medicine (LSTM), University of Birmingham International Development Department (IDD) and the University of Manchester Humanitarian and Conflict Response Institute (HCRI).

UKaid
from the British people