Corporate Sustainability and Enterprise Risk Management: Implementation Effects on Performance

ABSTRACT

Since the late 1990s, two important business paradigms have emerged: corporate sustainability and enterprise risk management (ERM). While these two paradigms developed independently, they both focus on the importance of identifying and managing risks related to the achievement of strategic objectives. Corporate sustainability focuses on the opportunities and risks to the business in an increasingly resource-constrained world while ERM focuses on developing a top-down, holistic approach to risk oversight. Research related to each paradigm has emerged, but that literature is still at the early stages. This study examines whether there is any difference in firm value and performance for those organizations that have engaged in both ERM and sustainability activities relative to organizations only engaging in one or neither of these emerging disciplines. Using a sample of 1,251 North American organizations’ disclosures of ERM and corporate sustainability activities (and a matched sample of an additional 1,251 companies that are not engaged in either activity), we find a strong positive association between our performance measures and disclosure of corporate sustainability processes. This positive association exists for each of our performance measures, Tobin’s Q, ROA and ROE, and for both our sample of firms that only engage in corporate sustainability processes and for those that engage in both sustainability and ERM activities. Importantly, we find that this positive association between performance and sustainability is driven by our sample of non-financial firms. When examining performance from the perspective of how long the firms have been engaging in sustainability and/or ERM activities we find similar, but less robust, results. We find that firms that have engaged in corporate sustainability activities, either in isolation or in conjunction with ERM, have a strong positive association between Tobin’s Q and the length of time in which they have been engaged in these efforts.