Sustainability and Business Success

(Management summary)

A study conducted by

Munich University of Technology and
the rating agency oekom research

in June 2005

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Conclusion

The results of the study demonstrate statistically significant positive correlations between the overall score in the sustainability rating and the ROI and EPS values averaged over the period from 2001 to 2003. As far as the socio-cultural aspects of the rating are concerned, significant positive correlations can be seen between performance in the "Stuff Relations" and "External Relations" categories and the averaged EPS values. Corporate commitment in these areas does not therefore have a detrimental effect on profits, rather it has a positive impact on business success.

On the basis of the statistical results, it can be stated clearly that there is no negative correlation between the sustainability rating and the ROI and EPS financial indicators. Consequently, sustainability does not entail lower returns.

1. Objectives of the study project

To investigate the question of whether environmentally and socially responsible action by companies and success in terms of economic criteria are fundamentally irreconcilable or conjointly achievable goals, the Psychology Department of Munich University of Technology (TUM) conducted a study project on "Sustainability and business success". oekom research AG was a partner in the project. As a pioneering company in the field of independent sustainability ratings in Germany, oekom research possesses a high level of expertise in evaluating companies according to environmental as well as social and cultural criteria. In addition, the rating agency has at its disposal an extensive and representative database.

Under the direction of lecturer Dr. Jürgen Glaser, students on the "Technology- and management-oriented business administration" course examined statistical correlations between the results of oekom research AG's Corporate Responsibility Rating and selected indicators of corporate success. The focus here was principally on the responsible and sustainable management of human resources.

2. Methods and results

The basis for the statistical analyses was provided by data from a total of 704 companies which have been evaluated by oekom research AG over the last few years. For 333 of these companies we have carried out more detailed analyses. These are broken down in the Social/Cultural Rating into the areas of management (e.g. corporate mission statement and objectives, co-determination), employees (e.g. working hours, health & safety) and stakeholders (e.g. suppliers, customers) and in the Environmental Rating into the areas of environmental management, products and services and eco-efficiency.

oekom research AG's sustainability rating methodology involves calculating results in the various areas according to a predetermined weighting system, grading them in terms of social compatibility, cultural compatibility and environmental compatibility and ultimately producing an overall evaluation (see Figure 1). The analyses also include a comparison of the companies being evaluated with others in the same branch of the economy, on the basis of which a "best-in-class" rating is awarded for the most positive rating results in the industry concerned.
The absolute (overall score) and the relative (best-in-class) ratings constitute sustainability-related criteria for decision making by capital investors, and these criteria can be applied in various combinations.

For a more detailed description of the sustainability rating, go to ***www.oekom-research.com.***

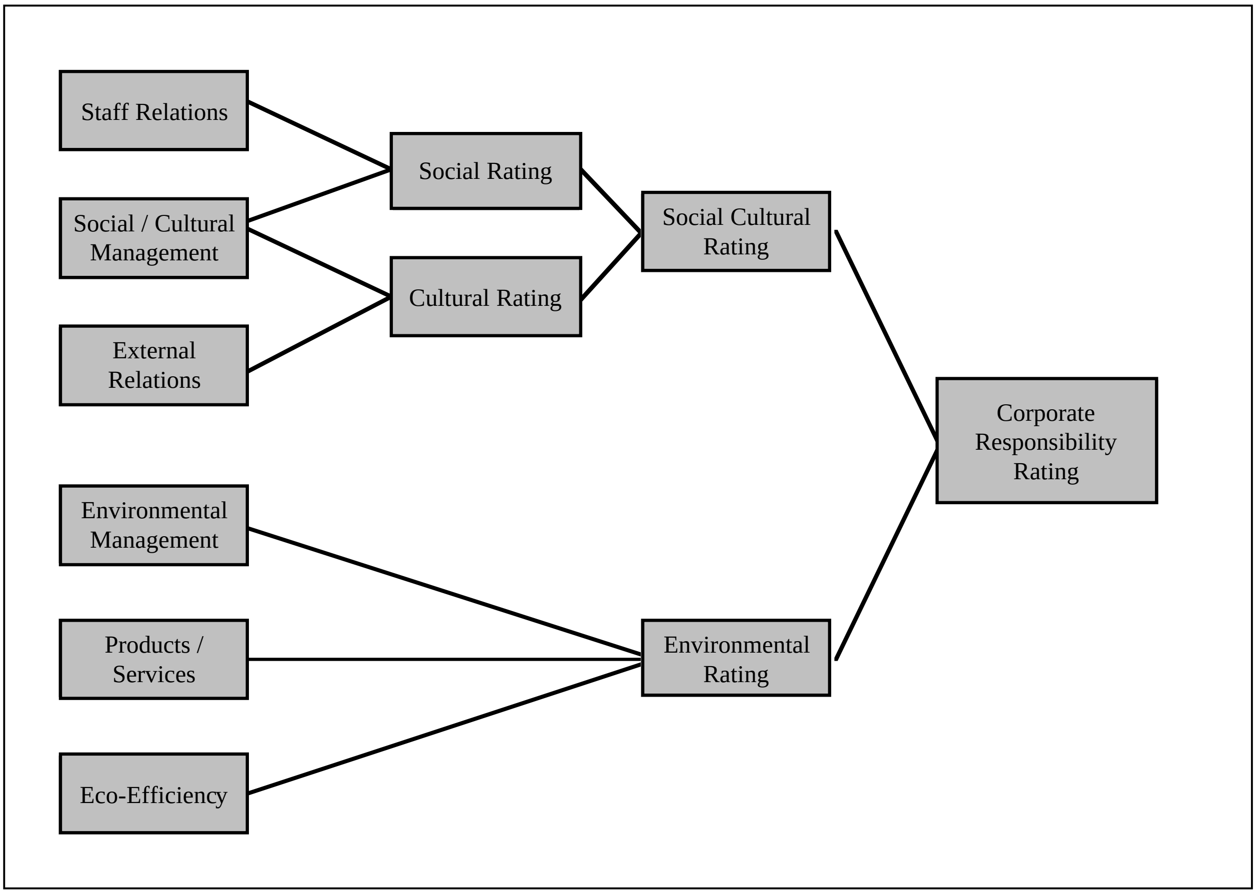
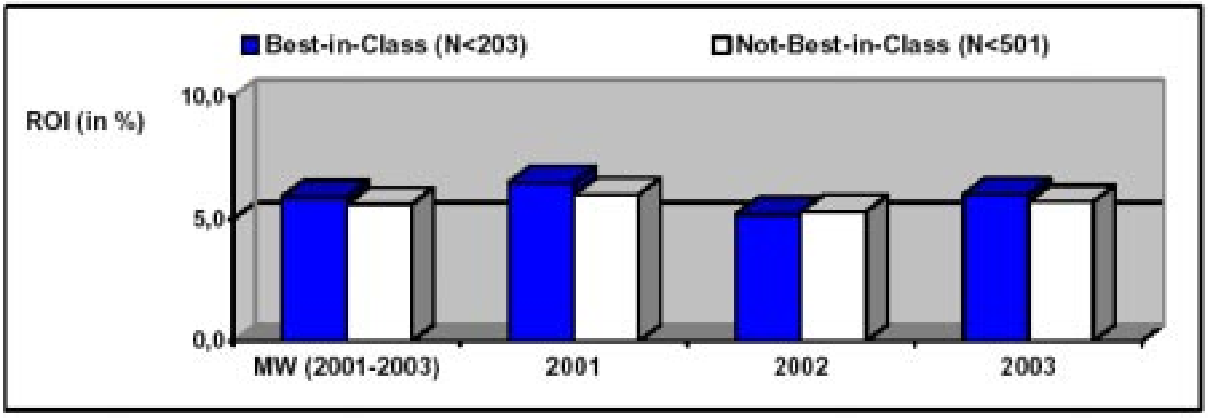


Figure 1: Structure of oekom research AG's sustainability rating (simplified version)

Return on investment (ROI) and earnings per share (EPS) in euros were chosen as indicators of a company's economic success. The study relates to the period from 2001 to 2003.

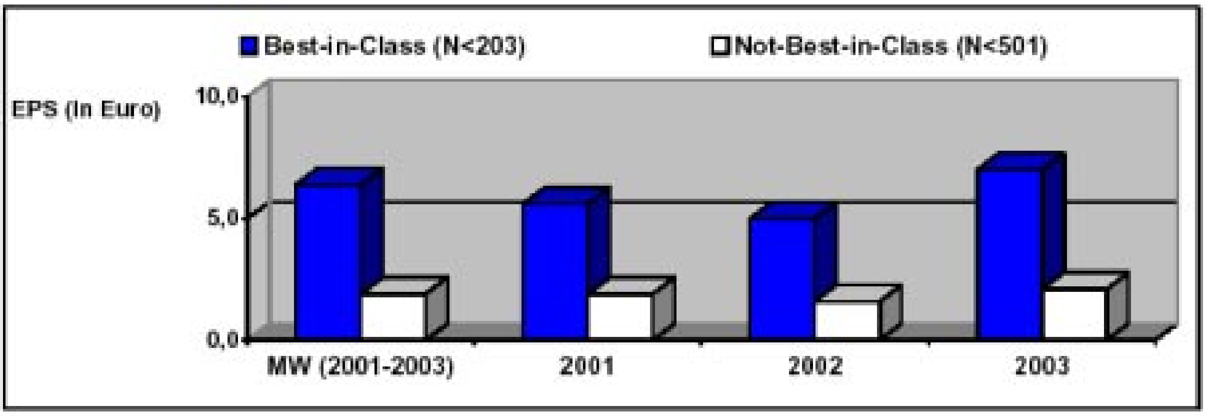
As a first step in the analysis, the averaged ROI and the averaged EPS of all 203 "best-in-class" companies were compared with the values of the remaining 501 companies, whose ratings in the sectoral comparison were lower in relative terms.
The average values of the financial ratios of the individual companies were calculated from their annual ratios in order to allow for any fluctuations between the three evaluation dates.

The averaged ROI and EPS values turn out to be higher for the companies in the "best-in-class" group, the difference being slight in the case of the ROI but somewhat more marked in the case of the EPS (see Figures 2 and 3). The statistical survey shows, however, that the differences identified are not significant (confirmed by distribution-free Mann-Whitney U test).



MW = average value

Figure 2: Comparisons of average ROI values of "best-in-class" rated companies and of "not-best-in-class" rated companies.



MW = average value

Figure 3: Comparisons of average EPS values of "best-in-class" rated companies and of "not-best-in-class" rated companies.

The ROI and EPS values of the "Best in class" and "Not best in class" groups were then examined to determine their correlational link. Due to the non-normal distribution of the data, the distribution-free Spearman rank correlation coefficient was used for this purpose.

The result shows, given an error probability of below five per cent ($p<.05$), statistically significant positive correlations between the overall score in the sustainability rating and the averaged values of ROI and EPS. With values of below .10, the effect size of these correlations tends to be at the lower end of the scale. Nonetheless, on the basis of these results it can be stated unambiguously and backed by statistical evidence that no negative correlation exists between the sustainability rating and the underlying financial ratios. This means that in the sample studied sustainability is on the whole not accompanied by lower returns.

With regard to the socio-cultural aspects of the rating, on the one hand statistically significant positive correlations with the average EPS are revealed in the areas of "employees" and "external stakeholders", while on the other hand no significant negative correlations with the ROI and the EPS are evident, either in relation to the annual or to the averaged values. It can thus be concluded that corporate commitment in these areas does not erode profits but tends rather to have a positive impact on business success. A schematic representation of the correlations identified can be seen in Table 1.

	N <	ROI MW	EPS MW	ROI 01	ROI 02	ROI 03	EPS 01	EPS 02	EPS 03
Corporate Responisbility Rating	704	+	+	0	0	++	+	0	0
Staff Relations	333	0	++	0	0	0	++	++	++
Social / Cultural Management	333	0	0	0	0	0	0	0	0
External Relations	333	0	+	+	0	0	0	+	0

0 ***= no statistically significant correlation***
\+ ***= positive correlation with $p < .05$ and $0.08 < r < .13$*** *(Spearman rank correlation)*
++ ***= positive correlation with $p < .01$ and $0.12 < r < .22$*** *(Spearman rank correlation)*
MW = average value

Table 1: Schematic representation of the empirical correlations between the overall rating, as well as socio-cultural aspects of the sustainability rating, and the financial success of a business.

Besides these statistical mean-value comparisons and correlational analyses, in which sectors have been examined in aggregate, initial results relating to comparisons between different sectors are now available. The results show two things: firstly, clear differences can be seen in correlations between sustainability and business success in the different sectors and secondly, it is apparent that, particularly in the "Oil & gas" sector, close correlations exist between indicators of sustainability in the social sphere and the business success of the companies examined.