

Sustainability measures: a stakeholder focus beyond shareholders

Sustainability
measures

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Abstract

Purpose – The purpose of this paper is to provoke a reflection on how sustainability may be measured to predict future performance to inform diverse stakeholders in their assessment of organizations.

Design/methodology/approach – Conceptual.

Findings – Propositions have been developed for considerations in elaborating future measures.

Originality/value – A rigorous examination of the pertinence of current sustainability measures and assumptions has been carried out to provide a foundation for the future development of forward-looking sustainability measures. Integration of stakeholder management capabilities and environmental, social and governance measures to support sustainable business development strategies.

Keywords Corporate governance, Sustainability, Ethics, Values, Social responsibility, Management

Paper type Conceptual paper

Introduction

This research considers the challenges inherent in sustainable business development built on stakeholder management capabilities and the assessment of environmental, social and governance (ESG) performance. We bridge stakeholder expectations with the investment criteria of shareholders focused on socially responsible investing (SRI). Whether SRI is focused on doing the least harm or aiding a worthy cause, the investor is dependent on available ESG measures to interpret whether the organization's business practices align with stakeholders' expectations. Recognizing that today's question is no longer "whether CSR *pays*, but instead when or under what circumstances" (Orlitzky *et al.*, 2011, p. 9), a tabulation of corporate social responsibility (CSR) initiatives fails to capture the impact of the organization's contribution to society. In another perspective, do traditional ESG performance criteria place undue emphasis on image rather than substance, failing to address time- and context-dependent and often competing stakeholder needs?

We argue that an integration of the expectation of the stakeholder and the salience of the stakeholder to the firm is essential in order to direct the firm's ESG responsiveness so that it is integrated within stakeholder management capabilities. We consider the conditions necessary to promote continuous practice improvements as well as the risks of focusing solely on the ESG aspects of CSR that have been traditionally assessed; essentially questioning whether we are measuring what we value, or whether we value only what we can measure?

While corporate financial performance may preoccupy investors, it is CSR, viewed as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (World Business Council for Sustainable Development, 2000, p. 10), that captures public attention. Sustainable business development is the



broader umbrella against which sustainable investment decisions consider how organizations may achieve their objectives while minimizing resource utilization in recognition of the stewardship of the planet for future generations.

SRI strategies are attracting a growing audience as evidenced by over a thousand signatory firms to the Principles for Responsible Investment, representing over \$30 trillion invested in professionally managed socially responsible investment (SRI) portfolios in 2011 (US SIF, 2012). This represents over 20 per cent of global managed investments, a testimony to SRI having grown beyond a niche market to attract diverse investment institutions (US SIF, 2012). The origins of SRI were founded on negative or avoidance screening of companies in industries that violated values, such as armaments, nuclear power, tobacco, pornography and gaming, having evolved to also utilize a more nuanced positive screening which selects best-in-class firms whose social and environmental conduct are exemplary (Domini, 2001; Sparkes and Cowton, 2004).

As social values evolve, stakeholder expectations are influenced by varying issues which may become the focus of both avoidance and positive screens. For example, the end of apartheid removed investments in South Africa from negative screens, while avoidance of investments in Sudan takes precedence in today's criteria (US SIF, 2012), with other industry-specific screens such as genetically modified organisms also gaining attention. In the extractive industries, the social license to operate is capturing public interest as social inclusion shares the stage with environmental concerns.

While identifying best practices, corporate ESG assessments may be viewed by some as creating a model to be emulated. Equivalent to a corporate beauty contest, these measures may well fail to capture the substance of ESG performance, remembering the old adage that beauty is in the eye of the beholder. Using a similar analogy, Gioia and Corley (2002) warn that the consequence of ranking business schools places an undue emphasis on image rather than substance. Furthermore, unlike financial performance measures such as return on equity, earnings per share or dividend payout ratios that are applicable to all companies and industries across nations, the pertinence of the diverse aspects of CSR differ dramatically depending on perspective.

As Orlitzky (2013) notes, the lack of professional oversight of CSR disclosures leaves them more vulnerable to management manipulation than the financial disclosures which carry sanctions for misrepresentation. The manner in which a firm interprets and responds to the importance, legitimacy and urgency of diverse stakeholder needs is both time- and context-dependent (Aguilera and Jackson, 2003; Frooman, 1999; Mitchell *et al.*, 1997; Rowley, 1997; Rowley and Moldoveanu, 2003), and these factors are difficult to incorporate into generic ESG measurement criteria. Furthermore, the effectiveness of CSR practices can only be assessed by the results as perceived, relative to expectations in the eyes of diverse stakeholders (Freeman, 1984).

A dysfunctional adherence to those areas specifically rewarded (Henry, 2002) can so focus CSR on only those aspects that are subject to measure that worthy, but unusual or punctual stakeholder issues risk being ignored. With the evolution of the business context, both the expectations and priorities of changing stakeholders with respect to CSR will also vary over time (Aguilera and Jackson, 2003; Frooman, 1999; Mitchell *et al.*, 1997; Orlitzky, 2013; Rowley, 1997; Rowley and Moldoveanu, 2003; Waddock and Graves, 1997). A responsive CSR strategy calls for an adaptation of business practices and longer-term objectives, validation with stakeholders and diligent monitoring, along with transparent ESG disclosure.

This leads to the research questions this conceptual paper raises. How appropriate are the ESG quantitative measures in reflecting future firm CSR performance? Similar to the earnings pressures placed on corporate results that have culminated in questionable financial reporting practices, is stakeholder pressure to report ESG performance more likely to lead to creative disclosure efforts than to progressively oriented practices? Do corporations seek continual improvement in their ESG reporting and CSR practices or do they engage in satisficing to merely meet enough measurement criteria to avoid exclusion from qualification for SRI and other institutional portfolios?

Theoretical foundations

The classic definition of stakeholders from Freeman's seminal *Strategic Management: A Stakeholder Approach* Freeman (1984, p. 46) includes "any group or individual who can affect or is affected by the achievement of the organization's objectives". However, the inherent complexity in stakeholder management draws on multiple theoretic lenses to understand how organizations interact with their stakeholders, so that stakeholder theory is but the starting point. Stakeholders seeking to influence a firm's policies or actions may operate independently, within a group (Rowley and Moldoveanu, 2003) or a network (Rowley, 1997), to directly or indirectly withhold resources from the firm (Frooman, 1999), building on both exchange theory and resource dependence (Frooman, 1999). Stakeholder attributes such as legitimacy, power and urgency (Mitchell *et al.*, 1997) determine the salience to management (Agle *et al.*, 1999) and ultimately whether management will ignore stakeholder pressures and maintain the status quo, offer a compromise or comply with the stakeholder's request, based on social network theory (Rowley, 1997).

As management balances competing stakeholder issues (Agle *et al.*, 1999; Harrison and Freeman, 1999), the timing and context will shape the stakeholders' perspectives and expectations (Freeman, 1984; Harrison and Freeman, 1999), as well as the relative power dependency (Agle *et al.*, 1999; Frooman, 1999; Mitchell *et al.*, 1997; Wood, 1991), which leaves affected stakeholders and minorities greatly disadvantaged (Hemmati, 2002). Inevitably there are trade-offs required between stakeholders as social conditions change and good causes emerge (Godfrey, 2005). Also consistent with the theory of over-investment in social actions is the need for firms to recognize when stakeholder interests have shifted to align their attention to meet issues pertinent to their stakeholders. However, engaging this social responsiveness must be balanced against demonstrating consistency in CSR to avoid alienating stakeholders. While some stakeholders may be very satisfied with the organization's allocation of resources to CSR, this may create dissatisfaction on the part of other stakeholders (Barnett, 2007).

Godfrey (2005) suggests adapting philanthropic activities to focus on pressing societal needs, a practice that has been evident in firms' social actions directed to recovery after hurricanes, earthquakes and other natural and man-made disasters. However, Muller and Kräussl (2011) research on corporate responses to Hurricane Katrina suggests that disaster response giving may also be seen as ingratiating, particularly for organizations viewed as irresponsible where such philanthropy is viewed to be inconsistent.

Based on resource dependence (Pfeffer and Salancik, 1978), the firm's access to resources is built on an interaction with its stakeholders (Agle *et al.*, 1999; Frooman, 1999), integrating the importance of context in determining those stakeholders controlling resources essential to the firm (Pfeffer and Salancik, 1978). Resource

dependence emphasizes competing and often incompatible demands, for which management must allocate scarce resources (Oliver, 1991) in selecting among the choice of CSR initiatives. Porter's structure-conduct-performance model also recognizes the dynamic role of the industry within which a firm operates (Porter, 1991).

Although CSR is entirely discretionary, from an institutional theory perspective it is societal expectations that place pressure on firms to behave in a socially acceptable manner, leading to isomorphism (Oliver, 1997). The ability of firms to differentiate their CSR is limited, when essentially all major organizations are engaged in a broad array of CSR initiatives, which some researchers have found to lead to an overinvestment in CSR (Bertels and Peloza, 2008). Going beyond the right thing to do (Oliver, 1991), stakeholder management capabilities may be viewed as a strategic tool to provide long term, sustainable competitive advantage (Donaldson and Preston, 1995; Epstein and Roy, 2003; Harrison and Freeman, 1999; Wood, 1991) as predicted by a resource-based view (Barney, 1991).

Inspired by Sharma *et al.*'s (2007) study on capabilities and proactive environmental strategy, we draw a parallel with stakeholder management capabilities and sustainable business development strategy. We propose that managerial decisions moderate the relationship between the firm's capabilities and the implementation of its strategies, as seen in Figure 1.

The managerial choices may range from the pursuit of continuous CSR process improvements to merely satisficing, along with a proactive ESG disclosure to engage with and be responsive to stakeholders, or other signals to influence stakeholder perceptions as to the substance of firm CSR. We will now turn to issues underlying assessment of ESG performance in the eyes of salient stakeholders.

Benchmarking and measurement

Given the proprietary nature of the CSR and ESG measurement models and the varying degree of transparency in the methodology and proportional weighting, a multitude of relative rankings may exist in any comparison of firms A-C. However, Gioia and Corley's (2002, p. 109) defense of the ranking of business schools that "competition improves the breed", is also a justification for the benchmarking of ESG performance efforts which enables stakeholders to monitor a firm's year-over-year progress against its own results and against those of other firms, also applying a

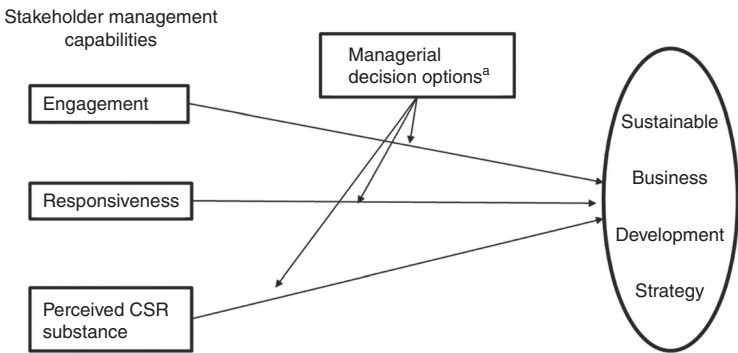


Figure 1.
Moderating role of
managerial decisions
on relationship
between stakeholder
management
capabilities and
sustainable business
development

Note: ^aSatisficing, continuous process improvement, proactive disclosure

simple, more systematic approach to provide a better balance than only relying on highly publicized incidents to form opinions (Graafland *et al.*, 2004).

Measures criticisms

An inherent weakness in these approaches stems from the detachment from any stakeholder input, as a firm's performance in any number of categories is judged by a researcher who, however neutral, interprets firm- or press-generated documentation. Furthermore, the value judgements that equate one unit of good with one unit of bad, making values commensurable, are inherently flawed (Graafland *et al.*, 2004) in trading off one stakeholder for another. For example, do providing family friendly facilities and policies to domestic employees fully offset human rights abuses in foreign sweatshops? The relative degrees of importance within and between categories are not captured, nor are the intentions or level of control a firm may exercise over certain impacts of its actions (Graafland *et al.*, 2004).

The notion that social responsibility and irresponsibility is not a continuum recognizes that a firm's deficiencies in the relationship with particular stakeholders does not constitute the converse of a firm's strengths in relationships with other stakeholders (Delmas *et al.*, 2013; Mattingly and Berman, 2006; Strike *et al.*, 2006). With respect to environmental performance, the most active organizations have been found to have both significant strengths and shortcomings as by the very nature of certain industries such as extractives/mining, numerous beneficial initiatives may be instituted; however, this cannot negate the inherently detrimental impact of these operations on the environment, spawning a questioning of their social license to operate.

Furthermore, when assessing environmental performance, does air pollution have the same significance as improper disposal of hazardous waste? In addition, what comparison can the environment have with a firm's participation in community programmes? Our measures lack the notion of the permanence of actions or whether recovery, while possibly costly, is even feasible. The example of rare heritage trees which took hundreds of years to mature, yet can be destroyed in only minutes with a chainsaw, illustrates a point of contention between conservationists and land developers to which no quantitative solution may be applied.

The relevance of particular CSR actions is dependent on context and perspective, as well as industry sector (Graafland, *et al.*, 2004; Griffin and Mahon, 1997; van den Berghe and Carchon, 2003). For example, the service nature of financial institutions poses very little threat to the environment, resulting in a preponderance of financial services at the top of ESG global rankings. However, the use of industry-specific criteria such as the access of low-income or visible minority individuals to credit, the transparency in the conditions attached to credit card interest charges or the respect of privacy of personal information would be criteria that would reduce the assessment of most financial institutions' ESG performance.

An inherent challenge in ESG measurement is the timeframe under consideration. Parallel to financial results, an annual cycle is the standard for most proprietary measurements, with analysts reviewing events of the previous 12 months upon which to assess ESG performance. When considering the time it takes to bring charges against an organization, to then follow through the litigation and the appeals process, it is most likely considerably in excess of the yearly reporting cycle. Does being accused render a firm guilty or should the full judicial process be completed before assessment? The time lag between when issues arise and when they are fully examined may result

in poor ratings for responsible organizations because of an accusation, or an irresponsible organization garnering good ratings as questionable practices are camouflaged or not identified until years later.

Researchers who have extensively examined environmental measurement tools point out the following shortcomings: limited validity, along with poorly identifying the worst performers (Chatterji *et al.*, 2009); a lack of transparency, coupled with a multitude of measures detract from the credibility (Delmas and Blass, 2010; Delmas *et al.*, 2013); and modest predictive power and lack of discriminant validity in assessing levels of compliance, which were overcome through the development of a new measure not yet tested in subsequent research findings (Walls *et al.*, 2011). The inconsistencies with actual performance challenge the predictive value of traditional ESG measures and accordingly, their usefulness for SRI.

Furthermore, as social performance is covered by fewer rating schemes and is more difficult to quantify (Delmas *et al.*, 2013), this aspect of ESG rating may be viewed as an underdeveloped indicator. On the governance side, recognizing that the board is the “apex of the firm’s decision control system” (Fama and Jensen, 1983, p. 311), any complete assessment requires a review of the intervening board processes (Daily *et al.*, 2003; Forbes and Milliken, 1999; van den Berghe and Carchon, 2003) to which access is highly restricted. While the environmental component may lend itself to more quantification and thus triangulation, adding the ambiguous social and governance considerations fuels questioning of overall ESG assessments. Quite simply, are we measuring the right things, using appropriate measures and compiling meaningful results? By extension, what is the predictive value of past acts on future ESG performance?

Measurement sources

While institutional portfolio managers may purchase SRI proprietary assessments, the individual investor generally relies on publicly available data which may come from a variety of rankings/ratings published by organizations such as Forbes, Fortune, Corporate Knights and the Dow Jones Sustainability Index (DJSI). With exchange traded funds as well as mutual funds, an individual investor may avoid making individual selections of firms and select either best of practice or exclusionary SRI funds (e.g. see MSCI’s web site for details of their extensive offerings).

For research purposes, the KLD ratings are “among the oldest and most influential, and, by far, the most widely analyzed by academics” (Chatterji *et al.*, 2009, p. 125) and have been characterized as the largest multidimensional CSR database (Deckop *et al.*, 2006). Briefly, KLD describes their research evaluations as originating from five distinct data sources which include direct communications with firm officers, global media sources reviewed on a daily basis, public documents as filed with the SEC, input from ten global SRI research firms and information gathered from various branches of the US government and non-governmental organizations (MSCI, 2011). The seven broad categories assessed include community, governance, diversity, employee relations, environment, human rights and product, while exclusionary screens include alcohol, gambling, firearms, military, nuclear power and tobacco (see Mattingly and Berman, 2006, for detailed description).

Concentrating on environmental performance ratings, Delmas *et al.* (2013) supplemented the KLD assessments with those developed by Trucost and by sustainable asset management (researchers for DJSI) to analyse the environmental performance of the largest US public firms over three years. They found environmental

processes to be relevant to financial performance, while outcome measures were not, although these two components accounted for 80 per cent of the variance (Delmas *et al.*, 2013). The details of the methodology behind the above noted published rankings may be found on the applicable corporate web sites (note, however, that changes have been implemented annually to the data gathering/analyses of most of these rankings, for which comparisons across and between rankings are rendered difficult).

Stakeholder considerations for ESG measurement

What are some of the stakeholder characteristics that might be considered when measuring ESG performance? Perhaps a starting point is the proximity of the stakeholder to the initiative being assessed, as distance reduces the attention stakeholders pay to events around them. One only has to compare local and international news reports where the death of hundreds of garment workers in Bangladesh fades quickly, while one police officer struck by a passing vehicle prompts continued attention, resulting in the implementation of amendments to the Highway Code to require drivers to move aside when emergency vehicles are on the shoulder. Accordingly, can we extrapolate that the most appropriate stakeholders from whom to seek input on ESG performance are those within physical proximity of where ESG activities are taking place?

Beyond just being nearby, perhaps the visibility via media or other coverage is another means to capture stakeholder attention. This comes with the obligation for transparency and a truthful reporting of events. While firms seek immediate visibility for their good deeds, they largely delay acknowledging less than stellar CSR to distance themselves in the hope that stakeholder interests will have shifted. The advent of social media and the barrage of blogs, twitter posts and other instantaneous stakeholder feedback have significantly altered the information horizon to reduce the often-advocated influence of firm advertising to communicate ESG activities (McWilliams and Siegel, 2011). However, the anonymity of social media is also a double-edged sword for misrepresentation and false or coerced postings where stakeholders may be misled as to either the merits or faults of particular organizations.

The temporal dimension is a further consideration as longer-term perspectives may shine a very different light on ESG performance than a shorter-term vision. When stakeholders' ESG expectations rise, "the value of the status quo necessarily declines" (Barnett, 2007, p. 807). This may also be integrated with the notion of the permanence or reversibility of an ESG action, since an irreversible action limits future adaptation to changing needs. While some governance measures may be viewed to disadvantage particular shareholders, they are generally subject to periodic review so should there be a groundswell for change such resolutions may be proposed at annual general meetings. The fashion swings for acceptable or even legal governance conditions change in response to shareholder concerns, as may be seen in the shareholder resolutions following each meeting cycle. Stakeholder conflicts of interest may also exist, particularly those related to dual category shareholders.

The typical characteristics for stakeholder salience to management (i.e. power, legitimacy and urgency; Mitchell *et al.*, 1997) have been largely encompassed by the preceding considerations. Power may be wielded by shareholders or by the power of one vocal stakeholder (be they a consumer, employee or an NGO). An appropriate ESG measurement may be compared to a measure of corporate reputation which is dependent on stakeholder perceptions and requires a sampling of "a representative set of stakeholders on a *conceptually relevant* set of criteria" (Wartick, 2002, p. 389).

Symbolic vs substantive ESG performance

No discussion of ESG performance would be complete without recognizing that depending on the stakeholder perspective, a firm's behaviour may be perceived to be genuine or merely window-dressing. "Goodness is in the eye of the beholder" (Godfrey, 2005, p. 784) is a phrase that aptly describes stakeholder views so that what one stakeholder may perceive as substantive, another may consider symbolic or corporate impression management. Godfrey's (2005, p. 777) contention that "good deeds earn chits" is founded on the long-standing view held in management scholarship (Barnard, 1938/1968; Selznick, 1957) that stakeholders reward firms that are held in high esteem. However, Campbell (2007) notes the rhetoric or lip-service given to CSR that firms build into their corporate image or advertising, suggesting the difficulties in distinguishing hollow claims from substantive actions in considering different cultural contexts. Likened to a "shotgun wedding between marketing communications and CSR" (Jahdi and Acikdilli, 2009, p. 111), public scepticism is commonly voiced in social media (McWilliams and Siegel, 2011).

As processes may be put in place for symbolic purposes, "companies may excel at reporting, governance and the utilization of environmental performance systems, yet they may still emit substantial amounts of pollution" (Delmas *et al.*, 2013, p. 18). It has also been suggested that organizational responses to evolving CSR expectations lead to "decoupling effects so that some companies introduce CSR practices at a superficial level for window-dressing purposes, whereas other companies embed CSR into their core company strategy" (Aguilera *et al.*, 2007, p. 838). In considering the risk of a strategy of symbolic CSR, Barnett (2007) postulates the destruction of stakeholder trust to detract from the desired impact of the CSR. However, extending his model of stakeholder influence capacity, which proposes that past experiences with the firm fuel expectations, then consistently symbolic CSR could temper expectations to, for example, maintain green-washing rather than substantive environmental initiatives.

While it is not our intention to measure or classify ESG as symbolic or substantive, understanding the stakeholder information asymmetries in building expectations is a foundation to interpret the likelihood of how an initiative will be perceived, depending on the interaction between the firm and the stakeholder. The perception of the stakeholder is the key to whether an ESG action is characterized as symbolic or substantive, such that the same action may be viewed differently depending on the stakeholder and the context with which they frame their assessment.

Ethical and contextual considerations

Tools such as codes of conduct define the parameters of responsibility and clearly communicate corporate ethics (Stevens *et al.*, 2005). Going beyond the symbolism of ethics codes, their integration into the decision-making process may, however, depend on perceived stakeholder pressure (Stevens *et al.*, 2005). Respecting home and host country legislation frames an ethical conduct of business, however, only when the more stringent requirements are considered. The changes over time of what constitutes ethical business dealings are embedded in national considerations, where for example in the Western world gender equality is fundamental, while this is not the foundation in other jurisdictions.

Although fully respecting all legal provisions, firms may still come under scrutiny for perceived ethical breaches. One such current example is the US Senate's

examination of the corporate income taxes paid by major corporations such as Apple. Under questioning about the use of offshore corporations to avoid repatriating global earnings, Apple's CEO Tim Cook often invoked that all tax legislation had been faithfully adhered to while enabling Apple to reduce its tax liability in the USA (Reuters, 2013). However, Senators displayed scepticism and focused on how Apple's corporate structure, as well as transfer-pricing strategies, resulted in it shortchanging the US public coffers. Beyond the issue of legality, the Senate questioned whether Apple and other major corporations benefitted from an unfair advantage over smaller competitors, among some of the issues to be considered in reforming US corporate tax legislation. While the issue of taxation is applicable across industries, the relative importance of many other ESG considerations is dependent on the economic sector of activity, introducing contextual interpretations.

Integrated financial and sustainability reporting

While the Global Reporting Initiative is gaining acceptance for a standardization of sustainability reporting, its proposed integration with financial reporting as a solution for SRI warrants greater examination (Eastes and Margolis, 2013). The intended audience for any report guides its contents, and although the SRI community is focused on financial results and ESG performance, other users of either financial statements or sustainability reports are unlikely to appreciate their consolidation. The segmentation of the traditional corporate annual report into the general message, financial analysis and statements and ESG/sustainability sectors reflects the growing complexity which led to unmanageable consolidated reports.

As we have already noted, the short-term focus of financial reports are not a model to be emulated for ESG reports. Furthermore, financial reports reflect historical performance and are not forward-oriented, nor do they reflect the growing importance of intangibles (generally off balance sheet, so not amortized against results) in corporate results (Eastes and Margolis, 2013). As ESG reporting centres on value creation beyond the traditional aspects captured by financial reporting, little is to be gained through integration.

Furthermore, the issue of materiality in financial reporting is not easily translated into the objectives of ESG reporting (i.e. material to who, assessed how?) nor is the relevance by industry sector (Eastes and Margolis, 2013). Finally, the assurance role performed by external auditors of financial statements does not have a parallel for ESG auditing, particularly given the discretionary reporting against which audit standards lack. Although in some jurisdictions (i.e. South Africa and the Netherlands) integrated reporting is becoming the norm (Eastes and Margolis, 2013), we are not proposing adoption in consideration of the above noted conceptual drawbacks as well as practical timing challenges.

Assessment considerations

Considering the questions we posed at the outset, we can see that much remains to be examined before we are able to refine workable solutions. Starting with the appropriateness of ESG measures, the lack of stakeholder input/assessment devalues current reporting built on what are firm self-reports and analyst interpretations from these self-reports. Differentiating the timeframe pertinent to ESG from traditional financial reporting is one of the keys to clarifying ESG measures. The tendency to focus on lagging rather than leading indicators (i.e. the financial reporting model) needs to be

addressed to ensure ESG measures are meaningful in projecting future performance. Accordingly, we make the following propositions:

- P1.* For ESG measures to reflect future CSR performance, the firm's responsiveness to stakeholder issues as perceived by salient stakeholders considering a reasonable ESG time horizon need to be assessed based on leading indicators.

In considering the risk of symbolic implementation of ESG practices, any pressures stakeholders may place upon organizations for enhanced and more transparent ESG reporting must include safeguards to avoid "window-dressing" solutions. Whether through sanctions (such as the naming and shaming of delinquents) or the recognition of best practices, the substance of organizational performance needs to be assessed, followed by transparent reporting which focuses on the substantive benefits to stakeholders of the ESG practices. According, we propose that:

- P2.* To promote progressively oriented ESG practices, a longer-term view of performance is needed, as is recognition of incremental progress over time commensurate with the complexity of the ESG challenge under scrutiny. Sending a clear message that substantive, consistent progress over time is expected, rather than symbolic "quick fixes" is integral to orienting management actions and may be reinforced through integration into the corporate reward structure.

Aligning managerial focus with SRI objectives is a path to achieving qualification into prestigious indexes, but once arrived, do managers merely maintain the status quo or are they inspired to embrace continual ESG process improvements? We suggest that a catalyst effect of extreme conditions is one possible driver of continuous ESG improvements. For those firms holding the top rankings and recognized as ESG leaders, in order to capitalize on their status they will focus on continual improvements to protect their reputation (Mahon, 2002) and direct the evolution of the field in their favour. Conversely, for those firms so plagued by poor ESG performance, a lifeline to survival may be to improve if they are to survive, consistent with accountability theory which predicts a philosophy of continual improvements to be embraced rather than resisted (Tetlock, 1998).

Using a carrot approach, the motivation to continually improve may be fuelled by a halo effect that recognizes the firm as an industry leader, the possibility to direct the ESG orientations and emphasize those aspects that will most favour the firm's position, as well as the positive impact on the firm's reputation that this proactive posture brings (Mahon, 2002). Alternatively, the stick approach uses the risk to corporate reputation of adverse reaction to ESG practices to drive continual improvement in pace with stakeholder expectations (Mahon, 2002). Accordingly, we propose:

- P3.* Continual process improvement in ESG reporting and CSR practices will be embraced by firms where such actions will enhance or maintain their reputations.

As may be seen, much remains to be done to advance our monitoring of ESG results, processes and improvements. An inherent challenge is to identify judicious meaningful measures which will accurately distinguish between substantive ESG practices and window-dressing, while providing timely and comprehensive reporting. The "GAS trade-off" that a model may not "be simultaneously general, accurate and simple"

(Weick, 1979, p. 35, cf. Miller and Dess, 1993) suggests that the future of ESG lies in industry-specific, rather than generalizable, parameters to focus on achieving accuracy and simplicity.

Discussion and conclusion

Before adding yet more new ESG measures, we argue that additional intellectual groundwork is needed to distinguish the purposes, objectives and uses for such measurement tools. We contribute to this dialogue by placing stakeholder management capabilities (i.e. engagement, responsiveness and perception of CSR substance) at the core of sustainable business development strategies. Refining our understanding of how societal values translate into ESG processes and managerial decisions may provide a key to predicting which organizations will out-perform others. Remembering that the focus must be on future returns from exemplary future ESG performance, the value of ensuing measures will lie in their ability to predict the likelihood of such future outcomes.

The dubious effectiveness of existing environmental measures detailed by Chatterji and colleagues (2009), Delmas and Blass (2010) and Walls *et al.* (2011) inspire different directions for such improved measures. With respect to social (undoubtedly the most challenging) and governance performance, similar validations of the predictive value of existing measures remain to be conducted. Even with the individual measurement components identified, the compilation into a composite ESG assessment tool requires consideration of an industry-adapted relative weighting across time against the expectations of salient stakeholders.

ESG measures must also be relevant to the managers responsible for achieving results; with sufficient latitude to be integrated to strategic choices. While transparency and full disclosure are often held as desirable objectives (Delmas and Blass, 2010), there is a risk of symbolic adoption of CSR practices to only mirror the ESG trappings of other firms. A greater emphasis on the substance of CSR is more likely to lead to continual process improvement, to achieve exemplary ESG performance. Distinguishing between symbolic and substantive implementation of ESG policies and processes is a further measurement consideration.

Is management doing all that is necessary to meet stakeholder expectations, or are CSR choices merely satisficing? While managers may feel a frustration with poor ESG rankings, understanding the limitations of the underlying measures may help them put into perspective the factors considered and allow them to assess the firm's specific choices that may artificially lower its ranking, but which are consistent with its strategic objectives and should be maintained. This could then reinforce their responsiveness and ability to interpret their performance in communicating with their stakeholders and with the SRI community.

As Delmas *et al.* (2013) point out, with Bloomberg adding sustainability indicators to their terminals, the SRI community is unlikely to be impressed by token achievements promoted beyond their worth. Furthermore, the investment portfolio managers that advise SRI clients are also likely to become more critical as they seek meaningful improvements in ESG performance to support their recommendations.

We contribute to the conversation on the anomalies found in today's ESG measures. We propose that before developing yet more measures, a fundamental assessment of what is truly valuable to predict future superior ESG performance should be undertaken. This will lay the foundations for what to measure, followed by how to best capture multiple stakeholder evaluations against expectations to measure what in fact we do value.

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