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THE CORPORATE SOCIAL RESPONSIBILITY AND THE ROLE OF CFO

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INTRODUCTION

The current business world is heading towards a new era which results in new business avenues, new business models and a thorough revamp of the existing business processes and control mechanisms. Such a scale of change demands the enterprises to priorities the business initiatives with due considerations to the current vogue of customer delight, social media marketing and a clamor for sustainable growth. These demands of the business will have a clear impact on the competitiveness and success of the organization which is made possible with a concrete application of the perfect blend of its social obligations and its own systems throughout, which will navigate the entire processes involved. It is the need of the hour for any business house to give back to the society in which it operates and got itself developed. Continuous contributions towards environmental sustainability, development of the people with whom it is connected and upliftment of the society at large are the aspects to be visualised by the enterprises. In line with this situation, it is apparent that the roles of the Chief Financial Officer (CFO) are to be reformed to meet the requirements. The managements robust thinking about the paths the CFOs and the finance function as such to be followed going forward are taking a different shape. As the business these days are being hit by hectic competitions, wider regulations, thrust on a completely technologically driven systems and the resultant risks, the expectations on the roles and responsibilities of a CFO have undergone a vast change. The CFOs are indeed looked into as game changers to create and sustain business value. The Board of Directors of organisations depend on the CFOs in the current world who are all expected to dive into the business to preserve the cash flow ratio or absolute liquidity, maintain shareholders and other stakeholders confidence, and managing risks.

CORPORATE SOCIAL RESPONSIBILITY OF THE BUSINESS

Corporate Social Responsibility (CR) describes the sense of responsibility of a company any time its business activities affect society, the employees, the environment and the economic surroundings. In the process, corporate responsibility stands for a corporate philosophy in which the focus is on transparency, ethical conduct and respect of the stakeholders. The term comprises the topics Corporate Social Responsibility (CSR), Corporate Governance and Corporate Citizenship. The terms CR and CSR are often used synonymously; yet the concept of CR is significantly broader than the one of CSR. The concept of CSR has a greater focus on ecological and social challenges for companies, thus only considering two of the three dimensions of sustainability. While CSR only conceives the profit of a company as framework condition for responsible corporate actions, the concept of CR explicitly integrates the economical dimension of sustainability. The open dialog with relevant stakeholders is one of the cornerstones of CR. This includes for example customers, employees, investors, suppliers, the state and non-governmental organisations. As quoted by Peter Duker, "The 21st century will be the century of the Social Sector Organization. The more economy, money and information become global, the more the community will matter." A global survey conducted by The Economic Intelligence Unit found out that 85% of senior executives and institutional investors believe that CSR is an important consideration in decision making, indicating that CSR has been accepted even without a clearly defined business case.

The challenges faced by organizations these days in one or more of the above mentioned areas has driven them towards seeking an integrated approach to battle these concerns. Till date companies have managed by interpreting CSR as external community relations and treated it accordingly, but this isn't enough anymore. This approach misses out the fact CSR also extends to a company's products and services. It is unadvisable for a company to indulge in charity work whilst producing unsafe products and providing unethical services. Hence implementing CSR is an allover exercise that needs to be practiced with great care and caution. Business relies on establishing trust with customers, society, regulators and other stake holders and CSR becomes important for the business due to this fact. The companies need to think beyond what is happening today for reaping success in the long run. Just by addressing the changes in the technological area alone cannot satisfy the above requirement but adopting a robust process in making alterations to future social, environmental and governance aspects becomes inevitable.

As the expectation levels of various customers, vendors, suppliers, workforces and investors are taking a different and demanding shape, CSR becomes imperative for the business which provides great opportunities for various business houses. The line of products of General electric's brought in revenue of $21 billion in 2011 and Proctor and Gamble reports revenue of $40 billion between 2007 and 2011.

CORPORATE SOCIAL COMMITMENT

Corporate social commitment refers to voluntary non-profit investments into the community made by a company. For this purpose, the company provides money, products or the know-how and manpower. Commitment can be realised with a variety of tools, such as donations and sponsoring, corporate volunteering and public private partnership. In order to be credible, the commitment should be integrated into the sustainability strategy of companies and have a close connection to the main line of business or core know-how. Social commitment is capable of generating advantages both for society and for the company, resulting in a so-called win-win situation.

THE ROLE OF CHIEF FINANCIAL OFFICER (CFO)

Over the past few years, it is visibly evident that the CFOs have changed their roles as financial strategists from the earlier role of a conventional accountant. The current business trends requires the CFOs to be the business catalysts whose functions are technologically driven to partner on time with other functions of the business to achieve operational efficiency, internal control process excellence and innovation. The CFO, to act as an evangelist of technology should consistently identity the social and the organisational needs to extend a total support in achieving the same.

The term CFO prompts us to think as a custodian of financial performance indicators and never corporate social responsibility. However the current trend witnesses a drastic change in the mindset of the CFOs towards corporate social responsibility, which highlights the requirement to look into critically various reputational and operational risks along with compliance aspects of the business. The CSR reporting across various industry verticals have become quite common and the organisations are able to view substantial opportunities in and around sustainability. This special aspect makes it important for the CFOs to pay closer attention to corporate social responsibility.

The following key factors make a CFO rethink and feel the importance of their involvement in CSR activities and reporting:

1. Relevance of CSR to investors.
2. Potential risk related to CSR.
3. Potential business opportunities with sustainability.

While observing the current investment patterns adopted by investors, it could be found that the investors are more interested in CSR activities adopted by the enterprises and considering it as a tool to invest their funds. Exxon Mobil, an energy based company, recently has become the first company to respond to investor concerns by giving a special reports on carbon emissions and the risks associated. The sustainable supply chain practices followed by the companies reflect that both social and environmental initiatives of the companies are positively related to financial performances which are measured either by return of assets or return on equity. In this context, a chief financial officer should reassess the allocation pattern of the shareholder's capital to have a strategic adaptation of the business models. The research conducted by Deutsche Bank found a strong correlation between environmental and social performance and lower cost of capital, which is an great element of interest to the chief financial officer of any organization. A very good compliance increasingly requires entities to provide accurate reporting of CSR information, which are predominantly the duties of the Chief financial officer. A special study during 2011 in this regard reflects that 24 countries have made reporting of the CSR mandatory since 2005 and also thrust upon the requirement of the data reported to be verified by the third parties. In 2011, just under 20% of 500 top companies published a sustainability or CSR report and in the year 2013, the percentage gone up by 52% to make it to 72%.

The chief financial officers of any entities should take a central role in navigating the paradigm change in the way the performances of the business are measured, evaluated and communicated to have a positive impact on the perception of the stakeholders. The united states, since 2010 requires that the CFO must personally sign on the control and procedures in place in an organistion and the related risks. The current business trends across the world demands a pivotal change in the role of the CFO in four critical areas:

1. Investor relations.
2. Financial risk management.
3. Operational controllership.
4. External sustainability reporting and assurance.

As the business currently marching towards attaining a core value in each element of its transactions, investments in CSR become inevitable. The organizations apparently are focusing towards increased CSR investments to achieve qualitatively their objectives. These investment initiatives are progressively helping the CFOs in managing their functional roles and responsibilities to reap the following additional benefits.

1. Effective forecasting
2. Identification of business trends.
3. Effectively sharing the resources
4. Efficient MIS
5. Budgeting and Budgetary controls
6. Effective monitoring of the internal control processes
7. Redefinition of the cost models
8. Strong cost control measures
9. Standardised Accounting systems and Financial reporting
10. Better feedback mechanisms
11. Structured and transparent approval processes

CSR AND SHAREHOLDERS VALUE

In today's business environment, many CSR activities initiated by the companies are towards improving the financial performance by reducing costs, increasing revenues or reducing risks.

Cost Saving

Reduction of expenses is the simple approach towards increasing profits. The CSR activities adopted in this regard includes a restaurant revisiting the purchase agreements to buy it from the local growers of vegetables rather than its usual distribution channels which ultimately can prove cheaper and qualitative. Switching over to cleaner and cheaper energy sources, which are environmental friendly, may be another step by the entities. Usage of environmental friendly packing to reduce the requirements of the costly materials which also help in cost reduction.

Revenue Growth

Revenue growth can be achieved by selling higher quantities or existing quantities at a higher price. The premium prices could be charged for socially responsible products for so many reasons and the customers assigns a high value for the money he pays. Such revenue premium offsets any additional costs to maintain the profitability.

Risk Reduction

Even if it requires new investment or additional expense, a reduction in risk can increase shareholder value. The risk reduction can come via CSR activities that help the company avoid regulation, taxes or fines – all which reduce cash flow.

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As per the basic finance theory, company's share price is the present value of the expected future cash flows and in this context the CSR activities create shareholders value by either increasing the future cash flows or reducing the risks of those cash flows. Strategically the CFOs are to work closely with the organistions CSR executives to gain a new lens to evaluate the impact of the CSR proposals and financial performances, through which a positive impact on the market share price to be achieved.

Despite the above cited requirements, an active role of a CFO these days is not witnessed. The factors which could be cited for the lack of CFO's involvement could be numerous and could be explicit or implicit. But the main reason could be the fact that the finance function in general dresses up to take the role of a total support function and the CFO in particular quite often act as backdrop when it comes to any prominent business decisional situations, be it operational or strategic. But whenever any situation emerges in business for taking complex investment decisions, which always aims for a higher return, the CFO being a better person to evaluate, analyse and judge financial feasibility, must take the role of a front runner rather than a background player. The CFO must position his chair to act as a competent partner to drive these transformation initiatives of the management.

In brief, the roles and responsibilities of the CFOs and the finance function in totality are undergoing a change in line with the current business needs and it becomes almost crucial for the CFOs to accept and conceive these shifts in paradigm of their function.