EXAMINING SUSTAINABILITY PERFORMANCE OF FTSE/JSE RESPONSIBLE INVESTMENT TOP 30 INDEX CONSTITUENTS

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Abstract - The paper examines the sustainability performance of 32 companies listed in the FTSE /JSE responsible investment Top 30 Index. The study uses CSR ratings retrieved from the CSR Hub as proxy for sustainability performance. The CSR Hub rates sustainability performance based on four dimensions which are; Community, Employees, Environment and Governance (CSR Hub 2018). Highly regulated companies may outperform least regulated companies as far as sustainability is concerned.

Keywords - Sustainability Disclosures, Sustainability Performance, CSR Hub, Regulation

I. INTRODUCTION

Sustainability disclosures has been used by companies to report to stakeholders with divergent interests and unmanageable expectations. Stakeholders must be adequately equipped to comprehend the extent of the company's involvement in sustainability performance practices. The paper contemplates sustainable development as an on-going process of radical change.

II. RESEARCH AIM AND OBJECTIVES

The main aim of this research is to determine the extent to which FTSE/JSE Responsible Investment Index listed companies disclose and perform their sustainability functions as compared to global counterparts. The study is underpinned by in-depths content analysis of data obtained from independent sources with more credibility. The following are the research objectives:

1. To examine the extent of sustainability performance of South African companies as compared to global performance
2. To report on sustainability performances trends between industries
3. To establish if mandatory disclosures lead to higher sustainability performance

III. LITERATURE REVIEW

The Brundtland commission defined sustainability as the development that meets the needs of the present without compromising the ability of future generations to meet their needs (Brundtland Commission, 1987). In pursuit of legitimacy, companies resort to greenwashing by issuing self-declared sustainability disclosures that are somewhat incoherent with actual sustainability performance (Moreno-romero and Barkemeyer, 2015;Smith and Ro, 2016; Dienes, Sassen and Fischer, 2016; Nazari, Hrazdil and Mahmoudian, 2017; Wang and Sarkis, 2017). Sustainability disclosures are negatively perceived as legitimation tools to appease stakeholders with divergent interests and sometimes unmanageable expectations. To a certain extent sustainability disclosures do not translate into tangible projects as expected(Dimmler, 2017).

Despite recent academic interest in sustainability disclosures (Fai, Thai and Diew, 2017;Wang and Sarkis, 2017;Bhandari and Javakhadze, 2017;Theodoulidis *et al.*, 2017;Price and Sun, 2017;Wuttichindanon, 2017;Viveros, 2017;Ali, Frynas and Mahmood, 2017), empirical research has been lagging behind practice. However, both sustainability practitioners and scholars need greater understanding of the diversity of sustainability disclosures practices. The author draws from the stakeholder theory. A sustainability report should inform stakeholders how or whether the company is contributing towards sustainable transformation by making visible the inter-relationships of companies' actions and intentions on social, ecological and economic systems (Thomson, 2015)

Stakeholders must have a reliable instrument to link such disclosures with tangible projects and means to authenticate sustainability performance information purported in the report. Whilst there is greenwashing of sustainability misconducts and magnifying the handprint in the guise of accountability(Greco, Sciulli and Onza, 2015), there must be a tool to validate sustainability disclosures. These calls for an academic intervention to empower stakeholders in navigating the problem through a theory-based mechanism. This dispensation of active stakeholder responsibility in holding businesses accountable would result in companies reporting more accurately and reduce green washing. Problems created by these externalities cannot be solved at the private level by companies (Mitchell *et al.*2016).Relying on managers in solving the externalities may not yield expected outcome. (Ferrero et al, 2014). Due to market failures in resolving externalities, regulators have become increasingly interested in the sustainable development agenda. Regulatory stakeholders are becoming significant players in sustainability as expounded by Agle *et al.*, (2008), there is a case for regulatory regime (Ferrero et al, 2014).

IV. DESIGN AND METHODOLGY

This is a quantitative and descriptive study. The population of the study was the 18000 companies that were listed by CSRHUB. The researcher selected a sample of 32 FTSE/JSE Responsible Investment Top 30 Index listed companies. Detailed data of these companies regarding sustainability performance was extracted and analysed using the SPSS programme. Data included the four dimensions of sustainability namely: Community Development, Environmental Practices, Governance and Employee Development.

This data was used to understand the extent to which the companies listed in the index are performing across the four dimensions of sustainability as well as a comparison of their performance to industry and global average. More than a third of the index is composed of the extractive companies and the researcher has a keen interest in their performance and whether regulation has any relevance in higher sustainability performance.

The JSE is the first emerging market and first stock exchange to form a Socially Responsible Investment Index (SRI Index) in 2004 and is the vanguard in championing sustainable business practices that supports alignment with the UN Sustainable Development Goals (SDGs). All 17 SDGs are incorporated and reflected in the 14 themes under the JSE ESG framework (JSE,2018).

Moreover, the JSE's King Code on Corporate Governance's listing requirements have been significantly influential. Following King III, JSE became the first stock exchange globally to incorporate integrated reporting. It has since become mandatory for JSE listed companies to comply with the code on corporate governance guided by the 'apply or explain' principle (JSE,2018). Theresearcher selected the FTSE/JSE Responsible Investment Top 30 index because it has been designed to identify South African companies with leading environmental, social and governance practices (JSE,2018).

Source of Data and credibility

Data about the thirty-two companies was obtained from CSRHubwhich a B Corporation is, an Organizational Stakeholder with the Global Reporting Initiative (GRI), a silver partner with Carbon Disclosure Project (CDP). CSRHub is a founding member of The Alliance of Trustworthy Business Experts (ATBE) and supports both the Global Initiative for Sustainability Ratings (GISR) and the International Integrated Reporting Committee (IIRC) (CSRHub, 2018). The researchers preferred CSRHub because it is the most comprehensive CSR information aggregation tool with transparent ratings and rankings of 18,052+ companies from 135 industries in 133 countries. CSRHub has the largest contribution of data coming from leading Environmental, Social, and Governance data sources (CSRHub, 2018).

CSRHub takes information from its data sources and transforms it into a 0 to 100 scale. The higher the rating the better, with 100 as a best rating. By aggregating and normalizing the information from these sources, CSRHub has created a broad, consistent rating system and a searchable database that links each rating point back to its source (CSRHub, 2018). CSRHub's overall ratings are based on four categories: Environment, Employees, Community and Governance (CSRHub, 2018). Table 1 shows that each category has three subcategories.

V. PRESENTATION AND DISCUSSION OF FINDINGS

The industry in which companies operate is an important factor important factor in determining the extent and nature of sustainability disclosures. This is mainly attributed to the fact that in each industry, there are different pressures from divergent stakeholders which can influence the materiality of disclosures.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
JSE INDEX	32	50.833332	64.916664	59.30208338	3.141221576
INDUSTRY	32	50.500000	56.583332	52.79947913	1.703867327
COUNTRY	32	55.0	55.0	55.000	.0000
GLOBAL	32	51.0	51.0	51.000	.0000
Valid N (listwise)	32				
SUSTAINABILITY DIMENSIONS					
COMMUNITY	32	46.000000	62.666668	52.84375013	4.251067334
EMPLOYEES	32	57.333332	73.666664	65.70833338	3.846284418
ENVIRONMENT	32	45.000000	70.000000	59.70833325	5.376671959
GOVERNANCE	32	51.000000	65.333336	59.23958337	3.978647907
Valid N (listwise)	32				

The table above shows that companies all the companies affiliated in the FTSE/JSE Responsible Investment Top 30 Index have been examined and have since performance above the industry and global averages. As far as sustainability dimensions are concerned, companies have performed higher in employees and lower in the community aspects.

Table 2: FTSE/JSE Sustainability Performance VS Country and Global Performance

ICB Sector	FTSE/JSE Constituents		Sustainability Performance Rating			
	# Companies	% on total	Company	Industry	Country	Global
Banks	3	9%	60	52	55	51
Basic Resources	11	34%	60	53	55	51
Chemicals	1	3%	60	54	55	51
Financial Services	3	9%	56	51	55	51
Food & Beverage	1	3%	59	54	55	51
Health Care	2	6%	59	52	55	51
Industrial Goods & Services	2	6%	62	54	55	51
Insurance	1	3%	60	51	55	51
Personal & Household goods	2	6%	58	55	55	51
Retail	4	13%	60	52	55	51
Technology	1	3%	51	53	55	51
Telecommunication	1	3%	65	57	55	51
Index	32	100%	59	53	55	51

Table 2depictsthat at 59/100 the FTSE/JSE Responsible index listed companies are performing far much better than the global average 51/100, this could be explained by the comply or explain principle adopted by the JSE regarding sustainable business practices.Of the twelve industries represented in the index Telecommunication 65/100 is ranking higher in terms of sustainability performance, followed by Industrial goods and services, whilst Technology is the least performing industry.Studies (Ali, Frynas and Mahmood, 2017; Lin et al., 2015; Thijssens, Bollen and Hassink,2015) revealed that industry has a relationship with disclosures.Of significance is that Basic Resources which represents more than a third(11 0f 32 companies) and mainly comprised of mining companies is at 60/100.Also, two of the mining companies reported the highest number of data sources which is true for environmentally sensitive industries such as confirmed (Cormier,2015). These industries are considered dirty and they are susceptible to much more stringent regulation, therefore expected to marshal considerable resources into environmental sustainability issues. (Fasan and Mio, 2017).

Table 3: Sustainability Performance VS Sustainability Dimensions

Sub-Categories	Company	Industry	Country	Global
Community	**53**	**49**	**49**	**50**
Community Development and Philanthropy	49	45	48	45
Human Rights and Supply chain	47	46	42	49
Product	62	56	57	57
Employees	**66**	**55**	**58**	**55**
Diversity & labour rights	66	54	57	54
Training, Health and safety	68	56	60	57
Compensation & Benefits	63	55	57	55
Environment	**60**	**54**	**55**	**55**
Energy and Climate change	60	54	56	55
Environmental policy and Reporting	66	58	57	58
Resource Management	54	51	52	52
Governance	**59**	**53**	**53**	**52**
Leadership Ethics	57	53	55	52
Board	62	57	58	56
Transparency & Reporting	58	48	45	47

Table 3 shows that the Employees dimension (66/100) is the highest performing dimension with training,health and safety subcategory being the highest performers (68/100). The community dimension (53/100) ranks the lowest when compared with all four dimensions, its subcategories; Product (62/100)as well as Community Development and Philanthropy (49/100) performed better than the global average of 57/100,and 45/100 respectively. On community, Human Rights and supply chain subcategory scored the lowest at (47/100). This rating isbelow both the country as well as the global average, making it the worst performing subcategory. Human Rights and Supply Chain subcategory measures a company's commitment to respecting fundamental human rights conventions, its ability to maintain its license to operate by supporting freedom of association and excluding child, forced or compulsory labour. This subcategory also covers a company's transparency in overseas sourcing disclosure and monitoring, a company's relationship with and respect for the human rights of indigenous peoples near its proposed or current operations CSRHub (2018).

CONCLUSION AND LIMITATION OF THE STUDY

Conclusions and recommendations

1. The findings suggest that companies listed in the FTSE/JSE Responsible Investment Top 30 Index are performing better than global companies evaluated by CSRHUB.
2. It is worth noting that more than a third of the index are highly regulated companies in the basic resources. These companies have shown a significant higher sustainability performance that the global average. The researcher has taken a special keen interest in further understanding the extent to which regulation improves sustainability performance of these companies. As a result,these phenomena of the impact of regulation will be further enhanced as part of the Doctor of Leadership research work that the candidate is currently engaged in.
3. Amongst the four dimensions of sustainability as measured by CSRHUB, the FTSE/JSE Responsible Investment listed companies are performing higher (above 60/100) on employees and environment while performing below 60/100 on community and governance. This trend is worth further exploring and determine whether regulation can be used to improve performance.
4. Business leadership is an instrument to increase company's sustainability performance. It is evident in this study that, Governance amongst the four dimensions is the second least performer at below 60/100 with leadership ethics reporting 57/100 and transparency at 58/100 with boards achieving 60/100. Of interest is to what extent would practical and regulatory interventions in the governance sphere of business uplift the rest of the dimensions.

LIMITATIONS OF THE STUDY

The limitation of the study is that it is confined to 32 constituents of the FTSE/JSE Responsible Investment Top 30 Index, the small sample renders the results of statistical analysis inaccurate, more samples are needed for 95% confidence intervals as 93.95 confidence levels will be produced for 32 samples. Future studies can explore a large population.

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