



Accounting and control for sustainability and CSR

Session 15a

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6 December 2018

Strategic management accounting - A.Y. 2018/2019

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Corporate social responsibility

- Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.
- Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing “more” into human capital, the environment and the relations with stakeholders.
- The experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company’s competitiveness.

Green Paper: promoting a European framework for Corporate Social Responsibility,
Commission for the European Communities, 18 July, 2001

Corporate social responsibility

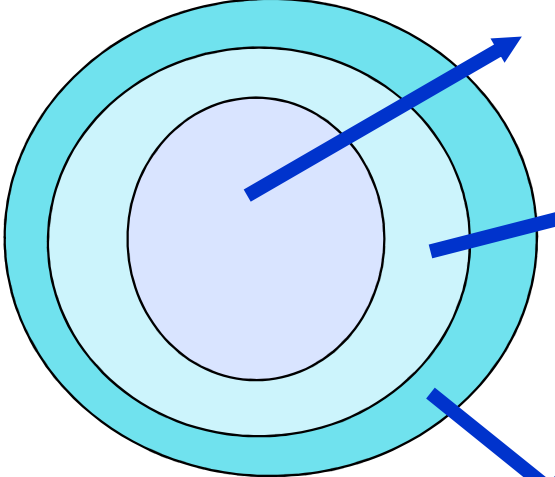
- Going beyond basic legal obligations in the social area, e.g. training, working conditions, management-employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness.
- Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation.
- A number of companies with good social and environmental records indicate that these activities can result in better performance and can generate more profits and growth.

Green Paper: promoting a European framework for Corporate Social Responsibility,
Commission for the European Communities, 18 July, 2001

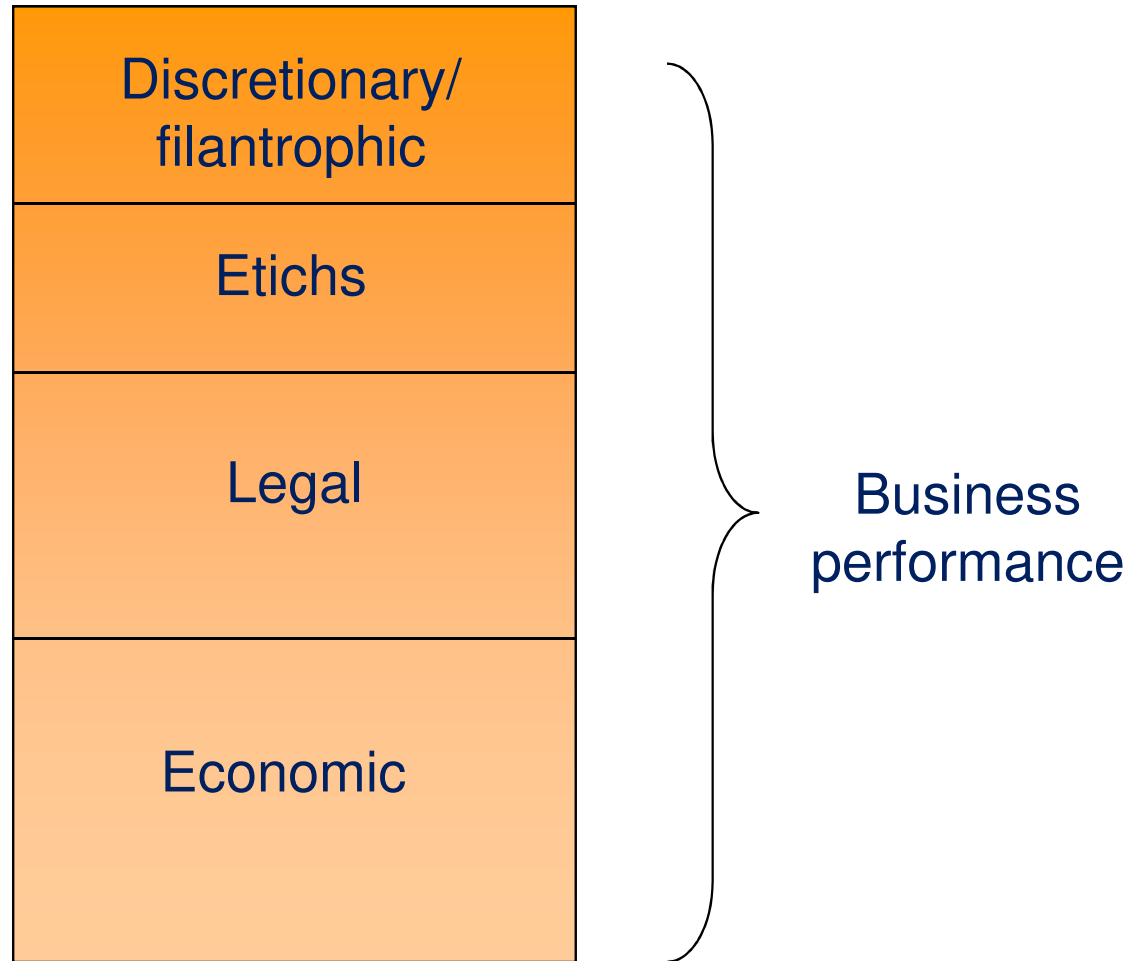
Corporate Social Responsibility: the history

Year	Author	Contribute
1953	Bowen	<p>Social Responsibility of the Businessman The decisions and actions of the businessman <u>have a direct bearing of the quality of our lives and personalities.</u></p>
1960	<p>Davis</p> <p>Frederick</p>	<p>Firms <u>cannot avoid to cope with social responsibilities</u>, that in the long term may generate financial returns.</p> <p>Relevance of <u>community's expectations</u>, where the firm operates and its social role in promoting social wellbeing.</p>
1962	Friedman	<p>Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stakeholders as possible</p>
1963	Mc Guire	<p>The idea of social responsibilities supposes that the corporation has not only economic and legal obligations, but also certain <u>responsibilities to society which extend beyond these obligations</u></p>

Corporate Social Responsibility: the history

Year	Author	Contribute
1971	CED - Committee for Economic Development	<p data-bbox="768 454 1523 526">Social Responsibilities of Business Corporation- Three concentric circles approach</p>  <p data-bbox="1377 598 1948 694">Clear-cut basic responsibilities for the <u>efficient execution of the economic function</u> - products, jobs, economic growth</p> <p data-bbox="1444 758 1937 917">Responsibility to exercise the economic function with <u>a sensitive awareness of changing social values and priorities</u> - respect to environmental conservation, hiring, relations with employees</p> <p data-bbox="1400 1045 1892 1204"><u>Newly emerging and still amorphous responsibilities that business should assume</u> to become more broadly involved in <u>actively improving</u> the social environment</p> <p data-bbox="873 1276 1780 1316"><i>Evolution of the social contract between firms and society</i></p>

Types of social responsibilities; Carroll



Carroll, 1979

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Firm's attitude towards CSR

Dimensions of behavior	<i>Stage One: Social Obligation Prescriptive</i>	<i>Stage Two: Social Responsibility Prescriptive</i>	<i>Stage Three: Social Responsiveness Anticipatory and Preventive</i>
<i>Search for legitimacy</i>	Confines legitimacy to legal and economic criteria only; does not violate laws; equates profitable operations with fulfilling social expectations.	Accepts the reality of limited relevance of legal and market criteria of legitimacy in actual practice. Willing to consider and accept broader - extra legal and extra market - criteria for measuring corporate performance and social role	Accepts its role as defined by the social system and therefore subject to change; recognizes importance of profitable operations but includes other criteria
<i>Ethical norms</i>	Considers business value-managers expected to behave according to their own ethical standards	Defines norms in community related terms, i.e., good corporate citizen. Avoids taking moral stand on issues which may harm its economic interests or go against prevailing social norms (majority views)	Takes definite stand on issues of public concern; advocates institutional ethical norms even though they may seem detrimental to its immediate economic interest or prevailing social norms.
<i>Social accountability for corporate actions</i>	Construes narrowly as limited to stockholders; jealously guards its prepotives against outsiders	Individual managers responsible not only for their own ethical standard but also for the collectivity of corporation. Construes narrowly for legal purposes, but broadened to include groups affected by its actions; management more outward looking	Willing to account for its actions to other groups, even those not directly affected by its actions.

Sethi, 2001

Firm's attitude towards CSR

Dimensions of behavior	<i>Stage One: Social Obligation Prescriptive</i>	<i>Stage Two: Social Responsibility Prescriptive</i>	<i>Stage Three: Social Responsiveness Anticipatory and Preventive</i>
<i>Operating strategy</i>	Exploitative and defensive adaptation. Maximum externalization of costs	Reactive adaptation. Where identifiable, internalize previously external costs. Maintain current standards of physical and social environment. Compensate victims of pollution and other corporate-related activities even in the absence of clearly established legal grounds. Develop industry-wide standards.	Proactive adaptation. Takes lead in developing and adapting new technology for environmental protectors. Evaluates side effects of corporate actions and eliminates them prior to the action being taken. Anticipates future social changes and develops internal structures to cope with them.
<i>Response to social pressures</i>	Maintains low public profile, but, if attacked, uses PR methods to upgrade its public image; denies any deficiencies; blames public dissatisfaction on ignorance or failure to understand corporate functions; discloses information only where legally required.	Accepts responsibility for solving current problems; will admit deficiencies in former practices and attempt to persuade public that its current practices meet social norms; attitude toward critics conciliatory; fewer information disclosures than state one.	Willingly discusses activities with outside groups; makes information freely available to public; accepts formal and informal inputs from outside groups in decision making. is willing to be publicly evaluated for its various activities.

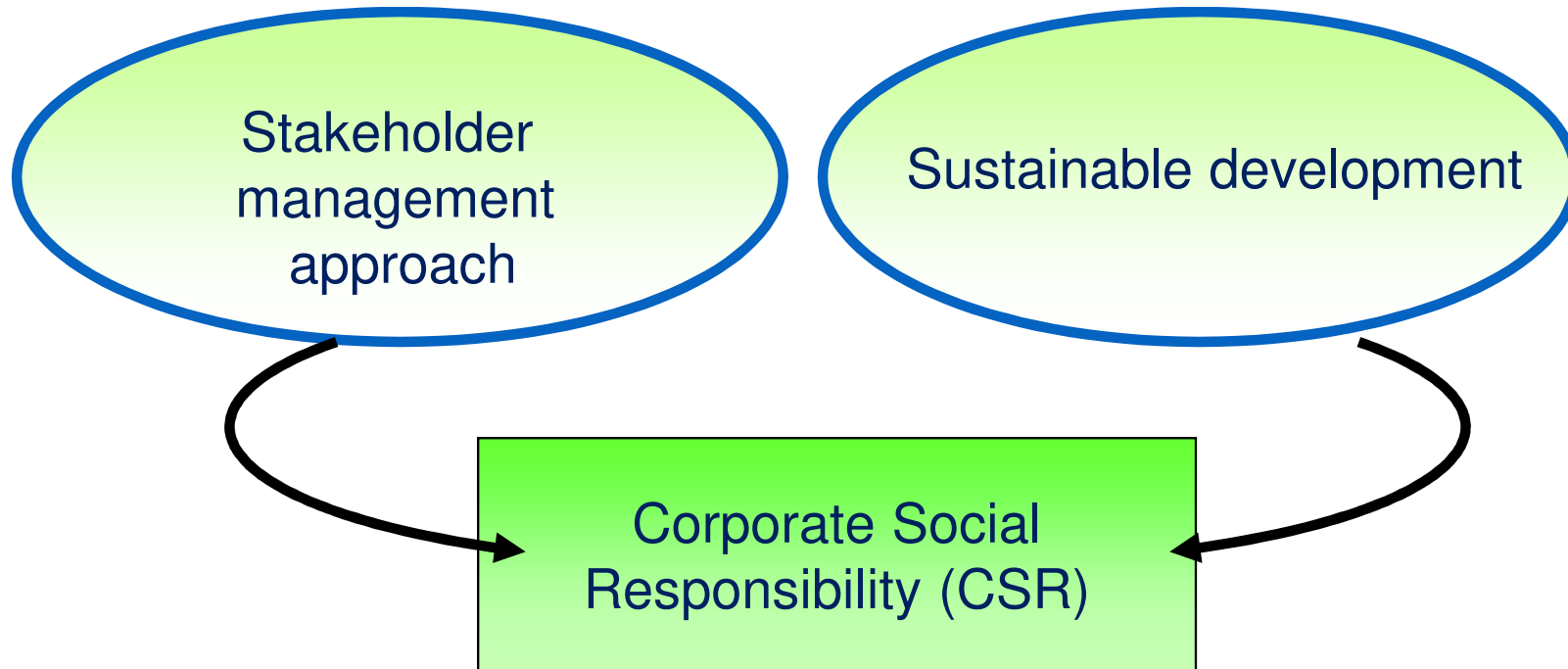
Sethi, 2001

Firm's attitude towards CSR

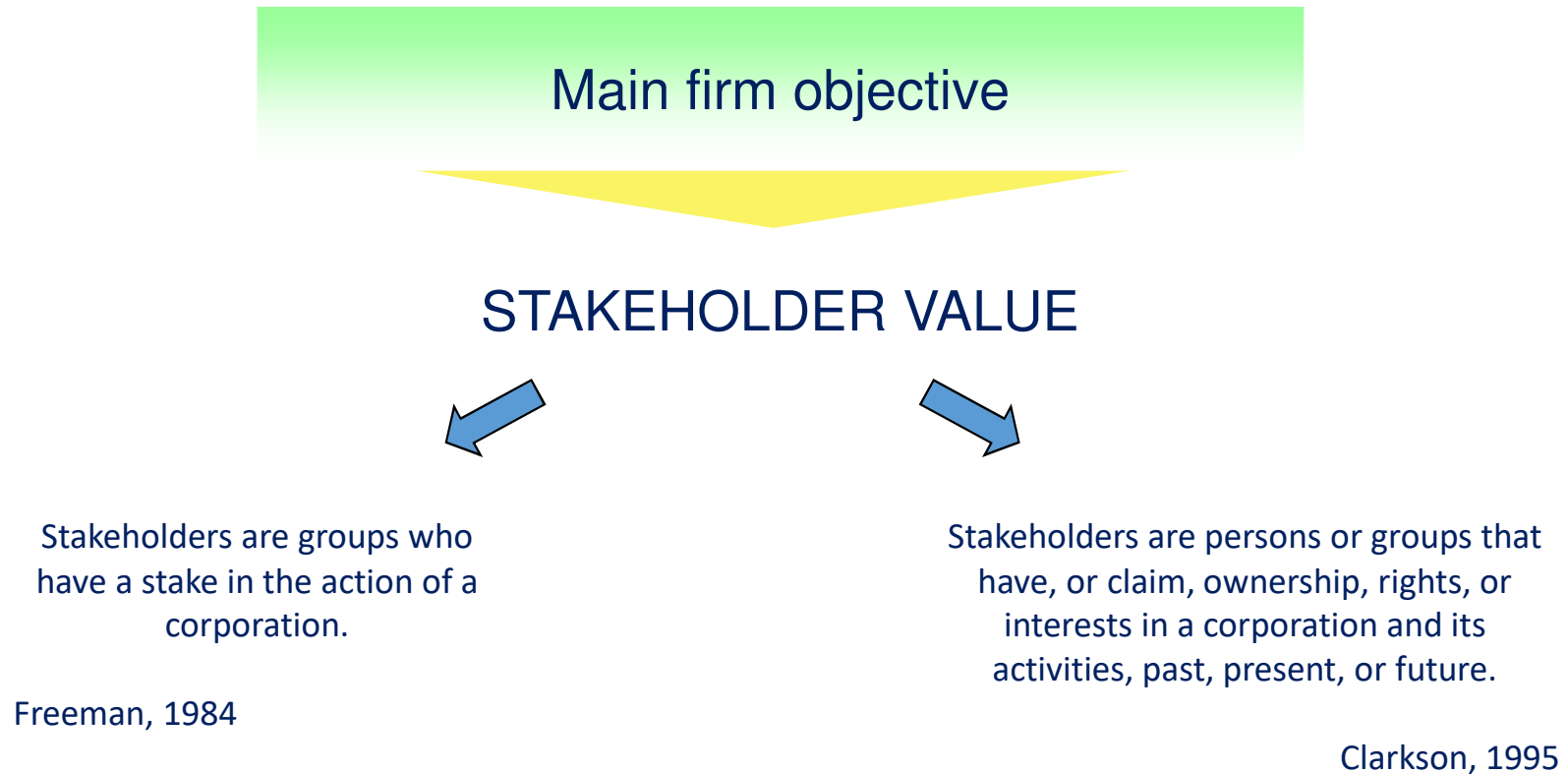
Dimensions of behavior	<i>Stage One: Social Obligation Prescriptive</i>	<i>Stage Two: Social Responsibility Prescriptive</i>	<i>Stage Three: Social Responsiveness Anticipatory and Preventive</i>
<i>Activities pertaining to governmental actions</i>	Strongly resists any regulation of its activities except when it needs help to protect its market position; avoids contact; resists any demands for information beyond that legally required	Preserve management discretion in corporate decisions, but cooperates with government in research to improve industrywide standards; participates in political processes and encourages employees to do likewise.	Openly communicates with government; assists in enforcing existing laws and developing evaluations of business practices; objects publicly to governmental activities that it feels are detrimental to the public good.
<i>Legislative and political activities</i>	Seeks to maintain status quo; actively opposes laws that would internalize any previously externalized costs; seeks to keep lobbying activities secret	Willing to work with outside groups for good environmental laws; concedes need for change in some status quo laws; less secrecy in lobbying than state one.	Avoiding meddling in politics and does not pursue special interest laws; assists legislative bodies in developing better laws where relevant; promotes honesty and openness in government and in its own lobbying activities.
<i>Philanthropy</i>	Contributes only when direct benefit to it clearly shown; otherwise, views contributions as responsibility of individual employees.	Contributes to noncontroversial and established causes; matches employee contributions.	Activities of state two, plus support and contributions to new, controversial groups whose needs it sees as unfulfilled and increasingly important.

Sethi, 2001

Corporate Social Responsibility: the roots



Stakeholder Management Approach



Stakeholder Management Approach: Freeman

“Stakeholders are groups who have a stake in the action of a corporation”

- **Wide sense of stakeholder:**

any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives (Public interest groups, protest groups, government agencies, trade associations, competitors, unions, employees, customer segments, shareowners, etc.)

- **Narrow sense of stakeholder:**

any identifiable group or individual on which the organization is dependent for its continual survival (employees, customer segments, certain suppliers, key government agencies, shareowners, certain financial institutions, etc.)

Stakeholder Management Approach: Clarkson

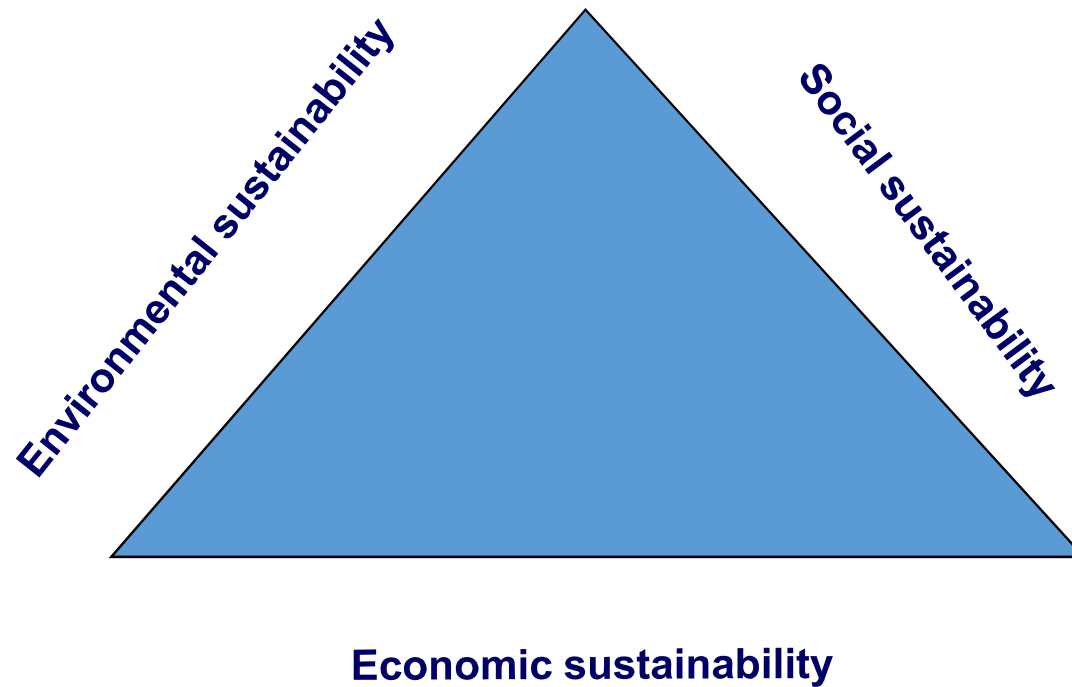
- Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, **or future**.
- Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective.
- **A primary stakeholder group** is one without whose continuing participation the corporation cannot survive as a going concern. Primary stakeholder groups typically are comprised of shareholders and investors, employees, customers, and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due. There is a high level of interdependence between the corporation and its primary stakeholder groups.
- **Secondary stakeholder groups** are defined as those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival. The media and a wide range of special interest groups are considered as secondary stakeholders under this definition. They have the capacity to mobilize public opinion in favor of, or in opposition to, a corporation's performance. The corporation is not dependent for its survival on secondary stakeholder groups. Such groups, however, can cause significant damage to a corporation.

Sustainable development: Brundtland Commission

- We have the power to reconcile human affairs with natural laws and to thrive in the process. In this our cultural and spiritual heritages can reinforce our economic interests and survival imperatives.
- This Commission believes that people can build a future that is more prosperous, more just, and more secure. Our report, *Our Common Future*, is not a prediction of ever increasing environmental decay, poverty, and hardship in an ever more polluted world among ever decreasing resources. We see instead **the possibility for a new era of economic growth, one that must be based on policies that sustain and expand the environmental resource base**. And we believe such growth to be absolutely essential to relieve the great poverty that is deepening in much of the developing world.
- But the Commission's **hope for the future is conditional on decisive political action now to begin managing environmental resources to ensure both sustainable human progress and human survival**. We are not forecasting a future; we are serving a notice - an urgent notice based on the latest and best scientific evidence - that **the time has come to take the decisions needed to secure the resources to sustain this and coming generations**.

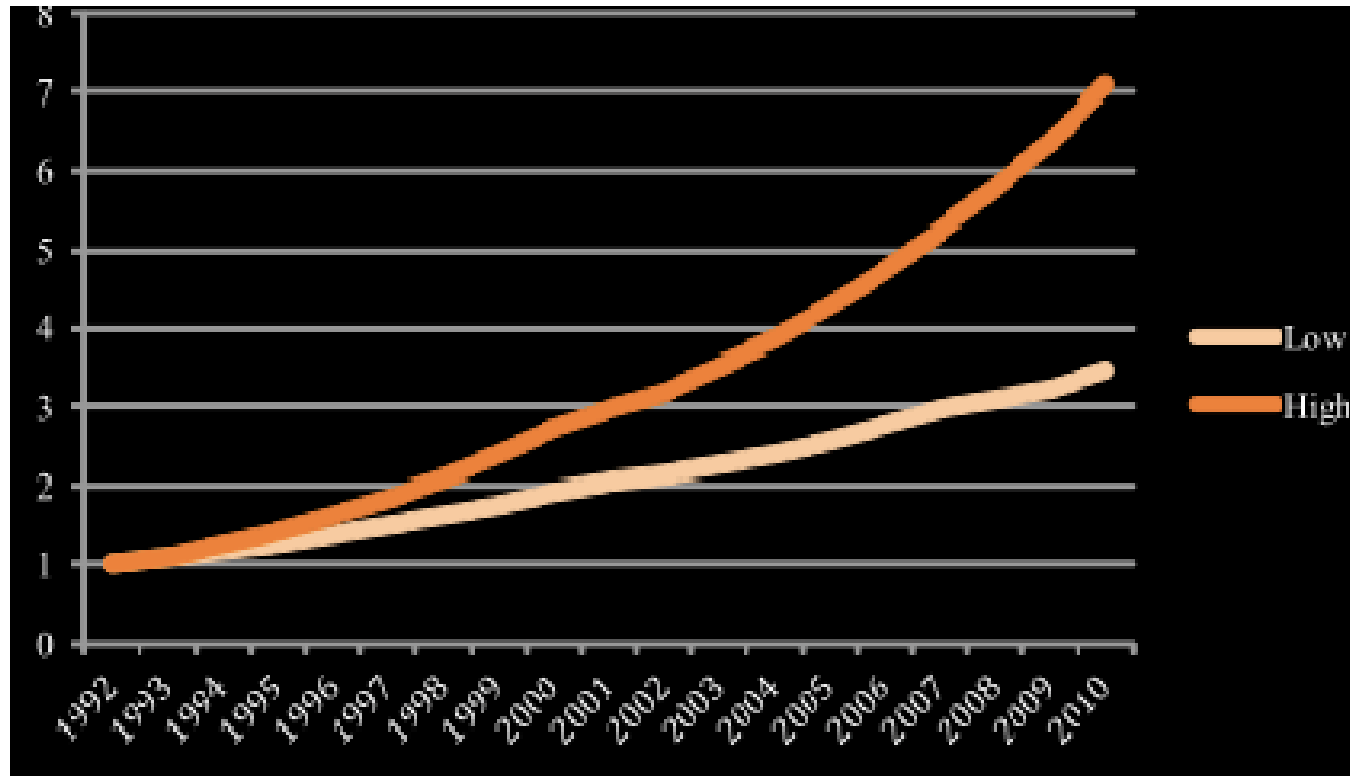
Our Common Future, From One Earth to One World. An Overview by the World Commission on Environment and Development
Gro Harlem Brundtland, Oslo, 20 March 1987

Sustainable development: the triple bottom line



The impact of sustainability on firm profitability

Sustainable businesses outperform low sustainable ones in terms of ROA

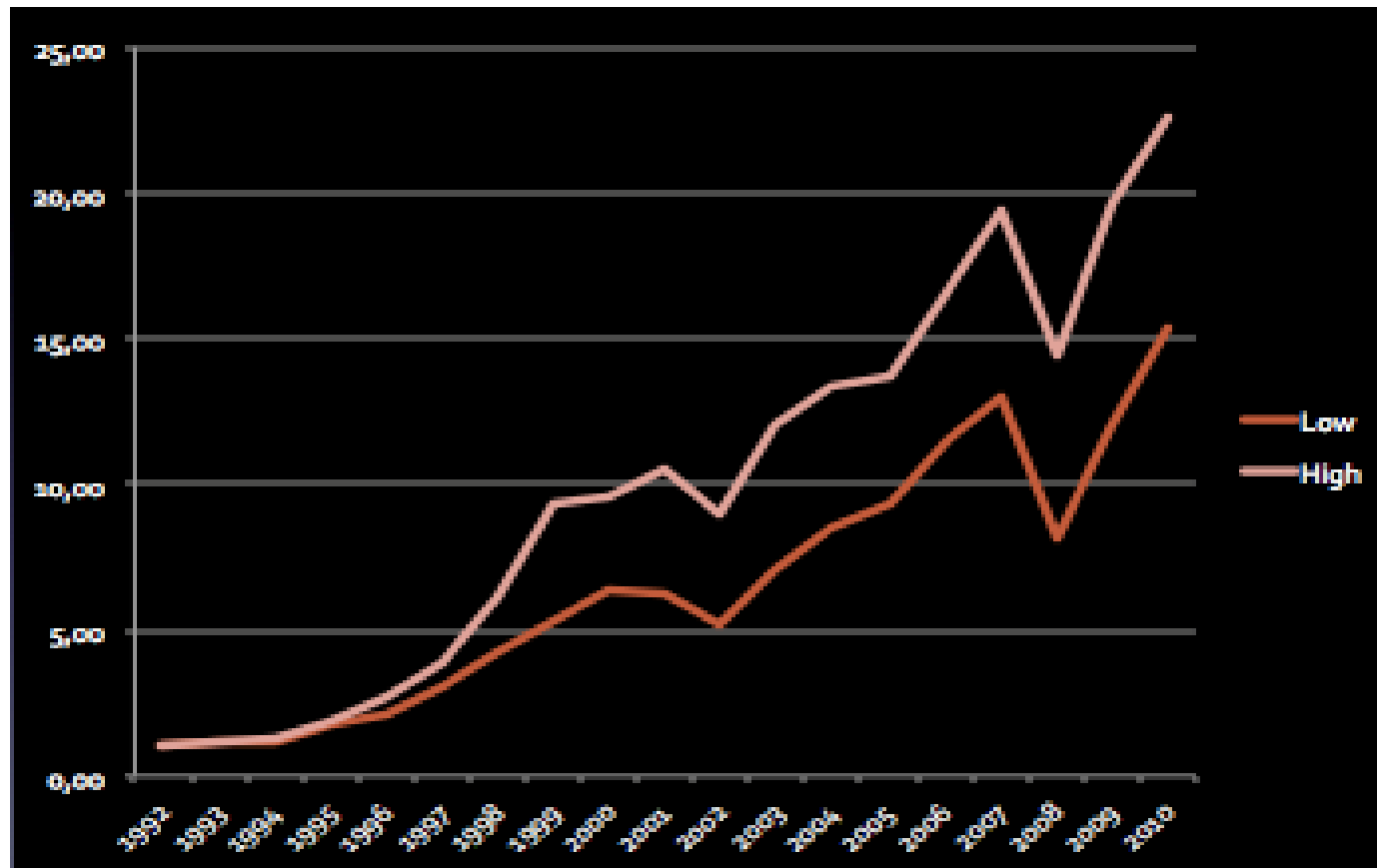


Source: Eccles, R., I. Ioannou, and G. Serafeim. Nov. 2011. The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance. Harvard Business School Working Paper, No. 12-035. Matched pair comparisons of returns in 90 high v. 90 low responsibility companies from 1993 to 2010.

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The impact of sustainability on firm profitability

Sustainable businesses outperform low sustainable ones in terms of shareholder return



Some of the leading companies have already undertaken the journey towards sustainable enterprise models

PURPOSE	ENTERPRISE OF TODAY	Today's LEADERS	SUSTAINABLE ENTERPRISE
Value Creation Logic	Economic Value		Socio-Economic Value
Performance	Competitive Advantage		Evolutionary Advantage
Decision Time Horizon	Short Term		Long Term
Organizational Culture	Transactional		Relational
Leadership Culture	Self-enhancing		Self-transcending
STRATEGY			
Competitive Strategy	Boxing match		Learning race
Cooperative Strategy	Bilateral Agreements		Eco-system Convergence
Strategy Process	Centralized		Empowered
Growth Strategy	Growth Maximization		Sustainable Growth
Innovation Strategy	Functional		Business Model (integrated)

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