

Sustainability Vs. Profitability

Does Socially Responsible Investing Correlate to Increased Profits?

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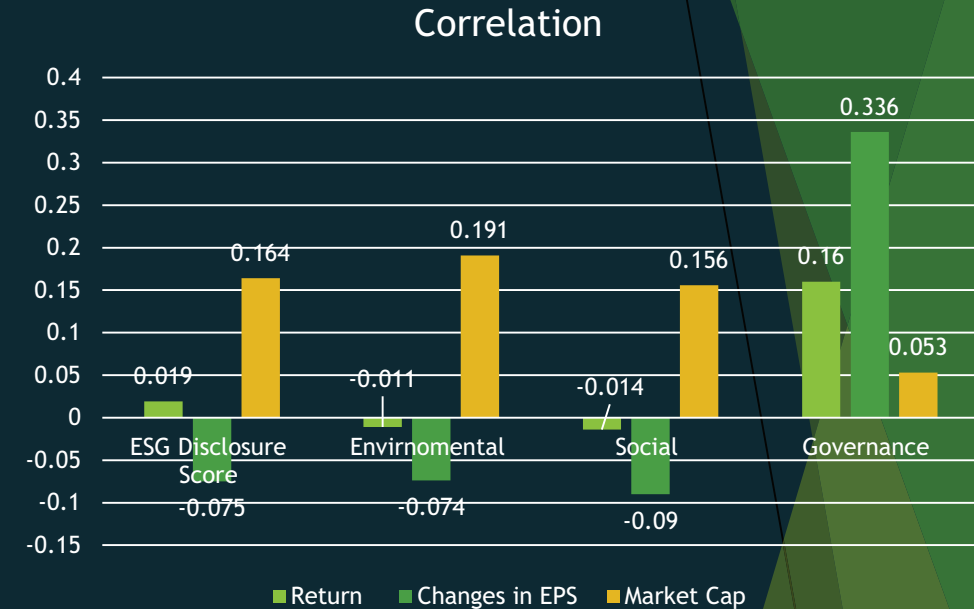
Hypothesis

- ▶ I am analyzing the link between companies who utilize sustainable practices in their business and the positive influence that can have on earnings.
- ▶ Specifically, looking at Bloomberg's Environmental, Social, and Governance (ESG) scores and the companies earning announcements.
- ▶ I am trying to prove the significance of doing good for the planet will positively correlates to an increase in profits.

Methodology

- ▶ The starting point for this research project finding the ESG scores for all the companies that the CSU Summit Fund has held.
- ▶ The companies were broken down into 10 industries:
 1. Consumer Discretionary
 2. Consumer Staples
 3. Energy
 4. Financials
 5. Health Care
 6. Industrials
 7. Information Technology
 8. Basic Materials
 9. Telecommunication Services
 10. Utilities
- ▶ Historical Prices for each company were obtained as well as Earnings Per Share and Market Cap Size
- ▶ Changes in historical prices from the previous year were calculated along with changes in Earnings Per Share for all companies
- ▶ A simple linear regression was run using SPSS a statistical analysis software.

Data



Conclusion

- ▶ For a regression analysis to be significant, r has to be greater than .5.
- ▶ In all the correlations run, none were found to be greater than .5.
- ▶ Therefore in analyzing the link between companies who utilize sustainable practices in their business and the positive influence that can have on earnings, a significant correlation was not found.

Recommendations

- ▶ The Researcher believes that the main reason a significant positive correlation was not found is due to time horizon constraints. Most companies report earnings quarterly or annually. Compared to most investments in the sustainability are not recognized immediately. Rather the profits are recognized in small increments over very long periods of time, for example 100 years.
- ▶ Also there is not a great way to measure sustainability in companies. This research utilized Bloomberg's Environmental, Social, and Governance (ESG) scores. In the future, perhaps there will be more reliable reporting standards to use.
- ▶ Lastly, I looked at historical prices, Earnings Per Share, and Company size as given by market capitalization. Although these variables did not have a positive correlation, other variables might be a better indication of how investment in sustainability measures directly correlates to increased company profits.