McKinsey Global Survey Results:

Valuing corporate social responsibility

Environmental, social, and governance programs create shareholder value, most executives believe, but neither CFOs nor professional investors fully include that when evaluating business projects or companies.

The perceived importance of corporate environmental, social, and governance programs has soared in recent years, as executives, investors, and regulators have grown increasingly aware that such programs can mitigate corporate crises and build reputations. But no consensus has emerged to define whether and how such programs create shareholder value, how to measure that value, or how to benchmark financial performance from company to company.

This McKinsey survey[1] asked CFOs, investment professionals, institutional investors, and corporate social responsibility professionals[2] from around the world to identify whether and how environmental, social, and governance programs create value and how much value they create. The survey also examines which metrics are the best indicators of value and how they can be communicated most effectively.

The results indicate agreement that environmental, social, and governance programs do create shareholder value, though the current economic turmoil has increased the importance of governance programs and decreased that of environmental and social programs. Nonetheless, a significant proportion of respondents don't fully consider these programs' financial value when assessing the attractiveness of business projects or companies. Some think the value is too long-term or indirect to measure, and others just aren't satisfied with the metrics available.

[1] This survey was in the field in December 2008 and includes responses from 238 CFOs, investment professionals, and finance executives from the full range of industries and regions. The survey was conducted in conjunction with Boston College's Center for Corporate Citizenship, along with a simultaneous survey of 127 corporate social responsibility professionals and socially responsible institutional investors. The institutional investors are members of the Sustainable Investment Research Analysts Network, who are dedicated to advancing the concept, practice, and growth of socially and environmentally responsible investing.

[2] Boston College defines "corporate social responsibility professionals" as senior corporate executives with dedicated responsibilities for managing corporate citizenship issues and staff in the areas of community and public affairs, communications and reporting, and environmental health and safety.

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The McKinsey Quarterly

Moreover, there are notable differences between CFOs and professional investors in a few areas, including how much value these programs create, which specific environmental, social, and governance activities create value, and whether such programs are a proxy for good management.

Solid majorities of all respondents expect environmental, social, and governance programs to create more value in the next five years. That potential highlights the importance of developing better metrics and solving the understanding gap between CFOs and investors.

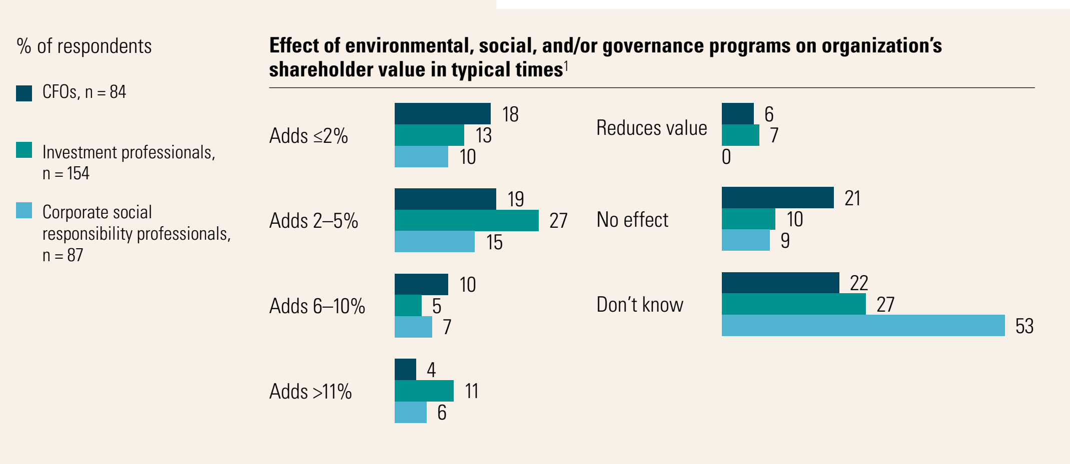
What value—and what effect does it have?

Among respondents who have an opinion, two-thirds of CFOs and three-quarters of investment professionals agree that environmental, social, and governance activities do create value for their shareholders in normal economic times. However, they do not agree on how much: investment professionals are likelier to see more value than CFOs, for example (Exhibit 1). Further, a full quarter of respondents don't know what effect, if any, these activities have on shareholder value.

Notably, corporate social responsibility professionals themselves appear to be the most unsure about putting a number on the value added by environmental, social, and governance activities, with more than half reporting they do not know what effect these programs have on value creation. Of those who do have an opinion, their estimates are roughly similar to those of CFOs. The lack of certainty may reflect a tendency among corporate social responsibility professionals to focus on the social or other benefits of their programs rather than their financial value.

Exhibit 1

Adding value in typical times



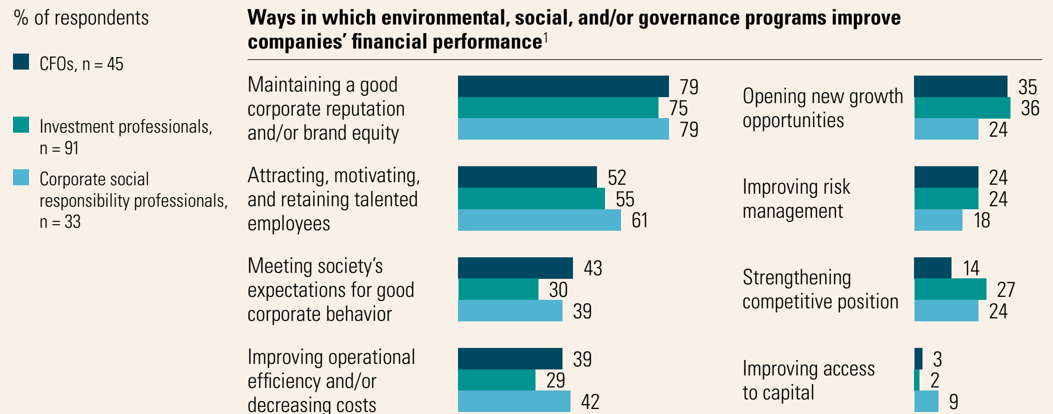
[1]Excludes any changes stemming from current economic crisis.

By wide margins, CFOs, investment professionals, and corporate social responsibility professionals agree that maintaining a good corporate reputation or brand equity is the most important way these programs create value (Exhibit 2). The separate group of socially responsible investors are significantly more focused than other groups on improving risk management.

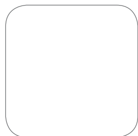
Respondents to this survey are split over whether putting a financial value on social programs would reduce the reputational benefits to companies: slightly more believe stakeholders view financial value creation as important than believe it's a distraction

Exhibit 2

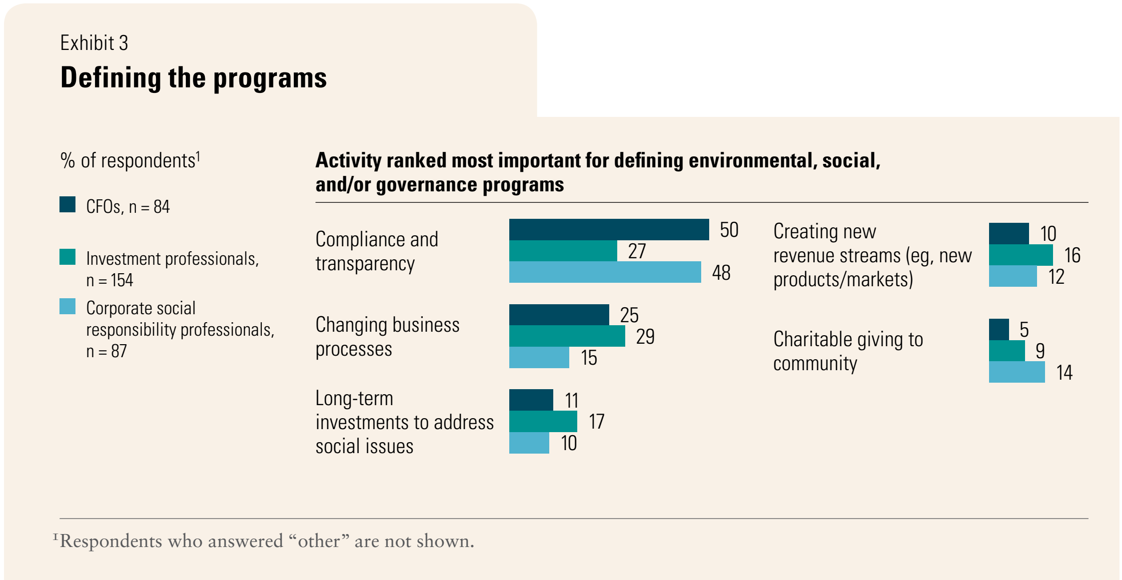
Where value comes from



[1]Excludes any changes stemming from current economic crisis.



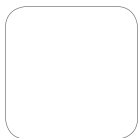
Though professional investors and CFOs agree on how environmental, social, and governance programs create value, they identify different activities as most important to their definition of such programs (Exhibit 3). Fourteen percent of all respondents rank



creating new revenue streams as their number one priority, indicating how infrequently environmental, social, and governance programs are seen as direct sources of financial value.

Value in the crisis and in the long term

Investment professionals generally agree that the global economic turmoil has increased the importance of governance programs—and decreased the importance of environmental programs—to creating shareholder value. Corporate social responsibility professionals are likelier than the other groups of respondents to say that environmental and social programs have at least held their ground (Exhibit 4).



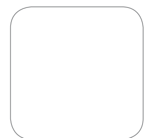


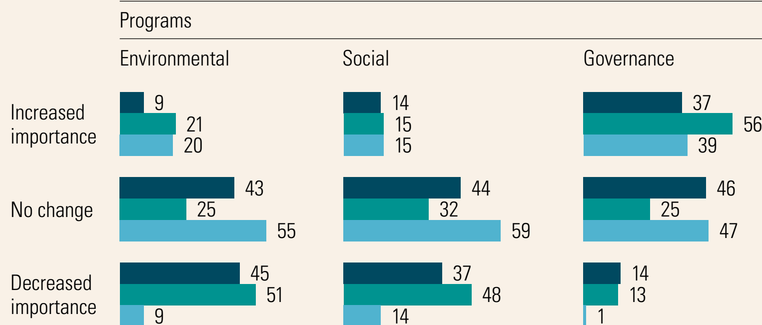
Exhibit 4

Effects of the crisis

% of respondents[1]

- CFOs, n = 84
- Investment professionals, n = 154
- Corporate social responsibility professionals, n = 87

How current global economic turmoil has changed importance of given program relative to shareholder value



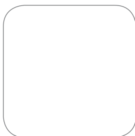
[1]Respondents who answered "don't know" are not shown.

Respondents do, however, largely agree that environmental and social programs will create value over the long term, and that governance programs create value in both the short and long terms (Exhibit 5).

Some two-thirds of CFOs, investment professionals, and corporate social responsibility professionals also believe that the shareholder value created by environmental and governance programs will increase in the next five years relative to their contributions before the crisis. Expectations of social programs are more modest; half of respondents say these programs will contribute more value.

Accounting for value

Both CFOs and professional investors see the existence of high-performing environmental, social, and governance programs as a proxy for how effectively a business is managed; more than 80 percent of both groups say that is at least "somewhat" true. Europeans are more likely than Americans to make that connection.



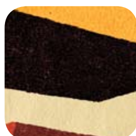


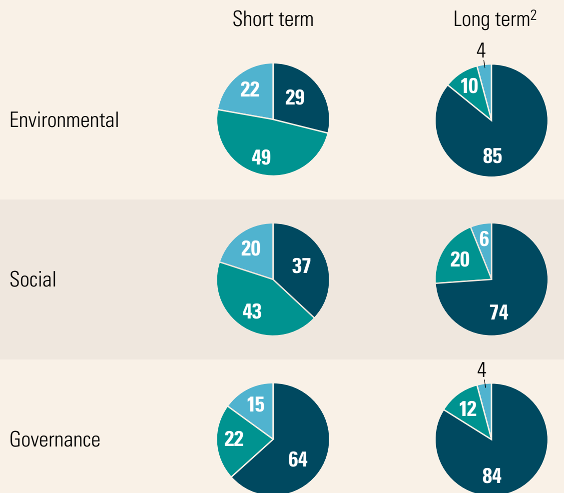
Exhibit 5

Long-term contribution to shareholder value

% of respondents,[1] n = 150

- Substantially positive/positive
- Neutral/can't evaluate
- Negative/substantially negative

Contribution of given program to shareholder value



[1]Figures may not sum to 100%, because of rounding.
[2]Respondents who answered "don't know" are not shown.

Surprisingly, although CFOs see less value in these programs, they are more likely than investment professionals to integrate environmental, social, and governance considerations into their evaluations of companies and projects, at least to some extent (Exhibit 6). This may be because CFOs are closer to the activities—and have more transparent data—than investors, especially if factors such as environmental savings are integrated into overall operational cost data.

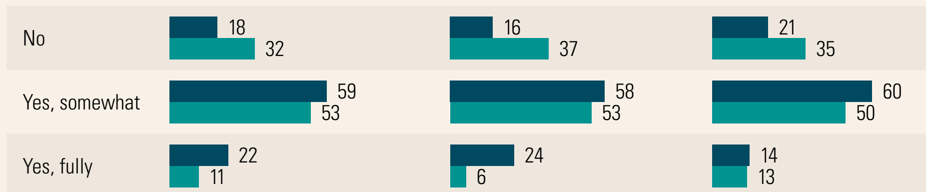
Exhibit 6

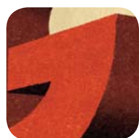
Integrating the value

% of respondents[1]

Do you integrate environmental, social, and/or governance considerations into your evaluation of corporate projects?

	CFOs, n = 84	Investment professionals, n = 154	Europe, n = 80	North America, n = 67	Publicly owned companies, n = 84	Privately owned companies, n = 137
No	18	32	16	37	21	35
Yes, somewhat	59	53	58	53	60	50
Yes, fully	22	11	24	6	14	13





[1]Respondents who answered "don't know" are not shown.

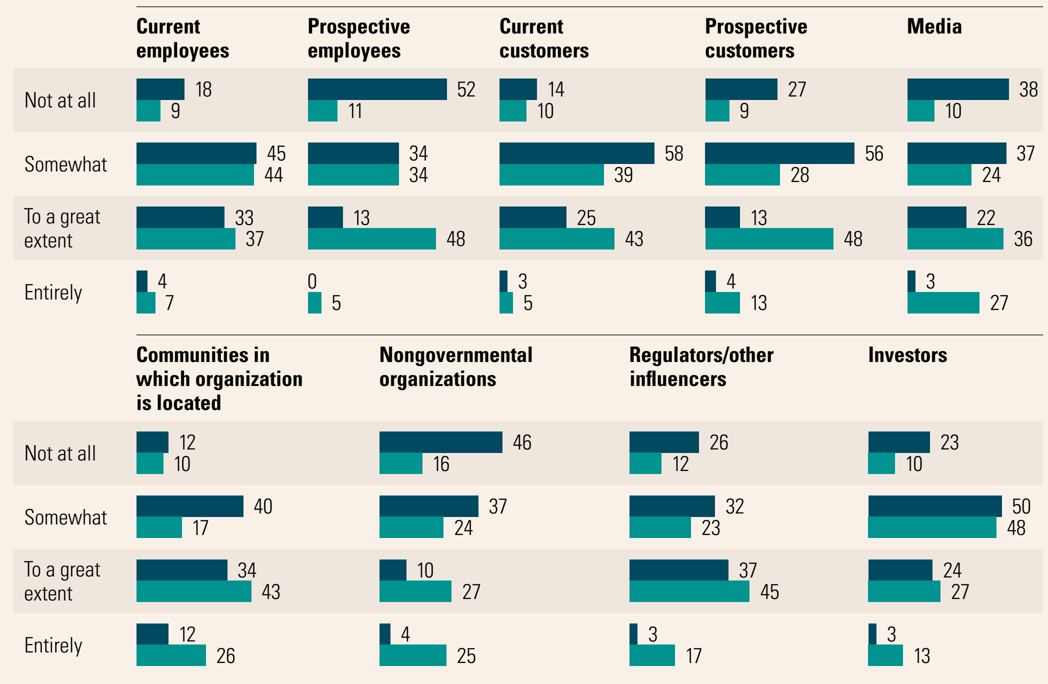
When doing a valuation, CFOs and investors alike say they count the effects on some stakeholders much more than effects on others; further, different stakeholders matter to the two groups (Exhibit 7).

Most CFOs and investment professionals who don't integrate environmental, social, and governance considerations into their evaluations of corporate projects—or who don't do so fully—agree that the contributions are either too indirect to value or that the available data are insufficient. Indeed, few CFOs or investment professionals found value in external rating, ranking, or reporting standards or guidelines to assess the effects of environmental, social, and governance programs, with the exception of certain certification or accreditation standards.

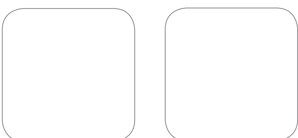
Exhibit 7

Varying impact among different stakeholders

% of respondents[1]



[1]Respondents who answered "don't know" are not shown.



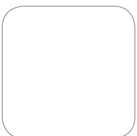
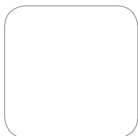
Toward more effective communications

Given that they don't see eye to eye on how much shareholder value is created, or by what activities, it's not surprising to find that CFOs and investment professionals differ on how to communicate that value. Just over half of both groups say integrated reports including financial and other data would improve communications. However, even more investment professionals say reports that integrate the financial value of environmental, social, and governance into corporate financial reports would be valuable.[3]

Among all respondents, the metrics they would find most helpful for understanding the financial value of environmental, social, and governance programs are those that quantify financial impact, measure business opportunities as well as risks, and are transparent about their methodology. Corporate social responsibility professionals add that metrics should reflect differences in company sizes, industries, or regions.

[3] Smaller but roughly equal numbers of CFOs and professional investors agree that other changes would ease communication, such as providing anecdotal evidence about how these programs can create value (42 percent); supplying data showing how these programs contribute to innovation (35 percent); citing data related to new markets or customers (27 percent); using regular business terminology to convey the value of environmental, social, and governance programs (35 percent say); and citing data related to these programs' effect on employee retention or satisfaction (21 percent).

Most respondents cite attracting, motivating, and retaining talented employees as one way that environmental, social, and governance programs improve a company's financial performance, but few respondents think communications could be improved by reporting data in this area

Looking ahead

- CFOs see less potential for shareholder value from environmental, social, and governance programs than investors do. By learning where investors see value, CFOs themselves may change their views and will be able to communicate more valuable information to investors.

- A clear first step would be to develop metrics that focus on integrating the financial effects of environmental, social, and governance programs with the rest of the company's finances.

- A few companies see environmental, social, and governance programs as an opportunity to create new revenue streams. Given investors' demand for financial data, companies could benefit from explicitly including these programs and their revenue streams in planning and reporting.

- Corporate social responsibility professionals can help their own companies and their investors fully value their environmental, social, and governance programs by understanding how various stakeholders see them and by learning to communicate their value. ■

Contributors to the development and analysis of this survey include **Sheila Bonini**, a consultant in McKinsey's Silicon Valley office; **Noémie Brun**, a consultant in the Brussels office; and **Michelle Rosenthal**, a consultant in the New Jersey office.

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