



# The Economics of Corporate Sustainability

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Coca-Cola Journey

Country (Global) Investors | The Coca-Cola Company

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BRANDS

VIDEOS

SUSTAINABILITY

INNOVATION

Coke Bottle 100 • EKOCENTER • Water for Africa • #cokestyle • Community Connection

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Sustainability

Overview Women Water Well-Being

Microsoft

Corporate Citizenship

New! YouthSpark Hub

2014 Citizenship Report

Working Responsibly

Serving

Helping nonprofits go green

Nonprofits can get Office 365 for free and cut your carbon footprint by 30%!

Chevron

Human Energy

Home

Human Energy Stories

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Energy Sources

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Home > Corporate Responsibility

# Sustainable Development at BASF

## Our sustainability understanding

Growing demand is putting an increasing strain on our planet. We already consume more than the Earth can regenerate. Sustainability is therefore crucial for our future. We need to balance economic, environmental and social needs to ensure a more sustainable development. Awareness of sustainability is also increasing among our stakeholders. We need to engage in an open dialogue and act together with and for our customers and other stakeholders. We partner to develop more sustainable solutions which meet society's needs. This is the growth driver for our business.



Economy



Environment



Employees and Society

## Corporate Responsibility



## Eni Upstream Sustainability



Watch the video



Human Rights



Local development



Environment



eniday



BIRRA PERONI

SUSTAINABILITY REPORT 2012/2013

LETTER TO STAKEHOLDERS | METHODOLOGICAL NOTE | THE OPINION | HIGHLIGHTS | MUSEUM | REPORT SITE MAP



ETHICS AND SUSTAINABILITY IN THE SUPPLY CHAIN



TOGETHER FOR THE ENVIRONMENT



DOLCE & GABBANA CORPORATE

## CODICE DI ETHICS

### 1. INTRODUCTION

1. Dolce & Gabbana's Mission.
2. Rationale and structure of the Code of Ethics
3. Code of Ethics and Model pursuant to Legislative Decree No. 231/2001

### 2. SECTION ONE - VALUES

1. Contrast and Harmony
2. Respect for people
3. Creativity and Entrepreneurship
4. Integrity and business Ethics
5. Responsibility and Honesty
6. Respect for the environment

### 3. SECTION TWO: RULES OF CONDUCT

1. Relations with Employees
  - 1.1 Enhancement of professional skills
  - 1.2 Health and safety protection
  - 1.3 Equal opportunities
2. Customer Relations

## INABILITY IN THE SUPPLY CHAIN

ing the qualification phase and for the entire duration of the relationship.

on the basis of a set of performance indicators that analyse the operating en  
:es for sustainable development. These are indicators and data related to hea  
environmental impact, and correct staff management.



# Definition(s)

- Corporate sustainability = Corporate Social Responsibility = Corporate Citizenship
- Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. (*World Business Council*)
- Corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. (*European Union, 2011*)
- **For economists, a self-regulation whereby firms commit to limit their adverse social and environmental impacts below the Business-As-Usual**

# The ESG criteria

- **Environmental**
  - Impact on climate change
  - Impact on local pollution...
- **Social**
  - Human rights
  - Diversity...
- **Governance**
  - Employees relations
  - Executive compensation
  - Management and organization...



# The Save Mahakam Delta Program

## **“More than 12 million mangroves have been planted**

- The Mahakam Delta has been rapidly changing over the past decade, with coastal ponds for shrimp, milkfish and crab dotting the landscape. In response to the Delta's worsening condition, Total E&P Indonesia has taken the initiative by developing the Save the Mahakam Delta Program.”



## The Science Based Targets Program

- 118 companies committed to GHG emissions reductions targets in Paris at the COP 21
  - ENEL (-25% by 2020), Coca Cola (-50% by 2020), NRG Energy (- 50% by 203, Dell, Pfizer, L'Oréal, Xerox, ...

# Goldman Sachs

## 10,000 women

“After the *10,000 Women* program, I found that my financial management skills had become finely tuned. I began to concentrate on cash flows and work to increase our profitability by minimizing our expenses. I have gained the important skill of negotiation, allowing me to effectively keep my business competitive.”



Shweta  
Auto Components Machining, Pune, India

A five-year \$100 million program. Pay for a 150-hour business training, aimed at women in developing countries.

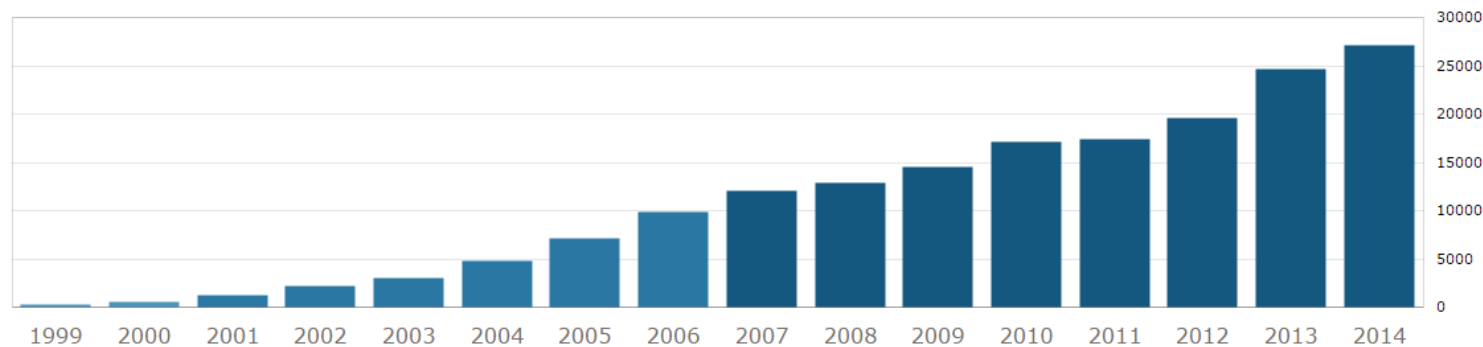


“Our **suppliers** are on board too — in fact they don't have a choice. Before they work for Thales, they must agree to meet the environmental requirements of our *Purchasing and Corporate Responsibility Charter (...)*”



“We take a clear stand against all use of child labor and it is a minimum requirement for all factories producing for H&M. Today it is rare that we discover any workers below the statutory minimum age in our supplier factories.”

- 93% of the world's largest 250 companies now publish annual corporate responsibility reports (OECD)
  - almost 60% of which are independently audited
- Arounds 28,000 ISO 14001 certificates in Italy in 2014



- 536 global chemical manufacturing companies, including 90% of the world's top 100 manufacturers, had signed on to the Responsible Care Global Charter



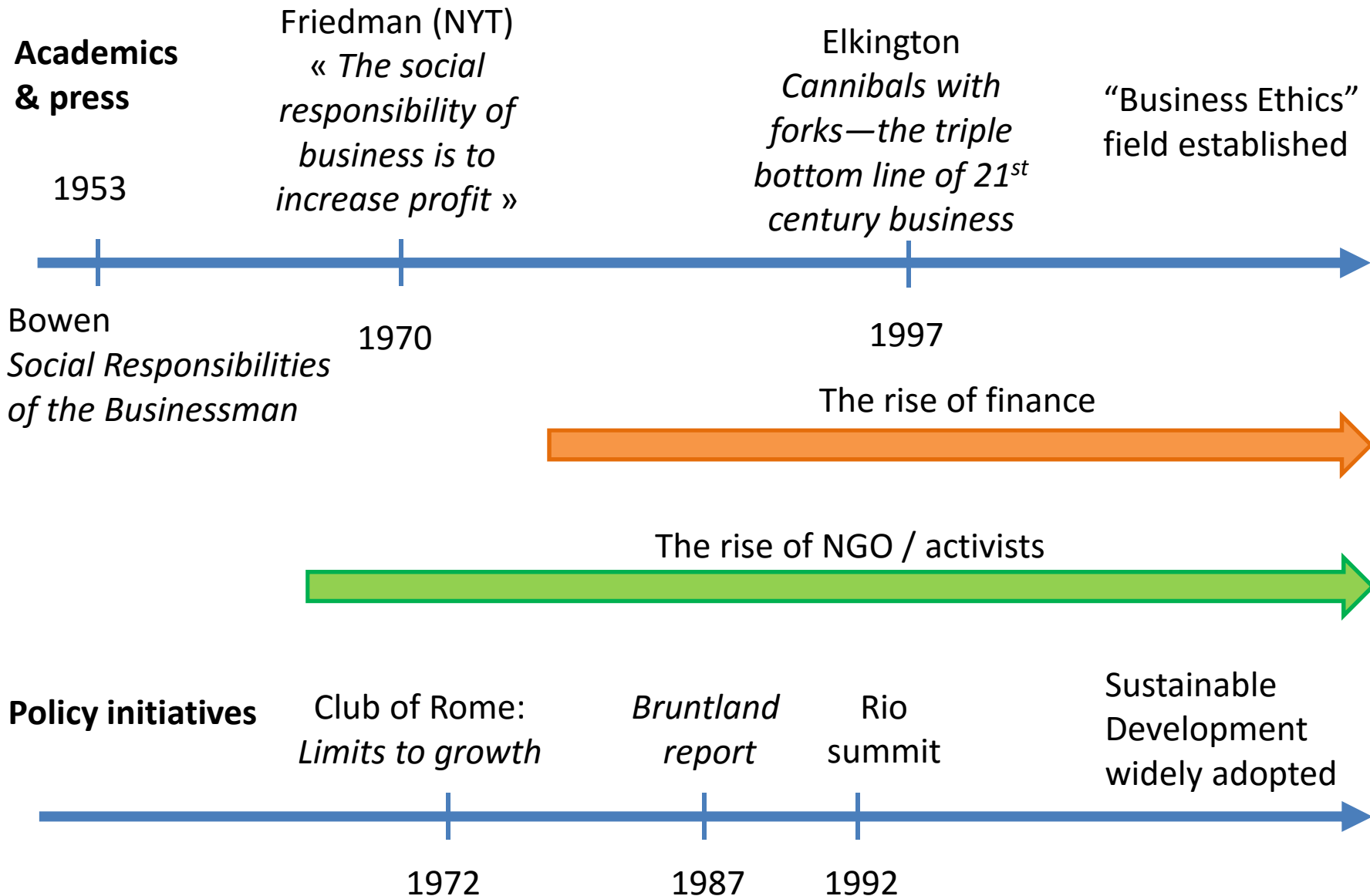
# This lecture

- An economist's view
  - Most of the research in management science (« business ethics »)
- Provides an overview of the main questions and (some) answers when they exist
- (Hidden agenda) To convince that these questions deserve more economic research

# Outline

1. A general theoretical discussion
  - Why do firms self regulate ?
  - Can we expect significant impacts?
2. A (tentative) empirical assessment: Is CSR socially desirable?
  - Based on a review of the empirical literature
  - Is CSR profitable?
  - Does CSR provide environmental/ social benefits?
3. CSR and information: A focus on the role of NGOs
  - A work in progress on their communication strategies to influence self regulation

# (Some) of the ideas on timelines



# A doctrinal debate

## Shareholder theory

- Managers should act in shareholders' best interest
- Milton Friedman:  
"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it ... engages in open and free competition, without deception or fraud."  
(Capitalism and Freedom, University of Chicago Press, 1962)

## Stakeholder theory

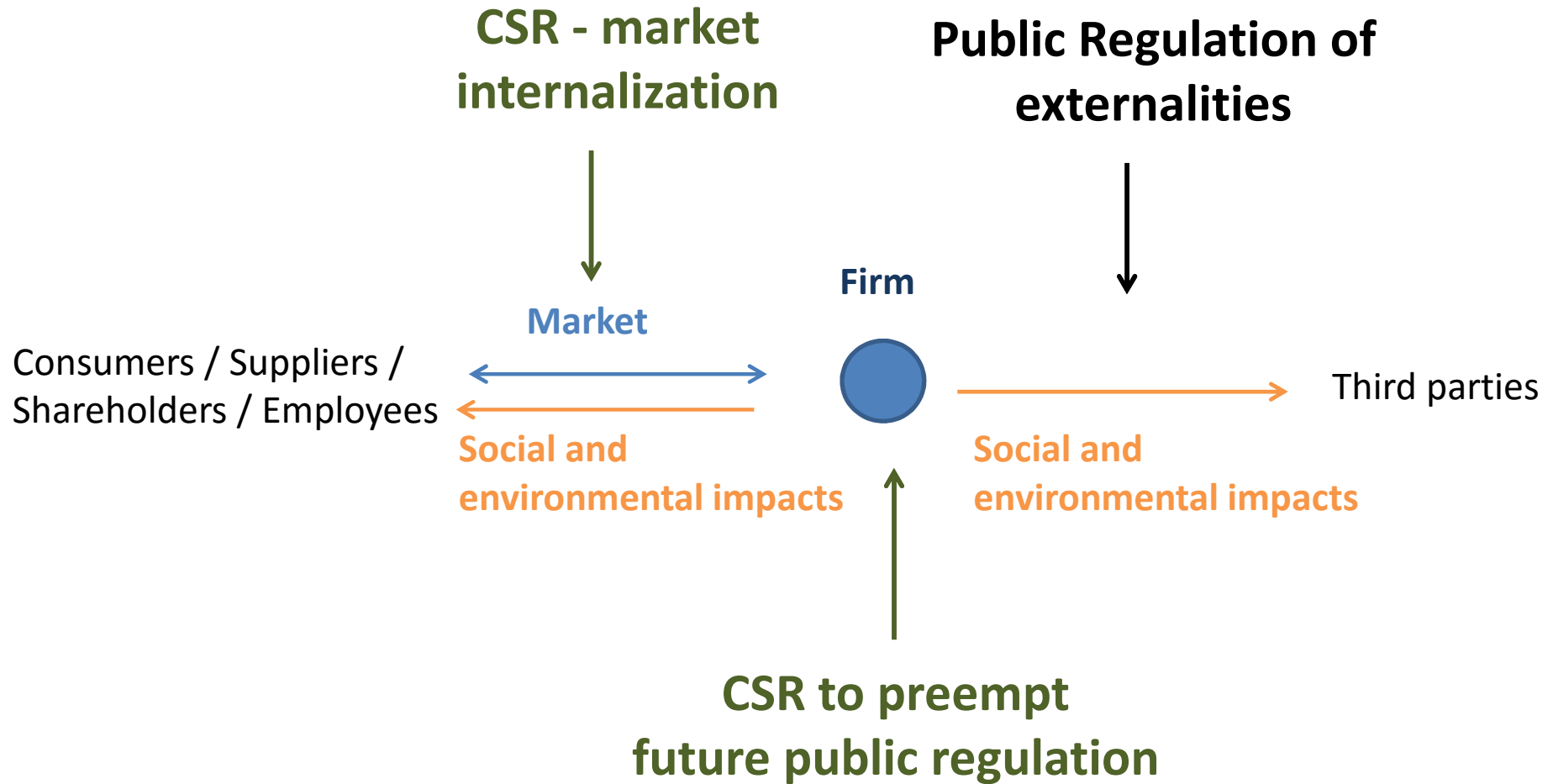
- Managers should be the agents of *all* stakeholders
- Edward Freeman:  
They have two responsibilities: to ensure that the ethical rights of no stakeholder are violated and to balance the legitimate interests of the stakeholders when making decisions.  
(Strategic Management: A stakeholder approach, Boston: Pitman, 1984)

# Beyond the normative debate

- The doctrinal debate might not end anytime soon...
  - However, firms *do* undertake actions of CSR in reality
1. A question as important as whether they should is: **why do they do it, or at least claim they do it?**
  2. A reformulation of the normative question:  
**Do CSR practices bring benefits to the society?**

# Why do they self-regulate?

## A simple framework



# Market internalization is imperfect – Reason 1

CSR is a « public good »

- “Buyers of CSR” under-value the social and environmental performance
- Hence the willingness to pay is too low unless the buyers are very ethical
- What does it take to be ethical?
  1. Be generous, altruistic
  2. Believe that others are also to a large extent
    - Because unilateral contribution has only very limited effect

# Market internalization is imperfect – Reason 2

CSR is a « credence good »

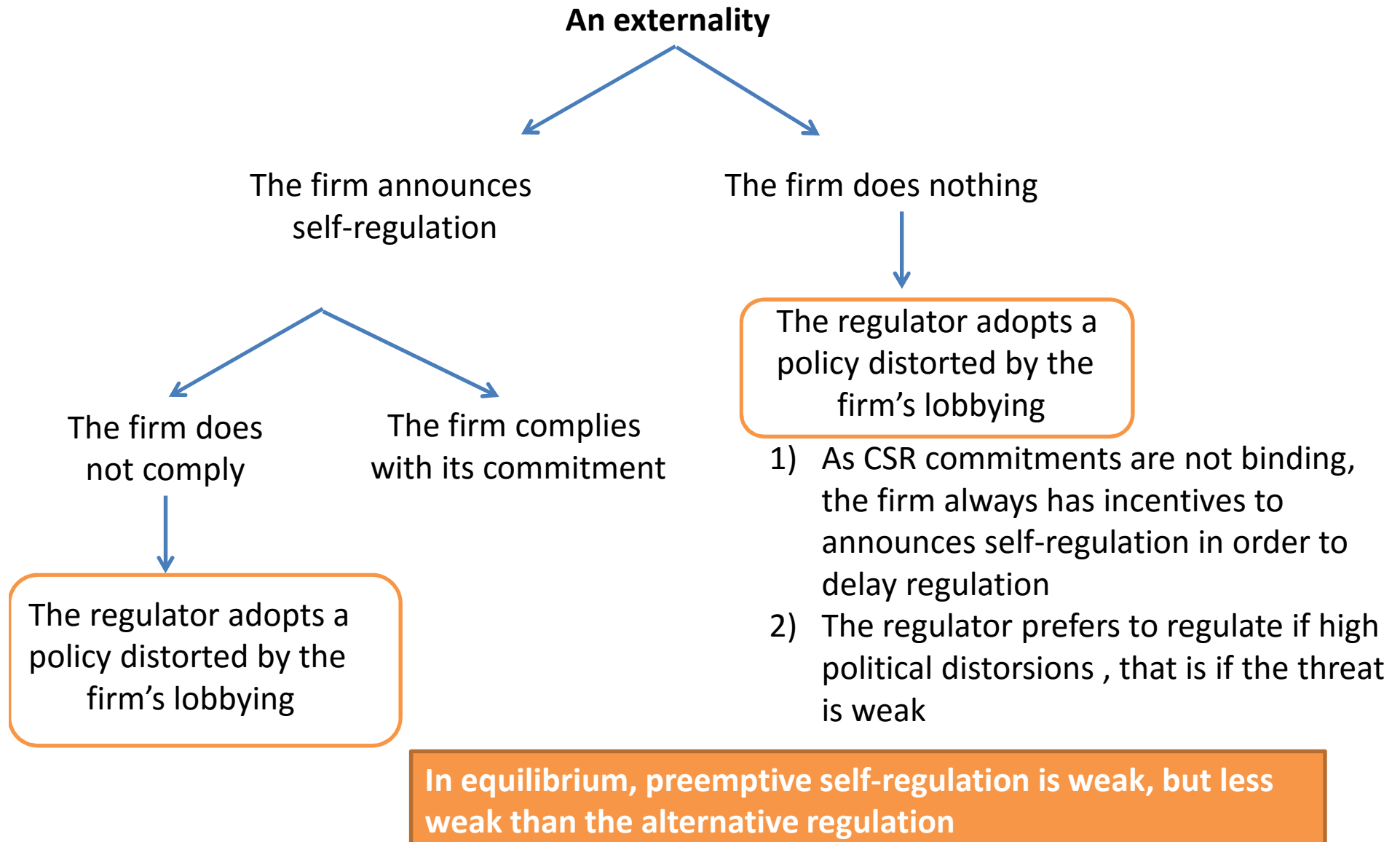
- The buyer does not observe directly the environmental and social performance
- Moreover, communication by firms is not immediately credible (**greenwashing**)
  - In France, 47% judge as not credible the environmental claims in ads (IFOP, « Les Français et le Greenwashing », 2012)
- Auditors / certifiers / NGOs are needed to serve as informational intermediaries

# CSR to preempt regulation

Political economy is central in the analysis: If the regulator can implement the first best, preemptive CSR has no *raison d'être*

# The CSR preemption game

« Non-binding voluntary agreements », JEEM, Glachant 2007



# Outline

## 1. A general theoretical discussion

- Why do firms self regulate ?
- Can we expect significant impacts?

## 2. A tentative empirical assesement: Is CSR socially desirable?

- Based on a review of the empirical literature
- Is CSR profitable?
- Does CSR provide environmental/ social benefits?

## 3. CSR and information: A focus on NGOs

- A work in progress on the communication strategies of NGOs to influence CSR activities

# Mechanisms of value creation

1. SRI reduces the cost of capital
2. Green and ethical consumers have a higher willingness to pay that compensates for the cost of CSR
3. Better environmental performance increases productivity by limiting inputs and energy consumption
4. Employees are more motivated/accept lower pay
5. CSR increases legitimacy of investments with local externality (NIMBY)
6. CSR allows to deflect some regulations or softens them

# Is CSR profitable?

- There exists hundreds of empirical studies
  - A meta-analysis of 251 studies: « [Does it Pay to Be Good... And Does it Matter? A Meta-Analysis of the Relationship between Corporate Social and Financial Performance](#)”  
Margolis, Elfenbein, Walsh, 2009; Harvard

# Correlation between CSR and financial performance

	Correlation coefficient
<b>CSR → Profits</b>	0.088
<b>Profits → CSR</b>	0.117
Accounting-based performance measures	0.121
Market-based performance measures	0.087

Source: Margolis et al. (2009),  
Harvard Business School.

Correlation coefficients between -1 et 1  
0,5 = strong effect, 0,1 = limited effect.

CSR induces financial performance, but not much.  
Profits induces CSR a little more, but effect remains limited.  
The financial markets tend to underestimate this effect

# Does CSR bring social and environmental benefits?

- Beyond what is required by law and what is induced by other policy signals (e.g. environmental taxes)?
- Is CSR environmentally and socially additional?
- A more important question than the first one!
  - CSR needs to bring economic benefits if it is to survive
  - It will only if stakeholders perceive it as generating such benefits

In the long run, the social and environmental performance of CSR is the foundation for financial performance, not the other way around.

# A very limited empirical literature

Programme	Etudes	
ISO 14001	9 studies <ul style="list-style-type: none"> <li>Babakri et al. (2004), Dasgupta et al. (2000), King et al. (2005), Melnyk (2002), Potoski and Prakash (2005), Russo (2009), Szymanski and Tiwari (2004), Barla (2007), Johnstone et al. (2007)</li> </ul>	8 studies identify a positive impact
Prog 33/50 (US)	4 studies: <ul style="list-style-type: none"> <li>Khanna and Damon (1999), Gamper-Rabindran (2006), Sam et al. (2009). Vidovic and Khanna (2007).</li> </ul>	3 with positive results
Climate Wise (US)	2 studies <ul style="list-style-type: none"> <li>Welch et al. 2000; Brouhle et al 2009</li> </ul>	1 with a negative impact
Responsible Care	1 study: <ul style="list-style-type: none"> <li>Gamper-Rabindran et Finger (2013)</li> </ul>	(Very) negative impact

To sum up, we do not know whether CSR yields positive social/environmental benefits

# Outline

## 1. A general theoretical discussion

- Why do firms self regulate ?
- Can we expect significant impacts?

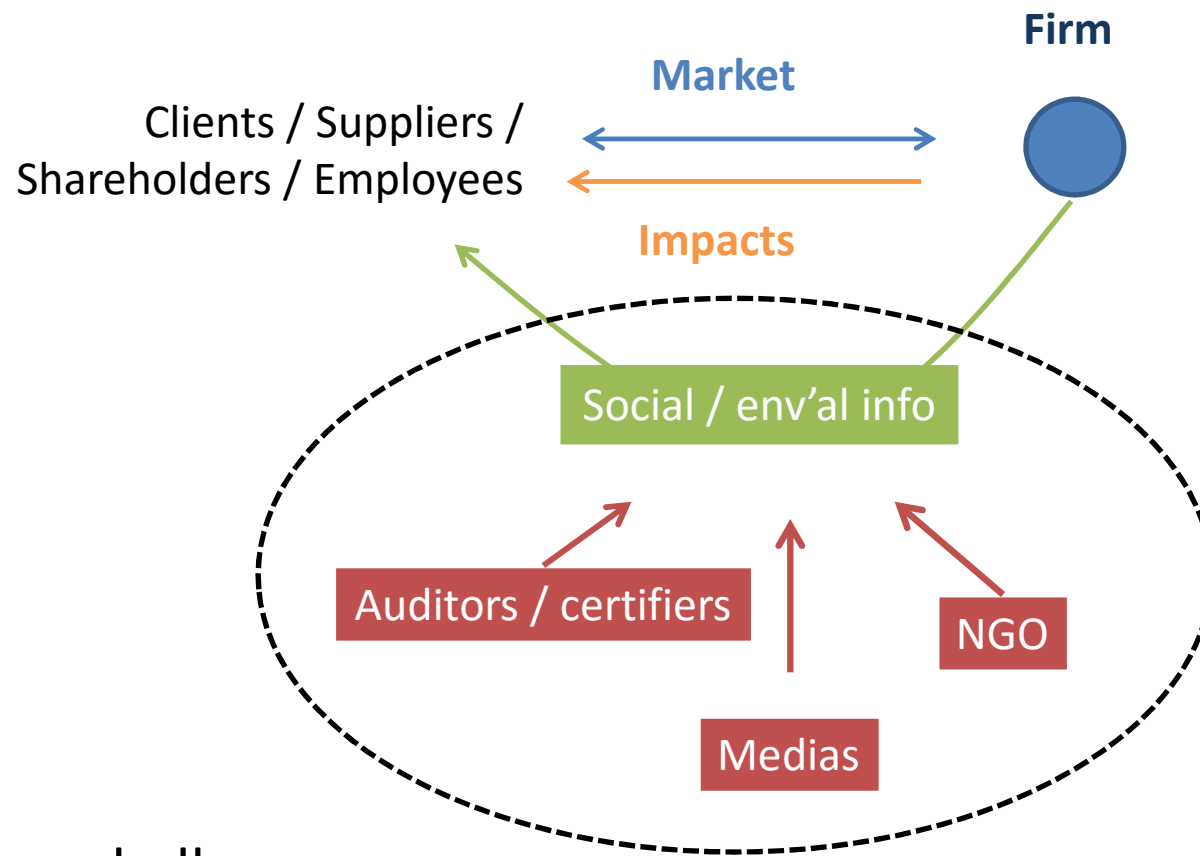
## 2. Is CSR socially desirable?

- Based on a review of the empirical literature
- Is CSR profitable?
- Does CSR provide environmental/ social benefits?

## 3. CSR and information

- Generalities
- A work in progress on the communication strategies of NGOs to influence CSR activities

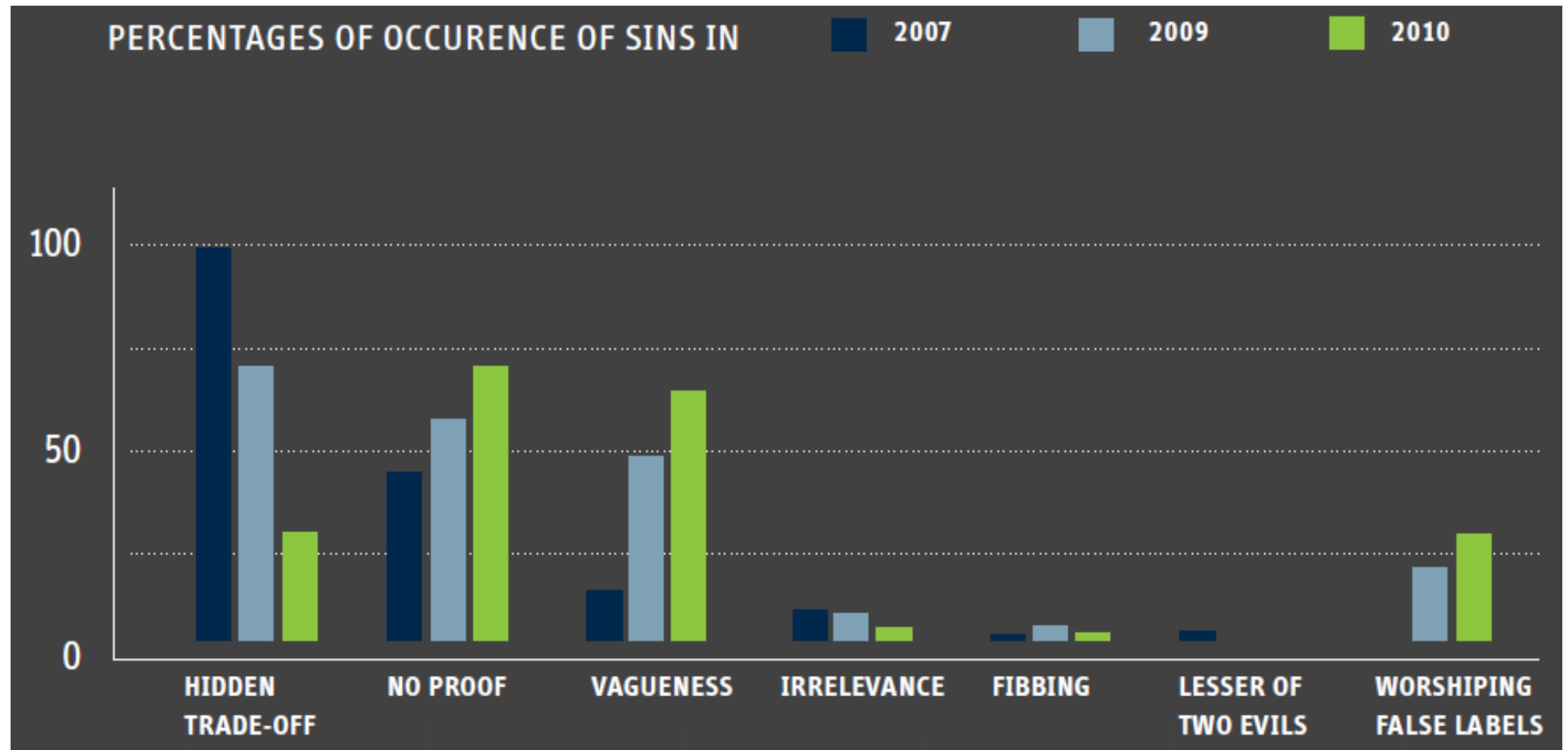
# CSR and information



Two challenges:

- 1) To improve the credibility of information provided by the firms
- 2) To simplify the information so that it can be processed by the CSR buyers (CSR info is complex because multidimensional)

# Greenwashing



*Terrachoice, 2010.*

# To simplify information: Reporting

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# To simplify information: Ecolabels



# What to take away...

- A weak instrument, useful in difficult political contexts
  - Developing countries, climate change in the US
- Today the main knowledge gap is the empirical evaluation of (additional) social and environmental impacts of CSR
  - Greenwashing
  - A more important question than the question of profitability
- Positive link with financial performance established but still weak
  - Much to do to quantify the various channels
- Current practices of CSR are not (yet?) proven to be socially desirable
- Today, too much information on CSR, but not credible and too complex. A role for public regulators:
  - To make information simple and credible