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Press Release

New study resulting from the cooperation between the University of Zurich and Robeco finds more sustainable companies to be less likely to become involved in scandals

Rotterdam / Zurich, 5 September 2024 – Companies that are more positively aligned with the United Nations Sustainable Development Goals (SDGs) are less likely to become involved in future scandals, such as cases of corruption, fraud, or environmental pollution. Moreover, these more sustainable companies are involved in fewer scandals, and when they do become embroiled in scandals these are less severe and also affect fewer controversial topics. Following their cooperation coordinated by Prof. Dr. Walter Farkas, Robeco and the University of Zurich published a new research paper led by Anna Vasileva, doctoral student at the University of Zurich that studies the link between corporate sustainability and involvement in scandals. The researchers conclude that aligning investment strategies with the SDGs can help investors to not only improve their sustainability performance but also contribute to their financial objectives.

The study uses the Robeco SDG score to measure corporate alignment with the SDGs. Each company in the study is scored on its SDG alignment, whereby the score ranges from -3 (high negative impact) to +3 (high positive impact). The research finds that each additional point increase in SDG score decreases probability of a company becoming involved in a scandal in the next year by 2 percentage points. Moreover, a one point increase in SDG score is associated with an 11% decrease in the number of scandals (corresponding to 0.44 fewer scandals per company per year). These effects are even more pronounced when it comes to scandals that are very severe: each point increase in SDG score links to a 17% decrease in severe scandals in the next year on average.

These results are explained by the diverging sustainability performance of companies active in different industries. More resource-intensive and thereby less sustainable sectors, like oil exploration or coal mining, involve a higher likelihood of encountering accidents that can turn into scandals. At the same time, such sectors draw a lot of public attention. This increased scrutiny can make it more likely that companies become involved in scandals. Firms that operate in the Energy and Utilities sectors are the key driver behind the results. Companies active in these sectors with low SDG scores are predominantly involved in fossil fuels, while those with higher scores are active in renewable energy.

These findings are relevant for financial and sustainability reasons. Companies that become involved in scandals typically face loss of stakeholder confidence as well as long term reputational and financial consequences. Aligning investment portfolios with the SDGs helps reduce the probability of investing in companies that become involved in scandals. This can help investors to reduce exposure to the adverse environmental and societal impacts associated with scandals, as well as the negative financial consequences of investing in firms becoming involved in scandals.

Anna Vasileva, Doctoral Student at the University of Zurich, said: *«Our study advances debates on sustainable investing. Given the unprecedented rise of sustainable investing and the broad importance of sustainability-related information for investment decisions, it is important to recognize that a new measure of corporate sustainability, based on the SDGs, can help avoid scandals. This in turn supports investors' sustainability and financial performance.»*

Dr. Jan Anton van Zanten, SDG Strategist at Robeco, said: *«We show that companies that are more aligned with the United Nations Sustainable Development Goals are less likely to have scandals in the future. This is imperative for investors: corporate scandals adversely affect market value and often have negative societal and environmental impacts. Aligning investments with the SDGs thus enables investors to enhance their financial and sustainability objectives.»*

Prof Dr. Thorsten Hens, Professor of Financial Economics at the University of Zurich, said: *«Academia and the financial sector should work hand in hand to develop a common understanding of effective financial models. This collaboration between the University of Zurich and Robeco is a great example of how experts from different fields came together to bring about new insights and data in the field of sustainable investing that will be relevant for a wide range of practical applications.»*

To download the paper, please visit: Corporate Sustainability and Scandals by Anna Vasileva, Jan Anton van Zanten, Laurens Swinkels :: SSRN

To learn more about the cooperation between Robeco and the University of Zurich, please read this Press Release

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Press contacts

Robeco Rotterdam

Femke Bruggeman, Manager PR & External Comms.
Mobile number: +31 6 39665024
Email: f.bruggeman-karssen@robeco.nl

Maurice Piek, Senior Manager External Comms.
Mobile number: +31 6 30382911
Email: m.piek@robeco.nl

Robeco Switzerland

Marc Duckeck, Corporate Communications & Media Relations
Mobile number: +41 79 639 42 38
E-Mail: marc.duckeck@robeco.com

About Robeco

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 16 offices worldwide. A global leader in sustainable investing since 1995, its integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. On 31 March 2024, Robeco had EUR 194 billion in assets under management, of which EUR 190 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.

Important information