



Do sustainable companies have a better financial performance? A study on Brazilian public companies



Paula Santis, Andrei Albuquerque*, Fabiane Lizarelli

Federal University of São Carlos, Department of Industrial Engineering, Rod. Washington Luiz, Km. 235, Mailbox 676 Zip Code: 13565-905, São Carlos, SP, Brazil

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ABSTRACT

Increasingly, companies are taking initiatives to mitigate the negative social and environmental impacts to address the emerging needs of society. In the financial realm, stock markets created indices to offer investors the option to prioritize sustainable companies. In Brazil, the initiative came from the São Paulo Stock Exchange by releasing the Corporate Sustainability Index. In this paper, we analyze the financial and economic performance of companies listed in the Corporate Sustainability Index in comparison with the performance of companies listed in the São Paulo Stock Exchange Index. For that, profitability and liquidity ratios were calculated, and statistical tests – specifically cluster and nonparametric analysis – were performed to validate possible trends, similarities, or differences observed in each group of companies. Based on our analysis, we found no evidence of economic and financial performance differences between companies from each of the studied indices. In fact, our findings show that other characteristics, such as sectorial classification, have more influence on firms' economic and financial performance than their investments in sustainable initiatives. The research contributes to the body of knowledge in the field of corporate sustainability by utilizing a different methodology than similar studies have used, incorporating different accounting ratios and new statistical analyses of data from the emerging Brazilian market.

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1. Introduction

Evidence of human impact on the environment has become more apparent in recent times, leading to a focus on environmental issues for the long-term development of society (Kannegiesser and Günther, 2014). As a result, non-governmental organizations, communities, governments, media, and other institutional forces have begun pressuring corporations to develop and adopt socially responsible practices (Garriga and Melé, 2004) and strategies considering objectives that go beyond the shareholders' financial interests (López et al., 2007). Thus, the inclusion of those practices and strategies has now become a key consideration for companies in response to society's demands (Porter and Kramer, 2006).

In light of this context, companies question whether it pays to be

sustainable. Barnett and Salomon (2012) affirmed that over the last several decades scholars have sought to theorize and determine the relationship between the social performance and the financial performance of businesses. Although hundreds of empirical studies that test that relationship have been published, results have been mixed (Barnett and Salomon, 2012).

From these researches, and with the intention of enriching the current debate about sustainability in the business world, this study aims to investigate, within the Brazilian stock market, the return of the companies that are part of the Corporate Sustainability Index (ISE) portfolio, in comparison to the return of companies that are part of another index from the same stock exchange (São Paulo Stock Exchange, or BM&F Bovespa).

The index used as a comparative standard to ISE was the São Paulo Stock Exchange Index (IBOVESPA), which is an average performance indicator of the prices of most traded assets and is representative of the Brazilian stock market (BM&F Bovespa, 2014). Therefore, this paper answers the following research question: Is the financial performance of the companies that are part of the ISE equal to the financial performance of the companies that are part of the IBOVESPA?

Abbreviations: BM&F Bovespa, São Paulo Stock Exchange; IBOVESPA, São Paulo Stock Exchange Index; ISE, Corporate Sustainability Index; IR, Brazilian Income Tax.

* Corresponding author.

E-mail addresses: paula_santis2@hotmail.com (P. Santis), andrei@dep.ufscar.br (A. Albuquerque), fabiane@dep.ufscar.br (F. Lizarelli).

An analysis of the companies listed in each of the studied BM&F Bovespa indices shows that 40% of all companies that are part of the IBOVESPA portfolio were also part of the ISE portfolio. Thus, as an analysis considering all the companies in both indices could be markedly impaired, the study was based on three groups of companies: companies that were part of both indexes and two different groups with companies only from one of the two stock exchange indexes (ISE or IBOVESPA), from 2009 to 2013.

For each company, accounting (or economic and financial) ratios were calculated. Accounting ratios, rather than market ratios, were also used by López et al. (2007) in their study focusing on the Dow Jones Sustainability Index (DJSI). According to the authors (p. 290), “a firm’s behavior could be explained using market indicators, but accounting data is considered less noisy, since it indicates what is actually happening in the firm”. Therefore, this work follows a similar approach.

Moreover, Braga et al. (2004) affirmed that a business can be considered “in a good economic situation” when it has an appropriate balance between its profitability and liquidity goals. With this understanding, the tests performed in this research give consideration to the ratios that evaluate both of these goals. The accounting ratios were statistically examined through cluster analysis, as well as the following the nonparametric tests: Kruskal–Wallis, Mann–Whitney, and median test. By examining the outcomes of these analyses, it was possible to derive conclusions on the proposed comparison.

The following Section presents a theoretical overview of subjects relevant to this paper. Section 3 presents a Systematic Literature Review (SLR) of the relationship between socially responsible practices and financial performance. Section 4 describes the research design and Section 5 analyses the results. Finally, Section 6 presents the conclusions of this study.

2. Sustainability review

2.1. Sustainability in the business world

Authors like Henry Thoreau (1854), Thorstein Veblen (1899) and William Morris (1891) were discussing sustainability by the end of the nineteenth century (Atkinson et al., 2007). However, it was not until 1987 that debate regarding sustainable development took on global proportions, leveraged by the World Commission Report on Environment and Development (1987), also known as the Brundtland Report.

The goal of the Brundtland Report was to show the possibility of a new era of economic growth based on policies that sustain and expand the foundation of environmental resources. These ideas supported the notion that sustainable development is absolutely essential to relieve growing world poverty (World Commission on Environment and Development, 1987).

In 1994, affirming that the success of companies in the future would depend on their ability to satisfy not only the traditional bottom line of profitability, but also the bottom lines related to environmental and social issues, John Elkington coined the concept of the Triple Bottom Line (TBL) (Elkington, 1998). Delai and Takahashi (2013) showed that the concept remains applicable today; TBL dimensions should still be considered in order to produce in a sustainable manner.

Rahdari and Rostamy (2015) considered the TBL as one of the forms that the concept of Corporate Social Responsibility (CSR) and sustainability at the corporate level has taken. The authors stated that the forms vary according to the time and/or contexts where the concepts were being used. Although there is still no consensus on the definition of CSR (Lu et al., 2014), it is evident that it has become a priority for business leaders around the world (Porter and Kramer, 2006).

In this context, companies face pressure to include practices related to CSR in their business, specifically environmental, social, and governance factors (Humphrey et al., 2012). Eccles et al. (2012) examined companies’ efforts to adopt the three dimensions, as well as the lack of standards regarding the reporting of those adjustments to investors and to society in general. According to López et al. (2007), the adoption of socially responsible behavior is currently one of the strategies that companies use to compete in a complex global environment.

Porter and Kramer (2006) presented four prevailing justifications for a company to engage with CSR: moral obligations, sustainability, license to operate, and reputation. The authors highlighted that all four share the same weakness: “They focus on the tension between business and society, rather than on their interdependence” (pg. 81). Thus, companies should find ways to reinforce their strategy by improving social conditions using a more proactive and tailored approach – which the authors referred to as strategic CSR.

Strategic CSR implies moving from a position that focuses on harm mitigation to a position that focuses on the creation of meaningful benefits for both society and business, called Corporate Shared Value (CSV) (Porter and Kramer, 2011). The authors stated that “traditional” CSR focuses on a company’s reputation and has limited connection with the business itself, while CSV integrates competitive position and business profitability. The lens of shared value can be used in all major decisions of a company to obtain the right kind of profit – the one that creates value for the society (Porter and Kramer, 2011).

Increasingly, investors realize the potential of companies that meet high standards of sustainability to generate risk adjusted returns aligned with the market (International Finance Corporation, 2011). In fact, socially responsible investments (SRI) have grown rapidly in recent years, causing SRI to represent a significant portion of all professionally managed assets around the world: 59% in Europe, 18% in the US, 31% in Canada, and 17% in Australia (Global Sustainable Investment Alliance, 2014). Orsato et al. (2015) affirmed that investors are willing to pay more for stocks of companies that take actions regarding social responsibility and sustainability, and that adopt better governance and transparency in their management. This finding highlights the importance of sustainability and gives companies one more reason to move towards this goal.

2.2. Sustainability in the stock markets

Issues related to the adoption of socially responsible practices have led to its insertion into the financial market (López et al., 2007). In order to offer options for investors who are interested in companies with an emphasis on sustainability, the main stock exchanges now have a sustainable index. Indices exist, in general, to demonstrate the performance of capital markets, and can be seen as an indicator that represents the behavior of stock prices of a particular market at a given time period, including the measurement of overall economic trends (Malacrida and Yamamoto, 2006). Sustainable screened indices, specifically, are a relatively recent phenomenon (Fowler and Hope, 2007).

Those sustainability indices use three factors (environmental, social and corporate governance) for evaluating an organization (Cunha and Samanez, 2013). The assessment metrics derived from those three factors, define, more accurately, issues of social responsibility in which the indices are based. Finally, those assessment metrics are broken down into indicators that quantify the performance of a company, expressing whether or not it should join the index (Cunha and Samanez, 2013).

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