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The corporate responsibility report between private interest and collective welfare

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Abstract

This study seeks to analyse how the search for the conditions of internal and external teleonomy in production firms represents the basis for the formation of the managerial objectives function (Mella 2008) and how the achievements of such equilibriums must be supported by an appropriate operational and information tool: the corporate responsibility report.
Firms are permanent organizations, created and governed for longevity; in particular, productive organizations, as "instruments of human activity in the economic field":

a) possess endogenous teleonomy to the extent that, from an internal perspective, they provide value to the suppliers of capital and labour, so that it is in their interest to keep the system going. The value obtained from the organization's existence keeps the organizational ties cohesive and guarantees that efficient metabolic processes can be carried out;
b) enjoy exogenous teleonomy – from an external perspective – since they can provide value to those with an external interest in the firm (clients, suppliers and society) by continually renewing their instrumental processes while searching for ever higher levels of efficiency.

[1] The abstract was co-written by the authors and sections 6 to 12 were written by Patrizia Gazzola.
[2] The abstract was co-written by the authors and sections 1 to 5 were written by Michela Pellicelli.

Starting from these premises this study tries to identify the main factors of endogenous and exogenous teleonomy, demonstrating in particular that:

- *endogenous teleonomy implies a satisfying and stable profitability that guarantees satisfactory levels of shareholder value for the suppliers of capital and adequate monetary and non-monetary motivation for collaborators, thereby favouring conditions of "happiness"; endogenous teleonomy implies maintaining conditions of maximum productivity, economic efficiency and profitability (as shown by the key performance indicators) at every level of the organization;*
- *exogenous teleonomy implies the continual increase in the value of products for the market – through improvements in the price-quality relationship – in order to ensure stable customer appreciation and trust, a stable and constructive relationship with suppliers and a structural tie that is compatible with the physical, social and political environment. Such conditions are revealed by a convenient balanced scorecard system and assume the total acceptance of social responsibility.*

The conditions of teleonomy must be pursued by successfully fighting the numerous endogenous and exogenous factors that threaten the life of the organization, among which the weakness of governance, the interference of external organizations and the insufficient competence of managers, which makes the business and managerial control of the organization scarcely effective; internal organizational conflict, which inhibits the pursuit of conditions of efficiency; the withdrawal of economic value flows, which reduces the internal resources available for growth and the attractiveness of the firm to capital suppliers; the heightened dynamics of the sector, which increases the risk from competitors; uncontrollable market dynamics, which increases the demand risk for products and the supply risk of resources; and the lack of control of productivity.

These considerations indicate that management, in forming the objectives function that guides the strategic process toward the achievement and maintenance of the conditions of endogenous and exogenous teleonomy, must be focussed on:

- *value based management and activity based management to guarantee the suppliers of capital adequate volumes of shareholder value, while maintaining the teleonomic conditions that allow them to benefit from adequate volumes of financial flows needed for growth;*
- *knowledge management, in order to favour an organizational behaviour that is informal, motivated, efficient and open to learning on the part of all members of the organization; this allows the firm to maintain the teleonomic conditions of organizational learning which are indispensable for dealing with the growing complexity;*
- *total quality management to guarantee the maximum value for clients and the market in order to maintain the conditions of exogenous teleonomy related to the appreciation of and trust in the company;*
- *community management and social accountability that guarantee value for the entire group by augmenting the conditions of exogenous teleonomy linked to the stable trust that ensures sustainable growth.*

Against this conceptual framework the study proposes to examine how the above-mentioned modern tendencies of management can be brought together in a single approach that also provides the available information and operational instruments – among which the planning approach that focuses on the integral growth of the organization, social accounting and the use of performance indicators – that reveal the state of the conditions of teleonomy.

1 – Capitalist firms and the conditions of endogenous teleonomy

In a financial economy and in firms, large-sized ones in particular, the separation of the ownership of capital from the control of the company has already been under way for decades, as Adolf

Berle and Gardiner Means (1932) thoroughly documented back in the 1930s. By adopting a managerial governance and giving positions to capable and prestigious managers firms survive for an indefinite period as instruments that produce an equitable and satisfactory return to risk capital (equity and debt). This explains why management must set a "profits objective" (which was also the case with "family-run enterprises"), not to gain personal enrichment but in order to preserve the risk capital and grow it over time. In this sense firms can be viewed not only as productive (of utility) and economic (of value) transformers but also as financial transformers that transform capital raised as equity and debt into productive investments that produce an operating income that can guarantee adequate levels of revenue, interest and dividends (Mella, 2008).

Firms that follow this approach can be defined as capitalist firms and viewed as permanent productive organizations with a portfolio of businesses that accept the market risks and meet the monetary needs deriving from their investments mainly through equity capital supplemented by loan, or debt capital.

In this sense the capitalistic firm (Gazzola, Mella, 2004) can be described as:

- a productive organization that transforms utility, since it carries out a productive transformation of factors (QF) into production (QP);
- a business organization, since it is preordained to develop an economic transformation of values by selling its production, QP, in markets at prices, pP, at least equal to the unit average cost of production, cP; if it is preordained to supply its production without a price, or if it recovers only a share of the production cost, it is a no-business;
- a profit organization: if the operating logic of the business organization is to achieve the maximum economic efficiency by seeking {[max](pP-cP)>0}, then it becomes a profit organization; if, instead, the operating logic of its processes is to achieve {[min] (pP – cP) > 0}, then it becomes a non-profit (not-for-profit) organization;
- a capitalistic enterprise, if the profit organization carries out a financial transformation, in the sense that the firm finances its economic processes with external capital in the form of Equity [E] and Debt [D], forming the Invested Capital (IC = D + E);
- an economic social actor, in the sense that it interfaces and interacts with a set of external, or institutional interlocutors, or stakeholders – in an ethical, social and political (ethical) environment – which influence the organization's structure and processes through a system of corporate governance.

Once they have grown large enough and completed the third phase of Greiner's model (1972, 1998)[3], which entails the separation of the ownership of capital from management, firms can be

[3] Greiner (1972) has presented a model in which more or less extensive periods of "evolution" – during which the organizational rules are relatively stable – are interrupted by "revolutions", periods of serious disorder in the functioning of the organization. The model was completed by Greiner's 1998 work, which added a further development phase. The further growth of the firm requires re-combinations with other organizations (Mella, Pellicelli, 2008) in order to form strategic agreements (Pellicelli A.C.,

considered teleonomic organizations according to Monod's definition (1971)[4], where the teleonomic plan necessary for surviving indefinitely is to guarantee an adequate profit and a sufficient degree of liquidity for the invested capital and to satisfy stakeholder expectations (and constraints)[5].

We define endogenous teleonomy as the firm's behaviour aimed at satisfying its shareholders and other internal stakeholders, and exogenous teleonomy as any action it takes to satisfy its external stakeholders.

This scenario of the large managerial capitalistic firm produces a new managerial teleonomic approach: Value Based Management, according to which a firm's management allows it to survive as an organization if it focuses on producing value for the entrepreneur and shareholders through a process that grows and develops its businesses rather than through immediate returns for equity capital. Management's actions are aimed at creating value for the entrepreneur or shareholder by guaranteeing profits that exceed the opportunity cost of the capital or, equivalently, the return that is judged equitable or satisfying to the providers of equity capital, since it is greater than the return from alternative investments of equal risk. This is equivalent to producing shareholder value as an increase in the value of the entire firm.

2 – The creation of value and Value Based Management

Value Based Management (VBM) is the set of management methods and techniques held to be effective in guiding the firm's processes toward the creation of value for shareholders by making sure management decisions are in line with the interests of the shareholders. VBM provides a framework of reference to unify the principles that guide the decisions in the key sectors of the firm: strategy, finance, allocation of resources, measuring performance, management incentives. It thus reduces conflicts among the various functional areas of the firm, each with their own intermediate objectives that often are not only different but also in conflict.

Value Based Management is not a new management technique but the conscious, systematic, prevailing application of a set of traditional methods directed specifically, as a whole, at maximizing the value created for shareholders, directing decisions not so much toward the production of profit as toward the production of profitability while at the same time controlling the processes

2004), complex, functional or conglomerate groups, and mergers and acquisitions that can lead to business networks and to virtual or holonic organizations (Mella, 2005).

[4] The concept of survival as a teleonomic plan for all living organisms, and thus for productive organizations, comes from Jacques Monod (1971, p. 25), where he states: *"[…] one of the fundamental properties of all living organisms, none excluded: the fact they are subjects with a plan which is represented in their structure and at the same time achieved through their actions […] we shall say that living organisms differ from all structures of any other system in the universe thanks to this property, which we shall define as teleonomy [...]"*.

[5] The stakeholder concept was developed and championed by R. Edward Freeman in the 1980s. It is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Freeman, 2003).

involving the economic transformation of costs into prices and capital investment (Pellicelli, Mella, 2008).

In fact, the spread of Value Based Management has been relatively recent. Only from the 1990s onward have many large firms turned to this managerial technique, developing the economic measurements for the production processes and the financial measurements for business investment, according to the rational methods tried and tested by management science, with the "awareness" that management must produce a measurable effect in terms of the increase in the value of equity in general, and in the value of shares in particular.

"Value Based Management is the recognition that shareholder value is the result of the thousands of decisions made by individuals in an enterprise every day. Shareholder value is created, or destroyed, one decision at a time. This is the critical perspective that is necessary for corporations to consistently grow shareholder value" (Serven, 1988, p. 10).

The feature that distinguishes this approach from profit-oriented management is that it considers every decision – strategic, tactical or routine – every relation with the external and internal environment, every technique to measure and intervene on the fundamental economic and financial variables to be directed at the creation of value for shareholders.

The most well-known definitions of VBM reflect this approach.

According to Mc Taggart, Kontes and Mankins (1994, p. 345), VBM "is a formal, or systematic, approach to managing companies to achieve the governing objective of maximizing wealth creation and shareholder value over time".

For Arnold (2000, p. 9), "Value-based management is a managerial approach in which the primary purpose is long-term shareholder wealth maximization. The objective of a firm, its systems, strategy, processes, analytical techniques, performance measurements and culture have as their guiding objective shareholder wealth maximization".

In even more operational terms, Morin and Jarrel (2001, p. 28) emphasize the twofold interpretation of Value Based Management: VBM "is both a philosophy and a methodology for managing companies. As a philosophy, it focuses on the overriding objective of creating as much value as possible for the shareholders. ... As a methodology, VBM provides an integrated framework for making strategic and operating decisions".

A consistent number of firms have reported obtaining a notable increase in shareholder value from VBM, which has led to the spread of this technique.

This success occurred at the end of the 1990s, when there was strong growth in stock markets and national economies were able to absorb without too much disruption the restructuring dictated by stringent rules, such as the abandoning of enterprises or projects that did not create shareholder value (Pellicelli, 2005).

3 – Value metrics and key performance indicators for shareholder value creation

The Mella model (Mella, Pellicelli, 2008), which views firms as systems of efficient transformation, is particularly suited to represent the Value Based Management approach in capitalistic firms.

We can examine how this model (presented in Figure 1) operates from various points of view.

We can read the model from the top-down:

a) an enterprise develops a business idea and, on the basis of external information, produces a business plan containing the strategy for its implementation, the forecasted product value, the productive processes and the required capital; the business transformation transforms business risk into strategic actions and plans to carry out the business in a way that satisfies the Managerial Objectives (MO) and the stakeholder objectives (environmental objectives); the value of the business and the Economic Value Added (EVA) produced is quantified;

b) returns held to be fair and satisfactory are specified for capital suppliers: "ce" (cost of equity) and "cd" (cost of debt), and the maximum wacc (weighted average capital cost) to sustain the production of value is determined;

c) the managerial transformation translates the business plan into operational plans that quantify the factor requirements to carry out production and the relative prices and unit costs; d) production costs are determined along with selling prices that can cover these, while guaranteeing an adequate roc (return on cost) to produce the levels of roi (return on investment) and roe (return on equity) deemed necessary by the business transformation, taking into the levels of rod (return on debt) and the optimum financial lever;

e) this data is used to quantify the invested capital requirements, and the shares covered by E and D (equity and debt, respectively) are determined; the actual value of wacc is calculated;

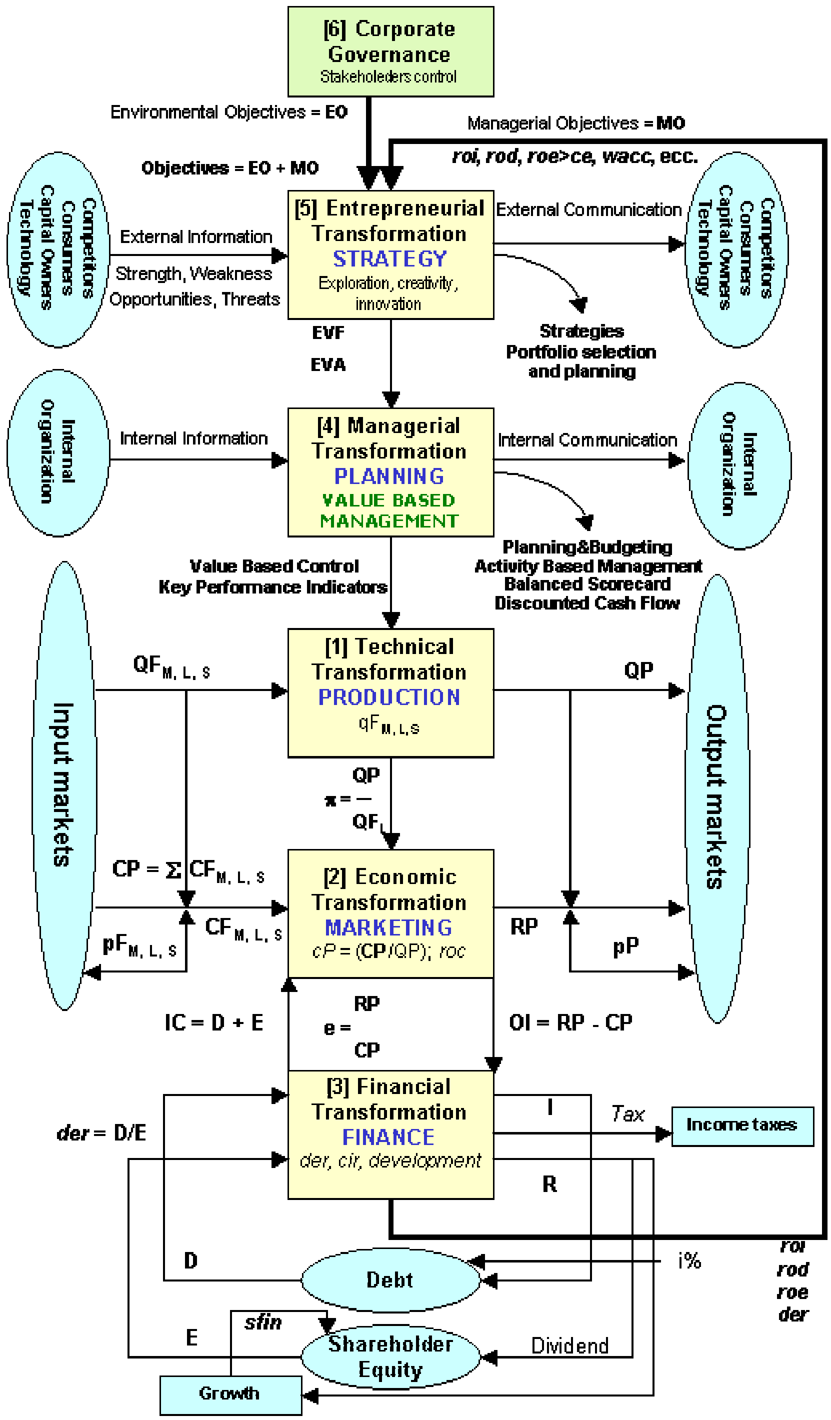
f) capital is raised and invested capital, CI, is formed; this is a condition for achieving the economic transformation;

g) the economic transformation produces value for the client (maximum quality/price ratio), thereby obtaining the operating income (OI) that is used to repay the debt and equity;

h) the three indicators for the efficiency of the financial transformation, roi, roe and rod – which are the basis for the calculation of EVA and Economic Value of the Firm (EVF) – are compared to the managerial objectives to check that the levels of EVA and EVF perform satisfactorily in the business transformation;

i) Value Based Management acts at the managerial transformation level, since it must translate strategic inputs and the desired value performance into a coherent organizational system that can be achieved by and function through ascertainable value drivers and be continually monitored. A bottom-up view of the model reveals that the productive, economic and financial transformation are instruments for the business transformation, whose efficiency is measured by its capacity to produce value in terms of EVA and EVF.

Figure 1 – The firm as a cognitive system for efficient transformation



Source: Mella's model (Mella, Pellicelli, 2008).

The only approach possible for capitalistic firms is to continually increase business performance, and thus to increase the value produced. The entire strategy must be directed at the production of value.

For this reason the fundamental business objectives, represented in the model by MO, are typical objectives of financial efficiency; that is, they:

- balance the financial structure: der objective;
- optimise the cost of equity, “ce”, and cost of debt, “cd”, and thus reduce wacc, the fundamental driver of EVA;
- in short, try to achieve a roe > ce that produces shareholder value;
- set appropriate roi objectives to sustain the production of value.

The portfolio strategies, along with the objectives of EVA and EVF they seek to achieve, become the inputs for the managerial transformation that aims at organizational efficiency by transforming the strategies into achievable plans and programs and monitoring their actual attainment as a condition for the achievement of the desired levels of value production.

Mella's model allows us to make the following hypothesis regarding endogenous teleonomy: the endogenous teleonomy of the firm as a permanent productive organization depends on the ability of the business transformation – and on the other transformations subordinate to this – to create businesses able to produce shareholder value.

Exogenous teleonomy is the precondition for also achieving exogenous teleonomy – which will be examined below – since it depends on the capacity of the business transformation to satisfy the needs of the internal stakeholders through an adequate externalization of the value produced.

Limiting ourselves now to the conditions of endogenous teleonomy, we note that the production of value implies a careful evaluation of the businesses, and the strategies for realizing these, in order to ensure they are able to achieve and maintain over time the necessary economic flows.

In particular Asworth and James (2001) distinguish between four levels of evaluation of a business, for each of which they identify the relative indicators and show what actions influence choices and behaviour, and thus the implementation of Value Based Management.

The first level, the evaluation of corporate management, is the group of people responsible for strategies and who thus set the immediate objective of the creation of shareholder value. The Total Shareholder Return (TSR) is the most used value metric.

Descending down toward the key performance indicators, the second level concerns an evaluation of current strategies, and thus the present value of the enterprise. “In this way strategy can be cascaded down the company to operational levels. By taking a financial perspective the corporate strategy can be evaluated by adopting ‘value metrics’, and then familiar measures cascading down can assess the performance of operational managers”. For instance, the Balanced Scorecard (Kaplan, Norton, 1996) summarizes financial and non-financial performance indicators based on the four performance perspectives: financial, customers, internal business processes, learning and growth. “There is no perfect performance measure. Much will depend on objective and the timescale. Percentage measures encourage a high return and are helpful for comparisons; value measures encourage growth and are helpful for target setting. Short-term measures are appropriate for monitoring operating performance; long term measures are appropriate for strategy development”. (Hennel, Warner, 1998, p. 104). The Total Business Return (TBR) is the most appropriate value metric.

The third level concerns an evaluation of the business units. Economic Profit (EP) is often chosen to measure the value created by the business units (or by the divisions) in a given period. Although adjustments need to be made, Economic Profit can easily be calculated by the accounting experts.

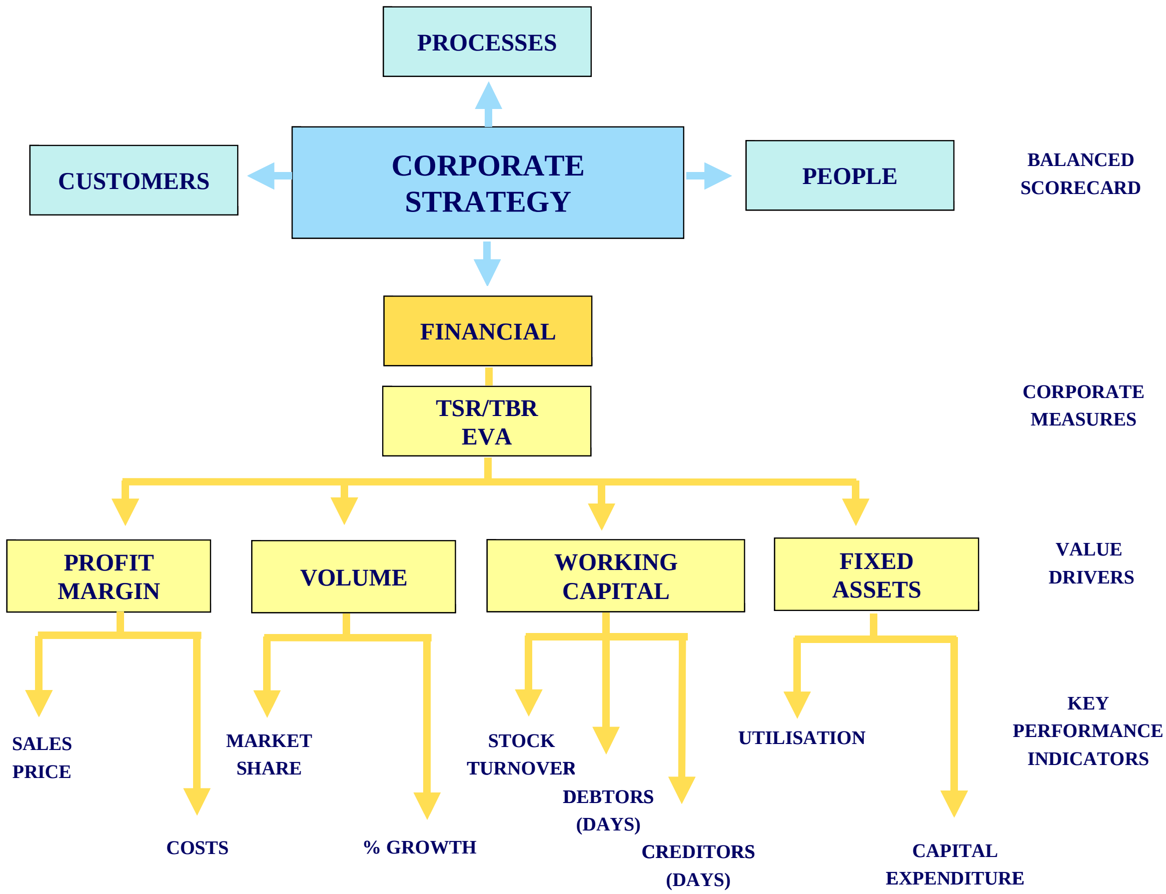
At the last level the key performance indicators are the value metrics for the functions and processes. “This stage requires a sound understanding of the main drivers of value and their conversion into meaningful performance targets that can be used in practice by business units, functions and processes within the entire organization” (Ashworth, James, 2001, p. 64).

According to Ashworth and James, apart from the cost of capital and the time period used to calculate cash flow, only five value drivers influence a strategic plan: 1) rate of sales growth (volume); 2) improvement in sales margins (profit, sales revenue); 3) reduction in capital employed in fixed activities (fixed assets in the balance sheet); 4) reduction in circulating capital; 5) reduction in taxes (tax management).

A successful Value Based Management requires a “map”, a frame of reference that associates the various indicators with particular units, thereby sacrificing an in-depth theoretical analysis for greater simplicity. For example, the schema used by Unilever (Figure 2) links the four levels discussed above and indicates the value metrics for each level.

1) For the corporate level Unilever used the Balanced Scorecard to evaluate strategy, since this technique reveals which actions are necessary to create value; these actions are divided into the following fields: financial, actions toward customers (customers), actions involving internal management processes (process), and human resources (people).
2) The second level concerns measures for evaluating the results of strategies at the corporate level, and thus also measures to evaluate top management. Unilever uses two overall measures: TSR and TBR. The financial section of the Balanced Scorecard (the instrument of analysis used at the first level) is linked to these two corporate value metrics. EVA is used as a measure to evaluate business units at the corporate level.
3) The third-level value drivers are connected to basic operational processes: sales volume, profit margins (profits/turnover), fixed activities and circulating capital derive from managing sales, production and capital. The EVA of the single business unit depends on the trends in these processes.

Figure 2 – The structure of the indicators in Unilever's Value Based Management



Source: adapted from Ashworth, James (2001, p. 68).

The fourth level concerns the indicators connected to the basic activities of each business unit; at this level value drivers and key performance indicators come together. The operational activities are the source of value. Value drivers and KPI are associated with the results of these activities. Sales volumes (value drivers) depend on the market share and rate of growth in sales (KPI). Profit margins (value drivers) depend on the difference between selling prices and costs (KPI). The contribution of the fixed activities depends on their cost (investment) and degree of utilization. The circulating capital employed depends on inventory rotation (and thus on inventory levels), the payment period for suppliers (extensions obtained) and time period for paying credit (extensions granted). Acting positively on each of the key performance indicators improves the value drivers of the single business unit. The value created by the various business units together determines the overall value of the firm's strategies as measured by TSR and TBR.

4 – Activity Based Management and the Knowledge Based View

Activity Based Management (ABM) has shown itself to be one of the most useful instruments for Value Based Management.

ABM can be defined as an accounting-management system based on the principles of Activity Based Costing[6],which seeks to construct a system of information and metrics – by combining economic, financial and operational information about processes – to continually monitor the processes for the production of value and the activities that make up such processes in order to allow management to achieve levels of excellence in four areas which are fundamental to the production of value:

- total quality, for excellence in products and services;
- continual improvement, for excellence in production processes and the elimination of waste;
- efficiency through the elimination of activities that do not produce value, in order to achieve excellence in quality and costs;
- the total involvement of human resources in achieving excellence in innovations and creativity, both to improve quality and increase productivity

ABM tries to impact each of the activities that represent the typical processes in the value chain and to optimise the scope of these activities as a function of their utility in the composition of the product and its marketing; above all, it tries to reorganize the activities so as to minimize their costs and thus the production costs. ABM thus presents itself as a cost management system based on ABC.

The process to create an ABM system can be summarized in eight logical steps:

1) examine the real need for the organization to change from a traditional costing system; this step assumes Value Based Management has already been introduced and that the need is felt to produce value by keeping organizational activities under control, thereby triggering a process of continual improvement with assessments of results;
2) identify the production, activities, resources employed and the reciprocal causal and functional relations;
3) map out the processes to identify the activities and their connections; the inputs and outputs of each activity and process must be clearly specified, as well as their causal links with the final production;
4) gather data and the relations among the data for the mapped activities so as to highlight the relation between the input and output flows, the input requirements per unit of output, the capacity constraints for the factors, and the purchase prices and input values;

[6] The operational logic of ABC introduces the hypothesis that basic costs are in fact not directly “pulled” by production volumes but by the activities required for the production process that leads to final production and sales. Thus it is proposed that the costs of each of the activities that make up the production process be calculated and that the costs of these activities, as well as the costs of the factors directly employed, such as materials and direct services, be allocated to the products.

5) construct an ABM simulation model that enables costs, revenues and results to be calculated by appropriately scheduling the flows;
6) test and validate the simulation model; the results obtained must be congruent with the historical data even using different methods;
7) interpret the results in light of the hypotheses used in the model to carry out the simulations;
8) adopt the ABM model and use it in all ways that are useful to Value Based Management.

Moreover, Value Based Management requires organizational cohesion and internal and external communication processes on which the Knowledge Based View is based.

A communications campaign is needed to spread the principles of VBM throughout the organization. Some concepts are complex, and if they are not adequately understood at all levels of the organization that must implement them the message will be lost (Pellicelli, 2005).

To be effective VBM requires a change in culture at all levels of the organization. The focus of VBM should be on the why and how of changing the corporate culture. VBM involves changing the whole culture of a business, so that value creation becomes the guiding motivation at every level, and for all aspects of corporate activity, from strategic planning to operational decision making. “When VBM is working well, an organization’s management processes provide decision makers at all levels with the right information and incentives to make value-creating decisions” (Koller, 1994, p. 89).

Communications requires precise planning and is specific to each level of the organization (Hennel, Warner, 1998; Ashworth, James, 2001, Kamhi, 2000): 1) top management decides on the “key measures” to apply to the businesses and plans the communication process; 2) senior management translates the objectives of VBM into action; 3) operational management plans the communications process that spreads the principles of Value Based Management throughout the organization.

5 – The interests of shareholders and the social context

Though firms are instruments for satisfying the interests of internal stakeholders, they operate in a social context where there are numerous economic interests represented by the external stakeholders; are not only systems for the production of value but economic actors as well that always operate within a network of multiple relations with other economic, political and social actors: from shareholders to managers, workers to customers, suppliers to partners, trade unions to public authorities and society in general. In this network of interconnections they themselves become social and political actors.

More specifically, firms, even smaller ones, are subject to the constraints imposed by international organizations (antitrust laws) and central and local governments, as well as the pressures from society. Firms are thus obliged to account for their actions as well as their intentions, not only in economic terms but also in terms of the wider social and environmental context.

There has been a development of stakeholder theory, which states that management must not only consider the interests of shareholders but search for conditions of exogenous teleonomy by identifying and satisfying a vast array of stakeholder interests.

As well as being systems for the production of value, firms also are reference systems for Corporate Social Responsibility (CSR) (De Bettignies, 2002); this shifts the focus from meeting the expectations of stakeholders to the responsible and ethical behaviour of firms, which thus acquire social citizenship (Vaccari, 1998; Keeley, 1988).

The social citizenship of the firm – which is based on the awareness that economic farsightedness and social responsibility are not antithetical concepts – expresses the commitment to create well-being not only in the economic sense of financial wealth but also in the wider sense of social wealth or value for the environment (higher education levels, promoting the family by creating professional schools and nursery schools, promoting infrastructure, and so on).

In any event, even while accepting this enlarged view of the firm's role Value Based Management maintains its function as the producer of value for external stakeholders as well; in fact, VBM does not neglect the many needs of the external stakeholders but, by giving preference to the conditions of endogenous teleonomy, recognizes the priority of the shareholders' interests in their capacity as internal stakeholders, on the condition that the interests of other stakeholders must be satisfied.

There are two different though complementary conceptual levels at work here (Argenziano, 1967): satisfying the interests of the external stakeholders becomes a condition, or constraint, for management in trying to maximize shareholder value.

6 – The conditions of exogenous teleonomy

Having shown that productive organizations not only enjoy endogenous teleonomy – by satisfying shareholder interests – but must also try to achieve the conditions of exogenous teleonomy by producing and distributing value to the external stakeholders, thereby continually renewing the production, investment and capital raising processes, we have also shown that the firm must always be viewed from an external perspective as well and, as an ongoing entity, considered in terms of its capacity to survive in the environment it which it carries out its institutional activities and creates the conditions of exogenous teleonomy.

To further clarify the connection between endogenous and exogenous teleonomy we should distinguish (Freeman, 1984) between:

– internal stakeholders, who act within the enterprise system (for example, ownership, management, human resources);

- external stakeholders, who exercise an outside influence on the enterprise (for example, the state, unions, public opinion);
- the primary stakeholders, who have a formal contractual relation with the enterprise (for example, suppliers, workers and customers);
- the secondary stakeholders, who are all the other subjects and/or groups indirectly influenced by the enterprise and who can influence or be influenced by the firm's activities (for example, the local community, mass media, universities, and so on).

The maximum objectives set for the organization as an instrumental system by all the stakeholders can be defined as “institutional”. Firms can continue to exist only if they can satisfy the institutional objectives, thereby maintaining the conditions of endogenous and exogenous teleonomy.

Thus, satisfying the institutional goals does not only represent a goal for managerial activity but a condition for the longevity of the organization.

In order to achieve these institutional goals management must provide the firm with specific objectives that represent an effective guide for goal-oriented actions and which thus can be defined as managerial objectives.

Thus, firms must also produce value for the external, primary and secondary stakeholders by favoring an increase in the collective welfare by satisfying the needs of the stakeholders that represent the extension of management's range of responsibility (Coda, 1988a, 1985).

Since there are interactions and reciprocal influence between the stakeholders and the firm, management must analyze objectives, resources and the strategies of homogeneous groups of stakeholders in order to assess their relevance to the firm and its capacity to mobilize other stakeholders (Coda, 1988b).

7 – Customer satisfaction and Total Quality Management (TQM)

In order to achieve and maintain the conditions of exogenous teleonomy management must choose a management model aimed at satisfying the primary stakeholders – above all, the customer – and therefore be directed at Total Quality Management.

According to this approach, the concept of quality is defined based on what the customer wants and expects. Customer satisfaction is the objective behind this philosophy.

Quality (Donabedian, 1980) is no longer viewed as the end point in a static context but as a pathway of continuous growth in a dynamic context.

Every firm develops competitive advantages over its competition based on a global and coherent approach that involves all the organizational functions; the objective of a strategy based on Total Quality is to satisfy all interested parties (customers, suppliers and social groups, employees, management and shareholders). The firm's output is no longer only its product: it also produces quality. Control must above all be carried out on the process, not at the end of the operation: if the process is of high quality the result will surely be one of quality: if the process has zero defects, so too will the product. The final quality of a product depends on the level of quality of each sub-process that leads to the final outcome.

The guiding values include:

– customer focus
– increased responsibility for collaborators and continual improvement (introduction of teams and work groups to solve problems, along with the constant improvement of products and services)
– the improvement in the production process through rigorous methods of statistical control (not choosing suppliers on price alone but working with them in the field as well)
– redefining the supervising role and improving the system's capacity to improve equipment and assist personnel (allowing supervisors to indicate to management the problems to be eliminated).

Quality control is no longer the prerogative of a single function but of the entire firm and its customers, who continually redefine the standards.

From the organizational point of view, the redefinition of the standards in firms adopting TQM is carried out by the operational nucleus, which not only controls the standards (which previously were entrusted to managers and controllers) but also contributes to their definition. What remains to the quality function is only to determine strategies for quality policies.

From the systems point of view, in addition to negative feedback, which reduces waste, a self-observation process is set up which provides feedback standards evaluation: a second-level control system that represents the capacity for continual learning.

From the point of view of task organization, this new system relies on human capacities, motivation and the ability of the personnel (Dixon, 1994).

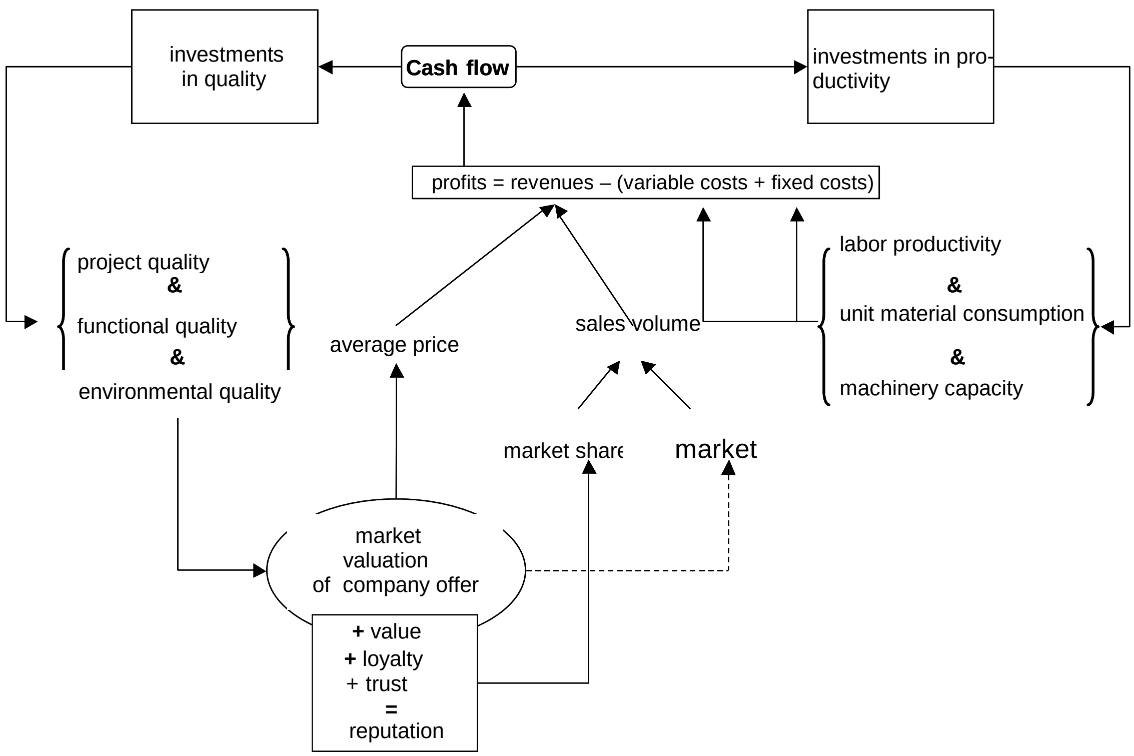
From the point of view of human resource management we must take into account the need to: train personnel, transfer decision-making power to the operational area, develop teamwork and motivate the personnel.

TQM manufacturing organizations, in order to maximize the effectiveness of this managerial approach, engage in a pull production that produces only that which has already been sold to the customer by the sellers, who are in continual contact with the production process (Christopher & Payne & Ballantyne, 1991): instead of coming from planning – according to the traditional push approach – the production are dictated directly by the market (Deming, 1986). This has the following consequences:

– the delivery time (the time between the order and delivery to the customer) is reduced, thereby increasing satisfaction

- the lead time (the time between the inflow and outflow of the inputs, or the production process time) is reduced, thereby increasing efficiency
- the level of inventories is reduced, thereby lowering their cost: warehouse, management, workers)
- the pace is dictated by the market; thus there is greater adaptation to the environment
- reduction in inventories = quick error detection which otherwise might be warehoused and discovered too late, thereby compromising the entire production.

Figure 3 – The relation between investment in quality and the loyalty-reputation variable



Source: Gazzola & Mella , 2006.

Generalizing, the principles of TQM (Hakman & Wageman, 1995) are the following:

- Process orientation (JIT, process and input quality, quality circles)
- Customer focus (comakership and research, satisfaction)
- Involvement of operational nucleus (quality circles, training)
- Continual improvement (quality circles, statistical instruments and control mechanics)

The ultimate aim of the TQM approach, improving competitiveness, is achieved by improving customer satisfaction through the best possible product quality (Invernizzi & Molteni, 1992).

Every investment in quality (figure 3) is, in fact, an investment that allows the organization to maintain the value-loyalty-trust trio from the market, which is synonymous with reputation (Gazzola & Mella, 2006).

8 – The connection between endogenous and exogenous teleonomy: Corporate Social Responsibility (CSR)

We have tried to show how the firm as an open system becomes an actor in a broad system of dynamic and complex relationships.

The European Community Commission Green Book defines C.S.R. As “the voluntary integration of social and environmental concerns of firms into their business operations and their relationships with the interested parties” (Green Book, 2001).

A socially responsible company is one that:

- obeys the laws;
- carries out its decisions taking into account ethical values in full respect of individuals, the community and the environment;
- is particularly interested in the welfare, safety and dignity of its workers and collaborators;
- fights against corruption of whatever type;
- pays maximum attention to problems in the community it operates in.

The social responsibility of a company (Carroll, 1991), which leads to the reconsideration and even the redefinition of the relation between ethics and economics (Ferraris Franceschi, 2002), spurs companies to seek ways to link efficiency and economic value with non-economic values that society considers to be fundamental. From this viewpoint the possibility for the firm to integrate ethical aspects into its activities becomes the main topic of debate, which goes back to the old question, as open as it is difficult, concerning the relation between ethics and corporate decisions (Maggi, 1992).

Along with dividends and economic value, firms are being asked to provide social responsibility. The firm must be recognized as socially responsible regarding important issues such as its dominant influence, transparency, the respect for minorities, the environment, human rights, the respect for diversity, compatible growth, philanthropy, social solidarity, honesty and ethics (Hinna, 2002).

Being socially responsible means not only fully satisfying its legal obligations but also going beyond these to invest “more” in human capital, the environment, and in relations with the other interested parties. The application of social norms that go beyond the basic legal obligations – for example, in the areas of training, working conditions or the relationship between management and staff – can, for its part, have a direct impact on productivity. A way is thus open to allow the company to manage change and to reconcile social development with greater competitiveness.

This concept of social responsibility, which sees the firm's contribution to social welfare as a duty, entails a view of the firm that underscores the existing conflict between this responsibility and the goal of companies: to make a profit.

In reality, social responsibility should not be viewed as an obstacle to making profits; rather, some firms that have achieved good results in the social or environmental protection sectors indicate that these activities can result in better performance and generate higher profits and growth. In this regard, it is particularly interesting to underscore that, on the one hand, social responsibility does not necessarily imply a positive correlation with the firm's performance, and on the other that this correlation can occur if the right organizational conditions exist (Molteni, 2004).

For many firms social responsibility represents a new field of activity that requires a long-term assessment.

The economic impact of the firm's social responsibility can be divided into direct and indirect effects.

Positive direct results can derive, for example, from an improved workplace environment that translates into greater commitment and productivity from personnel; or they can derive from an effective management of the firm's natural resources.

Moreover, the indirect effects are the result of the growing attention of consumers and investors, which will broaden the firm's possibilities in the market.

Conversely, a firm's reputation can often suffer due to criticisms regarding its business practices, a situation that can have harmful effects on a firm's trademark or image.

Despite the different definitions we can give to the concept of social responsibility for a firm, there is nevertheless a common denominator to all of these that is based on the firm's behaviour; we can thus define as a socially responsible firm one that, while managing its business operations, also controls and continually improves the latter's social and environmental effects.

A fundamental feature of social responsibility is the continuity in the commitment to improve the quality of relationships with those subjects connected to the firm (Casotti, 2005).

There are many factors that contribute to the evolution toward the social responsibility of a firm:

– new concerns and expectations of citizens, consumers, public authorities and investors in light of large-scale globalization and industrial transformation;
– social criteria that increasingly influence the investment decisions of individuals or institutions, both as consumers and investors;
– growing concerns about environmental deterioration due to economic activity;
– the transparency of a firm's activities brought about by modern means of communication and information technology.

9 – Socially responsibile behaviour and sustainable growth

The behaviour of a socially responsible firm can engender trust by optimizing the effects of the firm's operational behaviour, thereby gaining consensus and benefits.

Along with the hypothesis of endogenous teleonomy presented in section 3, we shall introduce the following hypothesis of exogenous teleonomy: the exogenous teleonomy of a firm, as a permanent productive organization, depends on the capacity of the business system to engender trust in the external stakeholders, in particular customers.

Improving the image and reputation of the firm along with its social responsibility contributes to creating trust and has a positive impact on relations with those groups or individuals the firm deals with (Gazzola & Mella, 2004). Consumers are likely to reward firms that support just causes; the socially responsible firm that engenders trust attracts investors, giving them incentives to risk their capital in the business transformation proposed by management.

By moving away from an approach based only on shareholder value and toward one that balances the firm's business operations with external interests, the quality and business competitiveness of the firm is increased; a socially responsible firm reduces the costs from conflicts of interest thanks to a general involvement in its activities.

The adoption of socially responsible practices only appears to sacrifice profits; in reality it indicates the way to long-term profits for a firm that has solid foundations.

The recent evolution in the role of companies has led to the recognition of a social and environmental aspect to their activities which obliges them to seek sustainable growth and not one "at all costs"; this requires that they modify the concept of growth and its sustainability.

Sustainable growth is "growth that can satisfy the needs of present generations without compromising the satisfication of the needs of future generations" (Brundtland, 1987).

Sustainable growth does not represent an option but is rather a necessary condition for success in the medium-long term; social responsibility becomes an important strategic factor (Clarkson, 1995).

Along with the conditions of exogenous teleonomy, growth and development must be compatible with the needs and expectations of the collectivity: consensus and social legitimization favor the conditions of trust necessary to achieve earnings and competitive advantages (GBS; 2001).

Finally, we must point out that the firm, as a social agent, must engender trust by basing its own growth on an ethical behaviour (Crivelli, 2001), creating and managing its businesses so as to improve its economic performance while at the same time protecting the natural environment and promoting social justice (Borzaghi, 2003; Carola Casavola, 2001).

The corporate balance - drawn up based on a financial approach -, as clearly shown in the “Sustainability Reporting Guidelines” in the "Global Reporting Initiative”[7] ,cannot by its own nature identify and point out the many ways in which firms influence the environmental and social ecosystems they operate in, beginning with the use of human, natural and capital resources and the creation of value.

The European Commission has asked all the large firms listed in the Triple Bottom Line Reporting (Elkington & Fennell, 1998) to communicate their economic, social and environmental performance[8] to the shareholders, supplementing the economic aspect of their management with the social and environmental ones (Bennet & James, 1999), to the benefit of the relationship with their stakeholders and the markets.

The spread of economic prosperity, environmental quality and social justice are the pillars that support both the creation of corporate value based on the “triple bottom line” (Warren, 1999) and the conditions of exogenous teleonomy in firms.

10 – The corporate responsibility report for endogenous and exogenous teleonomy

To incorporate social and environmental concerns into their activities firms can go down the road that involves assuming new responsibilities, thereby demonstrating that they have placed at the top of their list of priorities people, their values and the respect of their rights. In this sense we speak of ethical capability, which is understood as the capacity of a firm, or its organization, to identify and effectively and efficiently respond to the ethical problems presented by the global context. However, the ethical and moral values of firms must not be confined within company walls as abstract declarations of principle; otherwise this would take away from the reason behind their formulation: there must be a shared relationship with the individuals and groups the firm deals with through a daily and credible commitment that results from appropriate managerial choices and a business system organized to that end.

There is no conflict of interest between private interest and concern for others. A virtuous life is the best life not only for others but also for oneself. This is the core meaning of the ethics of the common good. The common good is not merely the sum of the advantages for the various classes of stakeholders (Zamagni, 2005).

The need thus arises for the firm to communicate, to make its actions visible to the outside, and as a result to obtain social legitimization for these actions.

Until several decades ago it was thought sufficient to communicate the data concerning the economic and financial trends of a firm's management; today, instead, there is a general interest

[7] www.globalreportinginitiative.org
[8] Comunication 347, July 2, 2002.

that is revealed not only as the sum of the expectations of the individuals with whom the firm has direct relations but also as a collective interest.

The acceptance of stakeholder theory (Freeman, 1984) has meant that firms have had to redefine their competitive strategies and the way they manage social and environmental issues, since these are evaluated by shareholders and determine how new groups of subjects judge the firms legitimization. As a result outside communication represents an important opportunity for the firm to increase its social acceptance and offer its own point of view, supported by information that, as much as possible, is understandeable, objective and verifiable.

The growing attention of firms to achieving organizational growth and continuity while respecting the environment in which they operate, safeguarding work and human needs as well as satisfying the expectations of all the social actors, has led them to behave in a way that is consistent with ethical and social values and to develop information and outside communication methods that underscore their commitments and achievements. In recent years firms have supplemented their financial year end accounts with a statement that integrates traditional information with other measures and indices, as well as environmental, ethical and social data: the corporate responsibility report (Rusconi, 1988).

Firms voluntarily divulge information on their ethical behaviour and their relations with the social and natural environment because of the advantages this brings in terms of economics, image and credibility, which increases the global value of the organization. As it is a voluntary document, there is at present no general and single standard for its drafting; thus each firm can choose the format that is closest to its situation and size, choosing from the most common national and international models.

To respond to the new information needs of society it was necessary to define the characteristics of a social and environmental balance that, together with traditional informational tools, allows firms to implement a strategy of widespread and transparent communication capable of obtaining social consensus and legitimization, which are at the core of the achievement of any other objective, including earnings and competitiveness.

Drafting a corporate responsibility report (Rusconi, 1996) means joining the pursuit of profit with the collective interest; it is an index of progress on the communications front as well. The corporate responsibility report must express and harmoniously reconcile the economic measures and the quality of the relationship between the firm and its stakeholders, represented by the collectivity.

As a communications document the corporate responsibility report (Catturi, 1998) has an internal and external validity that reveals how the complex interdependence between the economic and socio-political factors has become increasingly more uniform, punctual, complete and transparent, deeply rooted in and consequent on the business decisions.

It seeks to achieve the following objectives:

- give all stakeholders an overall picture of the firm's performance, thereby initiating an interactive process of social communication;
- provide useful information on the quantity and quality of the firm's activities in order to broaden and improve, even from an ethical-social point of view, stakeholder knowledge and the possibilities to assess such activities and make appropriate decisions.

  In particular this entails:
- taking into account the identity of the firm and its value system of reference, and how this is reflected in business decisions, management behaviour and their results and effects;
- setting forth the objectives to which the company is committed for its improvement;
- providing indications on the interactions between the firm and the environment it operates in;
- presenting a system of economic, social and environmental indicators;
- representing the added value and its allocation.

From the internal point of view this document highlights the conditions of endogenous teleonomy, taking into consideration the functions of internal management and mission reinforcement.

With reference to internal management the corporate responsibility report, by comparing the resources consumed (perhaps even destroyed) with the results achieved, permits a careful reflection on the production processes and strategy formulation, at the same time offering the possibility to verify the coherence between the activities undertaken and those values that should inspire the firm's operations, favor the involvement of all the organization's actors, and thereby allow the firm to strengthen its mission (Matacena, 2001).

From the external point of view the corporate responsibility report aims to highlight the conditions of exogenous teleonomy. The most important functions are information and image management (Vermiglio, 1984). In fact, the corporate responsibility report is a useful instrument to inform stakeholders about the firm's economic, social and environmental performance, in order to promote both the image and reputation of a firm that is committed to responsible practices.

Thus the corporate responsibility report must be a valid instrument that stimulates and heightens the awareness of management in responsibly pursuing an effective social role to continually improve company performance.

With regard to the firm's social responsibility it is clear that in this case we are not talking about traditional corporate accounting, which is mainly directed at shareholders and whose symbol is the year-end account. In fact, the accounts in question must necessarily be economic, social and environmental, and from this viewpoint it is aimed not only at shareholders but at all the stakeholders.

11 – The system of perfomance indicators that reveal the conditions of teleonomy

Including a system of economic, social and environmental indicators in the corporate responsibility report allows firms to interpret the trends in business operations that are relevant for the attainment of the objectives. One of the tasks of the measurement system is to orient and stimulate behaviour that is in line with these objectives.

In order to interpret what goes on in firms we must remember that the satisfaction of the institutional aims is the condition that allows the firm to achieve longevity. Firms can survive in the environments they operate in if they can satisfy their objectives by maintaining the conditions of exogenous teleonomy. The firm's endogenous teleonomy is, in fact, determined by the environment's capacity to maintain in existence those systems it considers useful. The firm's performance must be evaluated by considering its production mission, taking into account its long-term growth and, above all, the satisfaction of all its main stakeholders (Freeman, 2003).

The achievement of the institutional objectives requires not only achieving an economic equilibrium and an adequate level of efficiency, but also managerial effectiveness.

In order to measure social (Kaplan & Norton, 1992) performance (Clarkson, 1995) we must insert indicators[9] into the corporate responsibility report (Larsimont, 1979) that allow us to measure the firm's capacity to create well-being for the collectivity (Atkinson & Bunker & Kaplan & Young, 1998) and to demonstrate the firm's social utility by indicating, from both an internal and external point of view, its capacity to achieve social and environmental objectives (Ranganathan J., 1999).

The internal performance indicators show the ratio between the outcomes and the means utilized to achieve these outcomes (Haywood & Pickworth, 1988), with the aim of showing the conditions of efficiency (Davis, 1991) needed to produce endogenous teleonomy: that is, the firm's capacity to produce an autopoietic behaviour by continually restoring the network of internal operational and cognitive processes that characterize it (Horngren & Foster, 1987). The level of these ratios reveals the social role of the firm, as a "responsible citizen", in using the resources available to it in a suitable way to satisfy the "legitimate" expectations of its various interlocutors.

The external performance indicators aim to examine the conditions for the firm's effective performance in order to reveal the conditions of exogenous teleonomy; here the firm is viewed as an indicator of the capacity to survive in the environment (Costanza, 2000) in which it operates. Effectiveness is shown by the ratios between the actual results and the pre-established objectives (Schalock, 1995). The more the result approaches a unitary value, the greater the firm's effec-

[9] European Environment Agency (EEA), Environmental signals, Copenhagen, EEA, (2001), http://www.eea.eu.int

tiveness in pursuing socially useful objectives while demonstrating its “social responsibility” (Drucker, 1995).

These indicators are difficult to identify (Tencati, 2002) because we cannot universally define the variables we need to consider. We must often define specific indicators (Edwards, 1986) to summarize qualitative descriptions (Jones & Sasser, 1994).

In order to ensure homogeneity and standardization (Owen & Swift & Humphrey & Bowerman, 2000) in the presentation of data and to be able to compare the results of the various firms, we should have a system of optimal indicators and draw up a social statement (Perrini F., 2003).

The indicators should be determined[10] on the basis of the various groups of stakeholders and adapted to the specific size and organizational features of the firm in question.

An initial group of indicators (Schmid-Schoenbein & Braunschweig & Oetterli, 2001) regards the firm’s management, personnel policies and quality of work (Zeithaml & Parasuraman & Berry, 1990). The main indicators in this group are: the frequency of voluntary resignations, the absentee rate, the movements from one work category to another, the hours of internal professional training, the frequency of worksite incidents and professional illnesses. We can also use indices of employment segregation based on sex: in other words, for each job level involving similar tasks we can calculate the proportion of female to total personnel. This value for employment segregation by sex can be compared to the average value for other firms in the same sector. Another index of employment segregation regards the nationality of the employees.

A second group of indicators should concern the social welfare of the area in question (GRI, 2002). To calculate this we can refer to the indicators of economic well-being and safety, and the crime rate.

Finally, the indicators (Welford, 1996) regarding the respect for the environment can more easily be standardized and codified in a well-defined and limited manner. Thus the indicators for the firm’s respect for the environment (GRI, 2006) are concise and simple, and more often than not are based on certifications approved at the national or supranational levels (Bailey, 1982).

12 – Conclusion: the indissoluble link between shareholder value and stakeholder value

This study has tried to clearly present the conditions of endogenous and exogenous teleonomy in production firms that can represent a basis for determining the management objectives function.

The capitalistic company's mission has always been to create shareholder value by seeking ever higher levels of quality and efficiency, supporting the hypothesis presented in section 3, based on which endogenous teleonomy depends on the capacity to create businesses capable of producing shareholder value.

We have tried to show that along with this mission is a connected one: to generate benefits in favor of external stakeholders: work opportunities - directly or induced (components and services for the firm, services for workers and their families) - the development and spread of knowledge (scientific, technological, business, managerial, organizational, etc.), contributing to balancing the national trade balance, generating tax revenue for the state and local authorities, and so on (Coda, 1998).

The firm appears as an economic social actor that operates in the ethical, social and political environment it belongs to and with which it interacts not only through a system of physical, monetary and financial exchanges but also through human and communication flows that produce knowledge, trust and reputation (Prahalad & Bettis, 1986; Harrison & St. John, 1998).

The second hypothesis introduced in section 9 states, in fact, that the exogenous teleonomy of firms – as permanent productive organizations – depends on the capacity of the business system to produce trust, to become the actor, engine and key factor for an environmental development capable of producing environmental and social value by minimizing the negative environmental and social value from environmental damage. In fact, the firm's reputation as a social actor emerges and is reinforced, and trust is engendered in the external stakeholders, precisely on account of a positive assessment of its capacity to interact with the environment; on management's ability not to limit itself to the growth of the firm but to produce an internal growth that can be sustained along with environmental growth.

The assumption of social responsibility represents a structural aspect in the life of the firm which, in carrying out its typical production mission, inevitably has an impact on a variety of subjects for whom it can create or destroy value.

VBM proposes an appropriate system of economic and financial ratios and synthetic values (EVA and EVF) to evaluate the extent to which the economic-financial objectives of business and profit organizations have been met.

Nonetheless, these indicators do not permit us to evaluate the overall impact of a firm's activities on the collectivity (Hill C. W. L., Jones T. M., 1992). For this we must produce a corporate responsibility report (Wilson, 1999), since its objective is to indicate the value created by investments in the social field (Vermiglio, 2000) and, more generally, the results of the firm's social and environmental policy.

The social report thus has the twofold advantage of being an effective instrument for providing information on corporate policy (Gabrovec Mei, 1993) with regard to the optimal use and safeguarding of human, natural and social resources, allowing us to judge the social responsibility of the firm (Keeley, 1988), and for promoting an image of corporate management that gains the consensus of the collectivity (Reumaux, 1976) and enhances the reputation of the firm, which in turn is fundamental for ensuring greater public trust (Zadek, 2001).

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[10] CSR in Europa", www.welfare.gov.it

From this perspective the firm, viewed as an economic and social agent, not only produces economic value but represents a value for all the stakeholders. In this manner the social responsibility of every productive organization is revealed (SEAN, March 2003).

We can understand the importance of maintaining a high reputation if we interpret reputation as an overall indicator of the organization's quality; as an expression of its social value.

In conclusion, the quality of products and processes, which is fundamental for the creation of economic values, is not in an of itself synonymous with the quality of the firm when the latter must be judged and appreciated for its social and environmental impact. Only by satisfying all the stakeholders, internal and external, primary and secondary, can the firm – understood as an organization – have a long-lasting existence as an economic institution destined to continue on.

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