“Corporate Social Responsibility explained, and how it relates to the requirement to maximise shareholders’ wealth”.

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Article relevant to Professional 2 Financial Management.

The term Corporate Social Responsibility (CSR) is often used to describe the actions of a private, commercial organisation assuming a responsible view of its wider obligations to society. CSR has been otherwise defined as: “fulfilling a role wider than your strict economic role” or: “acting as a corporate citizen”.

The theory of business finance is that the prime objective of management of a listed company is to maximise the wealth of its ordinary shareholders. Agency theory dictates that management, as agents of the company’s owners, must act in their best interests and, thus, strive to maximise shareholders wealth at all times. In their attempt to achieve this prime objective management will set financial objectives, including:

- profit levels
- sales and profit growth
- margin improvement
- cost releasing efficiency savings
- EPS growth

Management will also set non-financial objectives, which should complement and support the financial objectives. These may include:

- brand awareness levels
- research & development successes
- new product development
- new markets entered
- customer satisfaction levels
- employee motivation levels

Such objectives may also include the following:

- providing for the welfare of employees and management
- upholding responsibilities to customers and suppliers
- provision of a service.
- contributing to the welfare of society as a whole
- environmental protection

which, may be loosely described as acting in a socially responsible manner. This has led to the development of the concept of Corporate Social Responsibility (CSR). Examples of acting in a socially responsible manner may include:

- ➢ Musgrave Super-Valu Centra’ s sponsorship of the Tidy Towns competition
- ➢ Bank of Ireland’s Millennium Scholarships
- ➢ KPMG International’s policy of purchasing over 90% of its electricity from renewable sources.
- ➢ Junior Achievement Awards initiative.

Likewise, companies have been alleged to have acted in a less than socially responsible manner. Examples include clothing and sports goods companies using sub-contractors who employ child labour practices.

The extent to which organisations subscribe to CSR varies greatly both ideologically and in practice. Recent research in Ireland has shown that 90% of companies believed that CSR should be part of a company's DNA, yet only 30% thereof actually did anything about it.

Many organisations view CSR as a strategic investment and consider it necessary in order to achieve the reputation that is gaining importance in attracting and retaining key staff and to winning and retaining prestigious contracts and clients. Many such companies have moved to operationalise CSR. This has been achieved in many ways including:

- incorporating CSR in their mission statements
- appointing a 'champion' of CSR
- formally incorporating CSR objectives into its strategic planning process
- dissemination of CSR targets and reporting of key performance indicators
- retaining consultants to advise on existing performance and to recommend improvements
- appointment of committees to implement and reviews CSR related policies.

Whilst, some organisations see social responsibility as a passing trend and are content to get by with a bit of 'lip service' and tokenism. Other organisations view CSR as the preserve of multinationals and government.

Part of the challenge in pursuing CSR related objectives lies in the relative novelty of the concept. The critical debate is whether or not CSR detracts from the objective of maximising shareholder wealth. As with all debates there are opposing views including:

Arguments in favour of CSR include that it;

- creates positive Public Relations for the organisation, or, as a minimum avoids bad P.R.
- helps attract new and repeat custom
- improves staff recruitment, motivation and retention
- helps keep your organisation within the law,

all of which may be considered to support the drive to maximise profits.

However, there are many writers on this topic who vigorously defend against the notion that private organisations should embrace social responsibility. The work of Friendman, Reidenbach & Carr conveniently sums up the main arguments against CSR

- market capitalism is the most equitable form of society that has ever appeared
- the ethics of doing business are not those of wider society
- governments are responsible for the well being of society
- an organisation's maximum requirement is to remain within the law, no more than this is required.

Ultimately, they argue that business organisations are created and run in order to maximise returns for their owners and that CSR detracts from the profit maximisation

Conclusion
The broad philosophical debate on the role of companies in society is still in its early days. Depending on your viewpoint, CSR may be considered to support or detract from the objective of maximising shareholder wealth. Neither viewpoint is definitive.

As the public debate on CSR and, the changing role of business in society intensifies, companies will need to determine their own view on CSR and adopt their own stance on the subject. Ultimately, they will have to make policy decisions that are in the best interests of the company and its owners, their shareholders. In my opinion such policies are unlikely to ignore the concept of CSR.