Chapter 8

Putting Sustainability and Corporate Responsibility at the Center of Capitalism through Better Valuation of Stakeholder Concerns

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ABSTRACT

The chapter offers a new theoretical approach for the integration of stakeholder concerns into the financial management of for-profit, free market enterprises. The chapter postulates that CSR stakeholder categories are intangible assets of every firm, small or large. As such assets, CSR stakeholders contribute to the current capital valuation of the firm. If their asset quality increases, so does the value of the firm. Conversely, if their asset quality decreases and becomes more of a liability, the value of the firm decreases proportionally. Under this approach, re-conceptualized balance sheets must become a more important tool for business owners and managers to use to enhance the relevance and the quality of their CSR efforts.

INTRODUCTION

In the arena of business ethics and its conceptual neighbor, corporate social responsibility (“CSR”), stakeholder relationships are not yet seen as “central” to the goals and mission of a for-profit business, especially one that is publicly held. To be “central” to the ends of a for-profit firm is to be necessary and essential for the attainment of

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those ends and so required for management. The problem to be addressed, then, is how to make, as a matter of theory, CSR approaches “necessary” to the management of a business and not occasional, haphazard or a luxury. A needed theoretical framework, therefore, for both CSR scholars and advocates and for financial analysts is one that integrates factors influencing stakeholder relationships for better or worse from the firm’s standpoint with financial analysis (Young, 2004). This article proposes the rudiments of such a framework. Organizations, in my opinion, need goals and objectives in order to achieve success. Thus, to use power, those who set goals and objectives for organizations require intellectual support from a framework of analysis and assessment of strengths, weaknesses, opportunities and threats surrounding the entity. If the framework is biased, narrowly conceived or out of touch with reality, the setting of organization goals and objectives will sub-optimize success. The theory presented here will contribute to further research efforts of accountants and valuation experts in constructing a more relevant framework for setting business goals and objectives.¹

The article follows the new definition of CSR proposed by the European Commission on October 25, 2011, which is: “The responsibility of enterprises for their impacts on society” (European Commission, 2011).

The Commission continued:

- To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns, into their business operations and core strategy in close collaboration with their stakeholders with the aim of:
  - Maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
  - Identifying, preventing and mitigating their possible adverse impacts.
- To maximize the creation of shared value, enterprises are encouraged to adopt a long-term, strategic approach to CSR and to explore the opportunities for developing innovative products, services and business models that contribute to societal well-being and lead to higher quality and more productive jobs.
- To identify, prevent and mitigate their possible adverse impacts, large enterprises and enterprises at particular risk of having such impacts are encouraged to carry out risk-based due diligence, including through their supply chains.

Under this definition, successful implementation of CSR demands:

1. Integration of many stakeholder concerns into business plans,
2. A long-term strategy to create value that is shared by the firm and its stakeholders, and
3. Risk assessment of impacts on stakeholders.

How is a firm to accomplish these three core tasks of CSR?

First, to integrate stakeholder concerns and to manage a long-term strategy and to enhance risk assessments, the article selects the concept of valuation as key to success in these management undertakings. Valuation analysis looks at the capital asset value of the firm, rather than profit and loss statements, which are measures of past performance. I submit that the most relevant information for owners and investors is not periodic reports on incremental progress or the lack thereof, but rather the worth of the enterprise: is it growing in value, creating wealth or is it losing wealth? The present capital value of the firm includes integration of risks to all stakeholders so that increasing that valuation thus becomes a goal for long-term strategy.
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