VOLUME 27 | NUMBER 2 | SPRING 2015

Journal of APPLIED CORPORATE FINANCE

In This Issue: **Sustainability and Shareholder Value**

Growing Demand for ESG Information and Standards: Understanding Corporate Opportunities as Well as Risks

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Information about corporate environmental, social, and governance (ESG) policies and practices has long informed the decisions and strategies of investors. Indeed, the use of ESG information by investors dates at least as far back as the 18th and 19th centuries, when religious organizations screened companies to avoid investments in "sin" industries, predominantly those involved in slavery, alcohol, and tobacco.[1] While such "divestment" practices continue to be used, a large and growing number of today's investors have begun to recognize that high-quality corporate ESG disclosure can provide valuable insights into the underlying drivers of corporate financial performance and value. The rising importance of ESG factors to investors can be seen in the record number of shareholder proposals relating to social and environmental issues in 2014.[2]

Sustainability information has proliferated in recent years. Organizations such as the Sustainability Accounting Standards Board (SASB), the CDP (formerly known as the Carbon Disclosure Project), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), CERES, and the UN Principles for Responsible Investment (UNPRI) have all dedicated themselves to improving and increasing the use of sustainability reporting and disclosure. But as investors continue to demand more and better ESG data, the need for standardized disclosures and metrics has also increased.[3] To a greater extent than any of the above organizations, SASB has focused on improving the usefulness and comparability of ESG data for investors. Since its start in 2010, SASB has worked with companies, investors, and third-party organizations to develop sustainability accounting standards for more than 80 industries in 10 major sectors. The standards are designed for disclosure on topics that are likely to constitute "material information,"[4] in the Management Discussion and Analysis section (MD&A) of SEC filings.

The growing investor demand for standardized ESG data begs the question: Why are investors demanding such information and why are corporations willing to disclose it?

There is now a large body of academic research that has reported evidence of a positive correlation between a company's commitment to corporate social responsibility (CSR) and a lower cost of capital.[5] (In fact, a 2012 Deutsche Bank review of 19 academic studies found that all of them supported this positive correlation.[6]) To be sure, the reporting of ESG information alone is unlikely to lower a company's cost of capital. But the reporting of such information implies measurement—and measurement informs management. And since a better-informed management is more likely to make value-increasing investment and operating decisions, a company's commitment to ESG reporting can be seen as reducing the risk of investing in that company, resulting in a lower cost of capital.

While ESG data can be used to improve the analysis of risks faced by corporations,[7] this information also has the same potential to provide companies—and their investors—with an understanding of growth opportunities. These growth opportunities come in large part from innovative products that address social needs without compromising the environment or corporate ethics or governance standards. Reflecting this dual focus on opportunity as well as risk, the United Nations-supported Principles of Responsible Investment (PRI) include the formulation and strong endorsement of a "Value Driver Model" in which ESG metrics provide investors with valuable information about corporate growth

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* Acknowledgements: The author would like to thank SASB's staff for their invaluable insight and assistance with this paper: Andrew Collins (Associate Director, Technical Research), Jerome Lavigne-Delville (Chief of Standards Development), and Amanda Medress (Associate Director, Communications).

1. Knoll, Michael, "Ethical Screening in Modern Financial Markets; The Conflicting Claims Underlying Socially Responsible Investment." *The Business Lawyer* 57, no. February 2002 (2002): 681-726. Accessed December 29, 2014. https://www.law.upenn.edu/fac/mknoll/ethicalscreening.pdf.

2. Welsh, Heidi, and Michael Passoff, "As you Sow: Helping Shareholders Vote Their Values: Proxy Preview Tenth Anniversary Edition," p. 6, accessed December 29, 2014, *http://www.asyousow.org/wp-content/uploads/2014/03/ProxyPreview2014.pdf.*

3. Eccles, Robert G., Michael P. Krzus, Jean Rogers, and George Serafeim. "The Need for Sector-Specific Materiality and Sustainability Reporting Standards," *Journal of Applied Corporate Finance* 24, no. 2 (2012): 65-71.

4. The definition of materiality on which SASB has based its work was promulgated by the Supreme Court in the TSC Industries v. Northway, Inc., 426 U.S. 438 (1976) decision and C.F.R. 229.303(Item 303)(a)(3)(ii).

5. A company's commitment to CSR is measured by its Corporate Social Performance (see footnote below for source), which is defined as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." "Corporate social performance revisited," Wood, *Academy of Management Review*, 16 (4): 691-71, 1991.

6. DB Climate Change Advisors, "Sustainable Investing: Establishing Long-Term Value and Performance," June 2012, p. 28.

7. An Ernst & Young LLP survey of 163 investors, analysts, and portfolio managers found that 77.5 percent of investors frequently or occasionally adjusted their valuations due to a risk identified from ESG performance. Ernst & Young LLP. "Tomorrow's investment rules: Global survey of institutional investors on non-financial performance," 2014, p. 12.

and productivity as well as risk management.[8] Much as with traditional financial measures, ESG data are presented in this model on a continuum in which poor performance (relative to competitors') increases risk while strong relative performance not only reduces risk, but has the potential to contribute to productivity and growth. What's more, as the comparability of ESG information increases, it is reasonable to expect that ESG reporting will provide another arena for competition among the reporting companies.

The Case of the Processed Foods Industry

The Processed Foods industry offers an illustrative example of how ESG data can uncover key risks and opportunities facing an industry, thereby enriching the analysis of corporate financial performance and values. The industry is now confronting two global trends that provide a backdrop for understanding the importance of ESG data in the investment process: the vulnerability of the water-food-energy nexus to climate change and population growth,[9] and the spread of diet-related non-communicable diseases.[10] Over the next 35 years the world's population is projected to grow to more than nine billion people, and the middle class is expected to grow by more than three billion, creating an increased demand for processed food products that could well be constrained by scarcity.[11] At the same time, a global obesity epidemic, which in the U.S. alone is estimated to cost $52 billion annually,[12] has come to the forefront of consumer attention. As discussed below, both of these social challenges present major business opportunities as well as substantial business risks.

The Processed Foods industry has the opportunity to contribute to a higher standard of living for much of the world's population. But achieving this goal presents formidable challenges. The ability of companies to meet increasing demand for foods that address consumer concerns in the presence of growing scarcity could have significant effects, positive as well as negative, on the returns they end up delivering to their shareholders. The promise held by comparable ESG metrics is in the ability to provide companies—and the company's investors—with a sense of their position on a continuum of ESG performance. For investors, moreover, such performance can be used to assess not only the risk and long-run growth potential of companies, but also the quality of their management teams and the extent of their commitment to the corporate future.

In designing its standards, SASB works to develop metrics that establish this continuum. As an example of one metric for the Processed Foods industry, SASB has proposed that companies track and report the percentage of their advertising devoted to promoting products that satisfy the "Children's Food and Beverage Advertising Initiative Uniform Nutrition Criteria." By creating and encouraging the reporting of such a measure, SASB aims to provide a platform on which companies can choose to compete.

And many if not most food processing companies will have good reasons to join this competition. For one thing, those companies that focus on promoting nutritional foods to children may benefit from revenue growth that is now being driven largely by increased consumer awareness of diet-related non-communicable diseases. At the same time, companies that continue to promote foods with low nutritional value will not only fail to capture this growing demand, but possibly experience loss of market share caused by a backlash from dissatisfied consumer groups. Such companies also risk the imposition of legislative curbs or requirements, such as the nutritional requirements established by the Healthy Hunger-Free Kids Act for foods served at schools in the United States. Central to this example is the premise that much as investors wouldn't limit their use of financial statements to expenses or liabilities, the use of ESG information shouldn't be limited to the evaluation and management of risk. Indeed, as I will show below, ESG data can provide equally valuable insight into a company's growth and return on capital.

The Role of ESG in Understanding Corporate Risk

The Processed Foods industry faces significant exposure to climate change and drought. More specifically, the agricultural component of the supply chain presents a clear source of risk—one that makes clear the critical importance of the water-food-energy nexus—for the industry. The climate-related risks to this system, which threaten to reduce crop yields and decrease crop quality, could lead to significant increases in input prices as supply becomes constrained in the face of growing demand.

In a recent report depicting the risks that climate change and drought pose to the industry, Oxfam estimates that the price of Kellogg's Corn Flakes and General Mill's Kix cereals could rise by up to 44% and 24%, respectively, in the next 15 years, with half of this increase attributable to the effects of climate change.[13] Such risks face competitors across the

8. United Nations Global Compact LEAD and Principles for Responsible Investment. "The Value Driver Model: A Tool for Communicating the Business Value of Sustainability," December 2013. p. 8, accessed December 29, 2014 *https://www.unglobalcompact.org/docs/issues_doc/Financial_markets/Value_Driver_Model/VDM_Report.pdf.*

9. The water-food-energy nexus is a term widely used in the sustainable development community, and surely one to be incorporated into greater social lexicon; it demonstrates that the goods of water, food, and energy are inextricably linked. For more information see, "Water, Food and Energy Nexus." UN-Water: *http://www.unwater.org/topics/water-food-and-energy-nexus/en/*.

10. Diet related non-communicable diseases include, among others, diabetes, cardiovascular disease, and heart disease. For more information see, Food Systems for Better Nutrition. Rome: FAO, 2013. *http://www.fao.org/docrep/018/i3300e/i3300e.pdf.*

11. World Resources Institute, "Creating a Sustainable Food Future A menu of solutions to sustainably feed more than 9 billion people by 2050," 2013, p. 12, accessed January 14, 2015, *http://www.wri.org/sites/default/files/wri13_report_4c_wrr_online.pdf.*

12. Allison, D B, R. Zannolli, and K M Narayan, "The Direct Health Care Costs of Obesity in The United States." *American Journal of Public Health* 89, no. 8 (1999): 1194-1199. Accessed January 10, 2015. *http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1508703/?page=1*.

13. Oxfam, "Standing on the Sidelines: Why Food and Beverage Companies Must Do More to Tackle Climate Change," May 20, 2014, p. 2, accessed January 14, 2015, *http://www.oxfam.org/sites/www.oxfam.org/files/bp186-standing-sidelines-big10-climate-emissions-200514-en_2.pdf.*

industry. Those companies that take a proactive stance in addressing these risks will be better positioned to gain market share as the risks materialize.

To capture the risk of drought and the effects of climate change, SASB standards recommend that companies disclose the "percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress." In addition, SASB has encouraged companies to provide a "list of priority food ingredients" as well as a "discussion of sourcing risks" arising from "environmental and social considerations."

Many corporations have recognized and reported on these risks. For example, in its 2013 10-k disclosure, ConAgra states, "In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products."[14] But if such statements show that companies are recognizing climate change as a potential risk, investors likely want to know what proactive steps a company is taking to mitigate this risk. As we will explore later, there are numerous ways in which companies like ConAgra can and do address the risks arising from climate change.

The potential loss of value from supply chain exposure to the effects of drought and climate change—which ESG data can be used to estimate—is not just hypothetical. Such information has moved markets in recent years. In response to a 2010 ban on Russian wheat exports, the shares of General Mills and RalCorp Holdings (since acquired by ConAgra) experienced losses of 2.2% and 3.9%.[15] The ban, which was prompted by a prolonged drought in Russia's major wheat growing regions, affected a variety of participants in addition to General Mills and RalCorp across the Processed Food industry, including Unilever, Nestle, and Mondelez, among others.[16, 17]

Companies that track their exposures to drought and other effects of climate change use various strategies and techniques to manage exposure. For instance in its 2014 Corporate Citizenship Report, ConAgra states that climate change poses the risk of "potentially threatening our water supply and fundamentally altering growing regions as we now know them."[18] The company further notes that its strategy includes goals for "reducing greenhouse gas emissions within our own operations and throughout our supply chain" as a way to "mitigate these risks and build a business that is resilient to climate change."[19] While such discussion is admirable, the decision-usefulness to investors would be bolstered through quantification of supply chain exposure to drought and pointed discussion on the environmental risks associated with priority crops, as called for in SASB's standards.

In addition to the tools ConAgra describes, companies have numerous tools and strategies to address risks related to climate change. Over a short- to medium-term time horizon, proactive companies may use futures contracts to hedge the risk of changes in raw materials price, or diversify the regions from which they source raw materials so as to reduce the likelihood and degree of any supply shortages or price increases. But over the longer term, some far-sighted companies will manage these risks most effectively by developing products that are less likely to be affected by drought and other climate change-related events. In this sense, effective risk management has the potential to promote growth and provide industry leaders with the opportunity to pass cost savings to consumers, enhance profitability, and gain market share. And to the extent ESG information that supports such new products is made available to and processed by long-term fundamental investors, corporate disclosure of such information is likely to encourage more accurate and sophisticated analysis and valuation by the capital markets—and generate higher values for companies with environmentally sustainable practices.

ESG Data Indicates Growth and Productivity

As a result of changing demographics and greater understanding of the water-food-energy nexus, processed foods companies are seeing growing demand for products that are developed in ways that do not degrade the environment.[20] As participants in this industry compete to gain share of this growing market segment, standardized metrics will provide investors with the information necessary to make better-informed decisions.

To address this need, SASB standards recommend that companies in the industry measure and report the "percentage of food ingredients sourced that are certified to a third-party environmental and/or social standard." The organizations recognized as providing such certification include the Roundtable on Sustainable Palm Oil, Rainforest Alliance, Fair Trade International, and USDA Organic.

In a recent publication, the United Nation's Food and Agriculture Organization (FAO) notes that global retail sales of organic-labeled foods were estimated at $46 billion, a four-fold increase from 1997, and that sales of Fairtrade Certified foods reached nearly $3.5 billion, with a 40% annual growth rate between 1997 and 2007.[21] Whereas total U.S. food sales grew by 4.5% in 2011, the U.S. organic market grew by 9.5%; and the average rate of growth for 2013 to 2018 is projected to reach

14. ConAgra Foods, Inc. FY13 Form 10-k for the period ending May 26, 2013 (filed Jul. 19, 2013), p. 11.

15. Pleven, Liam, Gregory Zuckerman, and Scott Kilman, "Russian Export Ban Raises Global Food Fears." *Wall Street Journal*, August 5, 2010. Accessed January 2, 2015. http://www.wsj.com/news/articles/SB10001424052748703748904575410740617512592.

16. Belton, Catherine, Jack Farchy, and Javier Blas, "Russia grain export ban sparks price fears" *Financial Times*, August 5, 2010. Accessed May 4, 2015. http://www.ft.com/cms/s/0/485c93ae-a06f-11df-a669-00144feabdc0.html#axzz3ZBeoUuCL.

17. Mondelez International, Inc. FY 2010 Form 10-k for the period ending December 31, 2013 (filed Feb. 28, 2011), p. 12.

18. ConAgra Foods, Inc., "2014 Corporate Citizenship Report," 2014, p. 89.

19. Ibid.

20. PWC, Retail & Consumer – A subsector focus on megatrends Packaged food and beverages ("F&B"). May 2014, accessed December 30, 2014, *http://www.pwc.ch/user_content/editor/files/ind_retail/megatrends_fb.pdf*.

21. Liu, Pascal. "Voluntary Environmental and Social Labels in the Food Sector." In Innovations in Food Labelling. Rome: Food and Agriculture Organization of the United Nations, 2010. Accessed December 30, 2014. *http://www.fao.org/docrep/018/i0576e/i0576e08.pdf*.

Table 1

Metric	Risk	Opportunity
Global Food Safety Initiative audit conformance: (1) major non-conformance rate and associated corrective action rate, and (2) minor non-conformances rate and associated corrective action rate	High major non-conformance rates and low corrective action rates could indicate risks to food safety, which could lead to recalls, lost contracts, and remediation costs. Major non-conformances may indicate systemic governance risks, which could affect risk premiums. Minor non-conformances may expose findings that if not corrected could turn into major non-conformances that present higher-magnitude repercussions.	Minimizing or eliminating non-conformances and maximizing corrective action rates indicate that management is properly managing food safety issues, which could in turn provide a strategic rationale for expanding the core business, as resources that may otherwise be focused on establishing compliance can be leveraged to promote growth.
Notice of food safety violations received; percentage corrected[30]	Violations are a direct expense to registrants in the form of time and resources needed to correct any notices received and fines that may be levied if such notices are not addressed. Notices of violations speak to management's ability to comply with self- and industry-imposed best practices, as well as government regulations.	N/A

14% annually between 2013 and 2018.[22, 23] In sum, increased demand for products certified to third-party environmental or social standards appear to represent a sizable opportunity for processed foods companies.

A review of corporate earnings calls further supports the expectation of significant growth for products certified to third-party standards. Speaking to the importance of growth from certified-organic food sales on its July 7, 2014 Investor Day, representatives from Campbell's Soup claimed that: "within Soup, we believe there is substantial upside in two distinct areas, indulgents and organic… as it [organic] currently accounts for $190 million in sales each year and is growing at nearly 9 percent."[24] Campbell's is also expanding into the organic baby food and beverage markets through its purchases of Plum Organics and expansions of its Bolthouse Farms portfolio.[25] Along with Campbell's, consider also the case of Hain Celestial. Although no giant by Processed Food industry standards, the company, which had $2.15 billion in fiscal year 2014 sales,[26] reported in its second quarter FY 15 earnings call that over 50% of its products are certified organic, and that adjusted operating income is up 11% year on year citing consumer demand for organic foods as a key driver of growth.[27] In line with these trends in consumer demand, General Mills has established a goal of "building our Natural and Organic Food business to $1 billion in sales by fiscal 2020." Reaffirming this commitment, the company noted that sales from this business segment "totaled more than $160 million in the third quarter, up 60% versus last year, including the addition of Annie's."[28]

Besides opening new markets, another way companies can grow return on capital is through increases in productivity. In the Processed Foods industry, managing the packaging life cycle presents a major opportunity for cost savings. Nestlé, for example, saved more than $170 million by reducing the amount of packaging it used in 2013.[29] With resource constraints likely to grow, companies that reduce packaging weight and transition to renewable materials may reduce transportation costs and reduce price volatility for packaging produced from fossil fuel stocks.

To capture corporate performance in this area, SASB has encouraged companies to measure and report the following indicators of packaging efficiency: "total weight of packaging; percentage made from recycled or renewable materials; [and] percentage that is recyclable or compostable." Such metrics, or others designed to reflect packaging used or CO_2 emitted, can be normalized on a revenue (or other) basis to provide investors with details on the efficiency of a company's operations and its effect on corporate productivity.

Standardized ESG Metrics to Inform Investor Analysis

In addition to the measures already mentioned, SASB recommends that companies in the Processed Foods industry disclose information on food safety and sourcing of certified products. While some of SASB's standards address the risks and opportunities associated with global mega trends, others bear more directly on a company's operating efficiency and performance. SASB has proposed three metrics for evaluating companies' performance on food safety that are presented, along with associated risks and opportunities, in Table 1: While investors may be able to glean useful information from any one of these three metrics, viewing them together

22. Scott-Thomas, Caroline. "US Organic Market Continues to Outpace Conventional Food Sales Growth." FoodNavigator-USA.com. April 24, 2012. Accessed January 14, 2015. *http://www.foodnavigator-usa.com/Markets/US-organic-market-continues-to-outpace-conventional-food-sales-growth*.

23. Daniells, Stephen. "US Organic Food Market to Grow 14% from 2013-18." FoodNavigator-USA.com. January 3, 2014. Accessed January 14, 2015. *http://www.foodnavigator-usa.com/Markets/US-organic-food-market-to-grow-14-from-2013-18*.

24. Campbell Soup Company. "CPB.US Investor Day: Shareholder Meeting Call," July 21, 2014. Accessed through Bloomberg LP on January 6, 2015.

25. Campbell Soup Company. "CPB.US Q2 2015 Earnings Call," February 25, 2015. Accessed through Bloomberg LP on May 6, 2015.

26. Hain Celestial Group, Inc., FY 2014 Form 10-k for the period ending June 30, 2014 (filed Aug. 27, 2014), p. 26.

27. Hain Celestial Group, Inc. "HAIN.US Q2 2015 Earnings Call," February 4, 2015, Accessed through Bloomberg LP on May 6, 2015.

28. General Mills. "GIS.US Q3 2015 Earnings Call," March 18, 2015, Accessed through Bloomberg LP on May 6, 2015.

29. Nestle, "Nestle in Society: Creating Shared Value and Meeting Our Commitments," 2013, p.208.

30. Note – disclosure shall include a description of notable recalls such as those that affected a significant amount of product or those related to serious illness or fatality.

Table 2

Metric	Risk	Opportunity
Revenue from products labeled and marketed to promote health and nutrition attributes	Disclosure on this topic points to the risks associated with regulation and public outcry relating to the products that do not promote health and nutrition attributes.	There has been substantial growth in demand for products that promote health and wellness. This metric gives investors information as to how companies are positioned to gain market share of this growing segment.
Revenue from products that meet Smart Snacks in School criteria or foreign equivalent	The Healthy Hunger-Free Kids Act was passed in 2010, products that meet the standards proposed by this act are allowed for sale in schools whereas products that do not are forbidden from such sales. This metric gives investors information on the risk that a firm's products may be excluded from certain markets.	The public has become hyper-aware of the affects that energy-dense, nutrient-poor foods have on children. This awareness has driven demand for foods of higher nutritional value. Disclosure will provide insight into which product segments are better performing and whether the registrant is taking advantage of such market trends.
Description of process to identify and manage products and ingredients of consumer concern	Processed foods contain certain ingredients about which public health concerns exist. This metric allows registrants to discuss its efforts to address such ingredients and the potential risk that its ingredients may come under further scrutiny or even regulation. Companies that do not realize the change in consumer demand and increased regulatory scrutiny may be at risk of losing market share as demand and regulations push the industry to recognize health concerns.	Companies taking a proactive stance on limiting ingredients of consumer concern will be better positioned to gain market share as demand for such products continues to grow. Additionally, Companies that have developed strategies to address health concerns about processed foods will maintain brand value and be better suited to increase market share.

provides insight into the size and regularity of the total costs that result from recalls and, perhaps even more importantly, into management's approach to and effectiveness in limiting future recalls. Low recall rates, when combined with effective preventive measures, are also likely to serve investors as reliable indicators of how management allocates resources to more productive capacities as well. Moreover, this kind of ESG data, to the extent it provides outsiders with a reassuring view of the firm's risk management processes, may well end up reducing its cost of capital, and so increase its value (for a given level of earnings and cash flow). Such data also has the potential to provide investors and managements alike with a deeper understanding into what is driving (or diminishing) the companies' long-run average return on capital.

In sum, the metrics on food safety presented in Table 1 reflect a company's risk management capabilities while providing insight into its potential to leverage competitive advantage achieved through superior performance to enhance or drive growth. But, as we have seen, SASB has also proposed standards for the Processed Foods industry that provide information that can shed light on a company's growth opportunities (though such opportunities, if sufficiently neglected, are liable to become sources of risk). One area that presents opportunities for this industry is provided by SASB standards on Health & Nutrition that are presented in Table 2: In a clear sign that some food companies recognize the opportunity presented by health and wellness, representatives of ConAgra directed attention in a recent earnings call to the company's recently launched Healthy Choice® Simply Steamers product line, noting that "it's really on trend with the desire from consumers of minimally processed foods and…we're off to a very good start."[31] Another well-known food company, Snyder-Lance Inc., announced in its November 4, 2014 earnings call the creation of "a *Better for You* division that will allow us to drive our long-term growth and begin to reshape not only that new division but [the] overall company."[32]

Whether it be through organically growing health and wellness products and brands or through mergers and acquisitions, companies in the Processed Foods industry are making concerted efforts to capture this increasing demand. While addressing an analyst's concern over scaling "health and wellness-oriented brands," Mondelez's (formerly Kraft Foods Inc.) CEO Irene Rosenfeld stated "without a doubt, better-for-you snacking is on trend. It's resonating well with our consumers around the world, and therefore, it will continue to be an important focus area for us…I think you should expect to continue to see us building on our better-for-you snacks, both organically and through M&A."[33]

And it's not just companies that are recognizing the opportunities presented by demand for health and wellness products. Mainstream investors have begun to recognize and

31. ConAgra Food, Inc. "CAG.US Q2 2015 Earnings Call," December 18, 2014. Accessed through Bloomberg LP on January 6, 2015.
32. Snyder Lance, Inc. "LNCE.US Q3 2014 Earnings Call," November 04, 2014. Accessed through Bloomberg LP on January 6, 2015.
33. Mondelez International, Inc. "MDLZ.US Q1 2015 Earnings Call," April 29, 2015. Accessed through Bloomberg LP on May 6, 2015.

focus on the value of incorporating these attributes into the product mix. As just one example, a recent Morgan Stanley research paper on integrating ESG into corporate valuation concludes that "[i]n terms of opportunities, companies with more exposure to 'healthy' products in their portfolio can benefit by leveraging this key trend, which has been driving growth across food categories."[34] In addition to suggesting that health and wellness products are likely to affect valuations through revenue risk and opportunity, the paper suggests that investors pose questions to management on such topics as, the proportion of the company's "product portfolio that is exposed to less healthy foods" as well as the company's efforts to "leverage the consumer trends towards healthy eating."[35] Consistent with the message and issues raised by Morgan Stanley, SASB metrics presented in Table 2 seek to address growing demand for standardized ESG disclosure while limiting the potential for information asymmetry and investor uncertainty that could arise from less standardized disclosure.

But investors and analysts want more than narrative to support decisions on how they allocate capital—they want corresponding data. While information on a company-by-company basis is disaggregated and lacks comparability, a 2013 Hudson Institute study of 15 leading Processed Foods companies found that, although foods determined to be "better-for-you" (BFY) constituted only 38.6% of sales between 2007 and 2011, these same foods contributed to 71.8% of growth over the same time period. The study also notes that those companies with above-average BFY portfolio sales had an average operating profit margin of 15.3% and an average operating profit growth of 49.6%, as compared to 9.5% and 14.3% respectively for those with below-average BFY portfolio sales. [36] Such findings lend further credence to the previously cited statements by industry executives (in conference calls) that consumer demand for BFY food is driving growth in both sales and (more importantly) profits. While this research would suggest the health and wellness attributes of a company's product portfolio have implications for financial performance, there remains a lack of comparable information that investors can incorporate into their analysis and decision-making.

Many companies in the Processed Foods industry now report some form of metric that reflects the health and nutrition attributes of their products. However, the metrics lack comparability across the industry. Whereas Nestle provides information on "products meeting or exceeding Nestlé Nutritional Foundation profiling criteria,"[37] Mondelez highlights the "percent[age] of our revenue… from our Better Choices products,"[38] and General Mills reports the percentage of its "2014 U.S. retail sales volume… comprised of products that have been nutritionally improved since 2005."[39] While the disclosure of such metrics should be applauded, the lack of comparability reduces their usefulness to analysts and investors. Standardized metrics on health and nutrition can give investors meaningful insight into, among other things, a company's ability to capture demand and increase market share in this growing market. And this type of ESG information may well prove pivotal by further informing investors' expectations about the company's future returns on capital and long-run value.

In Summary

Investors have largely incorporated ESG data into their research, mainly as a way of assessing risk. A recent PwC survey of 40 institutions with $7.6 trillion worth of assets under management found that 73% of investors considered *risk mitigation* as a primary driver compelling them to use ESG information. Nevertheless, *enhanced performance* and *impact on overall capacity to create value* were close behind, cited by 52% and 30% of investors, respectively, as supporting these aspects as primary drivers for consideration of ESG information.[40]

In the past, much of the discussion on corporate sustainability has focused on the ability of corporations to minimize the liabilities of poor environmental stewardship and the harm of mismanaged social practices. In the future, the use of ESG information will expand to incorporate growth and productivity opportunities associated with strong ESG performance. As companies use SASB standards to disclose ESG information in ways that prove useful for investors, the case for using ESG data to evaluate corporate productivity and growth, as well as risk, will only grow stronger.

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34. Morgan Stanley Research, "Embedding Sustainability into Valuation," January 27, 2015, p. 38.
35. Ibid, p. 40.
36. Hudson Institute, "Better-For-You Foods: An Opportunity To Improve Public Health And Increase Food Industry Profits," March 2013, p. 9-10.
37. Nestle, "Nestle in Society: Creating Shared Value and Meeting Our Commitments," 2013, p. 17.
38. Mondelez International, Inc., "The Call for Well-being: 2013 Progress Report," 2013, p. 5.
39. General Mills, Inc., "Global Responsibility: 2015," 2015, p. 19.
40. The question presented for which this data relates asked, "Why are investors considering sustainability issues?" The possible responses included, were primary driver, somewhat of a drive, not at all a driver. For more information on this study see: PWC, "Sustainability goes mainstream: Insight into investor views," May 2014, p. 6, accessed January 6, 2015, *http://www.pwc.com/en_US/us/pwc-investor-resource-institute/publications/assets/pwc-sustainability-goes-mainstream-investor-views.pdf*.

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Journal of Applied Corporate Finance (ISSN 1078-1196 [print], ISSN 1745-6622 [online]) is published quarterly by Wiley Subscription Services, Inc., a Wiley Company, 111 River St., Hoboken, NJ 07030-5774.

Postmaster: Send all address changes to JOURNAL OF APPLIED CORPORATE FINANCE, John Wiley & Sons Inc., C/O The Sheridan Press, PO Box 465, Hanover, PA 17331.

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