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Integrated Framework for Measuring the Impact of Corporate Sustainability Performance on Financial Performance via Customer Attraction

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Abstract: The study aims to develop an integrated framework for measuring the impact of corporate sustainability performance on financial performance via customer attraction. The study explores and communicates by literature the linkages and factors affecting corporate sustainability performance (i.e. socio-economic and environmental activities): how do proper socio-economic and environmental management translate to corporate socio-economic and environmental performances; how can factors of socio-economic performance (e.g. socio-economic development and human rights) and environmental performance (e.g. environmental process and product focus) translate via customer attraction to different measures of profit. The results prove that socio-economic development, human rights, environmental process, and product focus translate to corporate socio-economic environmental performance, and then – via customer attraction – positively influence financial performance. The study assists management to know how to achieve competitive advantage and increase their triple bottom lines by attracting and retaining customers, thus, how it ultimately influences environmental, social, and economic success. The value of the study is that it delivers an integrated framework for measuring the impact of corporate sustainability performance on financial performance via customer attraction.

Keywords: corporate sustainability performance; customer attraction; financial performance sustainability.

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INTRODUCTION

Significant concerns mentioned by theory (Schaltegger et al., 2019) and practice (Avlonas & Nassos, 2020) refer to the impact of corporate social, economic and environmental issues (i.e. corporate sustainability performance) on a company's business success (SustainAbility, 2011, 2019; Schaltegger & Wagner, 2006, 2011; WBCSD, 2015; WRI, 2015; Schaltegger et al., 2019; Eccles et al., 2020; Oware, 2022). According to SustainAbility (2011, 2019), most of these authors query whether a company's performance can be enhanced through participation in the above three forces of sustainability and, if so, what parameter and which underlying aspect of performance can give them competitive advantage over others.

The significance of developing a better understanding of the above concerns, therefore, cannot be underestimated. A lot of literature demonstrates positive links between corporate sustainability performance and some aspects of business value (compare for this and the following statements Székely & Knirsch, 2005; SustainAbility, 2011, 2019; Schaltegger & Wagner, 2006, 2011; Porter & Kramer, 2011; Stanković et al., 2013; WRI, 2015; WBCSD, 2015; GEMI, 2015; GRI, 2015; Obioha, 2017; Eccles et al., 2020). Although the majority of this research supports the need for corporate sustainability performance, key issues that can attract mainstream investors and managers to corporate sustainability have not been fully explored. They need to know whether corporate sustainability translates to financial success. A probable way to attract these business executives, thereby strengthen the link between corporate sustainability performance and business success, is not only to assess how much the implementation of sustainable development initiatives and business strategies may grow a company's performance but to provide sufficient information on all the relations from sustainability performance via customer attraction to financial performance. While the relationships between environmental and economic performance have already received substantial consideration in theory and practice (Schaltegger & Wagner, 2006, 2011; Stanković et al., 2013; Goyal et al., 2013; Edwards, 2015; WBCSD, 2015; WRI, 2015; GRI, 2015; Schaltegger & Burritt, 2018; Schniederjans & Khalajhedayati, 2020), the integration of social and economic aspects all together into a comprehensive sustainability view is quite new. It requires companies to evaluate their (long-time) value added or destroyed through the pathway of environmental and socio-economic dimensions as opposed to purely financial dimensions, the so-called "triple bottom line" commitment (SustainAbility, 2001, 2011; Wanamaker, 2018). Hence, there is a demand from practice to know how a greater focus on corporate sustainability performance on the pathway of socio-economic and environmental dimensions affects the financial performance of companies via a value driver (WBCSD, 2015; Schaltegger et al., 2019; Schaltegger et al., 2020; Ong et al. (2022). Similarly, literature has identified the following research gaps on the operational and firm level as well as for a future research agenda:

On an operational level, authors like Labuschagne et al. (2005), Delai & Takahashi (2011), Stanković et al. (2013), Avlonas & Nassos (2020), Shahzalal & Hassan (2019), Eccles et al. (2020) and (Oware, 2022) saw an 'urgent need for a universal and user-friendly model'. According to them the available indicator frameworks for assessing total sustainability performance of a business fall short, especially in underdeveloped countries like South Africa. Slightly different, on firm level, Wagner (2010, 2015), Eccles et al. (2012), Wanamaker (2018), Hartzmark & Sussman (2018) and Schaltegger et al. (2020) miss a single, robust and user-friendly framework for measuring how corporate sustainability performance translates to financial performance via financial drivers. And finally, Searcy (2012), Goyal et al. (2013), JSE (2019), Schaltegger et al. (2019), Obioha (2017) and Lăzăroiu et al. (2020) see a single widely accepted measurement tool for the impact of corporate sustainability performance on financial performance as an urgent need for the future research agenda in developing countries. Hence, literature has clearly identified a research gap described by the lack of a single, robust, systematic and widely accepted tool for measuring the impact of corporate socio-economic and environmental aspects of corporate sustainability performance on customer attraction and, ultimately, financial performance. Thus, the primary objective of this paper is to contribute to finding such a tool by developing an integrated framework that can establish the impact of corporate sustainability performance on customer attraction and, ultimately, on financial performance. It shall then be tested empirically in a later paper.

To assist in achieving this the following secondary objectives are formulated: 1) To develop theoretically the linkages and the important factors affecting the intensity of the association between corporate sustainability management (i.e., socio-economic and environmental management), corporate sustainability performance (i.e. socio-economic and environmental performance), customer attraction and financial performance. 2) Putting the above linkages together in order to develop the model.

METHODS

Given the objectives, the research methodology follows three steps:

1. Establish (by literature) the linkages and the important factors affecting the intensity of success in the relationship between corporate sustainability (i.e., socio-economic and environmental) management and (socio-economic and environmental) performance (compare part A.1 in the Results and Discussion section).
2. Communicate on basis of the literature how the integrated forces of corporate socio-economic performance (i.e. socio-economic development and human rights) and corporate environmental performance (i.e. environmental process focus and environmental product focus) can translate via customer attraction to different measures of profit (compare also parts A.2 and A.3 in the Results and Discussion section).
3. Putting these linkages together to develop an integrated framework for measuring how corporate sustainability performance translates to financial performance via customer attraction in part B of the Results and Discussion section.

RESULTS AND DISCUSSION

The results shall be presented and discussed in the order as described by the secondary objectives as well as in the methodology section:

A. Literature Review On The Relationship Between Corporate Sustainability Performance And Financial Performance And The Identified Linkages

By examining the related literature at first on:

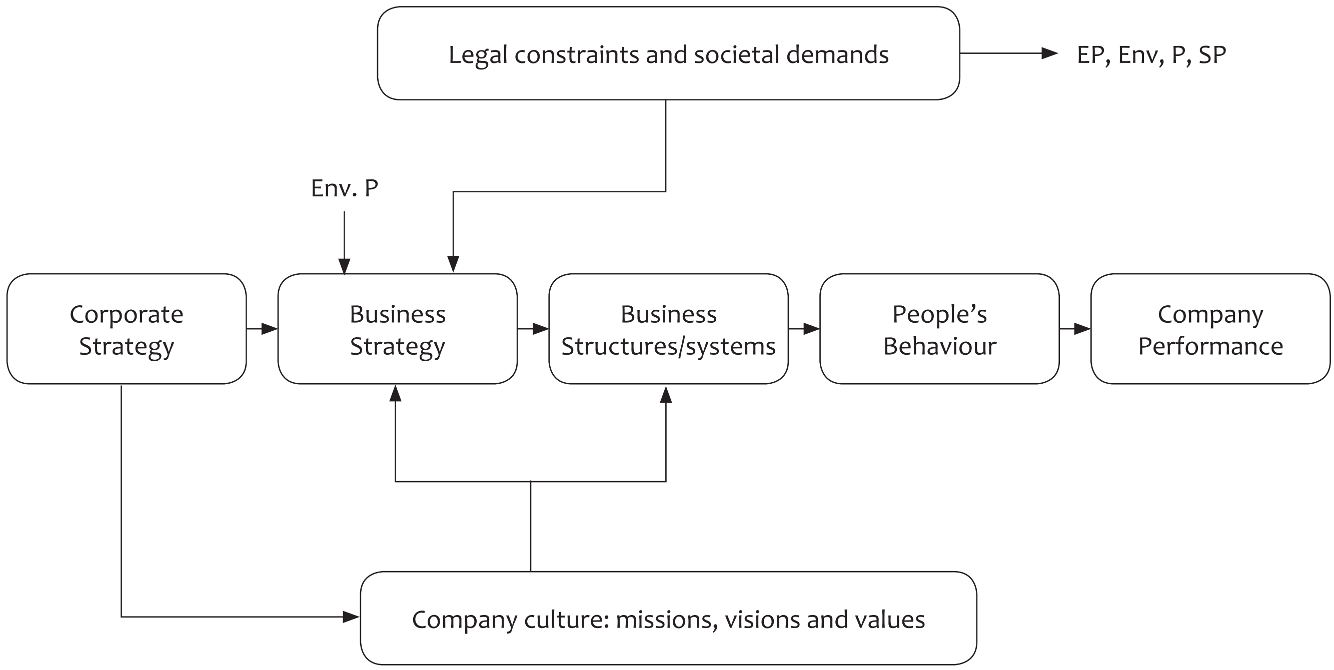
- how a company can achieve sustainability performance through the investment and management in socio-economic and environmental dimensions and secondly on
- the relationship between corporate sustainability performance and financial performance,

the linkages between these aspects through the pathway of customer attraction shall be established. On this basis, also the important factors for the intensity of the success in the identified linkages shall be determined.

A.1. Impacts of corporate socio-economic and environmental management on corporate sustainability performance (LINKS 1 & 2)

The first link tries to determine whether the two dimensions of corporate sustainability performance (i.e. socio-economic and environmental management) translate to corporate socio-economic and environmental performance respectively. Therefore, a company's sustainability principles and management structure necessary for achieving sustainability performance shall be assessed.

Although companies may differ in many ways (size, product varieties, control processes, culture, customer orientation), most of them want to achieve sustainable development and financial performance. According to Székely & Knirsch (2005) this involves sustaining and expanding economic growth, shareholder value, prestige, corporate reputation, customer relationships, and the quality of products and services. In other words, sustainable development involves complying *with* ethical and business regulations, creating sustainable jobs, increasing shareholder *and stakeholder* value *as well as* attending to the needs of the less privileged (Székely & Knirsch, 2005; WBCSD, 2015; Schaltegger et al., 2020). Therefore, the following Figure 1 (Székely & Knirsch 2005) gives an overview of the fields to be considered when formulating a sustainability strategy.



EP = economic performance
Env. P = environmental performance
SP = social performance

Source: Székely & Knirsch (2005)

Figure 1 Assessing the sustainable performance of a company

Normally, a positive 'business case' begins with clear, concise and cohesive missions, visions and core values. Hence, an effective sustainability strategy encompasses the following (Székely & Knirsch, 2005; GRI, 2015; WBCSD, 2015; ISO, 2015; Schaltegger & Burritt, 2018; Schaltegger et al., 2020; Oware, 2022):

- Management and performance of socio-economic and environmental linkages of corporate sustainability performance
- Corporate governance and stakeholder engagement

- Adherence to national and international regulations on environment, labour, human rights and anti-corruption practices
- Process management and innovation (processes and systems in terms of products and services)
- Supply chains and customer preferences

Thus, a positive business strategy for a company engaging in corporate sustainability will usually include the above-mentioned important factors of corporate socio-economic and environmental management (compare for this and the following statements SustainAbility, 2011, 2019; Hahn et al., 2018; Baruah & Panda, 2022; Islam & Hossain, 2022). Issues like socio-economic development, human rights, environmental process focus and environmental product focus will, therefore, prominently feature into the company's value and mission statements. They affect the intensity of success in the linkages for the achievement of corporate socio-economic and environmental performance.

In other words, through compliance with community demands like donations, local sourcing, education, human rights practices, innovative and environmentally friendly processes, products and services companies can attract more customers and sustain their activities over long times. Having determined the relationships between corporate socio-economic and environmental management on the one hand and corporate socio-economic and environmental performance on the other hand, this paper examines the literature on the effects of corporate socio-economic and environmental performances on customer attraction, and via that on the firms' financial performance.

A.2. Impacts of corporate sustainability performance on customer attraction

This section determines how corporate sustainability performance (i.e. socio-economic and environmental performance) can translate to increased customer attraction and, subsequently, to financial performance

- **Impacts of corporate socio-economic performance on customer attraction (LINK 3)**

To investigate the relationship between corporate socio-economic performance and customer attraction this section considers the related literature that establishes the effects of corporate socio-economic development and human rights on customer attraction.

Corporate socio-economic development

Corporate socio-economic development determines the company's ability to use its resources efficiently and effectively to support the communities in terms of cash, staff time or company policies, generating community capital like local sourcing, hiring and education (Kimpakom & Tocquer, 2010; Wilburn & Wilburn, 2013; WBCSD, 2015; Schaltegger et al., 2020; Oware, 2022; Baruah & Panda, 2022). Corporate socio-economic development can assist consumers in choosing out of a variety of products or competitors under otherwise similar conditions (SustainAbility, 2011, 2019; Wilburn & Wilburn, 2013; Fraering & Minor, 2013; WBCSD, 2015; Schaltegger et al., 2020). In other words, consumers often prefer buying a product or service from a company that is socially and environmentally superior to others. Furthermore, ethically strong companies enjoy much value by attracting and retaining more customers (Ethics World, 2015). Similarly, a cause-related marketing that links a product to socio-economic or charitable cause can boost short-term sales due to its ability to attract customers (Sustainability, 2019; GRI, 2015). Thus, many customers consider socio-economic development as an important factor to accept higher payment for a product or underperformance.

According to Fraering & Minor (2013), "customer attraction reveals the possibility of companies to attract and retain customers by providing interesting products, attractive brands and a strong customer service. Hence, a company's socio-economic development performance contribution to customer attraction could be based on its community investment policies, its donations, recruitment of suppliers and employees from the local community as well as community ratings of the company (SustainAbility, 2001, 2011; Fraering & Minor, 2013; Ngo, 2015).

Corporate human rights

Corporate human rights are the degree to which a company contributes to human rights protection for its employees, its neighbors, in the host country, and perhaps even in regions it decides not to do business (SustainAbility, 2011, 2019; Ethics World, 2015; Spahn, 2018). Although little dissimilar research exists on the relationship between corporate socio-economic performance, human rights and customer attraction (cp. for some London, 2008; Servaes & Tamayo, 2013; Oware, 2022), most of it falls short of demonstrating the impact of corporate sustainability performance i.e. socio-economic, human rights on customer attraction and firms' performance. However, in literature, there are still a number of incidents showing that poor human rights performance and unethical behaviour may lead to customers boycotting products. Poor human rights can even lead to litigation, while a strong human rights record and superior ethical behaviour can help a company to receive more customer loyalty or to recover after a negative incident (Beder, 2002; SustainAbility, 2011, 2019; Fraering & Minor, 2013; Ngo, 2015; Schniederjans & Khalajhedayati, 2020). According to the SustainAbility (2019) and also Ngo (2015), 77% to 88% of consumers prefer buying from good corporate citizens. Hence, a company's human rights performance has a direct effect on customer attraction, resulting from

- its realized human rights policies with respect to freedom of association and discrimination for reasons of race, ethnicity or gender as well as
- its negotiations with the host government to promote human rights.

Thus, literature acknowledges that a company that achieves corporate socio-economic performance by proactively managing socio-economic development and human rights can attract more customers.

- **Impacts of corporate environmental performance on customer attraction (LINK 4)**

Environment has been the first dimension of sustainable development considered by businesses. Therefore, environmental performance has got into the focus of most business operations (SustainAbility, 2001, 2011; UNCTAD, 2011; Ford Inc., 2015; Ong et al., 2022). For organisations in South Africa to achieve environmental performance, they should not only consider environmental issues as an important factor in making their management decisions (compare for this and the following statements Department of Environmental Affairs and Tourism, 2012/2013, 2014/2015; Ernst & Young, 2015; KPMG, 2006, 2020). Instead, they should also assess their product and service portfolio in the context of energy and raw material consumption as well as of pollution prevention and wastes. Thus, both the corporate environmental process and product focuses have strong positive impacts on customer attraction (SustainAbility, 2001, 2011; WRI & WBCSD, 2011; Tang & Zhou, 2012; GRI, 2015; Ngo, 2015; Islam & Hossain, 2022).

Corporate environmental process focus

The corporate environmental process focus (also referred to as ecological footprint) describes the degree of reduction of environmental impacts resulting from the production processes, e.g. by changing material inputs, equipment, production conditions or procedures (compare for this and the following statements Klingelhöfer, 2000; SustainAbility, 2001, 2011; Muradian et al., 2010; Tang & Zhou, 2012; Kanwal et al., 2013; Landroguez et al., 2013;

ISO, 2015; Papagiannakis & Lioukas, 2017). Hence, a company that is environmentally conscious by actively changing material inputs, energy and water associated with its production processes, can achieve environmental performance and customer attraction (Ong et al., 2022). Consumers are most likely to patronize a company when they see that it minimizes its adverse environmental impacts by improving or changing the key production processes, setting standards, sharing resources, focusing on simplification, cost reduction and improved quality (Fraering & Minor, 2013; Ngo, 2015).

Corporate environmental product focus

The environmental product focus (also called eco-efficiency) relates to the degree of reduction of environmental impacts throughout the entire life of the product, e.g. by changing the product range or the services it offers (compare for this and the following statements Klingelhöfer, 2000; SustainAbility, 2001, 2011; Muradian et al., 2010; Tang & Zhou, 2012; GRI, 2013, 2015; GEMI, 2015; WBCSD, 2015; Papagiannakis & Lioukas, 2017; Schaltegger et al., 2020; Islam & Hossain, 2022). Increased focus on environmental performance is partly driven by consumer preferences, especially when it comes to business customers. Thus, environmentally friendly products and services can increase customer satisfaction, reduce the loss of customers and (sometimes) even cost through recycling and better use of energy (Klingelhöfer, 2000; Sánchez-Fernández et al., 2009; Fraering & Minor, 2013; Ngo, 2015; Ong et al., 2022).

A.3. Impacts of customer attraction on financial performance of firms (LINK 5)

According to literature, customer attraction has a strong positive relationship with the following measures of business success and financial performance (Kimpakom & Tocquer, 2010; SustainAbility, 2011, 2019; Marney & Tarbert, 2011; Gitman, 2012; Schularick & Taylor, 2012; Landroguez et al., 2013; Edwards, 2015; Ngo, 2015; Gyver & SeTin, 2022):

Shareholder value: Ceteris paribus, increasing the company's financial performance translates to a higher value for its owners (shareholders). Satisfaction can increase loyality and reduce price sensitivity of customers. Hence, customer attraction can increase short-term sales, hence, the cash flows and profits reduce their variability (Berger, et al., 2006; Landroguez et al., 2013; Fraering & Minor, 2013; Ngo, 2015). Therefore, it can be seen as a driver of shareholder value and financial performance for most of the companies.

Revenue: Since customer attraction enables a company to find new and keep existing customers and, therefore, is a driver of revenue and financial performance (SustainAbility, 2001, 2011; Fraering & Minor, 2013; Landroguez et al., 2013; GRI, 2015; Ngo, 2015). The huge amounts companies spend on marketing give an indication for the importance of this link (Fraering & Minor, 2013; Landroguez et al., 2013; Hartzmark & Sussman, 2018).

Operational efficiency: Operational efficiency describes a ratio of how a company converts inputs into productive outputs. It can be improved e.g. by

- reducing capital, operational and or financing costs (while still achieving the same output)
- producing more from the given inputs or
- increasing the output disproportional to rising inputs (Tang & Zhou, 2012, Van Bammel, 2011; Eccles et al., 2020).

and, therefore, it increases financial performance (compare for this and the following statement, Ramos & Caeiro, 2010; SustainAbility, 2011, 2019; Kanwal, et al., 2013; Eccles et al., 2020). Thus, since a company enjoying the benefits of intangible assets such as goodwill (resulting from well perceived products and attractive brands as well as having nice product portfolio) can attract customers, take care of its employees, and undertake innovative activities, its operational efficiency may increase and translate to financial performance.

Access to capital: Access to capital can increase the company's ability to invest (SustainAbility, 2001, 2011; Moldan et al., 2012; Gitman, 2019; Schularick & Taylor, 2012; Wilburn & Wilburn, 2013; WBCSD, 2015; WRI, 2015; Eccles et al., 2020). According to WRI (2015), improved sustainability performance leading to a stronger and more successful brand, thus higher customer loyalty and attraction as well as ultimately more earnings may open other and/or new sources of capital and, therefore, reach a higher financial performance.

Innovation: Customer attraction and innovation are often related, and this may translate to financial performance (compare for this and the following statements Govindarajan & Trimble, 2004; Fraering & Minor, 2013; Landroguez et al., 2013; Boesso et al., 2013; GRI, 2015; GEMI, 2016; Avlonas & Nassos, 2020). In frequently changing economic environments, it is crucial to attract customers as well as to face emerging opportunities and learn from them. Hence, effective adaption to changes may increase customer loyalty, sales and financial performance. Thus, customer attraction, innovation and financial performance are linked significantly.

Competitive Advantage: Success in business globally requires companies to become customer-focused and making customer satisfaction a primary objective (compare for this and the following statement Burchart-Korol., 2011; Van Bammel, 2011; Orlitzky et al., 2011; Dues et al., 2012; Landroguez et al., 2013; WBCSD, 2015; Drury, 2019; Avlonas & Nassos, 2020). Often, customers are attracted to companies that deliver eco-efficient products and services, giving them a competitive edge over others in terms of increased sales and profits, thus, leading to higher financial performance.

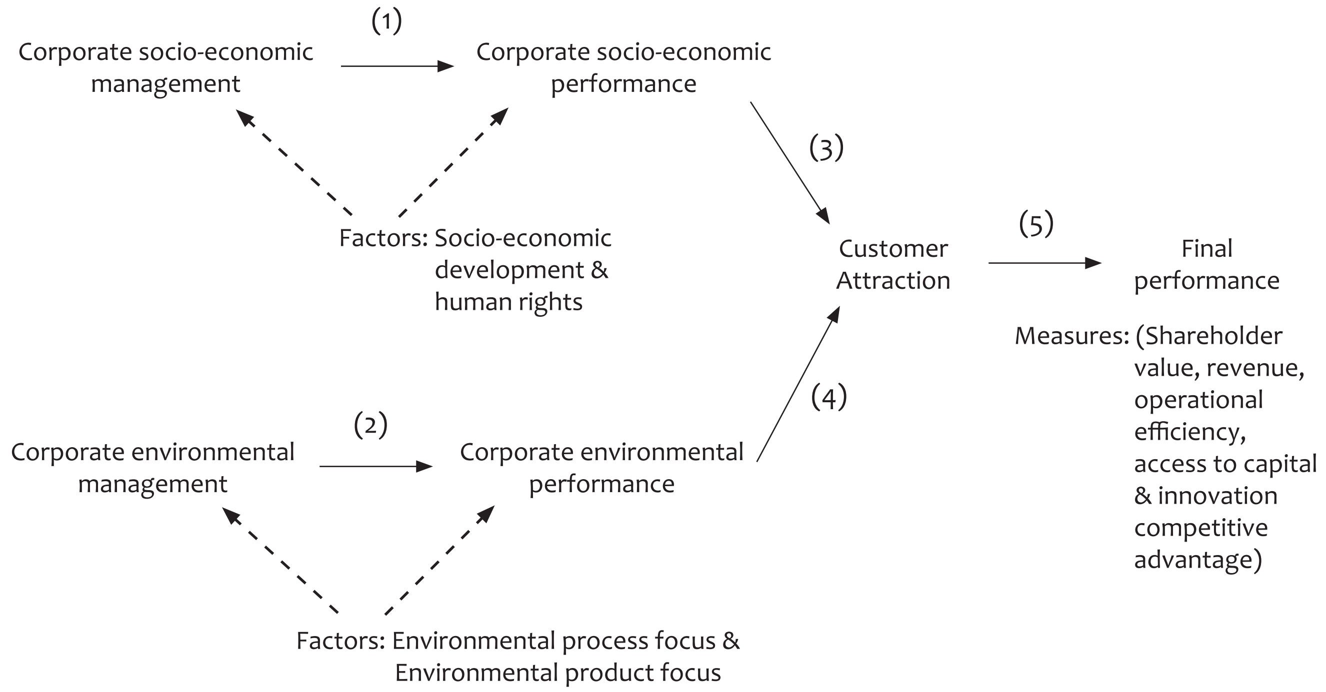
A.4. Conclusion of the literature review and confirmation of the linkages

Given the above literature review, the identified linkages/relationships as above are put together to develop the model in section 5.

- Linkage 1: Corporate socio-economic management to corporate socio-economic performance, representing one of the two aspects of corporate sustainability performance and the affecting factors (socio-economic development and human rights).
- Linkage 2: Corporate environmental management to corporate environmental performance, representing the other dimension of corporate sustainability performance and the affecting factors (environmental process and product focus).
- Linkage 3: Corporate socio-economic performance to customer attraction, establishing and communicating the impact of corporate socio-economic performance on corporate customer attraction.
- Linkage 4: Corporate environmental performance to customer attraction.
- Linkage 5: Customer attraction to financial performance, establishing the extent to which corporate customer attraction drives the measures of a firm's financial performance by establishing its relationship on the proxies, shareholder value, revenues, operational efficiency, access to capital, innovation and competitive advantage. In other words, it explores the extent to which the elements of the integrated forces of corporate socio-economic and environmental performance (i.e. socio-economic development, human rights, environmental process focus and environmental product focus) which are also factors/ proxies of customer attraction can translate to measures of financial performance.

B. Model Development And Presentation Of Findings

Having communicated the suitable links and their factors that have been theoretically proven to cohere with the impact of corporate sustainability performance on financial performance via customer attraction, the model in Figure 2 can be developed:



Source: Authors

Figure 2: Management of the linkages between corporate sustainability performance and financial performance via customer attraction

Figure 2 illustrates a model of the various links identified in section 4 between corporate sustainability (i.e. socio-economic, environmental) management and financial performance. With the help of such chains of linkages (and important factors influencing the intensity of success) figure 2 illustrates that the integrated forces of corporate socio-economic management and performance (i.e. socio-economic development, human rights) and environmental management and performance (i.e. environmental process and product focus) may translate to increased customer attraction and financial performance. These results go conform to the findings of Hahn et al. (2018) and Gyver & SeTin (2022) who say that issues like socio-economic development, human rights, environmental process focus and environmental product focus prominently feature into the company's value and mission statements. According to them, these factors affect the intensity of success in the linkages for the achievement of corporate socio-economic and environmental performance.

In this sense, the first link refers to the first dimension of corporate sustainability performance: Engagement in corporate socio-economic management (i.e. focusing on corporate socio-economic development and human rights) can translate to corporate socio-economic performance. This describes the company's ability to effectively use its resources to support the communities through cash and staff time. Similarly, companies' policies that generate community capital such as local sourcing, hiring and education can achieve socio-economic performance. And finally, a company's good socio-economic and human rights records for its communities, employees, its neighbors, in the host country, and perhaps even in regions it decides not to do business can translate to socio-economic performance. Again, these conclusions were supported by SustainAbility (2011, 2019); Wilburn & Wilburn (2013); Fraering & Minor (2013); and Schaltegger et al. (2020) who found that consumers often prefer buying a product or service from a company that is socially superior to others.

Similarly, the second link refers to the second dimension of corporate sustainability performance. Organisations that embark in corporate environmental management, specifically have an environmental process and product focus, and have the ability to minimize adverse environmental impacts associated with their production process and products, will achieve corporate environmental performance. These findings concur with the results of Moldan et al. (2012), Papagiannakis & Lioukas (2017), and Islam & Hossain (2022). These authors stated that a company that is environmentally conscious, displayed by actively changing material inputs, energy and water associated with its production processes, can achieve environmental performance and customer attraction. Thus, with the help of an arrow the model demonstrates that corporate socio-economic and environmental management can lead to corporate socio-economic and environmental performance.

In the third linkage the model connects corporate socio-economic performance to customer attraction since literature acknowledges that higher corporate socio-economic performance, e.g. by proactively managing socio-economic development and human rights, can attract more customers.

The fourth linkage relates corporate environmental performance to customer attraction. A company prioritizing its corporate environmental performance by having an environmental process and product focus (through changes in its production processes such as materials, equipments, practices etc., as well as by redesigning its product and service portfolio, can enjoy increased customer attraction.

Finally, regarding the fifth linkage, literature has proven that customer attraction can drive a company's financial performance measures (such as shareholder value, revenue, operational efficiency, access to capital, innovation and competitive advantage) – confirming the results of Kimpakom & Tocquer (2010), Fraering & Minor (2013), and Ngo (2015).

In summary, corporate sustainability performance (i.e. socio-economic and environmental performance) can translate into financial performance by managing and measuring the above derived causal links and important factors affecting them. Also this is supported by literature, e.g. by Schaltegger et al. (2019), Gitmans (2019) and Gyver & SeTin (2022) who state that dimensions of corporate sustainability like socio-economic and environmental performance are positively related to customer attraction and financial performance.

CONCLUSIONS

Since literature and practice described the lack of a single, systematic and integrated framework for sustainability, this research provides a comprehensive approach for examining the theoretical linkages and factors of corporate sustainability performance as well as their impacts on customer attraction and financial performance. It shows in a first step how corporate socio-economic and environmental management with their important factors like corporate socio-economic development and human rights, environmental process and product focus can translate to corporate socio-economic and environmental performance. The second step then describes how these two dimensions of corporate sustainability performance translate via customer attraction to measures of financial performance like shareholder value, revenue, operational efficiency, access to capital, innovation and competitive advantage. Thus, the framework derived in this paper may assist in evaluating strategies and performance for an individual company. The decision maker may get an understanding how sustainability performance through chains of linkages and by the management of important factors influencing the intensity of their success may help to attract customers, thus, translate to financial performance. However, the limitation to this research is that the findings are just based on theoretical or literature understanding. Therefore it is suggested that further studies examine and prove these findings, linkages and factors empirically.

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