

Lecture 3

Shareholder Value Theory, CSR and CSP

Mingzhu Wang

International Summer Semester 2016

Sungkyunkwan University

Agenda



- Shareholder Value Theory
- *Corporate social responsibility (CSR)*
- *Differentiate social responsibility and responsiveness*
- *Corporate social performance (CSP)*
- Relate social performance to financial performance
- CSR and Corporate Governance

The Goal of Financial Management

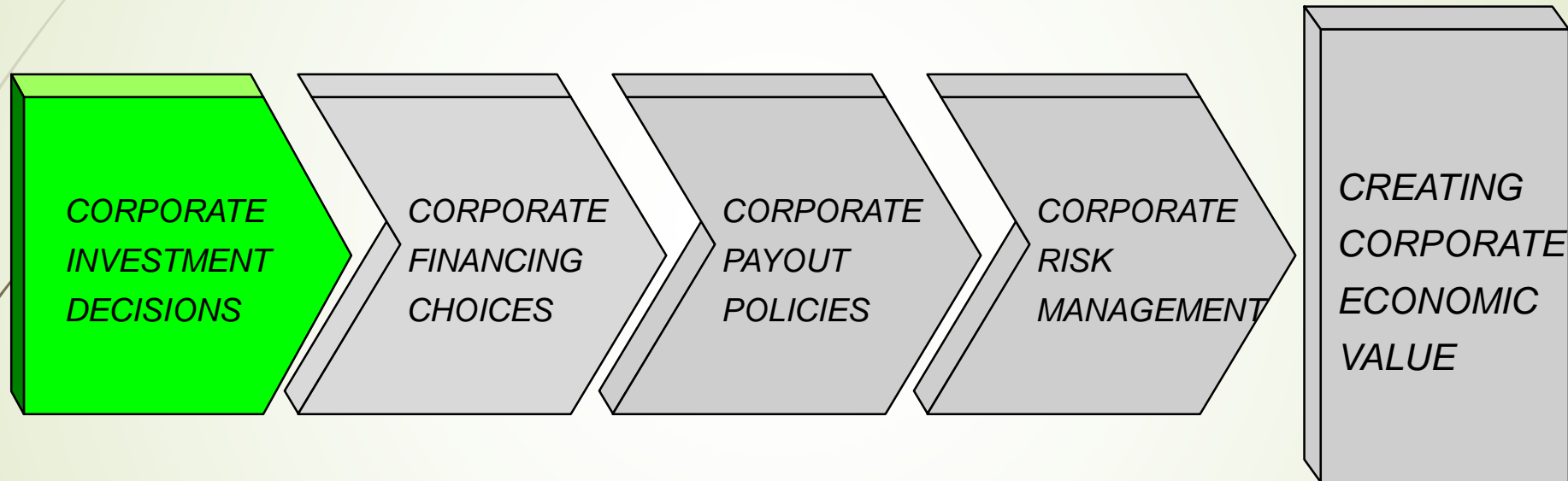
- What are firm decision-makers hired to do?

“General Motors is not in the business of making automobiles. General Motors is in the business of making money.”

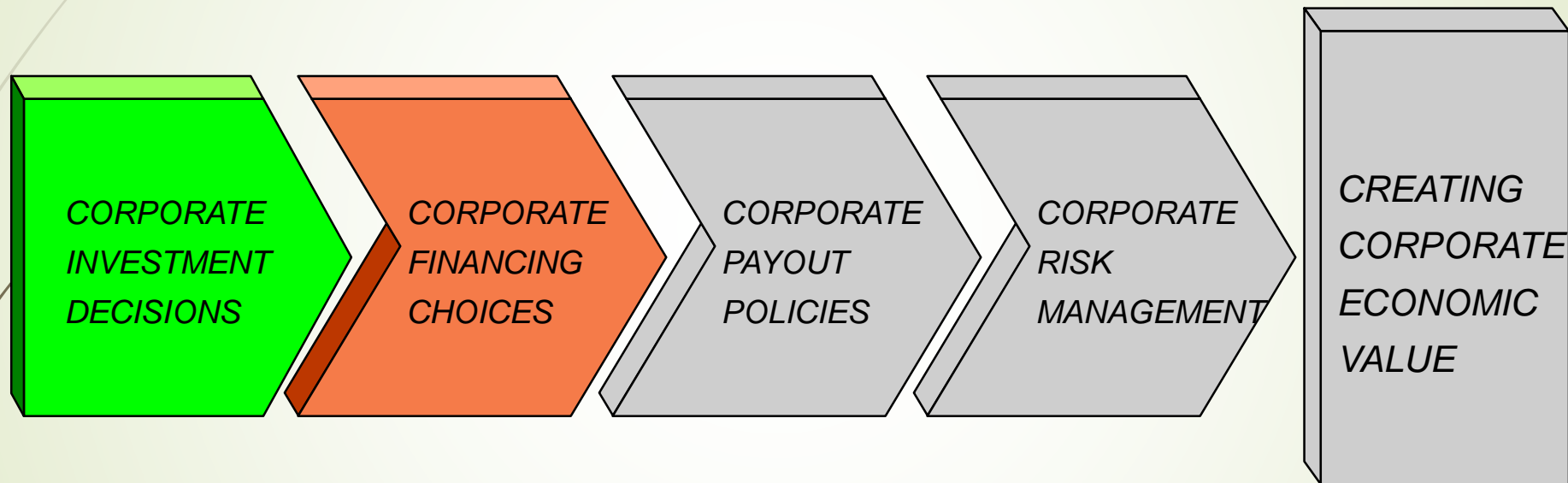
Alfred P. Sloan

- Possible goals: Size, market share, profits
- Three common goals of corporate finance:
 - Maximize shareholder wealth
 - Maximize share price
 - Maximize firm value

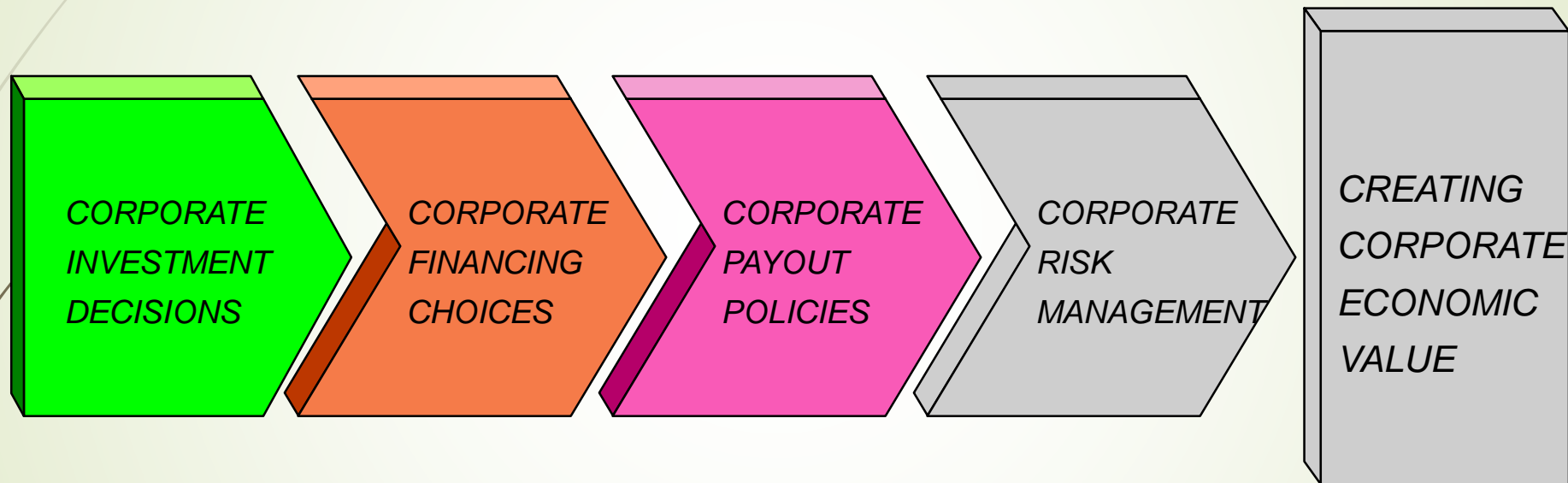
The Decisions that Create Shareholder Value



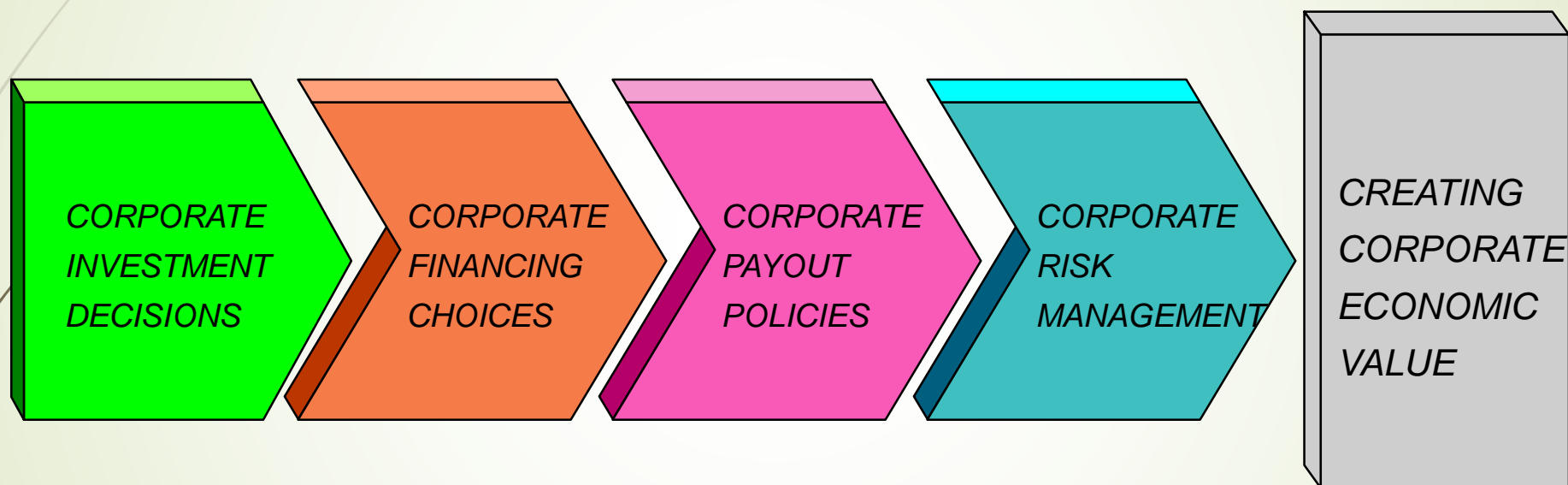
The Decisions that Create Shareholder Value



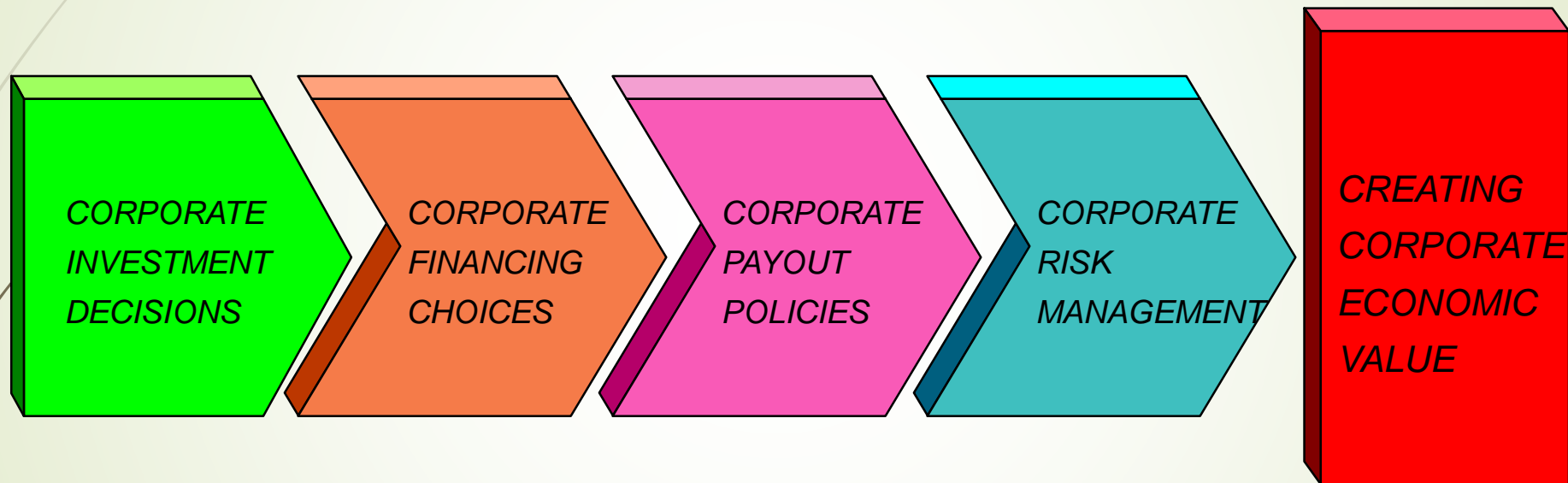
The Decisions that Create Shareholder Value



The Decisions that Create Shareholder Value



The Decisions that Create Shareholder Value



CSR-a change of focus

- But our focus is on corporate social responsibility, which involves responsibilities outside of making a profit and the key questions for corporations include:
 - Does business have a social responsibility?
 - If so, what is the extent and type of the responsibility?

Corporate Social Responsibility (CSR)

Preliminary definitions of CSR

- The impact of a company's actions on society
- Requires a manager to consider his acts in terms of a whole social system, and holds him responsible for the effects of his acts anywhere in that system

Corporate Social Responsibility

A perspective which stresses the responsibilities that corporations have towards society and other stakeholders
(King and Lawley, 2013)

CSR requires two principles*:

1. The charitable principle, where the more fortunate help the less fortunate
2. The stewardship principle, where the rich hold the wealth 'in trust' for the rest of society

The belief that these principles, combined with the belief that acting appropriately, result in limited government intervention (rules & regulations) has given CSR considerable credence in business circles (Freeman & Liedtka, 1991)

*Traced back to philanthropists of 1930s

Corporate Social Responsibility (CSR)

Historical Perspective

- *Economic model* – the invisible hand of the marketplace protected societal interest
- *Legal model* – laws protected societal interests

Corporate Social Responsibility (CSR)

Historical Perspective

From the 1950's to the present the concept of CSR has gained considerable acceptance and the meaning has been broadened to include additional components

Corporate Social Responsibility (CSR)

Evolving Viewpoints

- ➡ CSR mandates that the corporation has not only economic and legal obligations, but also certain responsibilities to society that extend beyond these obligations (McGuire)

Corporate Social Responsibility (CSR)

Carroll's Four Part Definition

- ➡ CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time

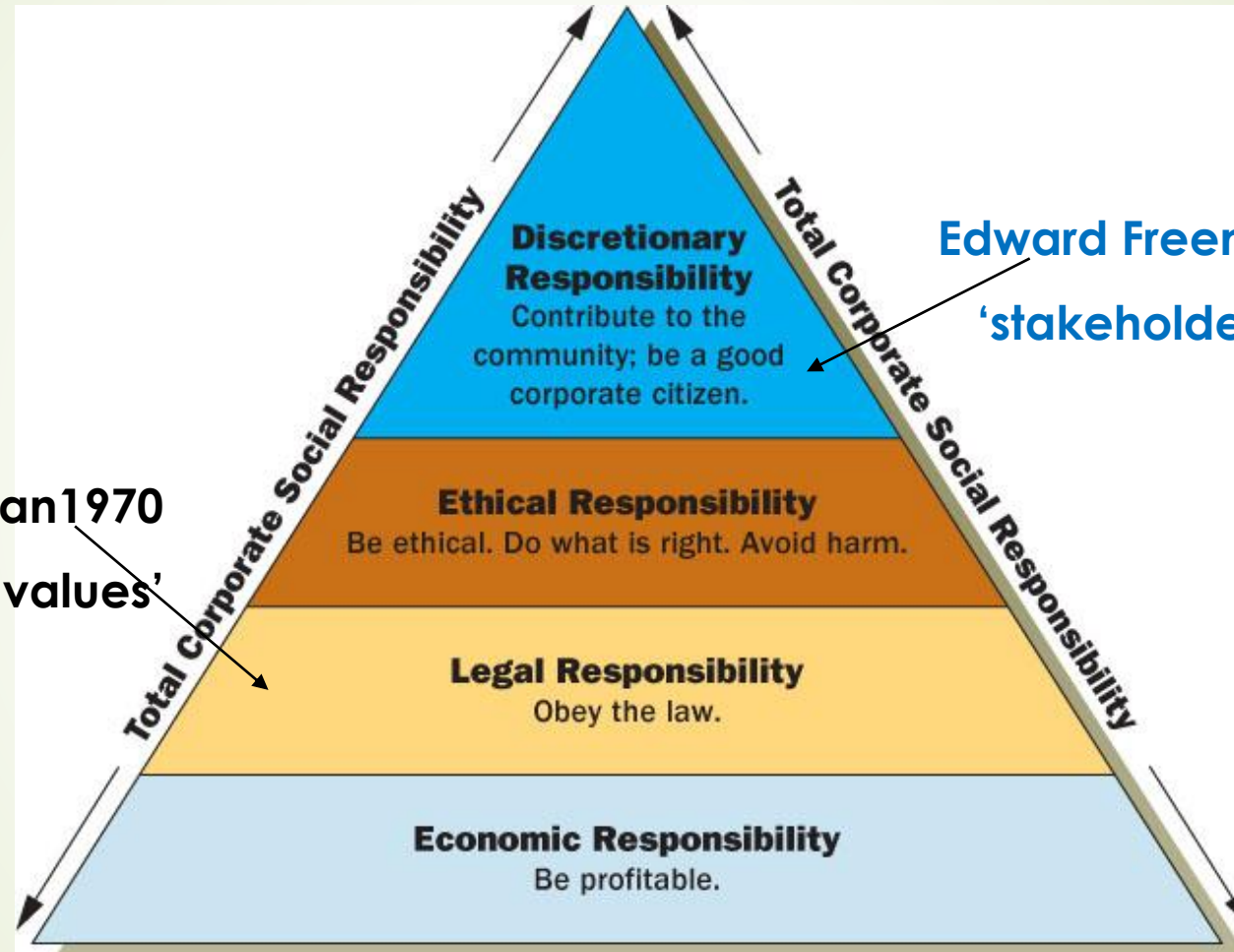
Corporate Social Responsibility (CSR)

Carroll's Four Part Definition *Understanding the Four Components*

Responsibility	Societal Expectation	Examples
Economic	Required	Be profitable. Maximize sales, minimize costs, etc.
Legal	Required	Obey laws and regulations.
Ethical	Expected	Do what is right, fair and just.
Discretionary (Philanthropic)	Desired/ Expected	Be a good corporate citizen.

Pyramid of CSR

Milton Friedman 1970
'shareholder values'



Edward Freeman 1984
'stakeholder values'

Evaluating corporate responsibility using Carroll's (1991) pyramid [illustrates levels of CSR]

Corporate Social Responsibility (CSR)

CSR in Equation Form Is the Sum of:

Economic Responsibilities (*Make a profit*)

Legal Responsibilities (*Obey the law*)

Ethical Responsibilities (*Be ethical*)

Philanthropic Responsibilities (*Good corporate citizen*)

CSR

Corporate Social Responsibility (CSR)

Stakeholder View					
Stakeholder Group Addressed and Affected					
CSR Component	Owners	Con- sumers	Employees	Community	Others
Economic	1	4	2	3	5
Legal	3	2	1	4	5
Ethical	4	1	2	3	5
Philanthropic	3	4	2	1	5

Social Responsibility Issues

Owners & Stockholders



- Primary concern with profit or ROI
- Financial community at large
- Proper accounting procedures
- Protecting owner's rights and investments

Social Responsibility Issues

Consumer Relations

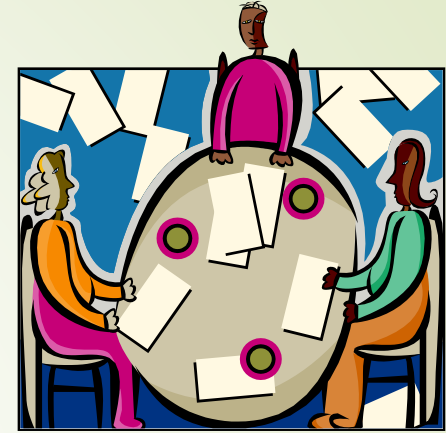


- **Consumerism** – the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers.

Social Responsibility Issues

Employee Relations

- Provide a safe workplace
- Adequate compensation
- Listen to grievances
- Fair treatment



Social Responsibility Issues



Community Relations

- General community and global welfare
- Hardcore unemployed
- Charitable contributions
- Avon's Breast Cancer Awareness Crusade
- <https://www.youtube.com/watch?v=65yZa6YUDWE>

Social Responsibility Issues

Environmental Issues

- Going Green
- Pollution
- Animal rights



Corporate Social Responsibility (CSR)

Arguments Against

- ➡ Restricts the free market goal of profit maximization
- ➡ Business is not equipped to handle social activities
- ➡ Dilutes the primary aim of business
- ➡ Increase business power
- ➡ Limits the ability to compete in a global marketplace

Corporate Social Responsibility (CSR)

Arguments For

- Addresses social issues business caused and allows business to be part of the solution
- Protects business self-interest
- Limits future government intervention
- Addresses issues by using business resources and expertise
- Addresses issues by being proactive

Corporate Social Responsibility (CSR)

Business Responsibilities in the 21st Century

- Demonstrate a commitment to society's values and contribute to society's social, environmental, and economic goals through action.
- Insulate society from the negative impacts of company operations, products and services.
- Share benefits of company activities with key stakeholders as well as with shareholders.
- Demonstrate that the company can make more money by doing the right thing.

Corporate Social Responsiveness

Evolving Viewpoints

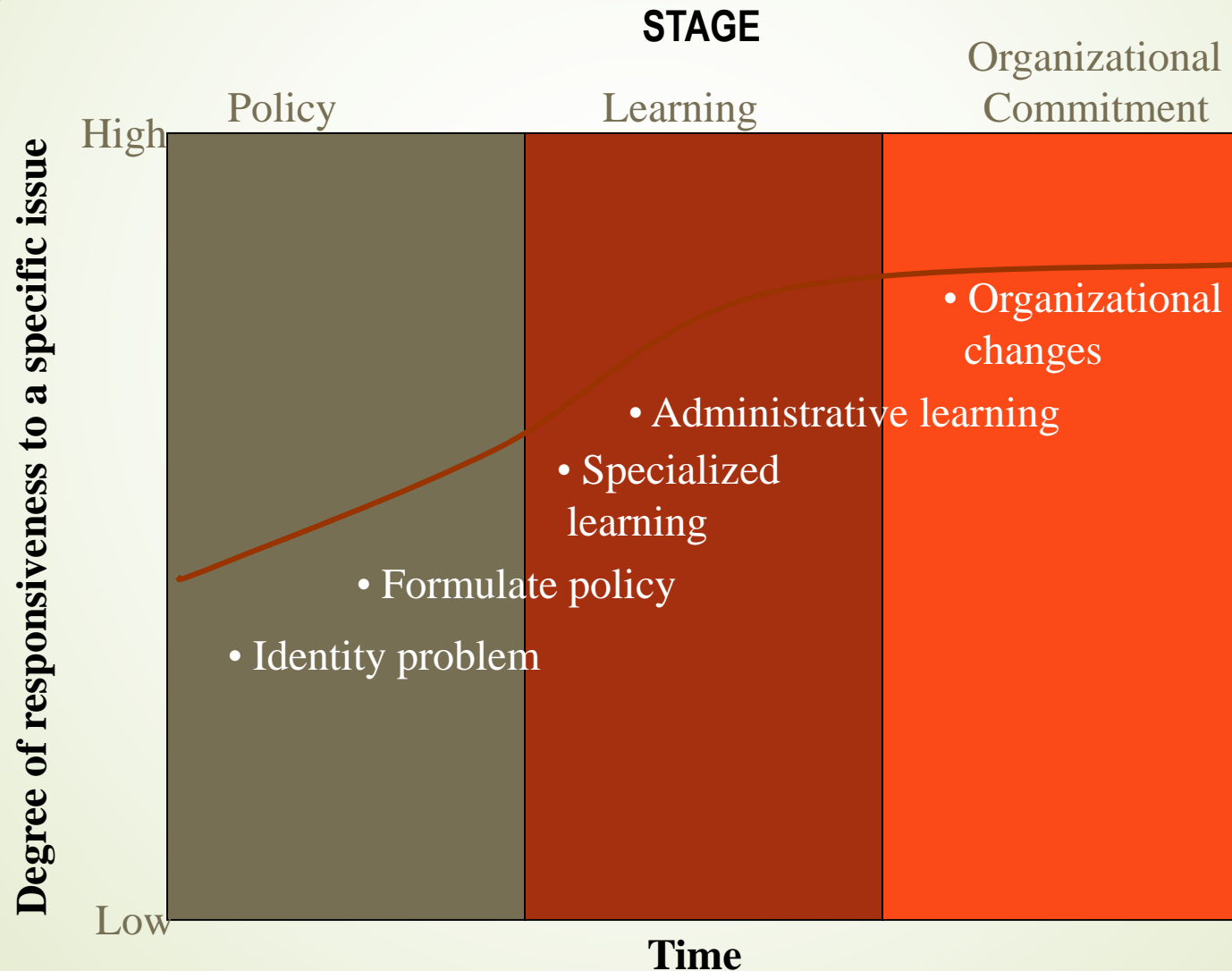
- ➡ Bauer's action view
- ➡ Sethi's three stage schema
- ➡ Epstein's process view

Corporate Social Responsibility (CSR)

Evolving Viewpoints

- CSR considers the impact of the company's **actions** on society (Bauer)
- CSR requires decision makers to take **actions** that protect and improve the welfare of society as a whole along with their own interests (Davis and Blomstrom)

Sethi's three-stage model of corporate social responsiveness



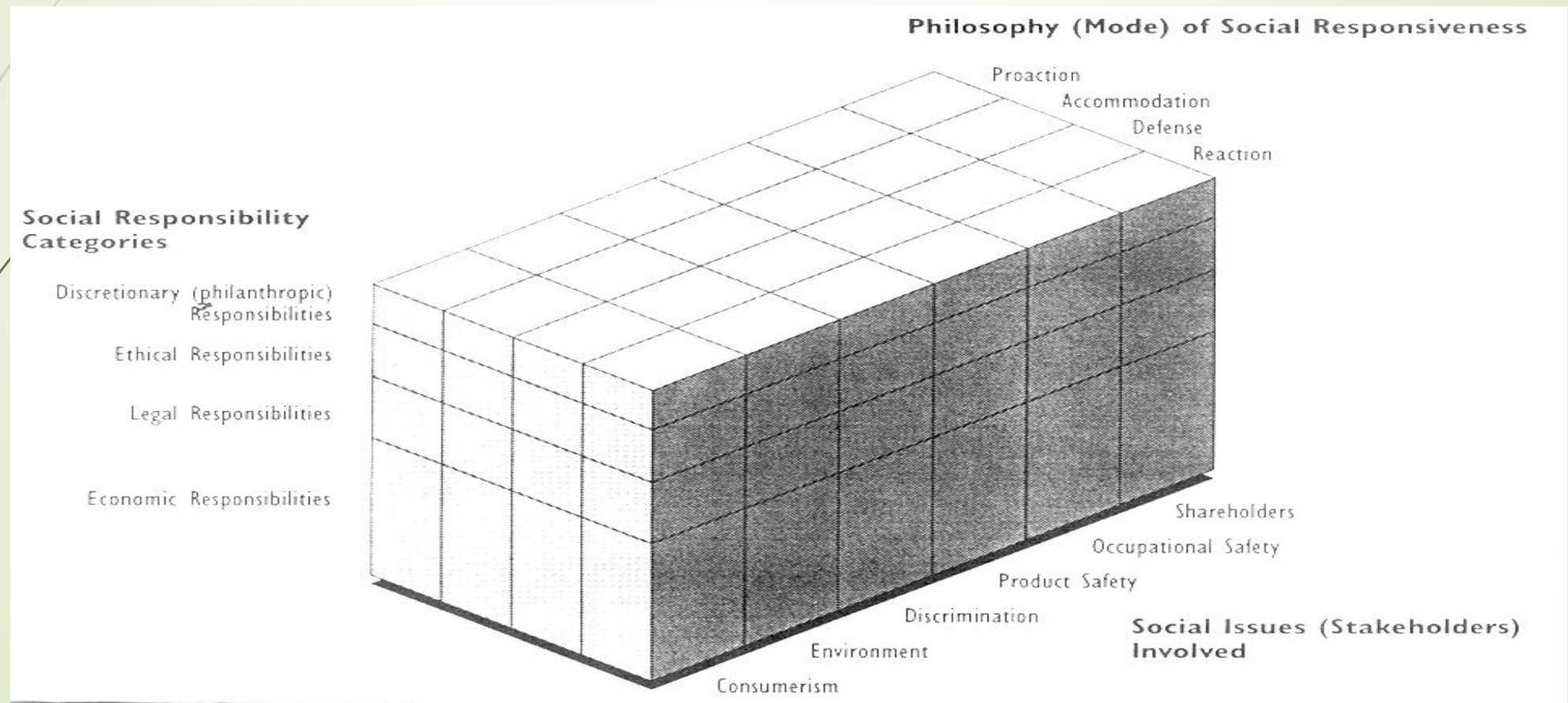
Corporate Social Responsibility (CSR)

Evolving Viewpoints

- CSR relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems, which by some normative standard have beneficial rather than adverse effects upon pertinent corporate stakeholders. The normative correctness of the products of corporate action have been the main focus of CSR (Epstein)

Corporate Social Performance

Carroll's CSP model integrates economic concerns into a social performance framework



CSP - Wartick & Cochran's Extension

Principles	Processes	Policies
<i>Corporate Social Responsibilities</i>	<i>Corporate Social Responsiveness</i>	<i>Social Issues Management</i>
1. Economic	1.Reactive	1. Issues identification
2. Legal	2.Defensive	2. Issues Analysis
3. Ethical	3.Accomodative	3. Response Development
4. Discretionary	4.Proactive	
Directed at:	Directed at:	Directed at:
1. The social Contract of Business	1. The Capacity to Respond to Changing Societal Conditions	1. Minimizing "surprises"
2. Business as Moral Agent	2. Managerial Approaches to Developing Responses	2. Determining Effective Corporate Social Policies
Philosophical Orientation	Institutional Orientation	Organizational Orientation

CSP-Wood's reformulations

Principles of corporate social responsibility

Institutional principle: legitimacy

Organizational principle: public responsibility

Individual principle: managerial discretion

Processes of corporate social responsiveness

Environmental assessment

Stakeholder management

Issues management

Outcomes of corporate behavior

Social impacts

Social programs

Social policies

Corporate Social Performance *Nonacademic Research*

- Fortune's ranking of *most* and *least* admired corporations
- Council on Economic Priorities
Corporate Conscience Awards
- *Business Ethics* Magazine Awards
- WalkerInformation's Research on the impact of social responsibility

Fortune Ranking

➤ Most admired corporations ranking in 2015

1. Apple



2. Google



3. Berkshire Hathaway



4. Amazon



5. Starbucks



6. Walt Disney



➤ How to become the most admired corporations?

<http://fortune.com/video/2015/02/19/how-to-become-the-worlds-most-admired-company/>

Case Study - Apple

■ <https://www.youtube.com/watch?v=TJ1SDXbij8Y>

Case Study - Starbucks

- Broad-based initiatives to contribute positively to the communities in which it's stores are located and to the environment.
- Also contributing to CARE a world wide relief effort that sponsored health, education, and humanitarian aid programs in all third world countries where they purchased coffee supplies.
- https://www.youtube.com/watch?v=Nly_OdvORQY



Starbucks- Environmental Mission Statement

- Understanding of environmental issues and sharing information with our partners.
 - Developing innovative and flexible solutions to bring about change.
 - Striving to buy, sell, and use environmentally friendly products.
 - Recognizing that fiscal responsibility is essential to our environmental future.
 - Instilling environmental responsibility as a corporate value.
 - Measuring and monitoring our progress for each project.
- 

Case Study – P&G

- Procter and Gamble is a leading corporation promoting corporate responsibility
- www.pg.com/about_pg/corporate/corp_citizenship_main.jhtml
- <https://www.youtube.com/watch?v=kD7ATYYibYw>

Social—and Financial—Performance

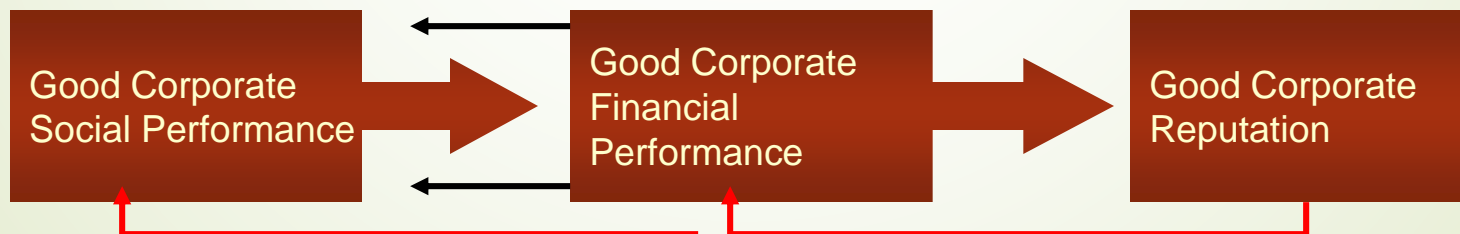
Perspective 1: CSP Drives the Relationship



Perspective 2: CFP Drives the Relationship



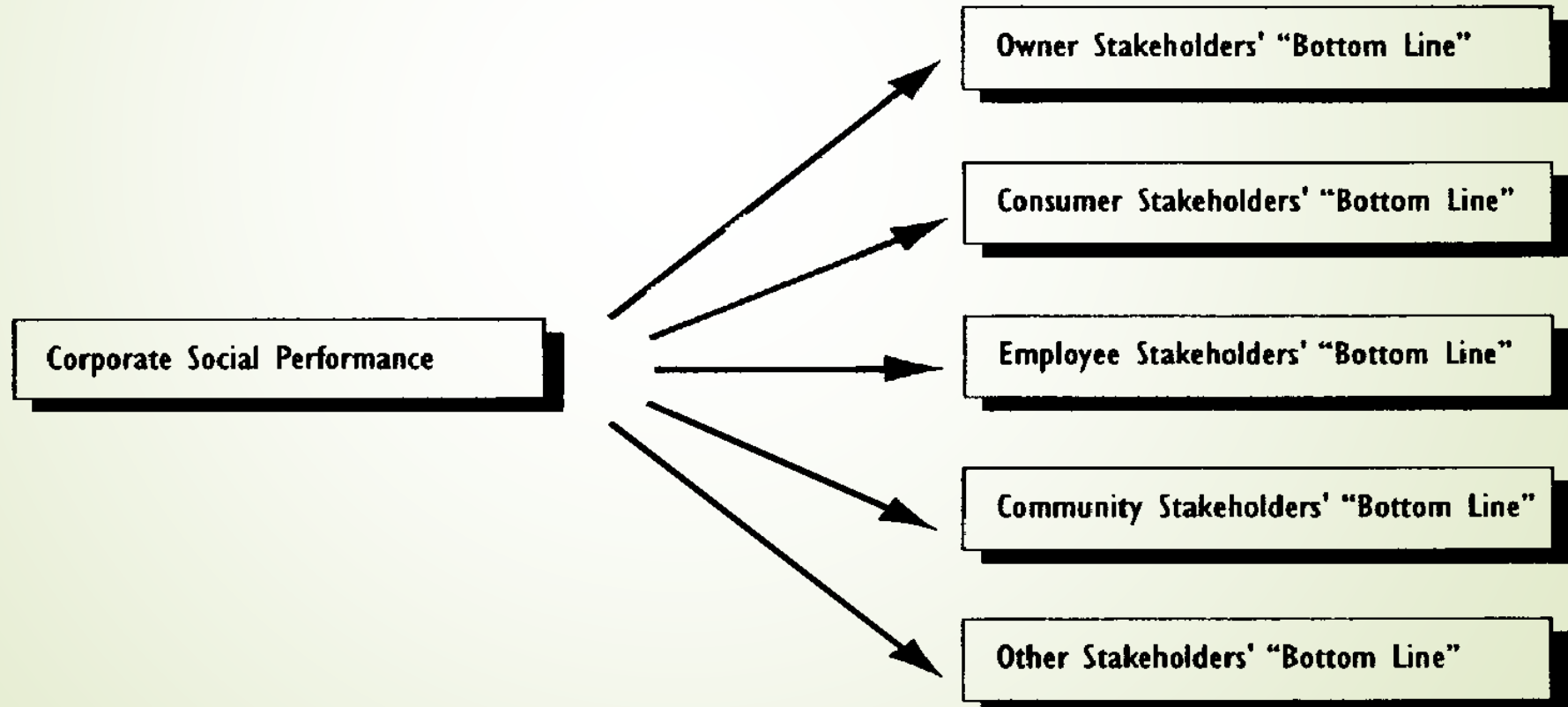
Perspective 3: Interactive Relationship Among CSP, CFP, and CR



Social and Financial Performance

A Multiple Bottom-Line Perspective

**RELATIONSHIP BETWEEN CORPORATE SOCIAL PERFORMANCE (CSP) AND
STAKEHOLDERS' "MULTIPLE BOTTOM LINES"**



Social screening

Social screening is a technique used to screen firms for investment purposes

IS CSR a Voluntary Concept?

- Some definitions (e.g. European Union) describe CSR as a voluntary concept.
- Given the multitude of initiatives that promote CSR (e.g. Global Compact, Global Reporting Initiative, OECD Guidelines) in a voluntary fashion- not surprising CSR is perceived in this way
- However, recent legal developments suggest CSR is no longer a voluntary concept.
- Two major areas of development: **Reporting and Directors' Duties**



Mandatory CSR Reporting

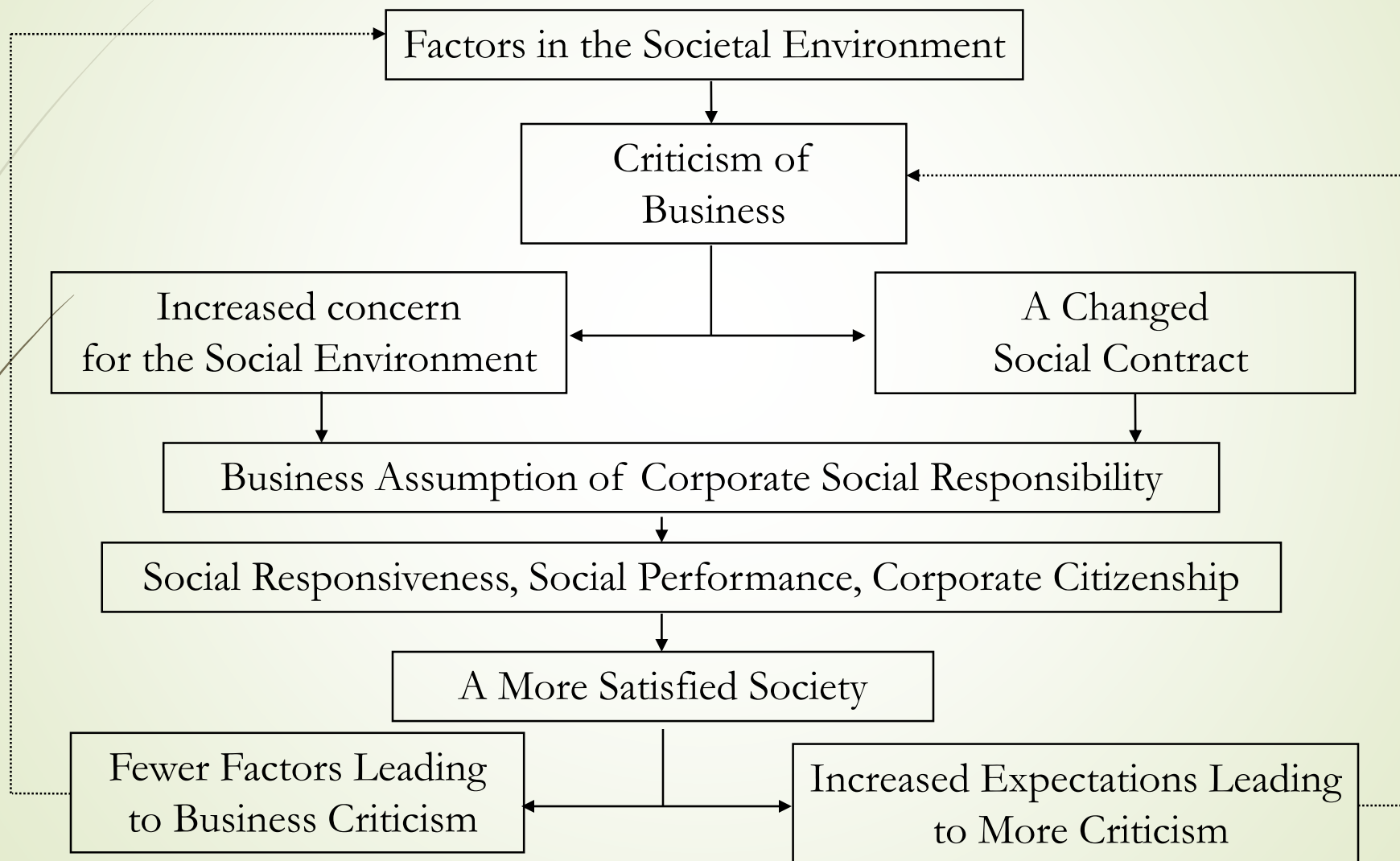
➤ Backed by increasing calls from investors and the community for more disclosure and reporting on CSR issues, many jurisdictions have now introduced mandatory corporate reporting requirements on environmental and social matters:

- Australia
- France
- South Africa
- Sweden
- Canada
- Denmark
- Netherlands
- Norway
- UK etc.

A summary of main concepts

- Corporate social *responsibility* – emphasizes obligation and accountability to society
- Corporate social *responsiveness* – emphasizes action, activity
- Corporate social *performance* – emphasizes outcomes, results

Business Criticism/ Social Response Cycle





CSR and Corporate Governance

Many definitions highlight the link between CSR and corporate governance.

Is CSR a subset of corporate governance or is corporate governance a subset of CSR?



CSR and Corporate Governance

Principle 4 of The OECD *Principles of Corporate Governance* (2004) underscores the need of a corporate governance framework to “encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.



CSR and Corporate Governance

Related in Management:

- Many companies are now using company codes of conduct to address conduct issues that relate to both corporate governance issues (conflict of interest, market disclosure, whistleblowing, corruption, fraud & accounting) and CSR issues (human rights, environment & labour standards)

Related in Investment:

- Mainstream investors now consider environmental, social and governance issues (known collectively as ESG issues) in their investment decisions.

Example: United Nations *Principles for Responsible Investment* Launched in April 2006, now has support of investors with combined worth of \$4 Trillion.

Business for Social Responsibility

- ➡ Businesses are interested in CSR and one leading business organization that companies can join is Business for Social Responsibility. To learn more about BSR, visit their web site at:

<http://www.bsr.org/>

Milton Hershey

- ➡ Milton Hershey was a leading example of an individual who employed philanthropy, community obligation and paternalism To learn more about Milton Hershey and the company, school and town he built, log on to:
<http://www.miltonhershey.com/>
- ➡ https://www.youtube.com/watch?v=TfneVr_o4Bw

Corporate Citizenship



- *Corporate citizenship* embraces all the facets of corporate social responsibility, responsiveness and performance
- It shows the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.

Our next topic is about corporate citizenship tomorrow.