FROM SHAREHOLDERS-VALUE CREATION TO CORPORATE SOCIAL ENTREPRENEURSHIP

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Abstract. *The aim of the paper is to understand how Corporate Social Entrepreneurship (CSE) is an important logical and operative step to take after realizing the Corporate Social Responsibility (CSR) strategy, in order to drive the entrepreneur to both economic and social value creation. The firm's need to consider and satisfy in a balanced way the needs and interests of all stakeholders had already been amply highlighted by economists belonging to the behaviorist school (Simon, 1961; Cyert & March, 1955). In this sense, and especially with regard to medium- and large-sized enterprises, the creation of value, a typical goal of stockholders, should be considered in the process of optimizing an objective function that is larger and more complex, resulting from a "political compromise" regarding the aims of the different classes of stakeholders. In particular, this function must be compatible with the needs of the external environment, taking into account the influence of cultural roots in a context of CSR (Mella & Gazzola, 2005). Entrepreneurship is the "art of the start", or the ability to start up a profit-seeking venture and then grow it into a business that makes great financial profits for the shareholders. Corporate Responsibility is the art of managing already operating for-profit businesses in ways that are beneficial to others stakeholders beyond the company founders and investors: employees, operating partners, consumers, entire communities and even our natural world, or global environment. Social entrepreneurs embed corporate social responsibility into the start-up business model. They start the companies with a culture based on the building of a team with employees and other stakeholders. They aim to improve the environment by driving net-positive social impact results. They impose a wider shareholder vision from outputs to outcomes that add a mandate beyond shareholder value creation to value creation for stakeholder groups. CSE can drive companies by bringing business, social, and sustainability goals together, making the world a better place, while creating business opportunities at the same time. They see how these two goals are not different, but can be aligned and translated into outcomes for a sustainable impact. This study aims to describe ways of identifying the principles of Corporate Social Entrepreneurship that allow a more meaningful understanding of the behavior of modern corporations. The analysis of the international literature will be accompanied by the results obtained from empirical research extended to Italian companies.*

Keywords*: Corporate Social Responsibility; creation of value; stakeholder; sustainability report; corporate social entrepreneurship.*

Introduction. The shareholders' interests

The severe financial crisis that first hit the United States and subsequently European countries, along with the numerous scandals of recent years, the corruption of managers, and fraudulent financial statements, have necessitated an ever deeper integration between the objective of shareholder value and the practices of CSR (Jones & Nisbet, 2011). The reasons for this deep integration between the interests of shareholders and those of other stakeholders are revealed not only if the company assumes increasingly important connotations, particularly in local communities to ensure the social (Doh & Guay, 2006) and occupational context, but also by the increasingly strong influence of the corporate image that inevitably reflects the choices of investors and consumers in the first place and those of all other stakeholders. The integration between the objective of the creation of value and CSR is an unavoidable process, typical of the modern economies, resulting from the interconnection between internal goals of the enterprise and the outcome to the environment. This integration testifies to the profound change in the logic of the firm that has occurred during the last one hundred and fifty years (Scherer & Palazzo, 2008).

The capitalist enterprises, understood as autonomous organizations for production, which are financed by shareholders with equity, and by debt, has ancient origins, and its spread can be traced back even before the start of the Industrial Revolution in 1750. In the traditional literature, capitalist firms are, strictly speaking, business profit-oriented organizations that are conceived of as systems for the creation of economic and financial value for their shareholders (Mella, 2007). Their performance – based on profit and the value of capital – is measured by a system of monetary values.

For the production of value, capitalist firms must carry out five parallel transformations (Mella, 2005):
- a *productive transformation* of factors into production, governed by productivity and by quality;
- an *economic transformation* of costs and revenues into operating income, governed by prices and therefore by the market;
- a *financial transformation* of capital into returns;
- an *entrepreneurial transformation* of information into strategies;
- a *managerial* (organizational) *transformation* of strategies into actions of management control.

The success of the capitalistic firm in producing economic value depends on the capability of the entrepreneur, together with his management, and should be based on these rules:
- create a dynamic portfolio of businesses along a virtuous path from "question mark" to "cash cow" businesses by means of an effective entrepreneurial function;
- regarding decisions to start up or continue businesses, it is necessary to take into account their economic efficiency, the amount of capital invested for their start up, and the sources of available financing;
- achieve the maximum exploitation of the present market and expand toward new markets in order to increase the firms' production volume, QP, and increase as much as possible the selling price, pP, through an efficient marketing function;

- maximize the productive efficiency of the production transformation, by contracting the unit factor requirements, qF, while expanding the *quality* of products by means of an efficient production function, thereby increasing *productivity*;
- reduce the average factor prices, pF, through an efficient supply function which searches for supply markets where the factors have a higher quality and lower purchase prices.

The production of value does not exclusively benefit the shareholders but instead concerns a vast group of stakeholders.

The evolution of the shareholder theory: the literature review

The Industrial Revolution gave rise to large production firms with substantial flows of goods. These firms required large plants with a substantial productive capacity and high specialization. The large amounts of capital were provided by individuals or families, or raised through significant amounts of self-financing, thereby giving rise to typically family-run businesses belonging to a capitalist family head or a family. The large size of the plants required a large amount of capital, and their specialization made it impossible to shut down the plants short of selling the entire enterprise, with its factories, warehouses, and clientele. Precisely because it was not possible to recover the invested capital, the maximum objective of the capitalist family head was, on the one hand, to obtain the maximum flow of profits, and on the other to maximize the size of the enterprise through monopolistic policies.

The creation of the corporation, through the issuing of shares, was the means of resolving the problem of recovering the capital supplied by the entrepreneur-family head, through the increase of equity to non-industrial third party savers. In this context, in the years following the First World War, high-level professional managers became more common in corporations; these managers were directly appointed and charged with managing the invested capital (with the obligation to issue periodic financial statements) provided by the shareholders meeting together in an assembly. The managers-administrators gradually gained more control over the corporation's management, leaving to the capitalist family head the ownership of the capital and the final periodic control of the activities of the administrators, who were charged with producing a profit. In the large corporations, there was a clear separation between management and the ownership of capital. This phenomenon was studied by Berle and Means already back in the 1930s. In their well-known book, *The Modern Corporation and Private Property* (1932, p.130), they analyzed in depth the separation between ownership and control, a phenomenon which "... *has destroyed the unity that we commonly call property - has divided ownership into nominal ownership and the power formerly joined to it. Thereby the corporation has changed the nature of the profit-seeking enterprise*". The separation between management and ownership also changed the views about the firm's objectives. Profit gave way to return, that is, profit in relation to the capital needed to produce it. *Return on equity* (ROE) replaced income in all calculations of the provider of equity.

In this new context, the legal form of the corporation – which rapidly spread in all industrialized countries as an instrument for raising equity through the stock exchange – made it clear that the value, or price, of shares, was simply derived from the discounted value of the corporation's dividends, which in turn depended on the level of *roe* that could be produced by the company over a more or less extended period in the future. The enterprise, as a company, no longer had its own objective. Instead, the objectives were transferred to the managers-administrators, who had to achieve the maximum shareholder value by maximizing the return on equity, bringing the latter to a level greater than that of the return expected by the investor. In this way, the stock market value and the company's capitalization would be maximized, in the manner set out by Copeland, Koller, and Murrin (1996), which is shown in Table 1.

From the legal point of view the shareholders are the owners of the company; however, "agency theory" (Jensen & Meckling, 1976) states that the manager-administrator should act in the interests of the shareholders (and thus be their "agent"). As a result, the value created by the firm belongs to the shareholder. Managers who do not act in the interests of the shareholders must be replaced following the rejection of the balance sheet of the company they manage.

The managers of large corporations use every strategy imaginable to maximize *shareholder value* since they are deemed "capable of managing"; they are kept on and paid as long as the shareholders are satisfied with the periodic dividends and the increase in the value of their shares.

Table 1.The principles of the creation of value (Copeland et al., 1996, pp.53-54)

	The principles of the creation of value
1.	The firm creates value when the return on the invested capital is higher than the opportunity cost of the capital (measured by the return on an investment of equal risk).
2.	The more the firm invests at a return higher than the cost of capital, the more value it creates (growth creates more value the longer the return exceeds the cost).
3.	The firm must choose those strategies that maximize the expected discounted cash flow (discounted at the opportunity cost of the capital).
4.	The value of the shares of a firm in the stock market is equal to the value of the expectations the market itself has regarding future results, but these expectations are not necessarily a reliable measure of those results.
5.	The return on the capital from shareholders depends on more on the variations in expectations about the future than on the present results of the firm.

The stakeholders' interests

Clearly, the management of the value-producing firm, which strictly follows the principle of *corporate economic rationality*, tends to distinguish between the financial interests of *shareholders* and the non-financial interests of the other *stakeholders.* Companies constitute the economic, social and political "fabric", and their management becomes closely linked to all the outside actors since the internal processes are intrinsically connected to the outside environmental processes. The creation of a shared and efficient network of relations among the firm and its environment of reference becomes the condition for the production of value. Thus, management cannot limit itself only to pursuing the interests of the shareholders but must seek consensus from the local, national and international stakeholders, involving these social entities that, in order to advance their non-financial interests, impose constraints and conditions on the corporation's activities.

Recognizing that the activities of corporations have a growing social, ecological and ethical impact, which can be perceived and measured with regard to the stakeholders (Carrol & Bucholtz, 2008), and that the CSR principle represents the necessary integration between the internal management of the firm (Hill, 1992), from the point of view of value production based on corporate economic rationality, and the management of the outside environment through the processes of supply, marketing, work, finance and environmental conservation and through the relationship with workers and the local authorities, Davis (1975) proposes five interpretative points regarding CSR:
- Social responsibility derives from social power.
- The firm is an open system in two ways: in receives inputs from society and provides results to society from its activities.
- The social costs and benefits of all business activities must be carefully calculated and valued in order to decide whether or not it is socially useful to engage in such activities.
- The social costs of each activity must be borne (in some form) by the clients.
- Firms, as social institutions and also as citizens, have the responsibility of facing social problems even if these lie outside their normal sphere of activity.

McGuire and Sundgren (1988) believe there is a physiological link between the production of shareholder value and Corporate Social Responsibility, a link that management must recognize and transform into constraints and opportunities, thereby joining the satisfaction of shareholders to the needs of all the other stakeholders.

The integration between shareholder value and corporate social responsibility

The maximization of the performance of the stakeholders and all forms of value consumed, managed and generated by the company, implies the passage from the traditional notion of value created for shareholders to the sustainable value for the social, political and physical environment (Elkington & Fennell, 1998). The creation of value must be a process compatible with the needs of the environment (Mella & Gazzola, 2005) and involve the optimization of a complex objective function, which results from a political compromise of the different needs and interests of all stakeholders who refer to it, as has already been amply highlighted by economists belonging to the behaviorist school (Cyert & March, 1955; Simon, 1961).

The opposing interests regarding the distribution of the value added can affect both the definition of the characteristics of production and the relationship with customers, workers, suppliers, and lenders.

The way in which these conflicts can be resolved greatly affects the production of value because, in simple terms, it is possible to view the solutions in terms of costs and revenues for the affected stakeholders. Therefore, a price reduction, in the same conditions of demand and competition, which leads to a reduction in revenues and profits, penalizes the return on capital (internal interest) but serves the firm’s customers (external interest). Similarly, an increase in the remuneration of labor, though reducing profit, creates benefits for workers. Companies, following the affirmation of stakeholder theory (Freeman, 1984), have had to redefine their competitive strategies and how they manage social and environmental issues as assessed by shareholders and judgment of legitimation of new groups of stakeholders. Consequently, communication with the outside world represents an important opportunity for the company to increase its social acceptability and to offer its point of view as understandable as possible, objective and verifiable.

To respond to the new information needs expressed by society, it was necessary to define the characteristics of an instrument of social and environmental reporting (Marcus & Fremeth. 2009) which, together with the traditional information tools, enables companies to implement a strategy of widespread and transparent communication able to pursue consensus (Jennings, 2005) and social legitimacy, which are a prerequisite for achieving any other goal, including the type of earnings and competition.

Do image and credibility increase value?

The reasons that push companies to voluntarily disseminate information about their ethical behavior (Michaelson, 2010) and their relationship with the social and natural environments are characterized by the consequent advantages in terms of economy, image and credibility that increase their overall value (Orlitzky, Schmdt & Rynes, 2003; Siegel, 2009; Skrabec, 2003). Being a voluntary document, there currently is no general and unique standard for the preparation of a sustainable report; therefore, a company can take what it feels is closer to its reality and size, choosing between the most popular national and international models.

The European Commission called all large companies listed in the Triple Bottom Line Reporting (Elkington & Fennell, 1998) to communicate to stakeholders their economic, social and environmental performance, integrating the economic dimension of management with the social and environmental dimension (Bennet & James, 1999), for the benefit of relationships with its stakeholders and markets. Economic prosperity, environmental quality, and social justice are the pillars that underpin the creation of business value in accordance with the "triple bottom line" (Warren, 1999). In order to make such communication effective, some basic rules have to be implemented ,such as a) the involvement of top management; b) the presence of various instruments of CSR; it is important that the single practice of CSR be inserted into a system of initiatives and socially-oriented behavior, which in turn is integrated into corporate strategy (Porter & Kramer, 2006); c) the economic compatibility of the social actions; d) the internal coherence and integration with business strategy; e) the insertion in the specific national, regional or even local context, taking into account factors such as history, culture, level of socio-economic development, the role of the state, etc., which can lead to a different assessment of the intervention of CSR; f) the communication of operations with a suitable document (Gazzola & Colombo, 2013).

In addition, strategies for CSR communication have evolved considerably in the past and are now better integrated with the objectives of profit and value creation for shareholders. The sense-making theory has been introduced (Craig-Lees 2001; Cramer, Jonker & van der Heijden, 2004), later expanded with the concept of sense giving (Gioia & Chittipeddi, 1991; Morsing & Schultz, 2006), showing the necessary application of three fundamental strategies:
- stakeholder information strategy ("give sense")
- stakeholder response strategy ("make sense")

- stakeholder involvement strategy

Empirical research on Italian companies

In order to analyze the process of integration between creating shareholder value and CSR, we present an empirical study that analyzes the top five larger Italian companies by total revenues for the financial year 2014 in the Global 500 list of Fortune: 1) Exor Group (162 billion $), 2) ENI (147 billion $), 3) Assicurazioni Generali (119 billion $), 4) Enel (101 billion $), and 5) Unicredit Group (43 billion $) considering the evolution of corporate statements issued to shareholders and stakeholders over time.

1) For Exor Group we have considered the information relating to Fiat Group, Fiat Industrial and FCA Group since they were the major companies in the group. The creation of shareholder value represented in the 90's a fundamental cornerstone of the company (Gavosto, 2002). In recent years, they paid considerable attention to the social component, "In the Fiat Group, the integration of economic decisions with those of a social nature and the environment is a major concern for long-term value creation" (Fiat Group, 2010). In 2014, FCA was born and in the CSR agenda, it is stated: "Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and a regulator. They sit at the heart of our culture and are part of everything we do". FCA is in the Dow Jones Sustainability Index (DJSI) World.

2) Eni SpA, in 90's, evidenced the goal of creating value for shareholders: "The aim of ENI is to create shareholder value through the continuous improvement of cost efficiency and quality of products and services for its customers" (ENI, 1997). In 2007 ENI published the first Sustainability Report and the Code of Ethics. The objectives of sustainable development and corporate responsibility were placed in the foreground in ENI's corporate reports: "Besides the general principles of law enforcement, of transparency, of honesty, of fairness and good faith, the Code of Ethics foregrounds the objectives of sustainable development" (ENI Code of Ethics, 2007). In the Sustainability Report 2015, the creation of sustainable value is in the center. The responsible model is: "To support communities and create value over time. For us acting in a socially responsible way means respecting people and their rights, guaranteeing their safety and safeguarding the environment" (ENI, 2015)

3) In 2000 Assicurazioni Generali Group adopted the creation of shareholder value as a key strategic line (Generali Group Strategic Plan 2003-2005). In addition to the Sustainability Report, for the last two years, we have presented an Integrated Report, to make clear how sustainability is integrated into the business and underpins its development and its results. In the 2015 edition, the Report focused in particular on innovation, as a guarantee of value creation in the long-term and to tackle the most important issues of corporate responsibility. Particular attention was paid to the initiatives promoted by the Group companies in support of the 17 Sustainable Development Goals, representing the agenda launched by the United Nations to promote sustainable development by 2030 (Generali Group, 2015).

4) Enel SpA, in its 2002 Annual Report, showed the great importance it gives to creating value for shareholders: "Our priority has been the refocusing of Enel, which involves concentrating our resources where we have experience with crafts,

technologies and expertise in order to create value for shareholders" (Enel, 2002). The situation changed in the years and Enel Chief Executive Officer is one of the first signatories of the UN “Sustainable Stock Exchanges”. In 2015, Enel signs the women empowerment principles (WEP), the initiative promoted by the UN Global Compact and UN Women, which seeks to promote gender equality by calling on companies to apply seven principles for the promotion of women in business (Enel ,2015).

5) Unicredit in the Annual Report of 1999 adopted a statement directed mainly at its shareholders, using as a key performance measure ROE (Return on Equity). In 2000 they started to present the Sustainability Report with the objective of creating value for all stakeholders. In this challenging period, Unicredit has put itself on a path to sustainable profitability with the launch of the 2013-2018 Strategic Plan. They prepare an Integrated Report with GRI and Global Compact indexes. Unicredit is a Sustainable Bank “Unicredit's strategy will result in a rock-solid, profitable bank that is able to generate sustainable value, maintain a strong balance sheet and support the prosperity of the territories where it operates”. In so doing, it “will create value not only for our Group but also for the stakeholders, communities, and society as a whole, while minimizing negative impacts on the environment” (social Profile Unicredit)

Conclusions

It is a common belief that the creation of shareholder value cannot be the first and the only goal of the company and that shareholder interests should be combined with those of other stakeholders so as not to create imbalances and subsequent questioning of the management.

The empirical analysis shows results where the tendency, growing stronger in recent years, integrates the values and principles of CSR with the objectives of profit and value creation for shareholders. The objective of creating shareholder value can be expressed unambiguously. It is based on data that can be compared with the past, with the sector average or with those of competitors.

Whereas the ultimate goal of the survival of the enterprise is to create value, the processes that generate this must be sustainable, which means the long-term involvement and satisfactory remuneration of the various stakeholders, who give resources to the functional long-term success of the organization (Moon, 2007). Therefore, these processes should enhance and strengthen the firm-environment relationships, ensuring their sustainability. It is possible to say that sustainability of a company depends on the sustainability of its relations with stakeholders. We speak of sustainable value for sustainable relationships, best described as stakeholder value (Figge & Schaltegger, 2000; Freeman, Harrison & Wicks, 2007). Social responsibility becomes a structural dimension of firms, which, in achieving their typical production mission, inevitably exert an influence on a variety of subjects, creating or destroying value for each of them. However, the biggest problem is finding a balance between the different interests without undermining the ability of the firm to attract capital resources and professionally prepared human resources. In any case, we note that the synergy between the social environment and the economy is not automatically implemented; instead, it is the result of a path where professional management and entrepreneurial creativity are linked in order to contribute to a business development that takes account of the stakeholders. Management should constantly observe the characteristics of its stakeholders and estimate their power against pre-established objectives, in order to build a matrix of priorities to be achieved in their interest. To achieve this goal, we need to build an appropriate communication strategy directed at the internal and external stakeholders that, at the same time, allows appropriate feedback to be received from all stakeholders (Mella & Gazzola, 2015).

The need for the integration between CSR and shareholder value has, in recent years, been strengthened. *Corporate Social Entrepreneurship* (CSE) is a necessary and logical step to take after realizing the CSR strategy (Baron, 2007), and to take join economic and social value creation to the next level. CSE emerges from the three conceptual frameworks: entrepreneurship, corporate entrepreneurship, and social entrepreneurship (Austin & Reficco, 2009). It is proactively in pursuing social progress, thereby maximizing positive impact, by using societal challenges as a driver for innovation in the company.

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