

Corporate Social Responsibility and Shareholder Relations

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Abstract—The diffusion of social responsibility principles, together with the globalization of financial market highlight the importance of the value creation in the long run for both companies and investors. Stable relations with investors are based on corporate decision making processes privileging the creation of greater value in the future instead of maximizing immediate profits, when a trade-off between long and short run exists. These corporate behaviours reduce both the business risk of companies and the investment risk of shareholders. This conceptual article aims to highlight the importance of the relationships between the assertion of corporate social responsibility by companies and investors, according to a management model able to create sustainable value optimizing the satisfaction of the interests of shareholders and other stakeholders.

Keywords- corporate social responsibility, investor relations, shareholder value, stakeholder engagement

I. INTRODUCTION

The assertion of concepts as corporate social responsibility (CSR) and sustainability, together with the valorisation of stakeholders perspective [1, 2, 3] have affirmed a new approach to the companies' role in society based on stakeholders engagement and respect for the environment [4].

The globalization of markets and information [5] has encouraged a growing competition among companies to obtain the resources from significant stakeholders, changing the premises for corporate success. In this situation, characterized by a high level of competition, the real drive for success in the long run is the corporate capability to create shared value [6, 7], that is sustaining economic value in a way that also creates value for society [8]. This approach modifies the board's attitude towards shareholders, promoting the maximization of economic performance in the long rather than short term.

For a long time the exclusive attention by companies for their shareholders, because of those who confer the corporate governance mandate, has emphasised the importance of economic performance and financial reporting. The characteristics of ownership structure and stock markets determined the traditional differences between the so-called outsider systems of corporate governance and insider ones.

Outsider systems, typical of Anglo-Saxon countries, are characterized by wide dispersed ownership, because of the dominance of large publicly traded companies, and by the separation between ownership and management. Insider

systems, typical of countries with concentrated and commonly stable shareholding, as in the case of many European States, are characterized by the majority shareholders involvement in management nurturing potential conflicts of interest with minority shareholders.

Nowadays, after the scandals and financial crises of the last decades, a fundamental idea is spread: the creation of shareholder value is not the same as the maximization of short-term profits. Companies that confuse the two often put both shareholder value and stakeholder interests at risk [9]. In fact, the creation of value for shareholders is not in contrast with the satisfaction of other key stakeholders' interests; the real problem is the excessive short-termism that characterizes short-sighted boards, often related to the relationship between the firm's owners and those developing its management processes.

When trade-offs among different stakeholders' interests exist, the CSR approach suggests to prioritize long-term sustainable value creation as fundamental for future company's life and success. In this sense, CSR is one of the business competition levers attracting both consumers and investors.

The adoption of a CSR approach affects both internal and external relations. A responsible corporate governance, when it becomes a cultural aspect widespread in all company's behaviour, modifies the governance variables and the key performance indicators (KPIs). Boards should define metrics of long-term value creation considering the firm-specific issues connected with the long-term value; the existence of much type of investors whose interests must be balanced; the best practices in use, de-emphasizing the short-term financial metrics [10]. These voluntary conducts by companies also promote convergence conditions that transcend the traditional differences in corporate governance systems [11, 12].

On the other side, a governance model based on CSR presupposes a stakeholder network based on strong positive correlation between the assumption of socially responsible behaviours and long-term shareholder returns and nurtured by transparent and effective external communication processes.

II. SHAREHOLDERS ENGAGEMENT FOR CSR

The tendency towards the creation of long-term value stresses the efficacy of the corporate governance and it contributes to create stable relations with shareholders.

Shareholder engagement is a critical corporate governance issue. Also international initiatives stimulate investors having a

voice in the company's strategy definition and decision making [13] improving the corporate capital allocation process to find the right balance between short-term results requirement and long-term value creation.

From the website of Vanguard Group, one of the biggest investor in the world: 'Significant analysis and effort are put into discussions with the directors and managers of the companies in which we invest; the level and frequency of these discussions may be influenced by the material impact to our funds and the contentiousness of the issue. We believe these engagements, more so than voting, provide an opportunity to fully understand issues and target feedback and messaging to companies.' (Source: <https://vanguard.com/investment-stewardship/policies-and-guidelines>)

Ongoing dialogue between company and its shareholders is a critical factor for maintaining effective relations and it should be realized by means of standardized processes and mechanisms. The remuneration policy can be an effective tool to align the interests of company with the investors' ones towards the creation of value in the long term. The orientation of the board for long-term can raise when the executives' remuneration is based on long-term performance. At the same way, also institutional investors should assure that performance measures and compensation policies for their executives and investment managers emphasize long-term value creation, considering this last a relevant factor for the investment risk reduction [10]. This alignment of expectations needs complete and transparent information to reduce the risk of speculative actions by investors.

Regular shareholder ongoing dialogue is critical to understand the views of shareholders by company and to help them to understand the view of the board [13]: high sustainability companies are significantly more likely to attract dedicated rather than transient and speculative investors [14].

For this reason, the investor relations (IR) function assumes a critical role [15]. IR activities decrease the risk associated with the information asymmetry and market abuse [16], improve company's visibility and reputation so that the company's shareholder base is widened [17], and increase accuracy in analysts' forecast reducing the cost of capital and increasing share price [18].

IR function is the official link between company and investors in the global financial community [19, 20]. Nowadays the IR function needs to enlarge its competencies not only covering activities such as information disclosure, coordinating meeting with shareholders and analysts, evaluating market responses to the corporate performance, but creating a long-term interaction with current and potential stakeholders in the capital market. Investor relations may play a role in determining the corporate image orienting, as happens in the products markets for consumers, the investors' choices. Furthermore, the fulfilment of the Directive 2014/95/UE about the non-financial and diversity information requests companies to expand the traditional competencies of IR function or to establish specialised Environmental, Social and Governance (ESG) investor relations function.

In this context, a gradual change in external reporting started, also with the aim to develop transparent models with international value [21].

III. THE ROLE OF STOCK EXCHANGES IN CSR

The availability and comparability of share price, in spite of its limits, keep it as the most common metric investors use to capture the entire spectrum of corporate social performance value (both positive and negative) across all stakeholders [22]. For this reason, with the spreading of the concept of social responsibility, the stock exchanges assume an important role in promoting CSR through standards of social involvement and tools for appreciating the social performance, in addition to the economics one, of listed companies [23].

Taking socially responsible behaviours can have a significant and measurable impact on market key financial value drivers leading banks, funding institutions and capital providers to seek information on companies' environmental and social performance, as they acknowledge the importance of creating sustainable value and the contribution that CSR offers to reduce business risk.

Analysts use public disclosures on corporate social performance to benchmark historic performance, to establish linkages between financial and non-financial parameters and to evaluate trends. Several stock exchanges and indices have been set up to work exclusively on establishing these connections.

The growing attention for CSR matters inspires the introduction and diffusion of special stock indexes aimed at describing the relationship between the economic situation of enterprises and their orientation to CSR. These indexes establish a benchmark for socially responsible companies and they are a useful reference for investors who consider aspects of ESG in their investment decisions. Thus, for example, in 1999 Dow Jones started publishing the Sustainability Index (SI), a year after the Calvert fund adopted the CSR index, while in 2001 FTSE began publishing the FTSE4Good Sustainability Indicator.

The origin and the development of Socially Responsible Investment (SRI) stock indexes connect with the weakened ability of shareholders to monitor the CSR standards just using the financial corporate communication. Ethical investments consist of an investment vehicle, which reflects investors' values regarding the impact and conduct of business activities [24, 25, 26].

The SRI stock indexes (as DJSI family and FTSE4GOOD series) signal stakeholders the compliance with satisfactory CSR standards, encouraging investors to select such companies. Furthermore, since SRI performance is not systematically inferior to that of the other funds in the long-term, these stock indexes may play a role in providing incentives towards a continuous upgrading of sustainability standards [27, 28].

In the last years, the SRI funds have grown significantly. In fact, the inclusion in (or deletion from) a sustainability index is a signal for the investors about the level of corporate sustainability performance [27] relative to its competitors [29].

Stock markets have been increasingly relying on a twofold influence. First, the increasing interest of investment funds for CSR portfolios raises the interest rates for companies belonging to sustainability indices. Furthermore, the growing interest of investors in creating sustainable value promotes the spread of socially responsible companies to be included in sustainability indices.

More recently, the need to create a dedicated market to promote the transactions between socially responsible companies and investors who believe that value creation in the long-run is more profitable than speculative actions in the short term has led to the born of Social Stock Exchanges (SSEs).

The SSEs (as the South African Social Stock Exchange, the Social Stock Exchange in London, the Impact Exchange in Singapore, and the Social Venture Connection in Canada) propose an innovative financial model, which enables investors to take better decisions, considering a multidimensional concept of corporate performance.

The increasing attention for the integration between social and economic dimensions confirms that social responsibility is a topic of interest not only for companies, but also for stock exchanges, market authorities and investors. In this sense, we can talk about a concept of CSR that cannot be limited to the companies but that integrates many actors and market relations.

IV. EMERGING ISSUES

Becoming a sustainable company involves a conscious and continuing effort in the equilibrium among contrasting stakeholders' expectations in the attempt to optimize value creation for everyone.

The attempt to manage the short-term pressures from financial markets and the purpose to create long-term value in the interests of all stakeholders (shareholders included) has led to a review of the governance approach by companies.

The creation of sustainable value expresses a long-term management orientation, based on the progressive improvement of stakeholder relations and the associated environmental impacts, reducing the risk and increasing the company stability and resilience.

CSR does not mean that value creation for shareholders and their adequate remuneration are less important. Business decisions always require feasibility and economic convenience, but the effective and fair integration between economic and socio-environmental responsibilities enhances the close interdependence between shareholders and stakeholder view, ensuring the company's long-term competitive advantage. Financial analysts and investors have also become increasingly aware of this.

The establishment and the development of stable relations with investors encourage companies to act decision-making processes privileging the creation of greater value in the future instead of maximizing immediate profits, when a trade-off between long and short run exists. The disclosure of sustainability information by company is the main way to nurture and influence the relations with financial markets

increasingly sensitive to the socio-environmental aspects of business activities.

Investors who understand that socially responsible firms are more credible about the financial risk reduction make their own investment decisions based on remuneration and longer-term capitalization expectations. To make this happens, companies need to be transparent and to adopt integrated communication processes where the financial dimension is linked to the non-financial one.

Companies should be awareness that CSR is not only a factor that positively affects the corporate image, but it must permeate the management approach involving all the internal and external company's relations. The concept of global responsibility engages all the company' level starting from the board, that can be the change agent [30] able to maintain a constant dialogue with stakeholders ensuring the CSR matters are integrated into corporate objectives for long term value creation, up to the organization committed in business operations. With regard to external relations in financial markets, the global responsibility refers to the involvement of different types of investors, understanding their expectations and balancing short with long-term value creation in their interests and in the interest of the company.

The corporate choice to act in this way is really a cultural matter that needs to be planned and adequately managed, becoming a corporate intangible asset source of competitive success [31, 32]. Becoming a sustainable company is not an immediate result, but it needs first getting involved the top-level leaders who have to incorporate CSR into the core business and to strengthen the external engagement. Second, the definition of a new corporate identity should take place engaging employees and projecting mechanisms to achieve and monitor CSR goals [33].

Therefore, CSR should be interpreted according with an integrated view that calls for a new governance model geared to systematic, coordinated, effective and efficient sustainable approach aimed at giving value to the culture of ethics and the global responsibility in boards, organization and company network level. In this context, national and international institutions, governments, investors and communities play a crucial role in paying close attention for CSR issue and sustainability matters, encouraging the cultural change companies need.

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