Исследование текущих трендов в области корпоративной социальной ответственности и ее влияние на текущий рынок

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Аннотация:

В статье представлен результаты анализа главных бизнес идеологий (Milton Friedman's The business of business is business, Corporate Social responsibility) и ее основных элементов. Социальная и финансовая ответственность предприятия являются главными факторами развития в текущих рыночных условиях. Результаты анализа могут быть использованные крупными компаниями в отделах стратегии и по работе с инвесторами.

Ключевые слова: корпоративная социальная ответственность, устойчивое развитие, ОСОКУ, корпорации, капитализм.

Analysis of current trends in Corporate Social Responsibility and its influence on the current market situation

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Abstract

Results of analysis of two major business ideologies (Milton Friedman's The business of business is business, Corporate Social responsibility) are presented. Pursuing hybrid goals: social and financial are vital for today's market conjuncture. The results could be used in the department of Strategy and Investor Relations for adapting their ESG policy to follow tendency and development of the market.

Keywords: corporate social responsibility, sustainable development, ESG, corporate world, capitalism.

"As long as is stays within the rules of the game"

Milton Friedman

What is Business of Business?

Decisions that are made by corporations have great influence on our daily life, they influence our food consumption habits, entertainment, economic welfare and etc. The decision-making is the most important process in the firm, based on the decision the company either create value or loss. But, should executives and managers consider social and ethical aspects, in other words, should they have responsibilities towards society? To answer this question, it is reasonable to dive into the two business ideologies.

The first ideology is based on one of the most significant publications on social responsibility of the firm which is Milton Friedman's "The Social Responsibility of Business is to Increase its Profits". In his article famous economist argued that the only responsibility of the firm is to maximize shareholder value and it would be unethical to give away shareholder's money to promote corporate social responsibility (CSR) actions. As shareholders invest their money in order to gain return, and CSR is perceived as voluntary action of an individual. In their perception, firm is artificial thing, and something "artificial" cannot have responsibilities towards society, only humans have this kind of responsibility. This concept widely knowns as "business of business is business" was one of the leading management ideologies of 1980's and, moreover, contributed a lot into today's shareholder - orientated capitalism.

Long after the Milton Friedman's famous phrase, the business ideology has started to evolve, more and more firms among the world have started implementation of the CSR concept and stakeholder-orientation practices. Financial analysts and executives state that "pursuing shareholder value is no longer enough, it seems" [1]. These means that the stakeholders, governments and other regulators demand firms to be socially responsible. According to this belief, companies should pursue double-bottom-line objectives: **creating financial and social value.** The rise in the following attitude towards business is forming new business environment and new treatment of business, where the company is perceived as a part of society that has responsibilities.

In today's digitalized world, it is vitally important to **pursue hybrid goals** (social and financial) in order to focus on l**ong-term and sustainable** business development and follow the developing market demands. The firm should find optimal balance between social and financial tradeoffs.

Why Business of Business in no longer just business?

Rule of "game" has changed. The world is no longer as in 1970s. Social networks, media, globalization and technological development impacted a lot business environment and social values in the world.

Some economists claim in Milton Friedman's time business environment was **simpler than today**. For instance, in 1970s companies could abuse asymmetry of information in order to increase shareholder value and not considering other stakeholders. In that times the **information flow** was not so fast, and corporations could act more aggressively in terms of their way of conducting business (low wages, harsh working conditions, harmful/ unethical business decisions). It was difficult for individuals to influence corporate decisions and raise awareness to some unethical actions. Laws and policies were not developed enough to support stakeholders, investors aim only to gain profit from their investors. In today's retrospective, corporations are vulnerable to attack and more dependent on public's opinion attitude, investors and other parties. Moreover, there are more government agencies and other regulators that control and audit companies, not only in EU, but also in Anglo - Saxony. So, firms may be subjected to corporate scandals. This can put their reputation into jeopardy and damage financial position. Consequently, executives focus more on stakeholders and ethical part of their business.

In addition to this, people, nowadays, are more concerned about the corporate world and its decisions, their role and responsibility in the society, the problem of sustainability and environment. From the business perspective, it is essential for them to meet demand of people. The former CEO of Unilever and Irish businessman Niall Fitzgerald said, "Corporate social responsibility is a hard-edged business decision.

Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business" [3]. In our digital age, influencers and individuals can not only share their ideas, but also form public opinion, encourage environmental movements, raise attention towards different problems from poverty to poor treatment of stakeholders by companies. These problems are also supported by many institutional and non-institutional organizations. There is a surge in awareness of global problems resulted from business operation, which is real headache for executives and top management. I believe that rise of awareness and pressure from government and international organizations are effective enough in forming new business ideology that concentrate not only profits, but also for social welfare.

The vast majority of investors and financial analysts have started to pay more attention to ESG (Environmental, Social, Governance) rate of their companies. As these values are incorporated in the share price as "social premium", consequently, creating shareholder value. While doing M&A activities companies can pay ESG premium for the acquired company with positive ESG practices. More and more companies implement **ESG due diligence** while doing M&A (Source: PWC: "The integration of Environmental, Social, Governance issues in Mergers and Acquisitions transactions"). In addition to this, there is a boom of "**green finance**" and **impact investing.** Investors support "green" movement and promote social and environmental goals, while steel

making significant returns, for instance, there is a “green” ETF iShares Global Clean Energy by BlackRock traded on NASDAQ. Thomson Reuters and Bloomberg access company’s ESG rate and provide this information for their clients. This is an evidence of importance of ESG factors both for companies and investors.

Business is no longer viewed as something artificial, ownership of business replaced by investment, company’s most important assets are their employees, knowledge capital. The importance of stakeholder treatment has become inseparable part of every business, especially in EU mainland, in the knowledge economy. EU regulators adopted a lot their policy in order to fit today’s business reality. In EU companies are viewed as community of people with special rights and responsibilities. For instance, in Germany employees has the right to have 50% minus one seat in the board, government and other regulators support employees in case of dismissal. Companies have a legal obligation towards their stakeholders. There is strict policy concerning working days, balance of work and life. So, employees are under secure, this security in incorporated in organizations corporate governance and laws. However, these kind of polices in Anglo-American business world is still developing and are not so strict. It is difficult to change “pure capitalism” mindset and implement new business culture. But it seems to be changeable, year of years companies themselves implement CSR in the governance and make social movements, for instance, Bosh invests their 50 % of earnings into R&D in order to support conservation and environmental protection. The Walt Disney social mission is to strengthen communities “by providing hope, happiness, and comfort to kids and families who need it most” [5] and they spend more than $400 million to nonprofit organizations in 2016.

For sustainable long-term development of the company it is essential to be oriented on stakeholders and make financial trade-offs. In Milton Friedman’s profit-maximization theory there is orientation on results and share price increase on short-term. (Not all businesses that maximize shareholder value can be accused of short-termism, but the majority can be) Nevertheless, according to Mckinsey & Company researches, CSR initiatives create shareholder value and deliver long-term value to their shareholders not putting stakeholders at risk. Such companies are healthier than their competitors without CSR, moreover, they establish good brand reputation, improve living standards, fight with poverty and other issues. Another argument is that government is unable to cope with all social problems and aspects of people’s life, but corporations are able to, because they have better allocation of resources and capital, sometimes information, knowledge and experience. That is why society delegates this responsibility from government to corporations. John Browne, CEO of BP, the oil giant said that “only business can produce the technological innovations and deliver the means for genuine progress on this front. And business needs a sustainable planet for its own survival, for few companies are short-term entities; they want to do business again and again, over

decades" [2]. So, business is in great interest of having sustainable planet, high living standards, educated employees and wealthy consumers.

However, it is difficult to measure return from CSR and benefits for society. As CSR returns are something intangible and difficult to evaluate. The real question for CFOs and CEOs is how much to spend on social issues and how much to spend on organic and non-organic development to satisfy both investors and stakeholders. Even if there is no evidence of return, company should be engaged in social actions, especially big corporations. Because people work in companies and no artificial robots or something intangible. They are in great interest of changing the world in a better place to live.

Could Capitalist fully bring down the capitalism?

According to Harvard Business Review, there is still dominance of "business of business is business" concept, especially, in the current Anglo-American version of stock market capitalism, "the criterion of success is shareholder value, as expressed by a company's share price" [2]. Many executives and top managers have stock options which are based on share price. They mainly concentrate on short-term performance rather than long-term. As a result, they are just for profits. There are a lot of such examples in Wall Street. Paul Kennedy in one of his interviews said that companies mortgage their future in return to have higher stock price now. These factors make executives not make social initiatives and concentrate only for profits.

Another problem is that big companies abuse CSR activities only to improve brand reputation and marketing, not social welfare of people. In addition to this, many analysts state that today's business, which is considered to be with high social engagement, their activities do harm, this harm outweighs the good. Of course, they are obliged to the legal requirement, but I think that laws are not efficient enough and lags behind practices. The example of such company is Exxon Mobil, they state in their report that their responsibility is "to produce the energy and products the world needs in a responsible manner" [4]. Is it so? Unfortunately, it is not. Let's consider Texas region where there are a lot of refineries and other Exxon Mobil's factories that exhaust dozens of dangerous fumes that are hazardous for citizens. There is a rise in respiratory illness in this region. Are they producing in responsible manner? Maybe only responsible for shareholders…

In addition to this, majority of small companies consider concepts of sustainability and social responsibility to be very costly and only affordable by rich companies. For them, the business of business is business until the government introduce a policy. However, government interference is not the best scenario for the development of CSR. I believe that the main driver of the CSR development is awareness among people that will force companies to be more engaged.

To sum it up, I would like to point out that business and technology is developing in a rapid pace. Consumers and other parties value more brand reputation and quality. The concepts and strategies that worked in 1970 will not work in the future, now we are facing the change in the minds

of investors and executives. ESG factors have started to be important while making business decisions for both business and society. The business cannot be just for profits in today's business environment as social awareness of people leads to demand for CSR activities and stakeholder-orientation. The demand is a key driver of change in business mindset and ideology.

As it is impossible to satisfy all stakeholders, it is important to find optimal value of financial and social gains and tradeoffs. This will be very hard and controversial decision for both society and business. Executives should incorporate CSR activities into their operation process.

Big corporations which are harmful for the society should maximize their social value over the harm they do, other companies should consider implementation of concepts of sustainability and CSR in their business as it is not only beneficial for society, but also for the long-term development.

The possible solution of this problem could be adapting policy time-lags and clarity in the policy. Government should strictly regulate the activity of business, pass laws and adapt business law with accordance to the today's business reality. The focus should be on treating stakeholders and sustainability. In addition to this, raising awareness among population creating platforms and funds is also important step to build sustainable business environment.

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