

# Doing Well by Doing Good: the Relationship Between Investor Materiality and the Sustainable Development Goals

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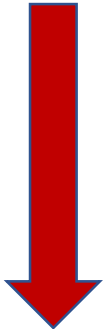


# Goal of the Research

Answer the question: 'Can a company do well by doing good?'

# Research Design

SDGs



Impact



ESG Materiality



Financial Performance



# Research Background

## **SDGs and Private Sector:**

- Need of the private sector in financing the SDGs
- SDGs are business opportunities for private sector
- Existing impact measures
  - Outside the company ( for example UN SDSN, 2015)
  - Inside the company but not synthetic measure : SDG prioritisation (PwC, 2018); SDG reporting , (KPMG, 2018); Total Value approach, EY (2018)...

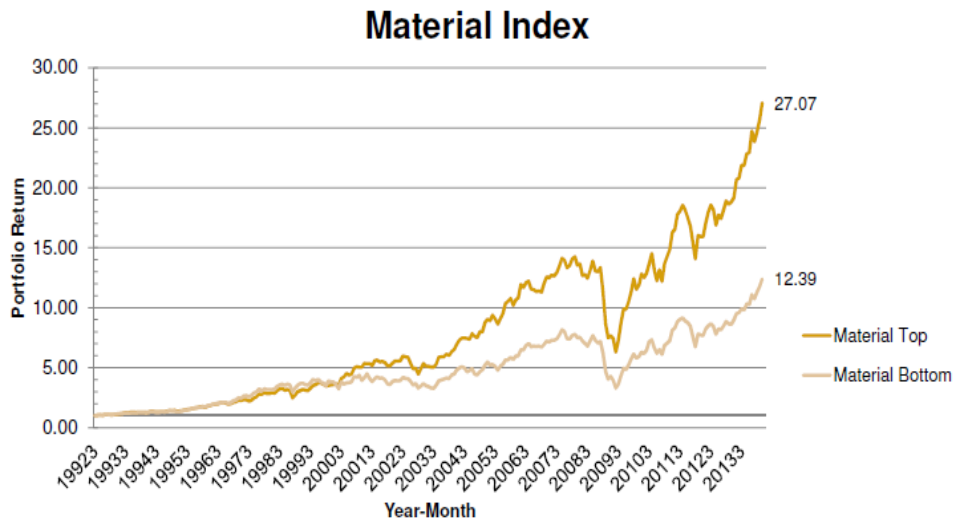
## **ESG Materiality:**

- SASB Materiality Map
- Evidence on materiality (Khan et al.,2016)

# Evidence on ESG materiality and financial performance

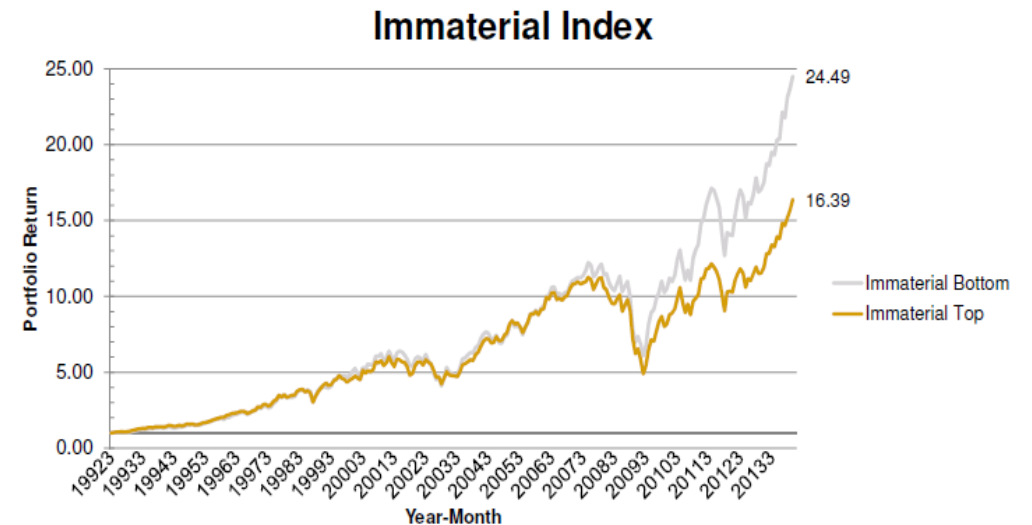
Firms that perform well on material issues enjoy enhanced accounting and market returns over firms that perform poorly on these factors

Firms that perform well on immaterial issues do not achieve better returns than firms that perform poorly on these factors



Mo Khan, George Serafeim and Aaron Youn, *Corporate Sustainability: First Evidence on Materiality*, HBS working paper, 2014.

Source, HBS research: <http://hbswk.hbs.edu/item/7755.html>



Mo Khan, George Serafeim and Aaron Youn, *Corporate Sustainability: First Evidence on Materiality*, HBS working paper, 2014.

# SASB Materiality Map

## ISSUES

	Health Care	Financials	Technology and Communications	Non-Renewable Resources	Transportation	Services	Resource Transformation	Consumption	Renewable Resources & Alternative Energy	Infrastructure
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<b>Environment</b>										
GHG emissions										
Air quality										
Energy management										
Fuel management										
Water and wastewater management										
Waste and hazardous materials management										
Biodiversity impacts										
<b>Social Capital</b>										
Human rights and community relations										
Access and affordability										
Customer welfare										
Data security and customer privacy										
Fair disclosure and labeling										
Fair marketing and advertising										
<b>Human Capital</b>										
Labor relations										
Fair labor practices										
Employee health, safety and wellbeing										
Diversity and inclusion										
Compensation and benefits										
Recruitment, development and retention										
<b>Business Model and Innovation</b>										
Lifecycle impacts of products and services										
Environmental, social impacts on assets & operations										
Product packaging										
Product quality and safety										
<b>Leadership and Governance</b>										
Systemic risk management										
Accident and safety management										
Business ethics and transparency of payments										
Competitive behavior										
Regulatory capture and political influence										
Materials sourcing										
Supply chain management										

# Research Methodology

1. Map of each SASB's issue with SDGs and their targets
2. Two sets of indices:
  - a) a set of **general indices** that measure:the ability of SASB's issues to impact the SDGs and their targets and the relevance of the SDGs and their targets for SASB's issues
  - b) a set **industry/sector- level indices** that measure the ability of each industry and sector to impact the SDGs and their targets

SDG Mapping				Target Mapping			
Acronym	Full name	Measured for	Description	Acronym	Full name	Measured for	Description
SRI	SDG relevance Index	Each SASB's issue	Number of SDG impacted by each SASB's issue/16	TRI	Target Relevance Index	Each SASB's issues	Number of targets the SDGs impacted by each SASB's issues /107
				TSRI	Target Specific Relevance Index	Each SDG impacted by each SASB's issues	Number of targets impacted in the single SDG / total number of targets in the SDG
ERI	ESG Relevance Index	Each SDG	Number of SASB's issue impacting the SDG/30	TERI	ESG Target Relevance Index	Each target	Number of SASB's issue impacting the target/30
				TSERI	Target Specific ESG Relevance Index	Each SDG	Average of the single TERIs
ISII	Industry SDG Impact Index	Each SDG in each industry	Ratio (multiplied by 100) between the number of industry-specific material issues impacting the SDG and the total number of SASB issues impacting the SDG	ITII	Industry Target Impact Index	Each target in each industry	Ratio (multiplied by 100) between the number of industry specific material issues impacting the target on the total number of SASB issues impacting the target
				ISTII	Industry SDG Target Impact Index	Each SDG and in each industry	Ratio (multiplied by 100) between the number of industry specific material issues impacting each target in each SDG and the total number of SASB general ESG issues affecting the single Target <i>tj</i> in SDG <i>j</i>
SSII	Sector SDG Impact Index	Each SDG in each sector	Average of ISII's across industries in the sector	STII	Sector Target Impact Index	Each target in each sector	Average of ITII's across industries in the sector
				SSTII	Sector SDG Target Impact Index	Each SDG in each sector	Average of the ISTII's across industries in the sector
AISII	Average Industry SDG Impact Index	All SDGs in each industry	Average of ISII's of all SDGs	AISTII	Average Industry SDG Target Index	All SDGs in each industry	Average of the ISTII's
ASSII	Average Sector SDG Impact Index	All SDGs in each Sector	Average of SSII's of all SDGs	ASSTII	Average Sector SDG Target Index	All SDGs in each sector	Average of the SSTII's



# General indices: main findings

- All SASB issues impact at least one SDG and Target

SASB issues are in general relevant to the SDGs; some SASB issues are much important to the SDGs in terms of scope than others (example: Supply Chain Management impacts 14 SDGs; Data security only 1 SDG)

- All SDGs and more than 80% of the targets are impacted by at least one SASB issue but not all the SDGs are impacted by the same number of SASB issues

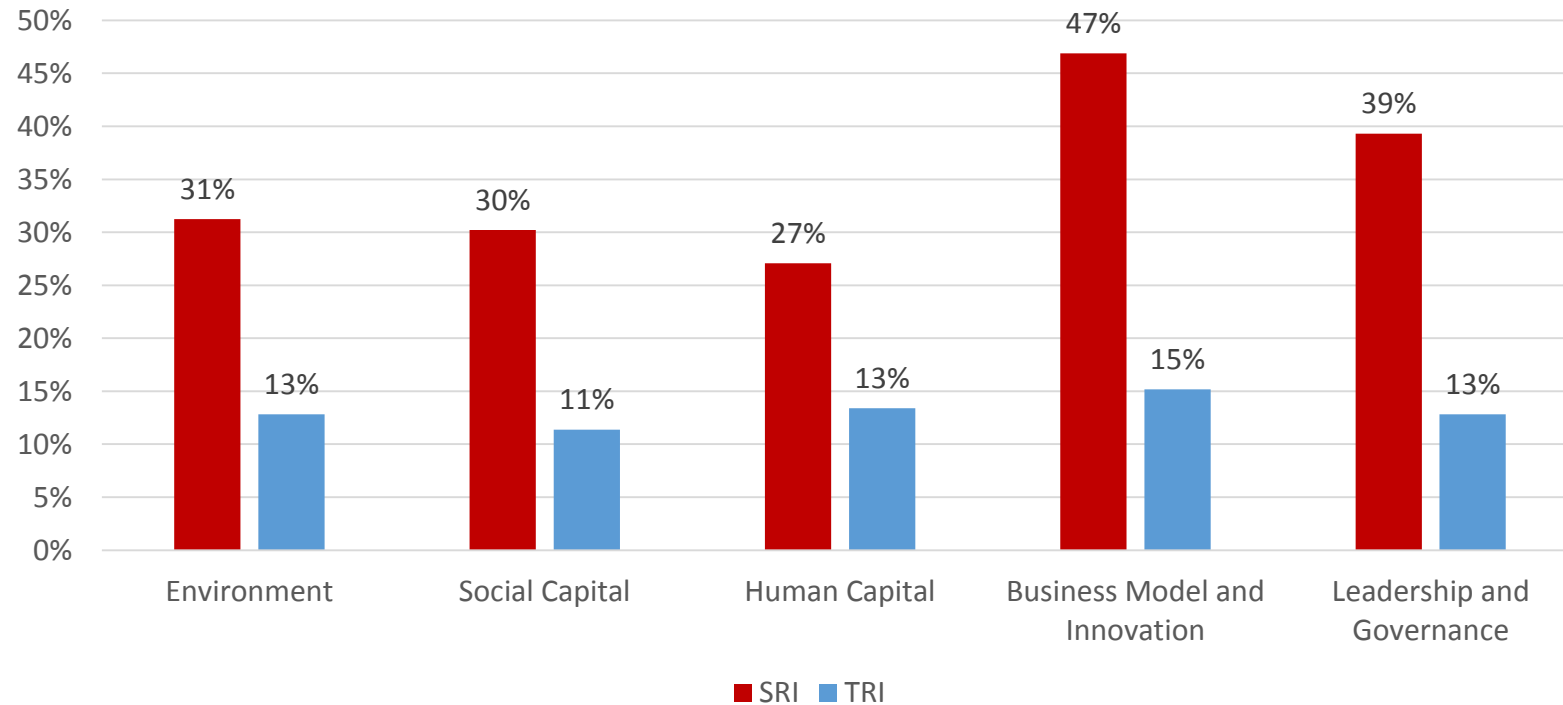
Doing well on material issues will be more important for some SDGs than for others, which suggests that the private sector can make more contributions to some SDGs than others.

- Not all SASB issues that impact the same SDG impact the same number of targets of the SDG

Not all SASB issues that impact the same SDG do it with the same intensity. Example: SDG 7 has 3 Targets: Supply Chain Management impacts all of them; GHG emission two of them; Access and Affordability one.

# SASB Dimensions' SDG Relevance Index (SRI) and Target Relevance Index (TRI)

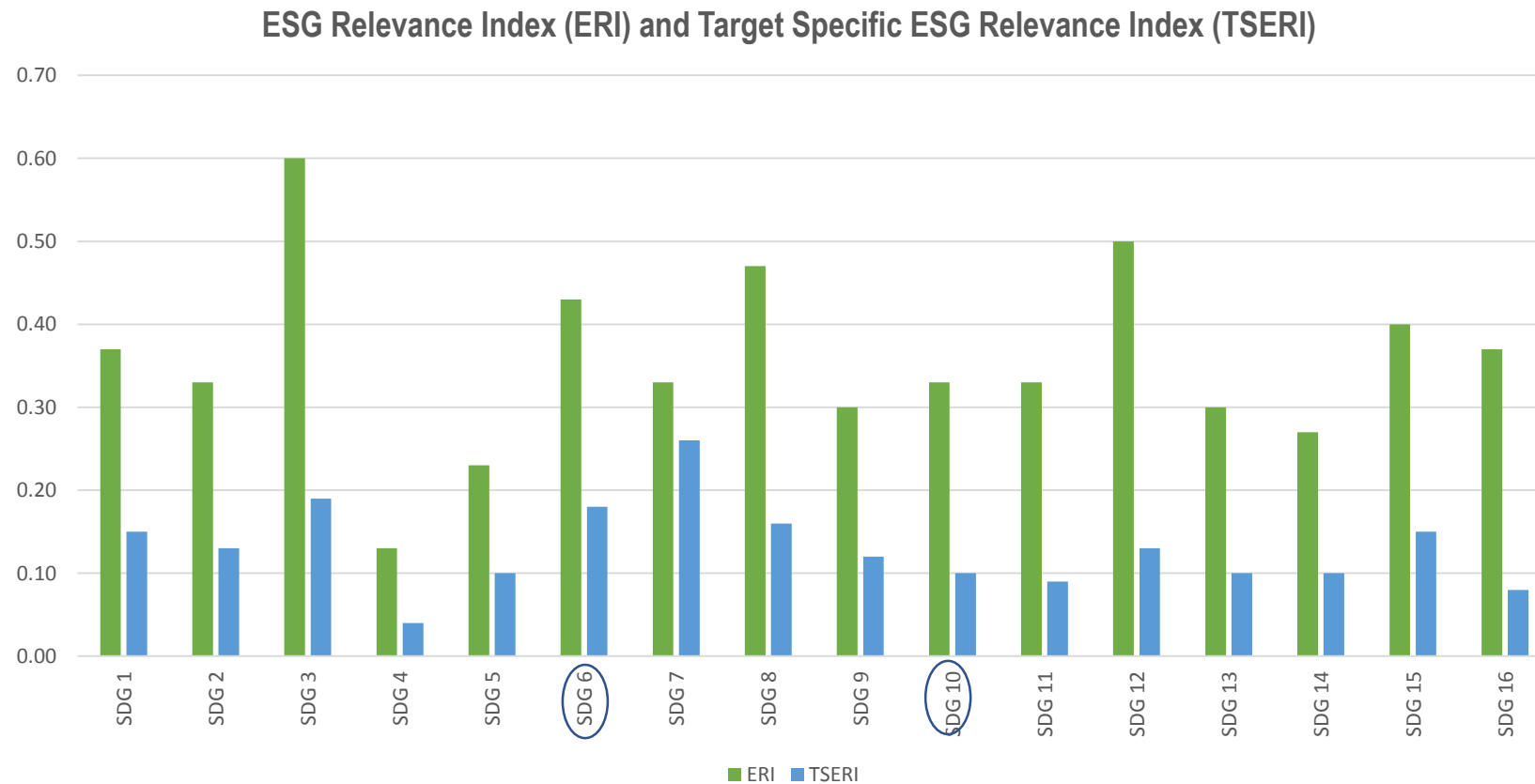
SDG Relevance Index and Target Relevance Index for Each SASB Dimension



**SRI:** n° of SDGs impacted by each SASB issue/16

**TRI:** n° of Targets impacted by each SASB issue/107

# ESG Relevance Index (ERI) and Target Specific ESG Relevance Index (TSERI)

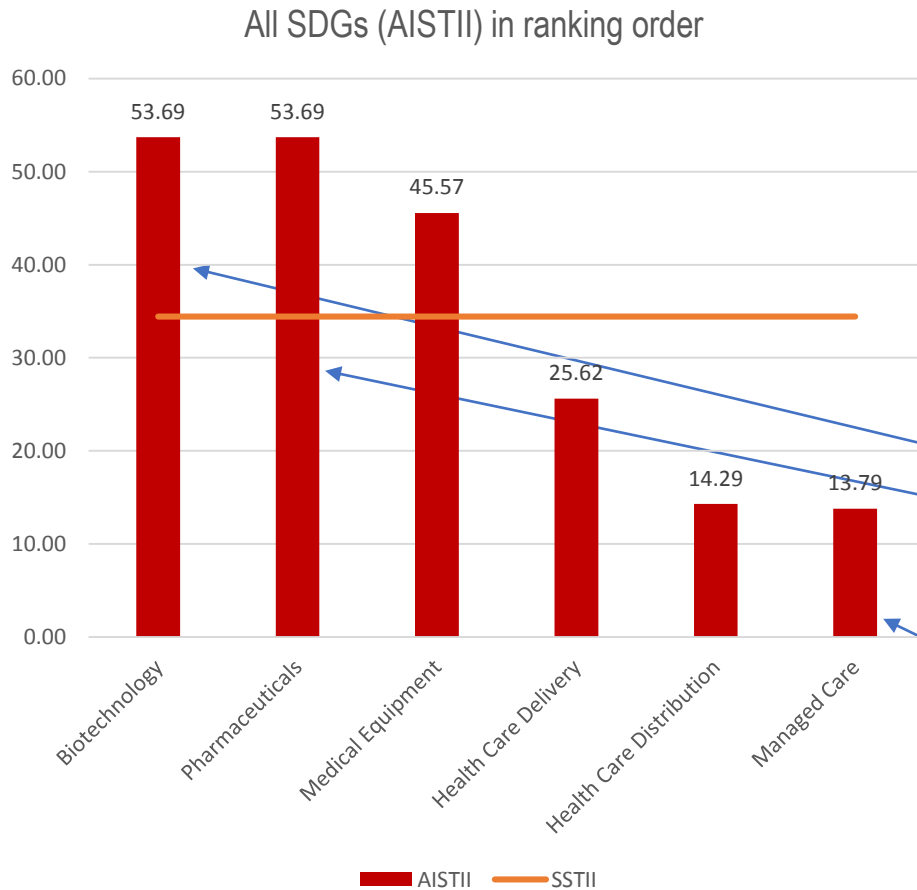


**ERI:** n° of SASB issues impacting each SDG/30

**TSERI:** average of the n° of SASB issues impacting each Target/30

# Industry indices

## Industry Ranking for SDGs in the Health Care sector



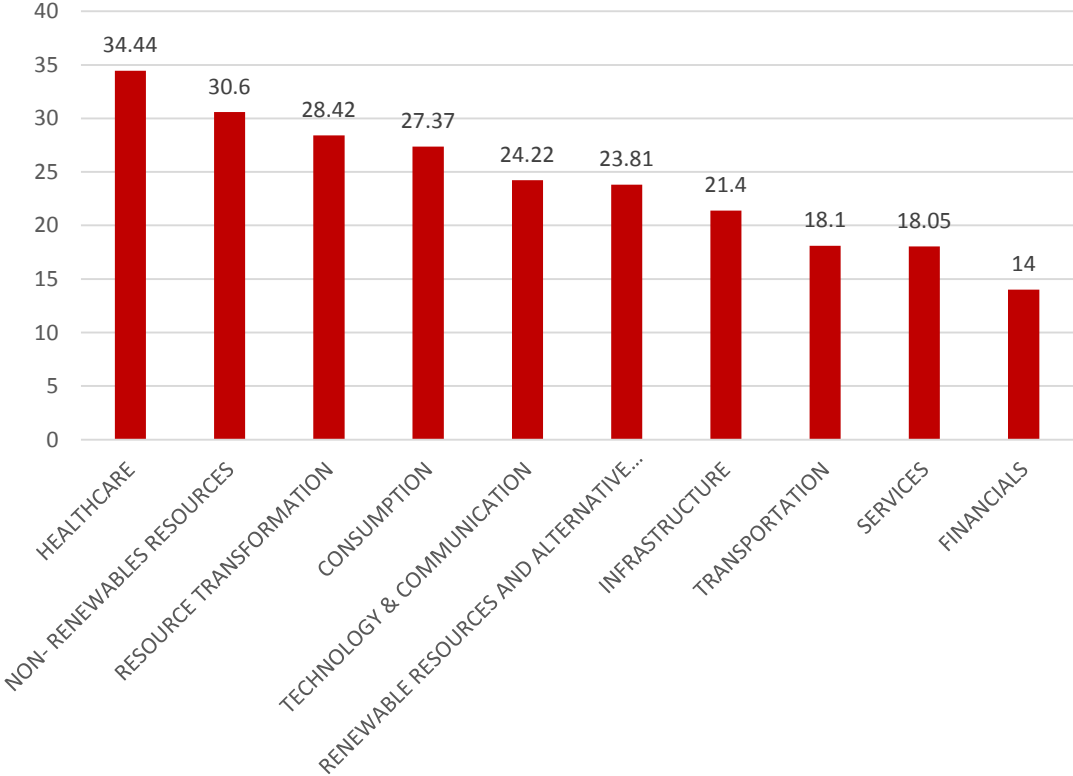
For each SDG and for all the SDGs the impact ability of an industry depends upon two factors:

- The number of industry material issues
- The intensity of impact of the single material issue on the SDG (measured by the TSRI)

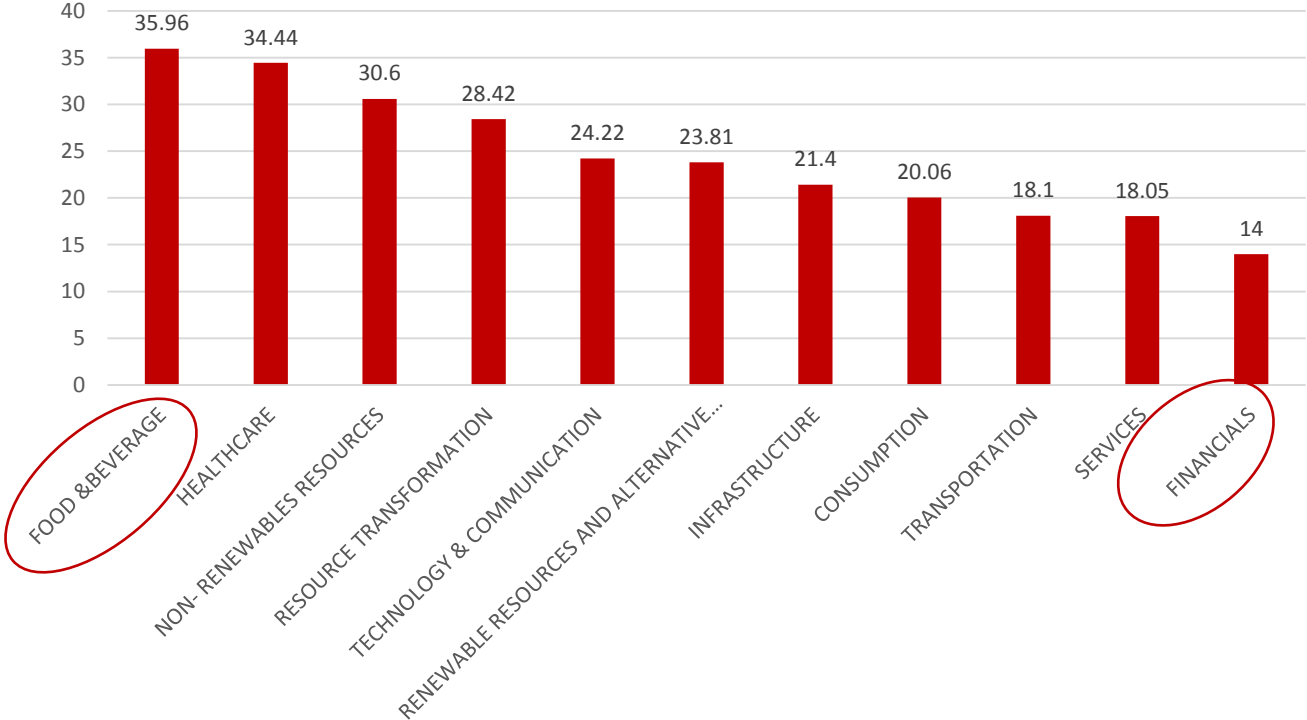
	AISTII	# SASB material issues	Avg Issue TSRI
Biotechnology	53.69	13	38.7%
Pharmaceuticals	53.69	13	38.7%
Med Equipment	45.57	11	35.0%
Health Care Delivery	25.62	9	31.4%
Health care Distributors	14.29	5	31.0%
Drug Retailers	21.67	6	34.7%
Managed care	13.79	5	28.1%

# Sector indices: Sector Ranking for SDGs

All SDGs (ASTII) in ranking order



All SDGs (ASTII) in ranking order with new SASB sectors



## Next Steps

- Update the mapping using new codified SASB sectors and issues
- Make a user-friendly version of this tool
- Eager for suggestions on how to get the most practical use for this mapping and future research to be done
- Particularly interested in how to measure impact
- .....