Guardian sustainable business

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Sustainable corporations perform better financially, report finds

Analysis of S&P 500 companies finds that corporations with sustainability strategies outperform others on the index

A report from CDP finds that S&P 500 companies with sustainability strategies are outperforming the other companies on the index. Photograph: Lucas Jackson/Reuters

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A new report by nonprofit CDP, released Tuesday, provides some of the first evidence of a link between business leadership on climate change and a company's profitability.

The study, which coincides with the climate talks in New York, finds that S&P 500 companies that build sustainability into their core strategies are outperforming those that fail to show leadership.

Specifically, corporations that are actively managing and planning for climate change secure an 18% higher return on investment (ROI) than companies that aren't - and 67% higher than companies who refuse to disclose their emissions.

The findings could help answer the long-debated industry question of whether sustainability undermines or improves financial results.

Business leaders from companies that are taking significant steps to lower their climate impacts have long complained that the resilience they are building into their businesses is not recognized by investors and, therefore, does not get reflected in their share prices.

Worse than that, the failure to recognize the importance of taking action now to secure future stability makes it difficult for companies to justify longer term investments, and makes it more attractive to go for short-term - but relatively ineffective - easy wins.

CDP hopes the evidence it has compiled will prove that there is an investment opportunity in climate change resilience and mitigation and that this will start to shift investor opinions, which will in turn drive more money into areas such as renewable energy.

Four industry groups stood out in securing a strong ROI: transportation, consumer durables, apparel and health care equipment.

Beyond that, those companies investing in carbon reductions achieved a 50% lower volatility of earnings over the past decade and 21% stronger dividends than their low-ranking peers.

The CDP report concludes that those companies that achieve a strong financial performance are setting ambitious emissions reduction targets, using internal carbon pricing and putting in place strong governance and risk management of climate change

Paul Simpson, CEO of CDP, says: "We answer the number one question US investors ask CDP about climate change data, which is whether there is evidence of a link to financial performance. The answer is a resounding yes.

"There is only upside for corporations acting in a prudent way to address the challenges of climate. At the very least, this will put to rest the common misconception that taking action on climate change exacts a cost to profitability."

According to Simpson, the risks to companies failing to respond to the climate challenge are starting to grow. He points to the Norwegian pension fund, Norges Bank, with assets worth $260bn, which now expects companies to show strategies for climate change risk mitigation and water management. It has divested from both timber and palm oil companies that don't meet their standards.

What CDP makes clear is that while action on climate change is not directly responsible for increased profitability, it is one of a core suite of leadership strategies that result in a high-performing company.

"By integrating climate change risk management into strategic planning, responding to CDP and taking action towards emissions reductions, companies are simply demonstrating a long-term view of how to best manage the assets of shareholders," the report states.

CDP, which works on behalf of 767 institutional investors with assets of $92tn, to motivate companies to disclose and reduce their impacts on the environment and natural resources, also unveiled its league table of top performers on climate performance and disclosure.

Thirty-four companies in the S&P 500 index scored the very highest grade for climate performance including Google, Cisco, Apple, CVS Caremark, Walmart and Hewlett-Packard.

Apple, which has gone from laggard to leader, said that it "is making a conscious decision to be more transparent and expansive in its sustainability efforts, including those directly related to climate change, as we believe it's a significant problem that may affect our operations, suppliers, partners and customers, and we are taking action to address it".

The report shows that just three years ago, less than a third of companies achieved what CDP calls its "high performance bands" but this rose to nearly half in 2014 despite tougher criteria.

When it comes to disclosure, 14 companies scored top marks, including Autodesk, Bank of America, General Motors and UPS.

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