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Higher corporate sustainability improves the market and risk-adjusted performance of companies

Abstract

This project complements previous empirical research on the study of sustainability, market and risk-adjusted performance by employing to date unused data. Sustainability provides opportunities for producers to lower costs, for entrepreneurs and investors to increase profit; and therefore should have an impact on the market performance. Whether sustainability has an impact on market and risk-adjusted performance is examined using three indexes - the Dow Jones Sustainability World Index, the Dow Jones Global Index and the Dow Jones Global Total Stock Market Index. As the most sustainable companies from the Dow Jones Global Stock Market Index are included in the Dow Jones Sustainability World Index, it is expected that the index with more sustainable companies would show a better market and risk-adjusted performance. The study`s results provide no evidence that there is a generic business case for sustainability. The insignificant, slightly higher performance of DJSIW seems to come with additional volatility and risk, as this index shows the lowest Sharpe Ratio of the three indexes. The study indicates that companies with remarkable sustainable development strategies are not more likely to be rewarded by investors with a higher valuation in the financial markets and do not show a better risk-adjusted performance.