SOCIAL PERFORMANCE ENHANCES FINANCIAL PERFORMANCE. BENEFITS FROM CSR

Gazzola Patrizia
Insubria University of Varese – Italy, Faculty of Economics

The research aims to show how Corporate Social Responsibility (CSR) should not be considered a cost to bear as an economic social actor but an investment that will contribute to the competitiveness and growth of the firm.
In the first part we consider capitalistic firm as systems for the creation of economic and financial value for their shareholders. We measure their performance by a system of monetary values.
In the second part we do not limit our view to simply the shareholders, but we consider, instead a vast group of stakeholders because it is important not only to make profits, but also how companies make them .
In these years characterized by the financial crisis, where many big companies went bankrupt, more and more companies are speaking about ethics and CSR. For a firm, acting socially responsible, means for example having fair compensations, promoting transparency and the respect of employees, neutralizing conflicts of interest, as well as taking care of the environment.
CSR is today a topic for discussion not only for business people but also for politicians, media, researchers, NGOs and consumers. Growing awareness of CSR is evident in the growth of voluntary codes of corporate conduct, in the growth of companies that are using self-reporting on social and environmental practices, and in increasingly social and ethical investment funds.
The public and governments of the world have been steadily increasing pressure on corporations to increase their CSR. Recently the European Commission has put forward a new, simpler definition of corporate social responsibility as "the responsibility of enterprises for their impacts on society" (European Commission 25/10/2011).
Companies have realized that to increase their market share or keep their market share, they must adopt CSR, but the synergy between social performance and financial performance is not automatic; rather it is the result of efforts that combine managerial professionalism and business creativity for the purpose of business growth that also takes into account the social groups.
Our research considers the conditions for the effectiveness of CSR actions in creating a positive feedback that can produce ever greater economic and social-environmental results. Thus a firm must set a system of objectives for itself which is centered on its sustainable growth, and must therefore tend toward a multi-dimensional growth that encompasses the economic, social and environmental dimensions. In the last part we explain how socially responsible business practices can enhance a company's value.
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JEL codes: M14, M41

1. Introduction: the firm as a vital open system

Every firm can be viewed as a permanent organization (Mella 2003) or as an open socio-technical system that is structurally linked, by means of input and/or output flows, to a macro system that represents its vital environment.
In this sense, it is a *cognitive and viable agent* (Beer 1981), in that we must assume that the firm-economic agent carries out a cognitive activity aimed at giving significance to the environmental stimuli, translating these into information that is structured in knowledge (de Geus 1988, 1997), to produce a *reactive* and *proactive* behaviour aimed at reproducing the economic processes in a lasting way, thereby adapting itself to changes in its environment while maintaining its identity in a long-lasting autopoietic process. (Maturana and Varela 1980; Mingers 1994; Uribe 1981; Varela 1981).
In order to maintain its teleonomy, the capitalist firm, viewed as an open system, is conceived of as a system of transformation that carries out the following transformations:
1. The productive transformation; this is a transformation of utility: volumes of factors of production having a given utility are transformed into volumes of products able to provide a greater utility based on rules of efficiency aimed at maximizing productivity and quality.

2. The economic transformation; this is a transformation of values: firms try to maximize economic efficiency through market choices that yield the maximum gap between revenue and cost of production, and thus the maximum operating result.
3. The financial transformation, through which the firm finances its economic processes with risk capital and debt capital, thereby raising the invested capital that optimizes the operating leverage, taking account of the cost of capital and its yield.
4. The managerial transformation, through which the operating objectives and the internal and external information are transformed into decisions aimed at maximizing efficiency (Davenport 1993; Lax and Sebenius 1986).
5. The business transformation, through which information is transformed into strategies to modify the strategic position of the firm and permit it to remain vital for an indefinite period.
With regard to the first four technical transformations the firm can be viewed as a *rational agent,* in that the managerial cognitive activity is aimed at maximizing its *fitness*, indicated by a system of performance measures – analytical (businesses and the various cycles of the economic processes) as well as synthetic (entire firm) – which express the entrepreneur's ability to maintain or improve the autopoiesis of the system-economic agent in a given area and over a definite interval of time.
With regard to the business transformation, the firm appears as an *economic social actor* that operates in an ethical, social, political environment to which it belongs and interacts not only through a system of physical, monetary and financial exchanges but also through human and communication flows through which knowledge, trust and reputation are produced (Prahalad and Bettis1986; Harrison and St. John, 1998).
Firms, as social actors, always operate within a multitude of networks along with many other actors: economic, political and social.
Thus firms, in a context of growing social and political interconnections, are no longer considered solely as systems that produce economic and financial values but as actors and driving forces that are responsible for environmental development (Wilson 1999) and are capable of producing environmental and positive social value and, in some cases, even environmental and social negative value in the form of environmental damage.
The reputation of the firm as a social actor is formed and strengthened precisely on the basis of a positive evaluation of this capacity to interact with the environment, on the ability of the business transformation not to limit itself to the growth of the firm but to produce an internal growth that is sustainable and compatible with environmental growth.
The creation and management of CSR finds a place within this context.

2. The capitalistic firm as a system that produces values.
The capitalistic firm (Gazzola and Mella 2004; Mella 2011) can be described as:
1. a *productive* organization that transforms utility, since it carries out a *productive* transformation of factors (QF) into production (QP);
2. a *business* organization, since it is preordained to develop an economic transformation of values by selling its production, QP, in markets at prices, pP, at least equal to the unit average cost of production, cP; if it is preordained to supply its production without a price, or if it recovers only a share of the production cost, it is a *no-business*;
3. a *profit* organization: if the operating logic of the business organization is to achieve the maximum *economic efficiency* by seeking {[max](pP-cP)>0}, then it becomes a profit organization; if, instead, the operating logic of its processes is to achieve {[min] (pP – cP) > 0}, then it becomes a non-profit (not-for-profit) organization;
4. a *capitalistic enterprise,* if the profit organization carries out a *financial* transformation, in the sense that the firm finances its economic processes with external capital in the form of *Equity* [E] and *Debt* [D], forming the *Invested Capital* (IC = D + E);

5. an *economic social actor,* in the sense that it interfaces and interacts with a set of *external,* or *institutional* interlocutors, or stakeholders – in an ethical, social and political (ethical) environment – which influence the organization's structure and processes through a system of *corporate governance*.

Once they have grown large enough and completed the third phase of Greiner's model (1972, 1998), which entails the separation of the ownership of capital from management, firms can be considered *teleonomic organizations* according to Monod's definition (1971), where the *teleonomic plan* necessary for surviving indefinitely is to guarantee an adequate profit and a sufficient degree of liquidity for the invested capital and to satisfy stakeholder expectations (and constraints) (Freeman and Phillips 2003).

3. The social performance

A suitable system of *economic and financial ratios* translate the values produced into performance indicators in order to assess whether or not the economic-financial objectives of the business and profit organization have been achieved.

These indicators allow those stakeholders (Donaldson and Preston 1995) who have an interest in the production of value to compare the numerical data with the initial objectives and with the organization's mission (Pellicelli 2002), highlighting the corporation's efficiency in developing its businesses with respect to its competitors within its particular market and environmental context.

Nowadays, firms should not be considered merely as systems for the production of economic and financial values but also as economic social actors which operate in a social environment to which they belong and with which they interact, not only through a system of monetary and financial exchanges but also through physical, human and communication flows that produce knowledge, trust and reputation. The quality of the products and processes, which is fundamental to the creation of economic values, is not in and of itself synonymous with the quality of the firm when the latter must be judged and appreciated on the basis of its social and environmental impact.

It is important to "Encompass not only what companies do with their profits, but also how they make them". CSR "goes beyond philanthropy and compliance to address the manner in which companies manage their economic, social and environmental impacts and their stakeholder relationship in all their key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm (Kytle and Ruggie 2005: 9)."

To maintain an effective process for the creation of economic and financial values is necessary to create also social value for the firm (Siregar and Bachtiar 2010: 241-252).

A firm that focusses not only on the quality of the product but also on the safety of its employees, the social impact of its activities and the use of ethically-correct procedures is (Bowen 1953) creating value (Zadek, Pruzan and Evans 1997) by gaining the trust of its workers, the market and its collectivity of reference (Tencati 2002).

The social responsibility of the firm cannot be merely a fact of philanthropism or good intentions. We cannot separate the responsibility to earn profits from that of protecting the health of employees, their safety, and from protecting the surrounding social and environmental context.

The firm, as a social agent, must base its growth on ethical behaviour (Crivelli 2001) which involves safeguarding as much as possible the environmental conditions that will be "passed on" to the future generations. Thus the firm must compete on the social and environmental front as well as the economic-financial one.

In fact, in developing its strategies the firm must take into account the concept of *sustainable growth*, which defines the ability of the present generation to achieve a type of growth that, while satisfying the needs of the present, does not compromise the ability of future generations to satisfy to their own needs.

Sustainable growth does not represent an option but a necessary condition to obtain medium- to long-term success (Clarkson 1995). For the firm, going down the road of sustainable growth means managing its businesses so as to improve its economic results; but at the same time it also means safeguarding the natural environment and promoting social justice.

4. The dialogue with the stakeholders as a condition for the creation of value

In order to enhance its reputation (Figge and Schaltegger 2000) and trust, which are the fundamental elements for the production of social value by the firm, it is thus important for the firm to be able to demonstrate the extent and limits of its own social responsibility (Simon 2000).

The autopoiesis of the firm, when viewed as an *economic social actor*, depends on its capacity to earn the appreciation of the stakeholders who are not components of the organization but who gain external advantages, individual or social, from its existence (Toffler 1985).

The social unit must produce social shared "value" (Harrison et. al. 1998) in the broader sense that its economic existence as a producer of economic and financial values must be appreciated, in terms of the *sustainability* (WCED 1987) of the development path of the firm, and evaluated by a wide range of social performance measures of *outcome* or *benefit*: the efficiency of materials; technical innovation; energy efficiency; community relations; eco design; product recyclability; and employee relations.

This interaction leads to a systematic dialogue with the social agents by means of meetings and other exchanges ("stakeholder dialogue"), in order to grasp in advance the opportunities for an economic development and growth that respects society, without interfering with or changing the objectives (Seabright and Kurke 1997) of the stakeholders, which often differ from those of the firm (Schmidheiny and Zorraquin 2000).

The occasions for meaningful exchanges aim to create interactive, shared and transparent communications that result in strong relations with the social actors on the part of both the internal staff as well as the various outside contacts:

1 - internally, through the virtuous process of shared strategy formation and accountable co-planning, utilizing communication together with training to vertically and transversely "contaminate" the organization and stimulate the feedback flows;

2 - externally, through the greatest involvement possible of all those with an interest in the firm, whatever their formal relation may be. This should demonstrate that the firm is able to understand and satisfy the expectations of the stakeholders, making these coincide as much as possible with those of the firm. The common objective is to harmonize the various interests in order to improve the quality of life.

The attainment of perceived levels of social performance produces reputation, brand and confidence, so that the environment itself sets the conditions for the firm's legitimation and consent, which favours autopoiesis and thus a lasting existence for the enterprise as a social unit as well as an organizational type.

This implies, on the one hand, the organizational ability to recognize the set of relevant stakeholders as well as to identify their expectations and, on the other, the capability to communicate the global "value" produced in terms of social benefits and prevented damage to the physical environment (Gazzola and Meo Colombo 2011).

The European Commission has put forward a new, simpler definition of CSR as "the responsibility of enterprises for their impacts on society". This new definition requires the spread of a culture of enterprise-oriented dialogue with all stakeholders, with the aim of creating an environment marked by trust and mutual satisfaction of needs. The performance of firms in fact depend increasingly on the ability to collect information on the needs of stakeholders (listen permanent) and the ability to govern relations with all audiences, no exceptions. The firm's ability to establish positive relationships with stakeholders and opinion leaders, can lead to several competitive advantages.

5. The relationship between CSR and company performance

The CSR give four types of benefits (Molteni 2004) for the firm:

1. increase in visibility, fame and reputation;
2. development of the capacity to anticipate trends ;
3. increase in motivation and involvement of personnel;
4. increase in the level of safety, and thus in the ability to prevent crises.

The benefits in terms of *visibility and reputation* (Fombrum and Van Riel 2003) lead to an advantage with regard to differentiation, which impacts in particular the number and loyalty of clients, with positive effects on sales.

Secondly, investments in CSR have an *anticipatory value* (Russo and Fouts 1997). In a narrow sense CSR specifically concerns taking on behaviours for which there is no legal obligation but that correspond to the expectations of important or emerging social and economic groups. Over time these expectations that are being expressed are often directly safeguarded through the introduction of new laws. In this case those firms already committed in those areas are able to adapt to the laws rapidly and with lower costs, gaining for a certain period of time a competitive advantage over their less farsighted competitors.

The impact on personnel is quite complex. The highest level of *motivation and involvement* can improve the internal processes, both directly as well as through a reduction in *turnover* (Soloman and Hansen 1985). This improvement effects the quality of the product/service (and thus the differentiation advantage) and/or productivity (thus the cost advantage). Moreover, the lower *turnover* reduces the need to sustain selection and training costs for the new personnel. A cost reduction is also obtained through lower absenteeism linked to greater job satisfaction.

Lastly, investment in CSR reduces the *risk level* of the firm. Here we refer above all to the probability of catastrophic events such as: environmental disasters, which have an enormous economic impact on the firm and its image; social scandals, such as the use of child labor, often the cause behind consumer boycotts; corporate crises due to a lack of transparency and the failure of the system of controls. A second type of risk has a less pervasive impact, but one that is equally important: workplace injuries. Safety measures that go beyond the legal obligations produce satisfaction in the personnel and help sustain productivity in the company. The reduction in the level of risk brings with it a cost benefit, since recognition by the financial operators of the effectiveness of the policies leads to a decrease in insurance premiums and passive interest rates, as well as a diminution in the average weighted cost of invested capital following the reduction in the cost of equity which, with conditions being equal, leads to an increase in the economic capital of the firm.

Let us now consider the chain of variables that link these initial effects – which are directly connected to the investment in CSR – to the firm's economic performance. The growth of sales and the reduction in costs leads to a more or less perceptible increase in income. In the case of listed companies, profit and the growth in sales are two of the main measures that effect the performance of the stock, together with the faith of investors.

The increase in the firm's economic and financial performance can have a positive feedback effect on investment in CSR. The greater availability of financial resources allows the legitimate needs of the various interested parties to be more fully satisfied. In this sense a sort of positive feedback arises that leads to increasingly better economic, social and environmental results.

6. The case of Luxottica Group

Luxottica characterizes the Italian present day society with its welfare program. It is a pioneer in its commitment to social responsibility towards the reality in which it operates, the environment and people. Responsibility and innovation are central to the history of Luxottica; they are the daily guidelines in business decisions and relationships with their stakeholders.

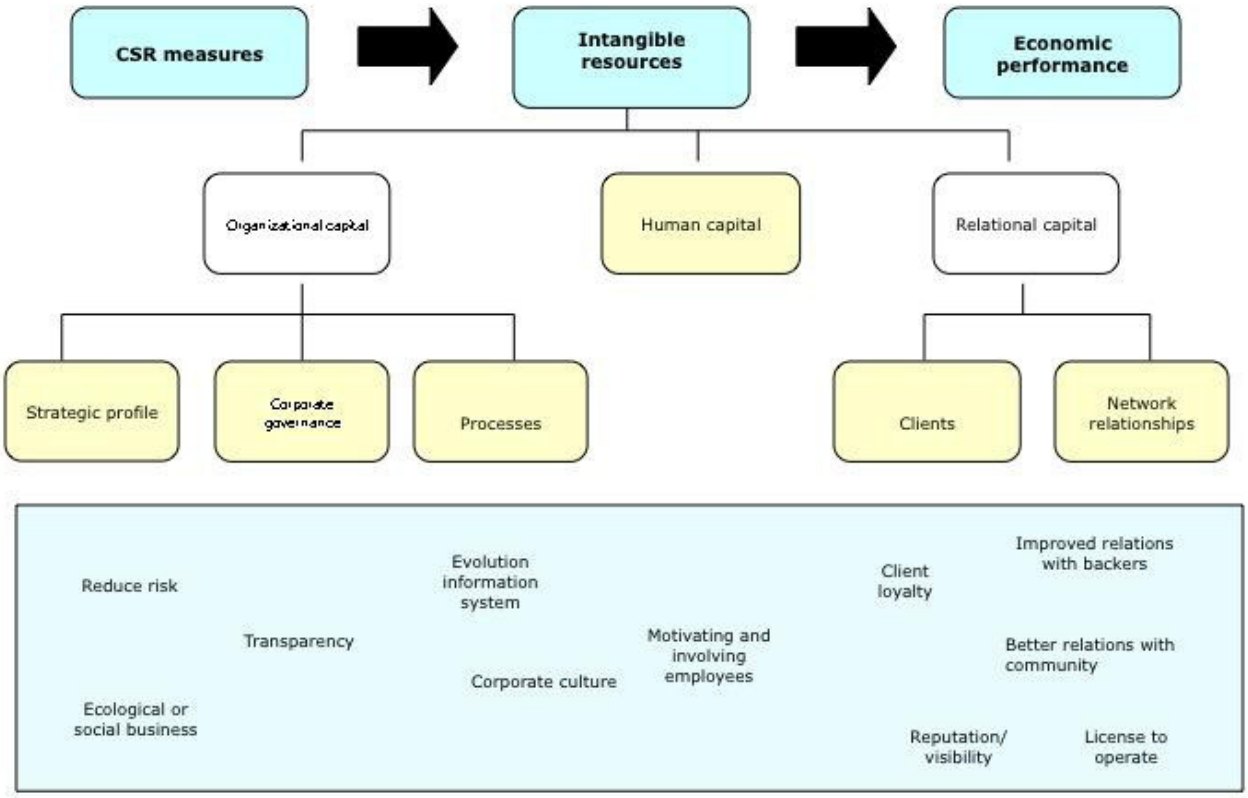
Their mission is: to protect the eyes and enhance the looks of women and men throughout the world by making and marketing sun and optical eyewear of high technical and stylistic quality whilst respecting the environment in which Luxottica operates. As a market leader, Luxottica has the expertise, potential and responsibility to directly help people throughout the world to see better, including people who can't afford eyewear.
This is why they created OneSight, a family of philanthropic programs designed to improve or restore people's sight through research and education, employee volunteering missions to developing nations, and donations. OneSight represents the soul of Luxottica and is based on 20 years of innovation and commitment.
Social responsibility is the main lever with which Luxottica Group is committed to sustainable development of their business. It has shown great interest in people and this interest has declined in a vast corporate welfare program, characterized by a strong attachment to the environment and the desire for involvement of workers and trade union.
Luxottica has created a new system of industrial relations that seeks to improve productive capacity, to improve the real wages of all workers and advocates promoting services for the workers themselves.
Luxottica assume primary importance in the human aspects of organizational life, the quality of relationships between people, the satisfaction of their needs and satisfies their aspirations. The basic idea is that all these aspects affect the daily operation of company performance and therefore on the same market (Salomoni 2011).
The company has focused primarily on "involvement" with the conviction that the organization is to make everyone feel part of them as belonging to a large family in which the contribution of the individual is precious for the good of all. All these concepts revolves around the idea that the sense of identification, the will of commitment and the personal adherence of the employees' to the activities and objectives of the company form, especially on the uncertainty of today's market scene, vital resources for business competitiveness.

7. Conclusion: reputation like intangible assets

Social responsibility and profitability are not two opposing terms: sustainability can bring to the firm both new business opportunities, than cost savings in addition to increasing consumer confidence towards responsible choices by companies.
The CSR then has a double meaning:
- economic in terms of social responsibility to consumers, of profit and improving relations with financial institutions;
- social, in terms of responsibility to the community, a better management of human resources, more effective prevention of risks, more efficient management of environmental resources and, in conclusion, in terms of improved corporate reputation.

From this perspective a comprehensive relational process and a continuing dialogue with the other social agents become essential elements for strategy formation (Grant 2002), which are necessary to create a relationship of trust with the stakeholders (Vaccari 1998) and a context of shared values. This allows the stakeholders to identify the role, values and the social objectives expected by those who directly or indirectly interact with the firm itself.
The duty to maximize profits by managers refers to a capital that is not only economically, but also human, social, environmental, this observation makes less absolute property rights of shareholders, which are related only to economic capital. (Young 2010).

Fig. 1 – The link between CSR and economic performance (source Molteni 2004)



We can link CSR to the firm's economic performance through a causal network whose elements are for the most part *intangible resources* (Molteni 2004) capable of providing a fundamental contribution to the economic performance over time and that, according to time-tested views, can be divided into three classes (Edvinsson 2002) (Fig. no 1).

Organizational-structural capital, given by the structures, processes and technologies used by the firm; this also includes the organizational culture: that is, the set of values that characterize, unite and guide the organization;

human capital, which involves the knowledge competences and skills of those working in the organization;

C) relational capital; that is, the quality and quantity of relations that the business transformation has with the firm's stakeholders; good relations with suppliers, clients, institutions, and all the other stakeholders represent in general an intangible asset that can turn out to be of great value (Frey, 2003).

This shows the relevance of human capital and intangible assets (Gazzola and Meo Colombo 2011) in capitalist production (Griliches 1996) and the need for:

- *creativity*, by which products and processes are continually innovated (Christensen 1997; Deephouse 1999), thereby favouring applied scientific research and technological innovation (Von Hippel 1995);
- *intelligence* in understanding internal and external processes, in order to rationalize the technical processes of production;
- *organizational learning* and the formation of learning organizations to meet the competitive challenges through new work rules (Schmitz Jr 2001)

- *management control* (from the Decision Support System to Just-In-Time production) (Wilcox and Al.);
- *a good reputation* for the firm in its environment (Carter and Manaster 1990).

The sharing and pursuit of objectives by means of the trust that is generated (Chirieleison 2002) through the development of long-lasting relations leads to the spread of a culture (Kotter and Heskett 1992) of shared responsibility. This culture is the condition for the organization's success (Parolin 2002) as well as a source of long-term competitive advantage, which are useful and effective elements for the creation of value in the organization.

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