Adding Sustainable Value: Linkages Between Growth, Governance And Social Responsibility

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ABSTRACT

Key performance indicators such as high EPS and revenue growth are frequently used to evaluate high quality securities from successful companies. Characterized as "growth" stock, these stocks are accompanied by high PE and PB ratios, indicating compelling potential for future capital appreciation. However, relentless stress on high growth alone has its disadvantages, and research has clearly shown that growth by itself is not a sufficient condition for long-term sustainable value. Stakeholders driving company value also expect a strong underlying framework of accountability, transparency and fairness. Concepts of socially responsible investing add societal expectations of commitment to employees, consumers and the environment. This study explores the relationship between growth, corporate governance and corporate social responsibility as a possible basis for explaining long-term value. Initial results indicate that these growth companies tend to have robust financial metrics but with higher risk, as indicated by financial metrics and a lower score in governance policies, but display insignificant variances on social responsibility factors.

Keywords: Financial Growth; Corporate Governance; Corporate Social Responsibility; Social Impact

INTRODUCTION AND BACKGROUND

Security valuation and risk analysis are usually considered to be the cornerstones of investing. Many predictive models use quantitative data and key performance indicators (KPI's) from financial statements such as earnings and sales growth for security valuation. Stock markets reward or punish companies based on the growth of their financial metrics. The concept of growth seems to be a decisive element for short-term valuation, but it has been well documented that such short-term returns have a tendency to reverse very quickly. Added to this, investor focus on growth comes with the prospects of overvaluation and adversarial management behavior leading to activities with a short-term focus rather than long-term value building.

Qualitative factors such as a company's business model, its competitive advantages, management strategies, and its governance policies have proven to be similarly important for long-term value and growth. Driving this relatively new and constantly evolving field is the indefinable concept of a company's "reputation". Spurred by consumer demand for quality products and clean environments, investor wealth that is attracted by companies with exemplary records, qualified employees who choose to work for supportive organizations, and the threat of regulation, companies are voluntarily choosing to invest in their community as well as their profitability.

There is a strong correlation between good governance and financial performance; and research also suggests that corporate activities that focus on sustainability and social responsibility promote value creation.

Each of these activities has been separately linked to valuation, and linked governance and social responsibility policies have been found to add value. But the synergy between the three concepts of growth, governance and social responsibility has not been actively explored. As discussed earlier, growth alone does not fully explain long-term valuation. Da, Liu and Schaumburg (2014) show that there is very little correlation between short term forecasts

and long term value. Should these growth companies also adopt strong corporate governance policies and emphasize their commitment to social issues to maximize their attraction to their stockholders? Galpin, Whittington and Bell (2015) suggest that companies need to build a "culture of sustainability" that builds employee loyalty and fosters long-term growth.

As an exploratory study, this paper examines high growth companies for their governance policies and corporate social responsibility activities. The main impetus of this study is to find linkages between growth, governance and social impact activities to determine if the strategic activities of companies include not only a short-term focus on earnings and growth, but also other value producing activities as a critical pathway for adding sustainable value.

Financial Growth and its Implications

Stock prices reflect the value of a company based on management strategy and investments by using earnings numbers, as postulated by Miller and Modigliani (1961). Corporate stakeholders like managers and investors use sales growth, EPS growth and other KPI's to measure a company's performance. While planning business policies and strategies, managers use these metrics as key focus points. A study by Graham, Harvey and Rajgopal (2005) showed that more than two-thirds of the top executives ranked EPS and EPS growth as the top metric for reporting to external stakeholders. The stock market also responds rapidly to such earnings announcements and earnings surprises. Event studies by Foster (1977), Hagerman, Zmijewski and Shah (1984), Wilson (1986) and others showed that earnings announcements conveyed crucial information about future cash flows as reflected by changes in stock prices. Campbell and Schiller (1988) used earnings and earnings growth to measure stock yield. A long stream of research, for example, Hou, Van Dyk and Zhang (2012) and Harris and Wang (2013) being some of the recent ones, use earnings response coefficients as a determinant of market expectations.

Sales growth is also an important KPI. In their news announcements, companies invariably disclose information about sales and sales growth, more so than disclosures about balance sheet items. Research by Lee and Zumwalt (1981) showed that the market responded to both earnings and revenue information. In fact, there was a greater correlation between revenue surprises and stock returns rather than earnings surprises (Bagnoli, Kallapur & Watts, 2001). Jegadeesh and Livnat (2006) demonstrate high abnormal returns for companies with revenue surprises. They also found that higher revenue surprises are correlated to higher earnings drift, suggesting that the market incorporates the value of higher sales into its prices for a higher valuation.

While these KPI's are important in security valuation, they may cause the market to misinterpret the signals and produce inferior stock returns. Factors such as PE ratio, and other commonly cited metrics have a very weak correlation with long- term performance Davis et al, 2012). As Mauboussin (2012) points out, reliable statistics should have the key qualities of persistence and predictability. Unfortunately, the two most popular KPI's are neither persistent nor high in predictive value (Mauboussin, 2012). Market share constraints and market saturation, as well as the prospect of new competition are frequent impediments to continued growth (Fridson & Alvarez, 2002). Growth stocks are especially vulnerable to market variations and therefore have differential Earnings Response Coefficients. Skinner and Sloan (2002) provide evidence that the market responds asymmetrically to negative earnings surprises for growth companies. Stocks with past high growth rates set initial unrealistic expectations, thus inflating the market-to-book ratios. Unfortunately, these expectations are not sustainable and therefore lead to inferior valuation.

Agency costs and bonus incentives to meet earnings targets can lead managers to two kinds of counter-productive measures. Research has also shown that it is possible to increase EPS without adding value or actually reducing the value of a firm. Graham et. al (2005) found that executives would rather focus on short term earnings growth even if they had to sacrifice long term value. One popular way of "managing" earnings is with accounting accruals. High levels of accruals are accompanied by the probability of high errors, thus leading to low earnings persistence (Dechow & Dichev, 2002).

Firms also use "real" earnings management strategies by altering the timing of activities with cash flow implications to meet or beat short term earnings targets (Roychoudary, 2006; Chen, Lu & Sougiannis, 2012). These strategies are

difficult to detect from financial statements, but can have long-term consequences for economic value, and are considered to be an costly alternative (Graham et. al, 2005).

Finally, as the long line of accounting frauds and failures has demonstrated, earnings management can very often cross the line into accounting fraud.

Corporate Governance and the Integrity of Earnings

Research has shown, very clearly, that in efficient markets, high cash flows and low risk lead to increased security valuation. Given the importance of these numbers, especially as reflected in Revenue growth, and ratios like EPS and Return on Investment, agency theory suggests that managers will make choices that maximize their own utility rather than shareholder value. This leads to a short-term myopic view where current performance measures are enhanced at the cost of long term growth and value. Techniques like accrual management and "real" earnings management have been used to smooth earnings streams so that they are perceived to be sustainable.

The notoriety of the accounting scandals of the early twenty-first century has forced the acknowledgement of large gaps in transparency and faithful representation of company disclosures. Huge corporations like Enron failed completely and the stock market lost an immense amount of value. It was a failure on the part of all the watchdogs – managers, auditors and analysts. The accounting profession responded to the need for integrity and transparency in financial reports with the Sarbanes-Oxley Act; companies declared and strengthened their governance policies and made them publicly available.

Governance policies are explicitly designed to minimize agency costs and therefore have strong implications for security valuation. According to the OECD *Principles of Corporate Governance* (2004), good governance policies can lead to corporate growth by promoting efficient resource allocation. Good policies also reduce risk due to better monitoring of managerial activities, greater transparency and increased disclosures. Seminal research by Gompers, Ishii and Metrick (2003) showed a strong empirical link between good governance policies and stock valuation. Cremers and Ferrell (2010) found poor governance to be negatively correlated with firm value as measured by Tobin's Q. Changes in corporate governance provisions led to abnormal returns and change in market value (Cunat, Gine & Guadalupe, 2010). A 2016 study by the Rivel Group found that a majority of investors believe that good governance has a positive impact on valuation; their study also indicated that poor governance reduced valuation by almost three times as much as good governance increased value.

Researchers have studied several aspects of governance such as board composition, poison-pills and other takeover defenses, insider ownership, and executive compensation. Governance policies of several countries including the United States (Gompers et. al 2003), Russia (Black 2001), Germany (Drobetz, Schillhofer & Zimmrerman, 2004), and China (Bai, Liu, Song, Zhang, 2004) have shown significant effect on market valuation. This relationship held true in mature markets, where market efficiency is strong enough to reflect this information in valuing stock, but also in emerging markets.

Current innovative practices in the field of corporate governance include policies and structures that include corporate social responsibility (CSR) as an important part of the role of Board of Directors. As part of the governance policy, directors are trained in CSR issues, and are responsible for the oversight of ethics, human capital, environmental protection, community involvement and other important areas. The internal control system and the audit committee are also involved in reviewing the risk factors and the achievement of CSR goals (Drouet, Di Iorio, 2013; Naif, Alshareef & Sandhu, 2015)

Corporate Social Responsibility (CSR) and Security Valuation

The World Business Council for Sustainable Development in its publication *"Making Good Business Sense"* by Lord Holme and Richard Watts used the following definition. "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" Closely related to CSR is the idea of a sustainable business where businesses engage in the "the creation of goods and services using

processes and systems that are: non-polluting; conserving of energy and natural resources; economically efficient; safe and healthful for workers, communities, and consumers; and, socially and creatively rewarding for all working people (SustainableMeasures.com).

The stock market has rewarded companies for their CSR activities. Funk (2003) finds that companies that are actively managing a wide range of sustainability indicators are in a better position to create long-term value for all stakeholders. Ira Jackson and Jane Nelson argue in their book *Profits with Principles: Seven Strategies for Delivering Value with Values* that companies that cater to a wider range of stakeholders do better than those who focus on just investors and creditors A study by PriceWaterhouseCooper shows that big companies such as Proctor and Gamble take into account a wide range of stakeholder opinions and the company has consistently outperformed the S&P index (2004). Recent research by Dimson et al (2012), Wu and Shen (2013) and Schroek (2011) argue that the most successful and competitive companies of the future will be those that combine an explicit commitment to advancing the public interest with a commitment to profitability. Separate elements of CSR such as Environmental Responsibilities (Flammer, 2013 Human Resource Management (Edmans, 2011) and Community Relations (Manescu, 2011) find a positive relationship between corporate activities and stock valuation.

Markets have demonstrated with clarity that security valuation is primarily dependent on the growth of quantitative KPI's such as revenues and earnings per share. But attracting and retaining customers has a constant relationship with revenue growth. The best way to attract customers is to provide quality products, and to gain their "trust" and loyalty. Investors are also looking for that "extra" to value their investments – trends such as Socially Responsible Investing are proof of this fairly new investor requirement. Qualitative factors like corporate governance and corporate social responsibility therefore go a long way towards gaining and building that trust and providing the additional value impetus.

DEFINITION OF VARIABLES

Investors perceive growth stocks to be from high quality companies whose revenues and earnings are above industry averages. High Price Earnings (PE) and Price to Book (PB) ratios usually accompany these securities, indicating future capital appreciation. The financial marketplace has traditionally focused on economic profits leading to higher returns; organizations that showed steadily increasing returns attracted the highest amount of capital in the short run. Long-term value, however, continues to lag behind current forecasts, with little explanation for the discrepancies.

On another front, numerous cases of corporate fraud linked financial numbers to the concepts of faithful representation and transparency, leading to the growth of corporate governance policies. Businesses were also expected to make philanthropic contributions, regularly funding the arts, sciences, schools and other charitable entities, thus giving back to the consumer society that was the main source of revenue. This concept expanded and grew into the idea of corporate social responsibility, where corporations were held responsible for the economic, social and environmental impact of their operations.

As these concepts continue to grow, the investor market has begun to respond to such activities by choosing investment strategies that target companies which hold themselves accountable for ethics, the environment, workplace safety and diversity, product quality and consumer satisfaction. Shareholders ultimately benefit from enhanced firm value that leads to a better reputation and brand name recognition. This in turn impacts sales and market value. Equity markets are taking note of CSR activities and more and more investors are interested in the concept of socially responsible investing.

Based on stakeholder expectations, stocks with a true potential for future growth must therefore combine financial growth with governance and social impact. The effectiveness of this triple approach is further augmented by consciously linking growth with governance and CSR by defining Board and management roles explicitly. Past research has studied each concept and its separate effect on security valuation, but has not specifically linked the three valuation bases together. Research has also shown that value based solely on financial metrics and growth is not sustainable in the long run. As an exploratory study, this paper examines growth companies for their overall financial performance, governance policies and corporate social responsibility.

The underlying basis of this exploration is a first step to determine the synergy between the three concepts as a possible basis for a sustainable, long-term value. The study therefore looks at the following:

Financial Metrics

Growth companies are usually ranked on the growth of their Sales/Revenue, EPS and Stock Returns. However, this growth measurement looks only at one dimension of successful, high value companies. To get a complete picture of the strength of a company's financial position, the study looked at the following factors.

Baseline Measures of Company Value (V)

This is the value that an investor expects from the company. Corporate valuation is one of the ways to measure a company's size, growth and risk outlook. The metrics used to measure Value are Market Capitalization and Enterprise Value.

Efficiency (E)

Investors frequently look management's ability to effectively use their assets and liabilities to generate revenue, and therefore profits. Efficiency is measured using Working Capital Turnover for short-term performance and Capital Asset Turnover for the effective utilization of long term assets.

Risk (R)

High returns are frequently linked with the concept of high risk – the ability of the company to refrain from loan defaults or to withstand financial downturns. Financial metrics also provide information about the risk of a company. A company's debt ratio and the beta are used to measure risk.

Market Willingness to Pay for the Company (W)

Based on performance and earnings, these ratios measure the market's willingness to pay for company stock. The Price to Book ratio and the PEG ratio are used to measure market value.

Corporate Governance Policies

A good system of corporate governance indicates the company's commitment to ethics, transparency and effective management. Governance policies are measured with the following indicators:

Board Composition and Roles

This refers to the independence of the Board and Board Committees, as well as diversity of the Board members.
Board roles and responsibilities: The Board has a responsibility to its various stakeholders to provide enduring value. The roles of the various Board members must be clearly delineated so that the company's mission is established and carried out effectively. A good governance policy also strikes a balance between motivating the executive team, and aligning stakeholder and executive interests.

Shareholder Rights

Important rights of the shareholders and investors, such as voting rights, transparency of financial information and protection from subversive actions by controlling shareholders or directors, must be provided by the governance policies.

Audit Policies

Effective audit and internal control policies help direct and control the governance and ethics policies of a company.

Corporate Social Responsibility Activities

CSR measures include a commitment to ethics, to employees, community involvement and environmental care.

Corporate Ethics

The impact of good financial metrics is augmented by stakeholder belief that the financial statements possess integrity. This belief is encouraged by a concrete policy of ethics adopted by the company

Human Resources

A company needs to be able to attract, recruit and retain skilled employees to increase productivity. A important feature of employee retention and morale are the policies of health, safety, family time, training, and compensation.

Community Involvement

Business organizations are involved in many kinds of philanthropic activities such as "donations" (given without expectations of returns), business "sponsorships" (which usually have defined marketing outcomes), there are community business "partnerships" (a deeper engagement than a sponsorship, usually the result of a solid business case for longer term engagement). They contribute to various charities, ranging from education to elderly help to food banks and religious organizations.

Environment

Corporate citizenship dictates that it is the role of business to allocate time and resources to address the ecological crisis as it relates to their industry. Many of these requirements are mandatory, especially after the major crises in the oil industry. But sustainable businesses adopt conservation policies with regard to water, energy and materials, try to control their emissions and waste products, encourage bio-diversity and climate control.

Governance Policies Specifically Linked to Corporate Social Responsibility

Based on the model suggested by Galpin et. al (2015) this study examined governance policies and CSR reports to see if the Board and top management had explicitly defined social impact activities as part of their responsibilities.

HYPOTHESIS DEVELOPMENT

Based on the variables specified above, this exploratory study examined the following questions:

Question 1: Did growth companies perform better on all financial metrics, not just the growth factors?

Question 2: Did growth companies have better corporate governance policies to maintain the integrity of their financial metrics?

Question 3: Did growth companies have a higher commitment to social responsibility to develop and sustain long-term value?

Question 4: Did growth companies intentionally link their CSR policies to corporate governance in order to ensure a high commitment to such value enhancing activities?

Question 5: Were growth companies able to maintain their valuation metrics in the short run?

The central question of this study was to assess whether growth companies (for which markets are willing to pay a high, if temporary, premium) also focused on other value enhancing activities as a strategic factor in durable growth.

SAMPLE SELECTION AND DATA COLLECTION

Every year, Fortune magazine publishes a list of the 100 fastest growing companies. Companies are ranked on the growth of their revenues, EPS and stock returns. These companies have the following features:

Traded on a US stock exchange

- Minimum market capitalization of $ 250
- Continuously trading for the past three years
- Minimum sales of at least $ 50 million and net income of $ 10 million

This study looked at the hundred companies, seventeen companies were removed because of data unavailability. Using the NAICS code, a list of companies in the same industry with similar total assets (a proxy for size) were obtained. Growth rates for revenues, EPS and stock returns were computed for each company. The companies were then ranked according to their growth rates. Companies with the lowest growth rates were selected to be part of the non-growth group. This resulted in a matched sample of 166 companies for the study.

For each company, financial metric score (FMS), governance score (GS) and social impact score (SIS) were calculated.

Financial Metric Score

Each company's 10-K and other public databases were used to compute the following financial metrics:

Measuring Performance		
Financial Metrics	Value	• Market Capitalization • Enterprise Value
	Efficiency	• Working capital turnover • Capital asset turnover
	Risk	• Debt Ratio • Beta
	Market Perception	• PB Ratio • PEG

On each element except risk, the companies were ranked and given a score (from 10 to 1, with 10 being the highest rank and 1 being the lowest rank). For risk, companies were also ranked and scored from 10 to 1, but 1 was the highest rank and 10 was the lowest rank. This was done to incorporate the fact that that perceived low risk is associated with safety and high value by investors (Nagy & Obenberger, 1994). Averaging the ranks for each metric the study developed a Financial Metric Score (FMS).

Governance Scores

From the company's website, the governance policy document was used with a questionnaire to compute a Governance Score (CGS). The questionnaire studied the company's corporate governance structure, policies and procedures. The following elements were used to develop the score:

Measuring Governance		
Corporate Governance	Board Composition	• Independence from management • Transparent process for appointments
	Board Role and Responsibilities	• Roles formally defined • Regular meetings and monitoring established • Remuneration clearly defined
	Shareholder Rights	• Rights of various shareholders clearly defined and upheld • Clear channels of communication
	Audit Policies	• Established system of internal controls • Independent audit committee

Each element had a score of 10 points, and the total score was averaged over the four elements.

Social Impact Score

Utilizing an index of commonly used CSR terms the study developed the Social Impact Score (SIS). The score was based on the policies and procedures used for the following elements of a good CSR system:

Measuring Social Impact		
Impact Metrics	Corporate Ethics	• Establish and maintain code of conduct • Appropriate mechanisms to ensure compliance with applicable statutes and regulations
	Human Resources	• Commitment to equal opportunity and diversity • Commitment to good work conditions including health, safety and training
	Community Involvement	• A systematic process of charitable donations • Activities involving community health, education and other volunteering
	Environment	• A commitment to conservation of water, energy, materials • A commitment to avoid waste including emissions and toxic dumping

Each of the above elements had a score of 10 points; the score from each section was averaged to get a total SIS. Based on the characteristics defined above, the study collected data for each individual item on the score list and a Firm Performance Score, Corporate Governance Score, and a Social Impact Score for every company in the sample.

DATA ANALYSIS

The initial analysis involved a simple two sample t-test of all the variables in each category to determine whether the growth group showed characteristics that were significantly different from the non-growth group. The Anderson Darling test for normal distributions provided p-values higher than .05, thus indicating that the variables were normally distributed. The t-tests showed the following results:

Financial Metrics

As seen in Table 1a, Value and Efficiency were higher for the growth group, as was to be expected. Risk was also higher for the growth group. The results were inconsistent for Market Perception. The PB ratio did not show any significant difference, while the PEG ratio tested higher for the growth group at the 5% level. Breaking the ratio down into its components, the PE ratio was significantly higher for the Growth group, as was the growth rate.

Table 1a. Comparison of Financial Metrics

Characteristic	Mean		Significance Level
	Growth Group	Comparison Group	
Value			
• Market Cap	322.3 B	192.6 B	0.0078
• Enterprise	524.7 B	142.8 B	0.0091
Efficiency			
• Working Cap. Turnover	3.2	2.4	0.013
• Capital Asset Turnover	0.87	0.63	0.024
Risk			
• Debt Ratio	76.37	70.46	0.063
• Beta	1.61	1.24	0.071
Market Perception			
• PB ration	5.75	5.63	0.38
• PEG ratio	12.8	1.95	0.057

Corporate Governance

For this metric, each sub-characteristic was given a score, and the scores were averaged for the main category variable. Table 1b shows that Board Composition was not significantly different between both groups, while Shareholders' Rights was significant only at the 10% level. However, Board Role and Responsibilities and Audit Policies were significant at the 1% level between the two groups, with the Growth group showing lower scores.

Table 1b. Comparison of Corporate Governance Metrics

Characteristic	Mean		Significance Level
	Growth Group	Comparison Group	
Board Composition	7.7	8.5	0.24
Board Role	6.9	9.2	0.008
Shareholder Rights	7.2	7.6	0.104
Audit Policies	4.2	6.8	0.012

Social Impact

For this metric, each sub-characteristic was given a score and the scores were averaged for the main category variable. Both groups (in Table 1c) did not exhibit any significant differences for each of the characteristics tested. The biggest difference was in the Community Involvement characteristic, where the Growth group was actually lower than the comparison group (significant at the 15% level)

Table 1c. Comparison of Social Impact Metrics

Characteristic	Mean		Significance Level
	Growth Group	Comparison Group	
Corporate Ethics	8.2	8.1	0.54
Human Resources	9.2	8.8	0.47
Community Involvement	6.6	7.5	0.146
Environment	6.7	6.9	0.62

The Governance policies and Corporate Social Responsibility reports of companies were examined to see if these companies specifically mentioned CSR as part of their governance activities. Less than 25% of both groups showed such integration – there was no significant difference between the two groups.

Further Analysis

For a more detailed analysis, the study looked at the following comparisons:

1. Age of the companies, as measured by the number of years since going public. Growth companies tended to be younger (average age of 11.86) than non-growth companies (average age of 14.29) at the 10% significance level.
2. Change in the Value metric (Market Capitalization and Enterprise Value) in 2016 (the year following the year in which the growth companies were listed in Fortune magazine). Both groups showed a decline in Value, but the mean decline for Growth companies was significantly higher from the change for the non-growth companies (at the 10% level).
3. Change in stock prices in 2016 (the year following the year in which the growth companies were listed in Fortune magazine). The results of the t-test indicated that Growth companies showed a significantly larger decline than the comparison group.
4. Change in PEG ratio in 2016 (the year following the year in which the growth companies were listed in Fortune magazine). The results of the t-test indicated that Growth companies showed a significantly larger decline than the comparison group (significant at the 10% level).

These results seem to indicate that growth companies were unable to sustain their financial value even in the short run – that is, within a year.

Regression Model

Finally, a logistic regression model was used to examine the possibility of identifying growth companies by their characteristics. The independent variable was growth and was given a 1 value (for growth) and a 0 value (for a non-growth company). The dependent variables were there ones as following:

1. Financial Metric Score (FMS)
2. Corporate Governance Score (CGS)
3. Social Impact Score

To study the synergies between the three areas of performance, the following combination of scores were also used as dependent variables:

4. Financial Metric Score x Corporate Governance Score
5. Corporate Governance Score x Social Impact Score
6. Financial Metric Score x Corporate Governance Score x Social Impact Score

The model is as follows:

$$G = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where: G = 1 if it is a growth company and 0 if it is not a growth company

X_i = the six dependent variables as discussed above.

Table 2 shows the results of the regression.

Table 2. Results of the Logistic Regression

Parameter	Symbol	Estimate	Significance
Constant	β_0	-3.451	0.000
FMS	β_1	2.18	0.000
CGS	B_2	1.12	0.046
SIS	B_3	.318	0.56
FMS x CGS	B_4	1.41	0.071
CGS x SIS	B_5	.593	0.61
FMS x CGS x SIS	B_6	.628	0.43

As expected, the Financial Metric Score was significant at the 1% level. Growth companies categorically showed better financial performance when compared to the non-growth companies. The Corporate Governance Score was significantly lower for growth companies, indicating higher risk. However, the Social Impact Score was not significant – as indicated by the t-tests, there was no discernable variance between the two groups. Looking at the combined scores, only metric # 4 (FMS x CGS) was significant, indicating that their performance and governance policies positively define Growth companies. However, the other combinations were not significant in the logistic regression model.

DISCUSSION

The role of business within a society has, for long, been a controversial topic of debate. Early economists like Adam Smith (1776) argued that people, usually motivated by selfish interests to produce value, would automatically contribute to societal wellbeing as if led by an "invisible hand". As late as 1971, prize winning economist Milton Friedman (1970) agreed with Smith, claiming that a company which only used resources to increase company profits will achieve social responsibility as long as it obeys all laws and engages in free competition without deception or fraud. The general consensus was that it was not reasonable for a business firm to refrain from maximizing its profits just to avoid impairing other facets of society.

Numerous studies have shown that high financial performance leads to a brief, short term increase in corporate valuation, but this increase does not seem to be sustainable in the long run. Obviously, there are other factors to be considered while determining long-term value. Research has separately linked concepts like corporate governance and corporate social responsibility to value as well.

The financial and environmental catastrophes of the late eighties, and more recently, the fallout from the Enron disaster has significantly altered the earlier views of business as a narrow, profit-oriented entity. Terms like Corporate Governance and Corporate Social Responsibility have become watchwords to define not only economic performance, but also company functionality within its social, environmental and ethical milieu. The social responsibility of a business now is to incorporate and integrate workplace, community and global issues, in addition to the financial bottom-line, into its core business strategies - a worldview that is very different from Friedman's (1970) definition of the concept.

It is undeniable that genuine and accurate valuation for companies must come from meeting stakeholder expectations – currently, these seem to be at the confluence of the three areas of financial performance, corporate governance, and corporate social responsibility. The synergy that comes from meeting all stakeholder expectations could be the key to sustainable value creation. This study therefore looks at all three areas of performance – a connection that has not been extensively studied earlier. However, before linking these three areas to actual company valuation, this preliminary study looks at a sample of growth companies (as defined by their financial performance) for their commitment to other areas of stakeholder expectations.

As expected, growth companies were better at the financial performance indicators, but came with higher risk. Interestingly, these high growth companies, as measured by their performance in Sales and EPS in the past, show decline in stock value, enterprise value and future growth prospects as measured by the PEG ratio in the subsequent year. Results also indicate that these high growth companies generally tend to have lower scores on governance policies, suggesting that these companies seem to focus more on financial performance than on other non-financial

metrics. Further, on average, growth companies scored lower on corporate social responsibility activities, especially the areas dealing with the community in general. Growth companies also tended to place earlier in the corporate life cycle, though the comparison group was fairly young as well. There were no observable differences in incidences of policies that integrate their governance with their sustainability activities between the two groups. This perhaps suggests that younger companies tend to focus more on their financial development and growth rather than on the responsibilities to other stakeholders.

Future areas of research could be to develop a model integrating the three areas and linking it to security valuation. Longitudinal studies to track the long-term valuation of these companies are important for sustainable value creation. Another area of research could be to see if markets are overvaluing these companies based on financial metrics alone. Investors place great emphasis on growth; stakeholder theories integrate a firm's social responsibilities into a firm's valuation. Activities that are able to create, maintain and increase value are therefore crucial to a company's mission and strategy.

CONCLUSION

As an exploratory study, this paper examined the valuation metrics and non-financial policies of growth companies. The aim of the study was to determine if these growth companies placed equal emphasis on these three value creating activities as a foundation for long term sustainable value. Results indicate that growth companies evidently exhibited high levels of financial performance indicators, ranked lower on corporate governance policies, but had no noticeable differences in corporate social responsibility factors when compared to similar companies. Further, increases in financial value metrics in response to the growth statistics were not sustainable even in the short run.

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