

THE COMPETITIVE ADVANTAGE OF
SUSTAINABILITY REPORTING

by
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Abstract

Over the last few decades, the demands for environmental, social, and governance (ESG) developments and reporting have dramatically increased in business. Currently, the majority of the S&P 500 Index is providing sustainability reports. Corporations are now investing efforts in internal improvement and proper reporting in order to stay competitive, yet do these efforts provide any business benefit? This study looks into the influence of sustainability reporting on business performance and profit return. Business will traditionally prioritize maximized profit over all other, yet this study looks at the long-term effects of GRI reporting as a significant investment strategy for overall business success. The Global Reporting Initiative (GRI) reporting framework is a globally recognized sustainability framework, helping companies get acknowledgment and recognition for effort in sustainable developments. Data from the Governance & Accountability Institute, a data partner for GRI, published a report on the value of GRI reporting in 2012, is used to determine the success of GRI reporters. Data was collected on Fortune 500 and the S&P 500 Index GRI reporters and analyzed. This study determines the influence of GRI reporting in two main categories: performance (recognition by other indices, rankings, and agencies) and profit (annualized and investment return). The data showed a strong correlation between the companies which provided sustainability reports using the GRI framework and performance. GRI reporters were consistently the highest percentage in categories provided by other top rankings, indices, and agencies, compared to GRI reference companies and non-reporters. There were some measurable trends found between GRI reporters and profit, but data was not extensive enough to make a concrete final conclusion regarding the direct influence of

reporting and profit return. Overall, there are direct and indirect benefits, such as improved reputation, increased employee and customer loyalty and better business practices associated with sustainability reporting. The long-term effect of this can influence business success and profit margins when a business commits to provide sustainability reports, especially when using the GRI framework.

Executive Summary

The concerns regarding climate change and global environmental standards have created additional scrutiny of traditional business methods. Investors and consumers are increasingly interested in the ethical practices of companies regarding environmental, social, and governance (ESG). In the last decade, there has been a steady increase in Corporate Social Responsibility (CSR), supply-chain management, Triple Bottom Line (TBL) management and transparency, shifting market trends towards more sustainable business practices. That being said, can businesses be held accountable to uphold the level of ethical decree demanded by modern society?

As the knowledge and understanding of sustainable business practice expand there is a clear power of competitive advantage shifting the market. Global consumerism has some robust consequences on the environment, society, and economies, especially when unchecked and left to operate at maximum profit return. Assessing non-fiscal markers for performance creates a multidimensional, realistic representation of business practices, fundamental for accurate assessment of business quality and performance.

To combat the new sustainable developments in business, third-party verification agencies and certifications are created to validate and authenticate corporate efforts. This type of scrutiny requires a new level of transparency and accountability for businesses entering the sustainability arena. Similar to more conventional fiscal reports, when evaluating business practices, sustainability must be presented in a comprehensive, comparable format. The challenge with this is categorizing non-fiscal indications is complex, especially across companies and industries. The Global Reporting Initiative (GRI) has created a sustainability reporting framework to help companies enter the

movement with confidence and influence. This study captures a glimpse of the sustainability reporting undertaking in order to address sustainability reporting from a business standpoint. Does it make sense to invest in proper reporting of sustainability? Despite, sustainability efforts requiring companies to priorities initiatives other than maximized profit, is there a still financial incentive for companies to report?

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Introduction

It is impossible to evaluate the current state and growth of the world, without taking into account the influences of business enterprise (Cavagnaro and Curiel, 2012). Manufacturing of consumer goods contributes substantially to resource use, waste, pollution, greenhouse gas emission, along with many other social and environmental consequences (Bullard and Manchanda, 2012). Global, mass-consumerism continues to drive the market towards expansion and civil societies play a crucial role in the development of global infrastructure (Hampson and Heinbecker 2011).

Stakeholders have an increased consideration for how business practices and production are influencing both the conditions of the planet and the health of its populations.

Eco-centric business models are designed to improve efficiency at the industrial level, but can also support the future survival of industry and the populous (Borland and Lindgreen 2013) and are arguably a more advantageous investment. Modern demands for increased sustainable awareness, better business practices, and heightened levels of transparency, are forcing businesses to take alternative measures towards management techniques, product development, revaluation of their public image to maintain trust with both shareholders and stakeholders.

As global markets shift towards sustainable business practices, the adaption of integrating Environmental, Societal, and Governance (ESG) and Corporate Social Responsibility (CSR) are becoming common demands of investors and consumers. Companies have begun to integrate powerful mission statements and management

campaigns rooted in today's major concern; promoting the development of a new way of exposing business initiatives and goals. Marketing positive initiatives, acknowledging achievements beyond profit, and improving their public image, are creating waves in the techniques companies are using to integrating their social and environmental influence into their public image. Marketing sustainability and sustainability reporting, have become alternatives to traditional advertising techniques, for their ability to promote transparency, resulting in trust and confidence among businesses, investors, and consumers. That being said, does it make good business sense to invest in proper sustainability reporting?

Not only are self-proclaimed "sustainable businesses" influenced by sustainability trends, but companies large and small, public and private are now adopting new ways to extend accountability to investors and customers. Questions of authenticity and liability are high in the sustainability movement, so third-party verification and reporting is an important quality for trustworthy disclosure of information.

Companies with new purpose, aligned with the concerns of consumers, find themselves providing higher levels of transparency in order to maintain relationships with shareholders and stakeholders, to preserve public image (Ernst & Young, 2014) and more importantly, to maintain a competitive advantage. It's becoming increasingly important for businesses to provide varying amounts of non-financial information to satisfy stakeholders, promote organization image, reduce information irregularity and increase rightfulness (Calu et. al. 2015).

Fundamentally, the livelihood of business enterprise is profitability and companies will follow tendencies, which ensure greater company standing. Ideally,

companies want the competitive advantage, which ensures profitability above the industry's average. This is a direct correlation to the value customers and investors place on a company, which supports companies to thrive above the rest. Another influencer of competitive advantage is a company's ability to produce product at a discounted or lesser than average rate, leaving their final profit margin higher than the average. In both cases, companies end up on top of market trends which is a highly favorable position for business enterprise. Companies continually thrive to have the upper hand and in today's consumerist market, customer value can have substantial influences. In other words, customer value can make or break a company's economic position. Competitive advantage will be discussed in the terms of how sustainability reporting can improve company standing and customer perspective in order to boost profitability and remain above market trends. As the demands for corporate sustainability increase companies are feeling the pressure to get involved.

Non-fiscal reporting comes in many forms, but none are as recognizable and respected as GRI reporting (Blasco and King, 2017), a framework and sustainability reporting, established by the US non-profit Global Reporting Initiatives (GRI), now based in Amsterdam, Netherlands. The GRI reporting framework has become the most trusted and widely used since its start in 1990. Transforming the sustainability reporting industry by creating a comprehensive standardized system for sustainability accessible to a wide variety of companies and industries.

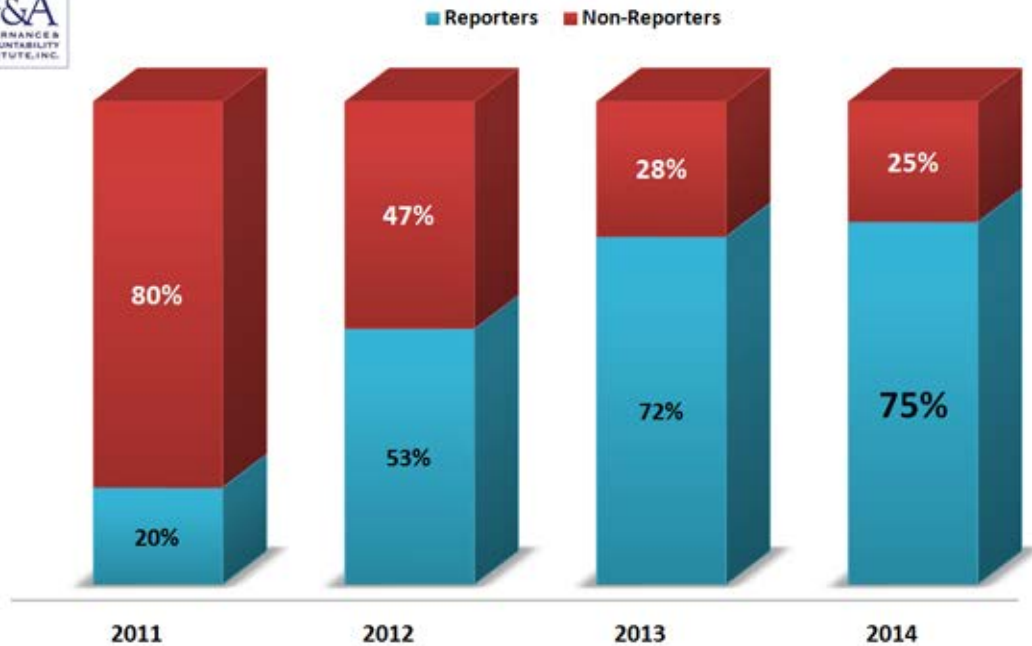
GRI attributes the framework's success to five main priorities for action. Multi-stakeholder input, which prioritized combining the best expertise, engagement, and technical knowledge to address all the needs of report makers and users. This helps

individualize the framework to each company and sustainability practice. A record of use and endorsement, where there are over 23,000 GRI reports already recorded in their database, with 74% of the largest 250 global corporations utilizing GRI's Standards. This provides companies with statistics, data tracking, and analysis for their sustainability reporting. GRI aids in governmental references and activities, which navigates the governance of sustainability, helps enable policy strategies, and aids in international commerce. GRI prioritized commerce and fiscal independence, as a self-sufficient non-profit organization. This is maintained through the diverse support of governments, companies, foundations, partner organizations, and supporters. This allows for GRI to continue to ensure unique and highly functional operations. GRI also shares the development costs for creating the reporting framework. As mentioned there are diverse sources of financial contributors, which helps continue to provide for the financial stability necessary to maintain operations.

Furthermore, the Governance & Accountability Institute (G&A), is a US-based team aiding in establishing maximum investment return as corporations integrate GRI reporting into their management schemes, and is an exclusive date partner for the GRI in the USA, UK, and Ireland. According to The KPMG Survey of Corporate Responsibility Reporting 2017, 93% of the world's largest 250 corporations report on their sustainability performance, and GRI remains the most popular framework (Blansco and King, 2017). There has been a steady increase in the number of companies providing sustainability. As of 2014, 75% of the S&P 500 Index is providing sustainability or corporate social responsibility reports; a 55% increase over the course of 4 years (Governance & Accountability Institute, Inc.).



Governance & Accountability Institute Research Results S&P 500® Companies Sustainability Reporting



Source: Governance & Accountability Institute, Inc. (www.ga-institute.com)

Sustainability reporting has not only become a standard business practice to remain competitive, but non-fiscal reporting is a modern marketing alternative to increase brand value. Utilizing the GRI framework provides a strategy for developing useful sustainable marketing (Calu, et. al.,2015). This study will be utilizing the report published by Governance & Accountability Institute Inc. (G&A), *2012 Corporate ESG/ Sustainability/ Responsibility Reporting- Does It Matter?* in order to further evaluate the influences of GRI reporting on market trends and business return. This study is particularly interested in the S&P 500 Index as a benchmark and is considered the best representation of large cap US equities (S&P Dow Jones Indices). Sustainable business developments are becoming common demands of shareholders and stakeholders. This

research will evaluate how sustainability reporting, according to the GRI reporting framework (G3), is used by corporations as a modern marketing alternative to achieve competitive profit returns and favorable public image. Furthermore, this study hypothesizes that if a corporation is utilizing the GRI reporting framework, then non-fiscal indicators will be comprehensive and reliable, which will result in better performance ratings for overall company reputation and improved profit return.

Methods

This research consists of a literary review and exploration of the current understandings and trends regarding sustainability reporting. In developing this knowledge, a specific emphasis was placed on the Global Reporting Initiative (GRI) and the GRI reporting framework. GRI reporting, started in 1997, was the first global initiative to standardize sustainability reporting and is widely used by private and public, small and large, companies all over the world. Their focus is on providing standards and framework in order to ensure accountability, risk management, and improved opportunities, within the developing role of sustainable business transparency.

Measurements & Data

This research relies heavily on the research published by the Governance & Accountability Institute Inc. (G&A), *2012 Corporate ESG/ Sustainability/ Responsibility Reporting- Does It Matter?* (referred to as the G&A Institute Report). Taking a particular interest in how GRI reporting is influencing business performance and profit.

This study collected data from 500 companies using the S&P 500 index focusing on the GRI reporters, to identify the influences of GRI reporting in different areas of performance. This study also built on the previous data collected for a 2011 report using the same methodology on 500 companies according to the Fortune 500 classification. This was done to continue the long-term study, from 2007 to 2012.

Companies, where allowed a one-year gap between reporting years, but if no report was filed for two consecutive years, that company was removed from the portfolio. For further evaluation, companies were divided into a reputational list, indices, ratings, and rankings. Each was placed into one of four groups: (1) Corporate GRI Reporters-

Used the GRI Framework, including a GRI Content Index, (2) GRI- Referenced- Did not follow GRI framework completely, but may have used some aspects, (3) Non-GRI- produced Sustainability/ESG reports, but did not follow GRI framework, and (4) No Report. The data was analyzed through the same process in both consecutive studies, but no specific information was given on the analytic processes themselves.

There was two separate analysis (performance and profit), which will be used to look at two separate influences of GRI reporting. The first was a comparative look at how businesses perform according to other indexes and scoring matrixes. The study provided this information by the individual entity and compared the percentage of S&P 500 participates versus the quality of GRI reporting standard. The second evaluation was a look at annual profit returns of GRI reporting corporation and see how they fared in comparison to the S&P Equal Weight Index (EWI). Another profit based analysis was made by comparing the final value of a \$10,000 investments of GRI reporters versus the S&P EWI over the course of five years.

Performance Analysis

The indexes were divided into percent GRI participants versus non-GRI participants. This is represented by percentages of the total S&P 500. Furthermore, of those companies participating in a particular index a breakdown of the fraction of GRI Reports, GRI-Referenced Reports, and Non- GRI Reports were given. This data was transcribed into a bar graph to visually represent the individual index percentages. This category scheme was used to evaluate the S&P 500, the 2011 Newsweek's Green Rankings- US companies, CR's 100 Best Corporate Citizens 2011, Ethisphere's World's Most Ethical Companies, Dow Jones Stainability Index North America, Dow Jones

Sustainability Index World, NASDAQ OMX CRD Global Sustainability Index. Other ratings and rankings were included and will be described as necessary in the Results section, these include the Carbon Disclosure Project (CDP) Disclosure and Performance Scores, Glassdoor Ratings, CRSHub Rankings, Brandlogic's and CRD Analytics' "Corporate Sustainability IQ Matrix," and Bloomberg ESG Disclosure Score.

Profit Analysis

Sources for this analysis were found at GetAYou.com and the G&A Institute Research. Annualized returns were summarized for the S&P 500 GRI Reporters which were companies which reported sustainability impacts (Environmental, Social, and Governance). This consists of the same set of companies analyzed for the performance-based analysis. Fortune 500 reporters were also included to further a long-term study. This section looked into the financial performance of the S&P 500 and the Fortune 500 companies compared to the S&P 500 Equal Weight Index (EWI) as a benchmark.

This same group of companies was evaluated regarding investment trends. The analysis was done by comparing the net return value of an initial \$10,000 over the course of five years (2007-12) as of 9/20/12. This data was transcribed from the original study in order to create a percent difference comparison of the investment returns compared to the benchmark.

Lastly, the data provided by the G&A report was analyzed and transformed into visual representations using Microsoft Excel and represented through percent differences from the control. Other data and graphs are collected and sited as needed for contextual evidence.

Results

The following section is split into different categories of analysis based on performance and profit. The performance analysis is divided into 'The Reputational List Association Analysis' and 'Indices Association Analysis.' The reputational lists and indices analyses are both represented by Figure 1 and explanation about the details of each individual index follows. All data was collected from the G&A Institute Report, but the graph is original to this study for ease of comparison. This was done to look at the comparable percentage of GRI reporters across agencies. Each agency represents a different list, index, or organization within sustainability dedicated to quantifying and exposing sustainable efforts within the business sector. Note, the variabilities (number of companies included in each, sustainability indicators, category qualities, etc.) vary consequently the comparison is only used for generalized understanding of GRI framework participants. Each reputation listing contributes different value to consumers, investors, governance, and other agencies, but are among the top, reliable agencies in the nation and internationally providing this type of information.

Next, the 'Rating & Rankings Association Analysis' includes five top ranking and scoring agencies. These are explained as the scoring systems differ between different agencies. The data was also transcribed from the G&A Institute report and context was added as necessary. These scoring systems were used to get an understanding of how GRI reports rank in terms of sustainability compared to other organizations.

Lastly, the financial analysis is also divided into two forms of evaluations an annualized return and investment return analysis. The annualized return is based on the generalized variation of profit return compared to the S&P 500 EWI benchmark and how

the Fortune 500 and S&P 500 GRI reporters fared in comparison. This was used to assess the competitive advantage of GRI reporting, as profit return would be above the average. The investment return analysis, which follows, is a look at how an investment would transform over the course of 5 years comparing the Fortune 500 and S7P 500 GRI reporters to the benchmark.

The Reputational List Association Analysis

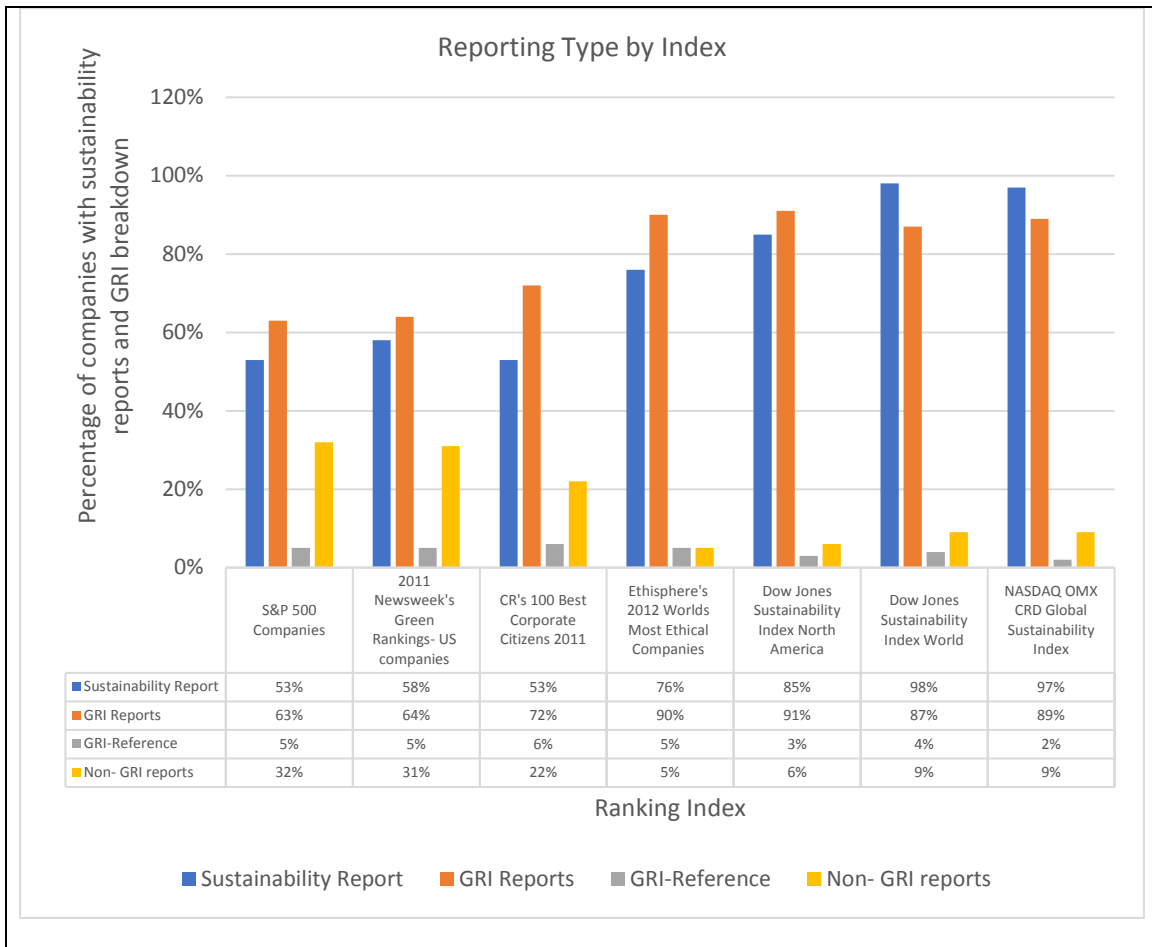


Figure 1: (Data Sources: G&A Institute Report pp. 16-25) Graph shows the percentage of companies by index, which provides a sustainability report (blue). Of those companies providing reports, the following bars show which percentages of those reporting are GRI reports (orange), GRI-reference reports (gray), and Non-GRI reports (yellow).

S&P 500 Companies (As of April 2012)

“S&P 500 stock market index”, is the collection of the 500 leading US companies, accounting for about 80% of the total US market capital. These large-cap companies are weighted by free-float market capital. The average return of the S&P 500 is approximately 10% since the late 1920s (Snider, 2017). The S&P 500 is significant because it focuses on the large-cap sector of the market, but accounts for a majority of the market. This makes it a prominent representation of market trends and behavior. Of the 2012 S &P 500 companies, 53% do file Sustainability Reports, while 47% do not. Of those 53 percent of reporting corporations, 63% are using the GRI framework, 5% reference the framework, while 32% of companies are not using the framework (Figure 1). As of April 2012, 53% of S&P 500 companies are reporting has doubled compared to 2011 where only 19-20% reported. This is an increase of over 30% in 4 years, showing significant market trend shift.

2011 Newsweek’s Green Rankings- US Companies (As of June 2011)

The Newsweek’s Green Rankings is based on collaboration with Trucost and Sustainalytics, evaluating a corporation’s environmental impacts, management structures, and overall business transparency. Rankings are based on the 500 largest revenue companies of the most recent fiscal year, the number of employees and the value of the company traded on the stock market. The Green Score rankings are out of 100 and based on an Environmental Impact Score (45%), Environmental Management Score (45%) and Environmental Disclosure Score (10%). As of June 2011, 58% do report while 42% do not report. Of the 58% which do provide reports, 64% are GRI reporters, 5% are GRI-

Referenced, and 31% are Non-GRI reporters (Figure 1). Furthermore, the companies, which had GRI reports ranked higher on the Green Rankings. The GRI reporters on were ranked higher with an average of 208.04, while GRI-Referenced companies ranked 250.83, Non- GRI reporters ranked 249.02, and No reports ranked 271.85 (out of 500 companies).

CR's 100 Best Corporate Citizens 2011 (As of March 2011)

The CR's Best Corporation Citizens ranks the top 100 performing US companies. Created by *Corporate Responsibility Magazine* where rankings are based exclusively on publicly available information. Focusing on accountability and business encouragement, the data is analyzed by IW Financial, a Maine-based company focused on ESG financial analysis. According to this data, 53% of the 2011 top 100 companies did provide sustainability reports. Of those companies. 72% were GRI reports, 6% were GRI-Referenced reports and 22% were Non-GRI reporters (Figure 1).

Ethisphere's 2012 World's Most Ethical Companies (As of March 2012)

Dedicated to business ethics, corporate social responsibility, anti-corruption, and sustainability the Ethisphere® Institute, an international, research institution. The institute publishes the *Ethisphere Magazine*, where “The World’s Most Ethical Companies” aims to recognize companies, which show sustainable and ethical leadership within their industry. There isn’t a set number of companies per list, but the 2011 list featured 110 companies. Ethisphere uses a rating system called Ethics Quotients (EQ™),

containing five criteria: Ethics and Compliance Program Reputation (25%), Leadership and Innovation (20%), Governance (10), Corporate Citizenship and Responsibility (25%) and Culture of Ethics (20%). Of the 110 companies selected in 2011, 76% of the S&P500 companies included in the Ethisphere list provided reports and 90% were GRI reports, 5% were GRI-Reference reports and 5% were Non-GRI reporters (Figure 1).

Indices Association Analysis

Dow Jones Sustainability Index North America (As of September 2011)

The Dow Jones Sustainability Index North America (DJSI) includes the top 20% (120 companies) of the largest 600 companies in North America. The index is evaluated and managed by the Switzerland-based investment company “Sustainable Asset Management AG.” The DJSI tracks the stock performance of these leading companies focusing on financial, environmental and social criteria. This benchmark is commonly used as an effective platform for categorizing sustainability efforts and portfolio analysis. As of September 2011, 85% of the S&P 500 companies included in the DJSI provided sustainability reports and 91% of those use the GRI framework, 3% were GRI-Reference reports and 6% were Non-GRI reporters (Figure 1).

Dow Jones Sustainability Index World

The Dow Jones Sustainability Index World was the first global sustainability benchmark launched in 1999, by SAM Indices and Dow Jones & Co. Indices. Similarly, to the DJSI-North America, the DJSI-World tracks economic, environmental and social

developments through stock performance, accounting for the top 10% of the 2500 largest companies, which are included in the “Dow Jones Global Total Stock Market Index” 98% of the S&P 500 companies included in the DJSI-World provided reporting and of those reports, 87% were GRI reports, 4% were GRI-Reference reports and 9% were Non-GRI reporters (Figure 1).

NASDAQ OMX CRD Global Sustainability Index (As of June 2011)

The NASDAQ’s OMX CRD Global Sustainability Index is another commonly used sustainability benchmark, for it is an equally weighted equity index for companies involved in sustainability traded on the US stock exchange. This index also tracks the performance of companies based on sustainability reporting, evaluating companies taking a leadership role in disclose on carbon footprint, energy use, water consumption, hazardous and non-hazardous waste, employee safety, workforce diversity, management composition and community investment (G&A Institute, 2015). The index evaluates 100 companies, which voluntarily report on carbon footprint, energy usage, water consumption, hazardous and non-hazardous waste, employee safety, workforce diversity, management composition, and community investment. These categories are equally weighted. Of the 100 companies, 97% provided sustainability reports, where 89% were GRI reports, 2% were GRI-Referenced, and 9% were Non-GRI reporters (Figure 1).

Ratings & Rankings Association Analysis

Carbon Disclosure Project (CDP), Disclosure and Performance Score (As of September 2012)

The Carbon Disclosure Project is a scoring system designated to companies which disclose sustainability performance. Companies can be given both a CDP Disclosure Score or a CDP Performance Score, depending on the type and quality of transparency. The CDP Disclosure Score is a 100-point scale based on the comprehensiveness of a company's transparency regarding carbon emissions measurements, climate-related actions, internal information strategies and third-party verification. The CDP Disclosure Score is based purely on the quality of disclosure not the merit of climate action and performance itself. According to the CDP organization, which utilized the GRI framework received higher disclosure scores in 2012. Of the S&P 500 companies the GRI Reporters had an average score of 70-72%, GRI Reference companies received scores averaging 74-76%, Non-GRI reports received scores averaging 66-68%, while companies providing No Report had an average score of 52-54%.

CDP Performance Scores 2012 (as of September 2012)

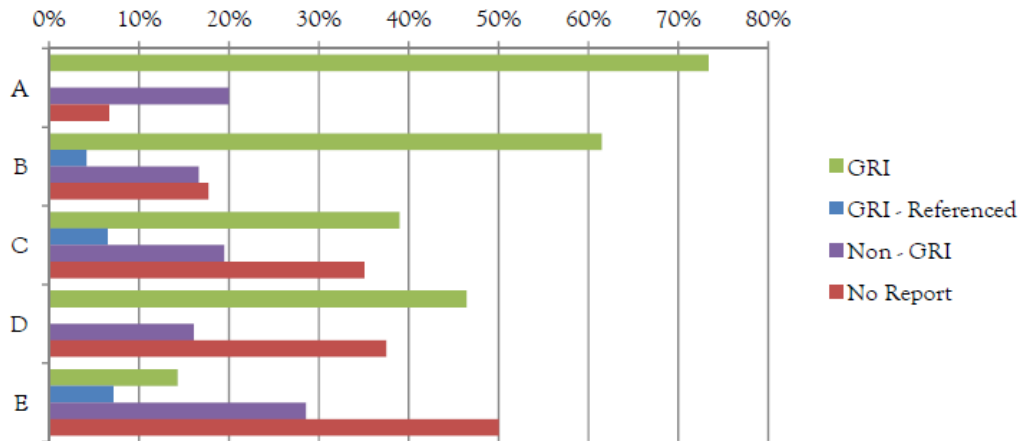


Figure 2: (G&A Institute Report pp. 28) Percentage of companies assigned each CDP Performance Score Band broken down by reporting type.

The CDP Performance Score is granted to businesses with a CDP Disclosure score of above 50, only because the level of disclosure is not conducive to evaluation. Scores are evaluated into five bands of performance: Band A/A- (>70%) is a fully integrated climate strategy driving significant maturity in climate change initiatives, Band B (>50%) is an integrated climate change strategy, where not all initiatives are fully established, Band C (>30%) is some activity on climate change with varied levels of integration of those initiatives into strategy, Band D (>15%) is limited evidence of mitigation or adaptation initiatives with no or limited strategy on climate change, Band E (>15%) is little evidence on initiatives on carbon management potentially due to companies just beginning to take action on climate change. Companies are scored on an

individual basis and indicators of climate action and strategy will differ with each business.

As shown in Figure 2, for companies of the S&P 500 categorized as Band A, over 70% were GRI reporters, no companies were GRI Reference reporters, 20% were Non-GRI, and less than 10% were had No-Report. For companies scored in Band B, GRI Reporters were over 60%, GRI-Reference reporters about 5%, Non-GRI reporters and No reports, both were under 20%. Band C scoring comprised of less than 40% GRI reporters, less than 10% GRI reference reporters, almost 20% Non-GRI reports, and over 30% No report companies. Band D comprised of less than 50% GRI reports, no GRI- Reference reporters, about 15% Non-GRI reporters and almost 40% No reports. Lastly, Band E had less than 15% GRI reporters, less than 10% GRI-reference reports, slightly less than 30% Non-GRI reports and 50% No report.

Glassdoor® (As of July 2012)

Glassdoor is a free online service offering community “crowd-sourcing” data about companies from an employee standpoint. This information includes anonymous salary information, company review, interview questions, etc. posted by employees, job seekers and the company itself. For further information see G&A Institute Report page 29, of the “Percentage of employees who would recommend the company to a friend,” GRI reporting companies scored 60-65%, while GRI- Referenced companies scored below 55%, and Non-GRI and No Report both scored slightly higher than 55%. For “Culture & Value” GRI reporter scored near a 3.5, GRI referenced reporters, slightly above a 3.1, Non-GRI reporters scored a 3.3 and No report about a 3.25. The “CEO

Approval Rating Percentage” was comprised of GRI reporters scoring between a 74-76%, GRI-Referenced reports a 70-72%, Non-GRI reporters a 72-74% and No report about a 70%. For “Employee Satisfaction” GRI companies scored a 3.25, GRI referenced companies scored near a 3.1, Non-GRI reports between a 3.1-3.5 and no reports scored almost a 3.1. In all of the employees generated ratings, GRI reporting companies scored the highest.

CSRHub®

The CSRHub is a company focused on providing sustainability ratings for as many companies as possible, which demonstrate corporate social responsibility (CSR). The organization has information regarding sustainability ratings for nearly 6,000 companies from 135 different industries in 70 different countries. CSRHub converts data on sustainability and CSR into a numerical scale to help standardize benchmarks and differences within the sector. Final ratings only include companies with significant amounts of data to support final categorization. Sustainability ratings are separated into four categories community, employees, environment, and governance, as well as an overall rating. Companies which provided GRI reports scored the highest across all four categories with an overall rating of 57 (see G&A Institute Report, pp 30). Non-reporting companies scored the least, with an average score of 44. In all categories, GRI reporters scored the highest, next GRI-Referenced companies, followed by Non-GRI companies, and lastly, No Report companies.

Brandlogic and CRD Analysis Sustainability Leadership Report

This report was published on June 7, 2012, in the “Sustainability Leadership Report: Measuring Perception vs. Reality.” The report quantified the actual vs. perceived performance of 100 leading companies in the areas of environmental, social and governance (ESG) factors. This study also included a detailed scoring of each company along with the Sustainability IQ Matrix™. The Sustainability IQ Matrix™ was included as a visual framework for the 100 companies to express sustainability across four quadrants “Challengers,” “Leaders,” “Laggards” and “Promoters.” These categories were defined as following “Challengers [are] firms that are not getting enough credit for their actual ESG performance, Leaders [are] firms that have relatively high ESG performance and are successfully communicating their achievements, Laggards [are] firms that have shown a relatively low level of commitment to ESG, Promoters [are] firms that are getting more credit than average despite lower than average performance” (G&A Institute Report, pp. 31). According to The Bradlogic Corporate Sustainability IQ Matrix, of the S&P500 companies in the Challenger category, 91% of firms were GRI reports and 9% were GRI references, no firms were Non-GRI or No Report firms. In the Leader category, 100% of companies were GRI reporters. Laggard accounted for 42% GRI reporters, no GRI-Referenced, 33% Non-GRI, and 25% No Report. The Promoter category accounted for 45% GRI firms, no GRI-Reference, 11% Non-GRI and 44% No Report.

Bloomberg ESG Disclosure Score

The Bloomberg ESG Disclosure Score ranks companies, which provide environmental, societal, and governance (ESG) disclosure, on a 0.1 to 100 scoring system. Bloomberg weighs different points of importance and relevance catering to individual industries. Bloomberg tests approximately 5,000 publicly-listed companies, focusing on 120 indicators. Of the S&P500 companies GRI reporter received the highest average score of 41, while companies GRI-Referenced reports scored between 30-32, Non-GRI about 25 and no report about 15 (G&A Institute Report pp.33). Furthermore, of the top 34 companies with the highest scores were all GRI reporters, whereas 85% of the bottom 34 companies were non-reporters.

In short, according to the G&A Institute Research Report, “there was a positive association between the GRI Reporting companies and inclusion in the Dow Jones Sustainability Index North American and World, Inclusion in NASDAQ’s OMX CRD Global Sustainability Index, a higher Carbon Disclosure Project (CDO) Disclosure and Performance Score, more favorable Glassdoor Ratings, more favorable CSRHub Rankings, preferred placement in Brandlogic’s and CRD Analytics ‘Corporate Sustainability IQ Matrix,’ and higher Bloomberg ESG Disclosure Scores... the analysis also found some association for.. inclusion in Newsweek’s Greenest Companies Rankings, inclusion CR 100 Best Corporate Citizens (CR magazine), and inclusion in Ethisphere’s World’s Most Ethical Companies” (pp.9-10).

Financial Analysis

Annualized Profit Data Analysis

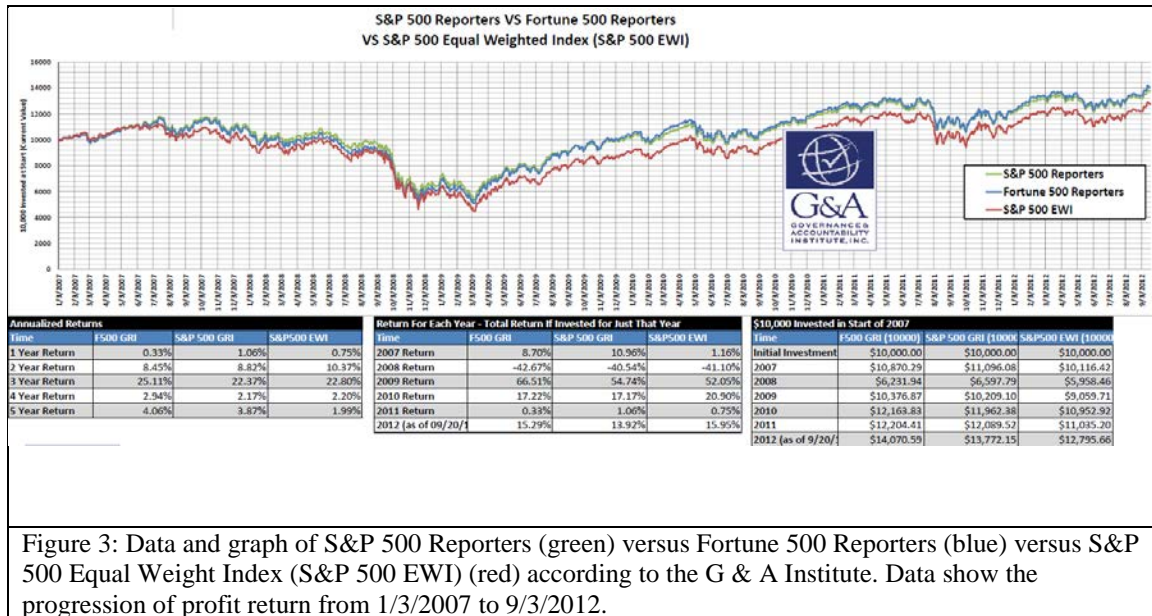


Figure 3: Data and graph of S&P 500 Reporters (green) versus Fortune 500 Reporters (blue) versus S&P 500 Equal Weight Index (S&P 500 EWI) (red) according to the G & A Institute. Data show the progression of profit return from 1/3/2007 to 9/3/2012.

A five-year annualized return of the S&P 500 Reporters compared and the Fortune 500 reporters (F500 GRI) compared to the popular benchmark, S&P 500 Equal Weighted Index. The Fortune 500 GRI- Reporting companies represented in 2007-2010 were taken from the 2009 list and 2011-2012 from the 2011 list. The S&P 500 GRI reporters represented in 2007-2012 were from the 2010 list and 2011-2012 from the 2011 list. Companies were allowed a one-year gap in ESG reporting but were removed from the portfolio if no report was submitted for two consecutive years. Figure 3 shows the progression on annualized EWI profit return over 5 years of GRI reporting companies. The returns remain similar in years 2007-2008 when in 2009 the gap between the Fortune 500 and S&P 500 companies begins to deviate from the S&P EWI. This deviation continues for the remainder of the analysis.

The annualized return was separated into years and represented by percentages. In Year 1, F500 GRI had a return of 0.33%, S&P 500 GRI a return of 1.06% and the S&P

500 EWI a 0.75% return. Year 2 returns were as followed, F500 GRI 8.45%, S&P 500 GRI 8.82%, and S&P 500 EWI 10.37%. Year 3 showed a 25.11% return for F500 GRI, 22.37% return for S&P 500 GRI, and 22.80% return for the S&P EWI. In Year 4, F500 GRI had a 2.94% return, S&P 500 GRI had a 2.17% return and the S&P 500 EWI had a 2.20% return. Lastly, Year 5 returns were 4.06% for F500 GRI companies, 3.87% for S&P 500 GRI companies, and 1.99% for the S&P 500 EWI. No other variables, other than F500 or S&P 500 GRI status, were taken into account in the analysis of this data.

Annualized: Percent difference from S&P 500 EWI

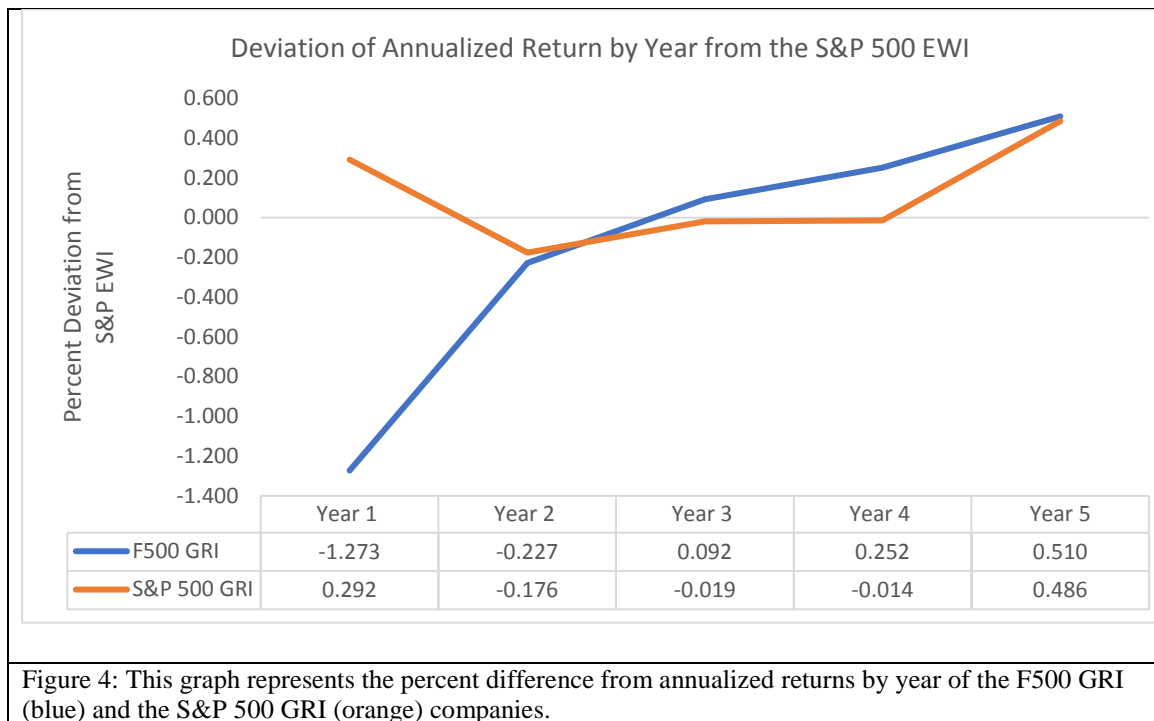


Figure 4 shows the deviation of the annualized return of the F500 and S&P 500 companies, which were GRI reporters, compared to the S&P 500 EWI benchmark. In Year 1, F500 GRI companies on average were -1.273% below the S&P EWI, while the

S&P 500 companies were 0.292% above the benchmark. In Year 2, both fell below the benchmark with F500 GRI at -0.227% and S&P 500 GRI at -0.176%. In Year 3, the F500 GRI rose above the benchmark at 0.092% and the S&P 500 GRI at -0.091%. In Year 4, the F500 GRI showed an increased deviation to 0.252%, and the S&P 500 GRI remain slightly below the benchmark at -0.014%. Lastly, in Year 5 the F500 GRI showed a 0.510% increase above the benchmark and the S&P 500 GRI had a 0.486% increase above the benchmark.

Investment Return of GRI Reporters

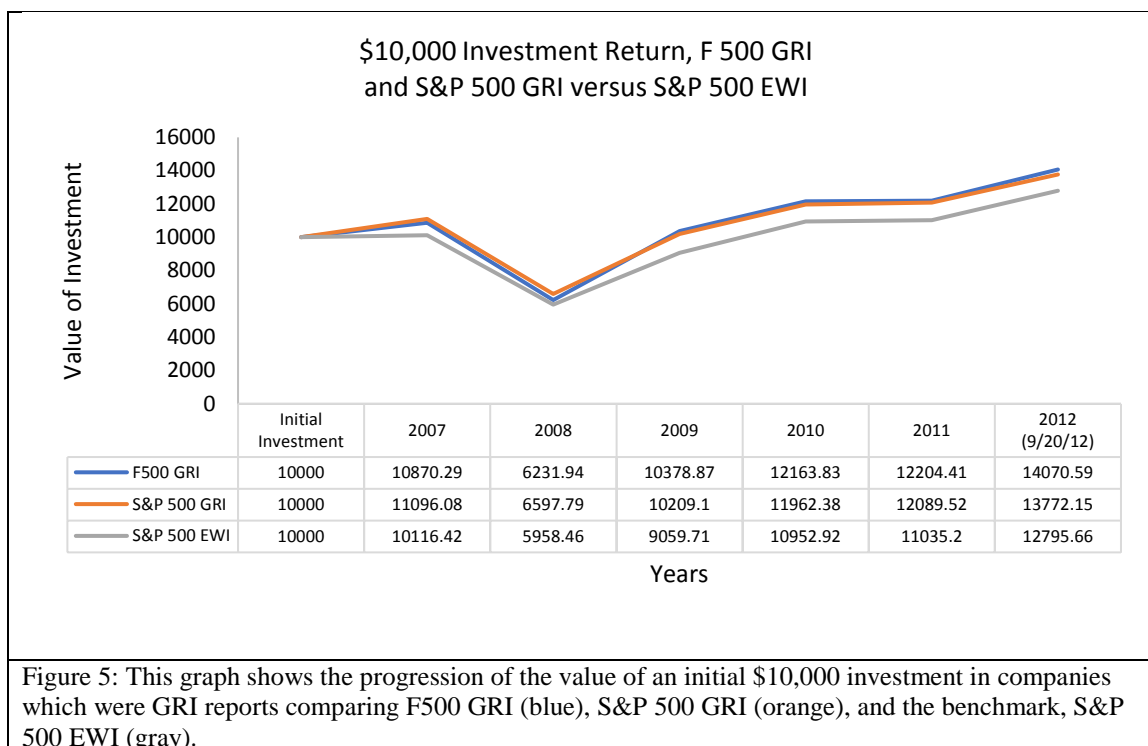


Figure 5 represents the change in the value of an initial \$10,000 investment in F500 GRI and S&P 500 GRI companies compared to the S&P EWI. Over the course of 5 years, the initial investment was worth \$14,070.59 for F 500 GRI, \$13,772.15 for the S&P 500 GRI, and \$12795.66 for the S&P 500 EWI. That is a 40.71% increase for the

F500 GRI investment, a 37.72% increase for the S&P 500 GRI investment and a 27.96% increase for the S&P EWI.

Investment Return Percent Difference

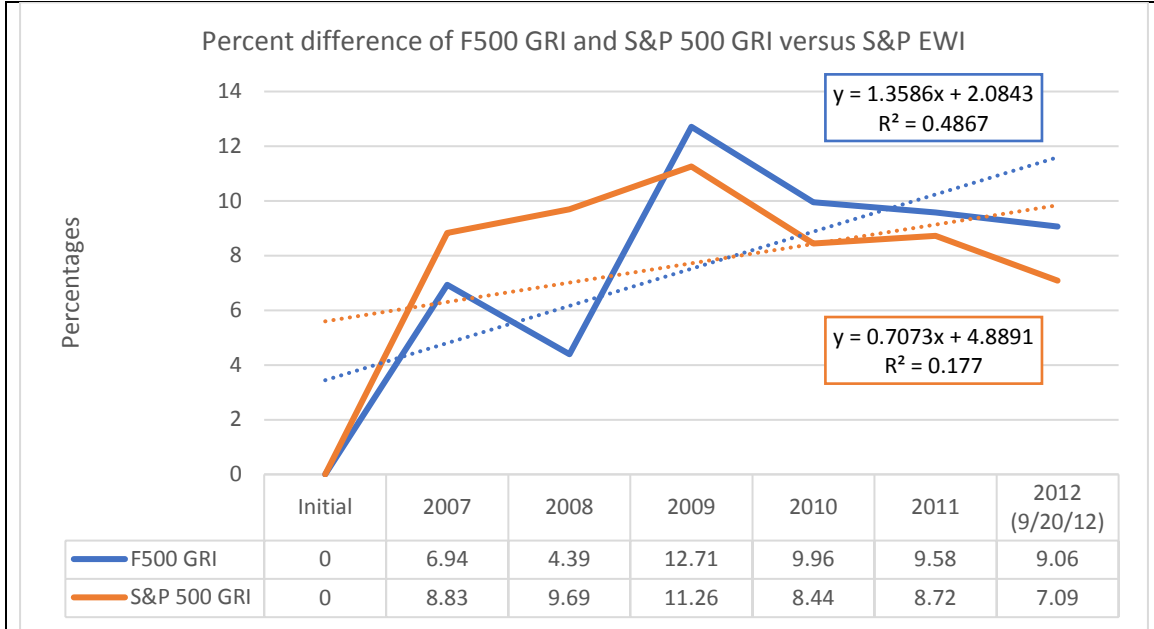


Figure 6: Data collected from Figure 5 was analyzed by percent difference from the S&P 500 EWI benchmark. This figure shows the annualized value of a \$10,000 investment over the course of five years for both F500 GRI and S&P 500 GRI companies. It includes regression lines and R² values to accentuate the trends.

Annualized returns of the initial \$10,000 investment were analyzed by percent difference to the S&P EWI benchmark in order to assess differences in return. Over the course of five years, both F500 GRI and S&P 500 GRI showed higher percent returns and increasing trends overall. The F500 GRI showed a 6.94% increase in 2007, 4.39% in 2008, 12.71 in 2009, 9.96% in 2010, 9.58% in 2011 and 9.06 in 2012. The regression shows a positive and increasing slope, with a significant regression coefficient of 0.4867. The S&P 500 GRI companies has a return of investment of 8.83% in 2007, 9.69% in

2008, 11.26% in 2009, 8.44% in 2010, 8.72% in 2011, and 7.09% in 2012. The slope of the regression is less than the F500 GRI, but also it is positive. The regression coefficient was low at 0.177. Overall the F500 GRI returns showed steadier, faster-increasing returns. Both groups GRI groups showed a significant increase in return after the 5 years with a 9.06% increase of \$1,274.93 for the F500 GRI and 7.09% return valued at \$976.49 for the S&P 500 GRI.

Discussion

This study was addressing the question of *if a corporation is utilizing the GRI reporting framework, then non-fiscal indicators will be comprehensive and reliable, which will result in better performance ratings for overall company reputation and improved profit return*. In other words, is there a competitive advantage to sustainability reporting using a standardized framework? When looking into how companies are expressing their sustainability initiatives, do the comprehensibility and reliability of a standardized reporting framework make a measurable difference?

Specifically, the data focused on how providing sustainability reporting could positively influence business. The results of this study show that there are some significant influences of GRI reporting on both performance (recognition by other indices) and profit return (positive correlation with investment return). That being said, the specific variations and explanations for these correlations are not fully understood and further analysis is required to fully understand the scope of reporting affluence.

Performance Results

There was a strong correlation between companies using the GRI framework and recognition by other agencies for high standards of sustainability. When referring back to Figure 1, of the S&P 500 companies evaluated the companies which provided sustainability reports that utilized the GRI framework were consistently recognized at the highest percentage by other agencies and indices. Furthermore, when looking at the other commonly used indices and rankings individually, GRI reporters were of the highest percentage represented and received the highest recognition and scores overall.

This does not imply that utilizing the GRI framework will guarantee recognition, but when sustainability efforts are properly presented in a comprehensive manner the likelihood of acknowledgment increases. It is important to note that the benefit of utilizing the GRI framework is there is a set standardized way for information to be presented making the interpretation far more successful than other techniques.

For example, of the 110 companies selected in 2011 for “The World’s Most Ethical Companies,” 76% of the S&P500 companies included in the Ethisphere list provided reports and 90% were GRI reports. In other words, approximately 84 of those 110 companies provided sustainability reports and 75 of them were GRI reporters. That means 68.4% of the total companies selected for “The World’s Most Ethical Companies” in 2011 provided a GRI report. This is not entirely accurate because the study limited data analysis to only the S&P 500 companies, of the 110 companies on the list, there could have been more than 75 GRI reports. Companies providing GRI reports are of the majority.

Furthermore, The Dow Jones Sustainability Indices (DJSI) has quickly become the principle global benchmark for sustainability since it’s creating in 1999. It focuses on identifying and ranking the top 10% of companies leading in sustainable developments from 64 industry groups (Knopfel, 2001). High levels of scrutiny, monitoring, and cross-checking has made the DJSI a powerful representation for investors diversifying into companies committed to valuing economic, environmental, and social developments (Knopfel, 2001). Of the top 20% of the largest 600 companies of the Dow Jones Sustainability Index- North America, 85% of the S&P 500 companies included in the DJSI provided sustainability reports and 91% of those use the GRI framework. And of

the top 10% of the 2,500 largest companies, which are included in the Dow Jones Sustainability Index-World, 98% of the S&P 500 companies included in the DJSI-World provided sustainability reports and of those reports, 87% were GRI reports. In both of these exclusive sustainability indices, GRI reports were consistently used as the primary framework. This is a significant indicator that not only does GRI reporting provide superior sustainability reporting, but companies which invest in adopting sustainability practices to the GRI framework, perform better according to other noteworthy authorities.

The competitive advantage of sustainability reporting can be seen through improved public perception and recognition by other trustworthy agencies. This can indirectly increase company profit by providing investors and customers with the verification and transparency they desire. Long-term, companies can expect to see improvements in their business value when sustainable developments and reports are implemented appropriately. This provides firms with a competitive advantage over companies who do not invest in sustainability strategies and predictably better outcomes on financial markets (Lopez, et. al., 2007).

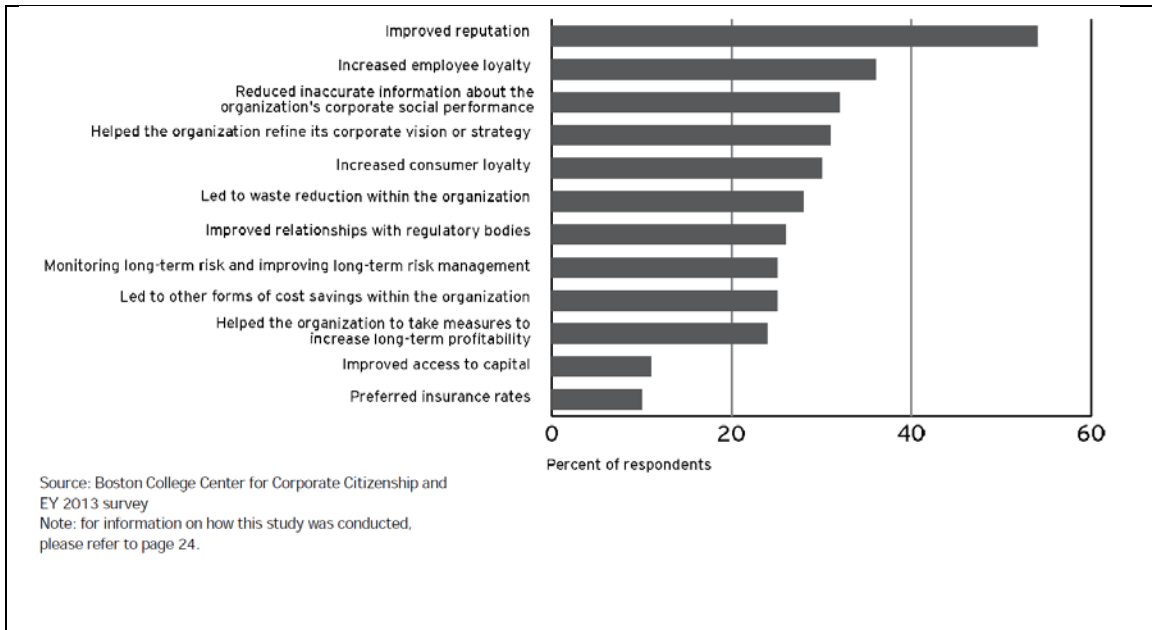


Figure 7- Ways that sustainability reporting provided value: Study conducted (February 26- March 8, 2013) by EY and the Center for Corporate Citizenship at Boston College. The survey was conducted via email of members of the Center for Corporate Citizenship and other professionals, there were 579 total responses, 391 organizations which had sustainability reports. The graph shows reasons for the added value of sustainability reporting by percentage.

A survey conducted by the Ernst & Young LLP (EY) and the Boston College Center for Corporate Citizenship shown in Figure 7, confirm that improved reputation is the number one perceived value of sustainability reporting (The Value of Sustainability Reporting, 2016). This is consistent with the GRI Report findings, for recognition by multiple indices and rankings will help improve the reputation of a business. Improved reputation holds great incentives for business to prioritize sustainability reporting as both investors and consumers are devoted to the promise of long-term shareholder value by implementing ESG practices. As the demand for sustainable practices and development increases companies, which have reports which properly present data in a comprehensive manner, will receive higher recognition and acknowledgment. This momentum will continue to increase business stature and success, as investors, customers and agencies, look toward reputable third-party sources for business verification. According to the data

in the 2012 G&A Institute report, there is a positive correlation between business who provide sustainability reporting using the GRI framework and an overall concept of company performance.

Financial Results

There are some noticeable trends presented in the financial analysis provided by the G&A Institute Report, but they are inconclusive. First and foremost, the data representing the annual profit returns does show an increase over time, where the Fortune 500 GRI reporters and the S&P 500 GRI reports both showed higher returns than the S&P EWI benchmark (Figure 3). When looking at these numbers more closely (Figure 4), the difference in annualized return from never reach more than 1.3% from the benchmark. This is not a significant variation, though the trends show that after 5 years there is a consistent, steady increase in profit returns. The value here is in the trends that sustainability reporting provides for companies. Sustainability reporting can help provide a consistent, stabilizing force for company image and perception.

The profit analysis provided by the G&A Institute Report gives a relatively limited view of what is actually taking place. In future studies, an analysis comparing the profit stability and return of GRI framework companies versus non-GRI framework companies would show a clearer picture of the influences of the framework itself. Not to mention, there is no inclusion of other variables or explanation of market conditions when this data was collected. When looked at in a general sense, the data shows GRI reporting companies show increasing annual returns higher than the benchmark, but this

doesn't mean very much in the grand scheme of things. Especially without the proper comparisons and assessments, no definite conclusion can be made from this data.

The return on investment analysis provides a better understanding of the influence of GRI reporting. The deviation is shown in Figure 6 clearly shows both the Fortune 500 GRI reporters and the S&P 500 reporters consistently above the S&P EWI. Both regressions also show a positive trend (slope). The Fortune 500 return on investment shows a steeper trend than the S&P 500 reporters insinuating that it would be wisest to invest in a Fortune 500 Reporters. Fundamentally, investing in companies that provide sustainability reports is most likely going to secure a higher return over time compared to a company which does not provide a report. Nonetheless, according to the G&A Institute data, investments in a company providing a GRI report will provide higher returns. This has become an important trend for entrepreneurs, stockholders, and shareholders are investigating and specifically interested in companies with strong ethical practices and reporting standards. Companies are being scrutinized, publicly at a much higher level than ever before, having a robust sustainability program coupled with GRI reporting can truly help a company maintain public appearance and quality clientele and support.

Conclusion

The GRI sustainability reporting initiative has created a framework comparable to that of traditional financial reporting in rigor, comparability, audit-ability and general appearance (Willis, 2003). The quality of information provided by GRI reports provides investors with information regarding a company's policy, environmental, social and

economic impacts and overall performance. This information when utilized correctly can be highly lucrative for companies that maximize sustainability performance and accountability. Considering, companies which provide sustainability reports are quickly becoming the majority. It's increasingly significant for companies wanting to stay competitive to invest in proper reporting techniques and methodologies. As observed, market trends in most major sustainability indices and ranking schemes are enforcing the need for adequate reporting. This helps with recognition and accumulation of business prerogative regarding non-fiscal indicators. In order to remain ahead of market trends, a common goal for most business ventures, sustainability reporting is quickly becoming a necessary attribute.

The challenge of sustainability reporting is creating comprehensive standards and guidelines. which encompass a wide variety of businesses, industries, and practices. Fundamentally, The GRI Guidelines incorporate sustainability in a way, which put a typically 'non-measurable' practice in the terminology and format, more common to the financial and business world. Converting ethical, environmental, and social practices into a monetary value provide distinct markers and interpretations of non-fiscal performance. These non-fiscal performance markers are becoming increasingly important to shareholders, stakeholder, agencies, media outlets, and so forth. Business is no longer operating behind closed doors and having guidelines such as the GRI framework allows for business to have some level of presentable control over their business practices. The level of transparency required to stay competitive in today's business environment can be highly influential both positively and negatively.

In conclusion, sustainability reporting does influence business and it does matter in today's market. Companies are not only encouraged to prioritize non-fiscal performance markers but also need to inform the public about their ethos. To date, there is no better mechanism, than the GRI reporting framework for creating a report, which helps improve business standing. Overall, companies which are invested in improving their sustainability standards should couple this with a GRI reporting framework in order to get adequate recognition, representation, and acknowledgment of company practices. Sustainability reporting is a modern competitive advantage.

In the sustainability movement, there are critiques of greenwashing and interrogative scrutiny of the actual incentives behind business ventures. In order to achieve a high-level of sustainability for corporate process and performance, there must be a long-term commitment from management boards and stakeholder engagement in order to achieve significant, measurable results. Sustainability is not a quick fix for getting ahead, but when implemented properly can be used as a tool to outperform counterparts in both the stock market and accounting performance (Eccles, et.al, 2014). Overall sustainability is a multifaceted movement involving corporate initiatives in many areas of management and business practice. In order to have successful sustainability reporting, a company must first have developed significant sustainable progress on which to report on.

In many cases, the initial investment into sustainability involves moving away from the traditional corporate profit maximization in order to develop the groundwork for sustainable developments. This adjustment in traditional business practices is a fundamental step towards shifting market trends towards favoring better ethos practices.

That being said, over-time sustainability can help maximize profit, but this must be a long-term investment. In a long-term, 18-year study of corporate sustainability, the '*High Sustainability*' firms outperformed the '*Low Sustainability*' firms both in the stock market and accounting measures (Eccles, et.al, 2014) despite the '*Low Sustainability*' companies prioritizing maximized profit. This speaks volumes of the significance for business to adopt a more ethical management scheme for business practices.

The role of business in society is changing. They are becoming embedded and held responsible for their influences on the planet, the people, and profit. This shift is requiring alterations to the traditional 'profit first' management techniques. Despite moving away from purely profit-centric strategies, businesses can be expected to thrive. Fundamentally, competitive advantage and market trends will push businesses to prioritize more than profit in order to achieve better profit.

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