

**Department of Business & Management**  
**Chair of Advanced Corporate Finance**

***Corporate Stakeholder Responsibility and  
value creation: British American Tobacco  
case study***

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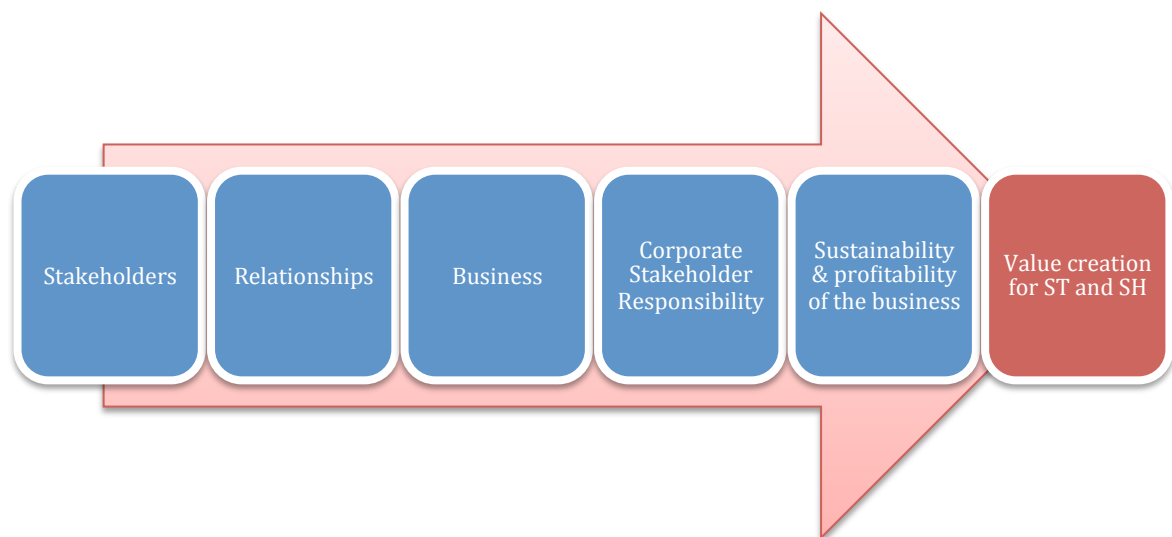
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## Summary

The business environment is even more challenging year by year than what it was expected to be, so companies worldwide need to reconsider their business models and strategies and come up with new and sustainable tactics able to drive, or preserve, the value creation for their shareholders. This thesis presents the shift that has interested the majority of companies' business strategies in the 21st century through the analysis of one of the key solutions to such change, the *Corporate Stakeholder Responsibility*.

The idea to develop this topic got started with a meeting that I had the pleasure to hold with Mr Petrillo, the Head of Corporate Affairs and Regulatory Affairs of British American Tobacco (BAT). The thing that impressed me the most in such conversation was that even if the company produces and markets a seriously health harmful product and even if BAT operates in an industry prominently regulated, it is still able to experience billion of dollar of revenue year by year. Nevertheless, the company is profitable and seems to be immune to periods of crisis and the key of this success is the stakeholder responsibility, through dialogue, communication, and partnerships.

The idea that emerged after this meeting was simply that if you want to run a business in the nowadays environment, it is not enough to produce high quality products and sell them. The real added value of BAT is its ability in managing all the immaterial processes between the production and the sale of the pack of cigarettes, and the most important one is the management of relations. With BAT, and in the overall tobacco industry, I recognized the possibility to feel the worth and the instrumentality of the Corporate Stakeholder Responsibility to shareholder value creation.



The purpose of this dissertation is to go beyond the general corporate social responsibility concept in which the term itself is very confusing; indeed here is taken into consideration the evolution of the CSR through the stakeholder theory. The focus is on a specific aspect of the CSR that is considered to be the most business-related to the company's day by day operations and as a matter of the fact it is an intangible key driver for the bottom line. We will have a conversation about business strategy and business responsibility toward the stakeholders, so what a business does and how it does it.

The thesis analyses the Corporate Stakeholder Responsibility according to two strong assumptions: the long-term goal of the company is the shareholder value creation and the business is stakeholder oriented from the point of view that companies have to manage for stakeholders because they are a vital step in the value creation process.

So, in the elaboration of this work has been adopted the *instrumental perspective* of CSR seen as a mean to take advantage in the market with the final goal to deliver higher returns to shareholders. Furthermore the thesis attempts to explain and assess the effects of CSR on corporate financial performance and on stock price.

The thesis has a double transversal approach that goes on one side from business strategy to corporate finance, and on the other side from theory to practice.

The first chapter introduces the stakeholder concepts and all the features linking the stakeholder to the company. Furthermore there is a presentation of the main theories supporting the central role of stakeholders in the business environment (e.g. primary vs. secondary stakeholder).

Going forward on this topic, various scholars devoted their attention in the study of core stakeholder principles and were developed many interesting criteria for assessing the role of stakeholders that are discussed in the opening chapter.

Generally speaking, in the former part the focus is on the introduction of the main character of the thesis in order to provide the reader with a solid knowledge of who stakeholders are, how they position themselves in relation to the companies, and how much companies know about their stakeholders.

Finally after an assessment of different categories of stakeholders, we start to discuss more in detail about the specific approach of the thesis in dealing with the stakeholder theory: the instrumental perspective of stakeholders.

In that way we start to outline the identity of the thesis and its goal. According to this, stakeholders are an essential "asset" for value creation and an efficient managing for stakeholders maximise the real long-term goal of multinationals, the shareholder value.

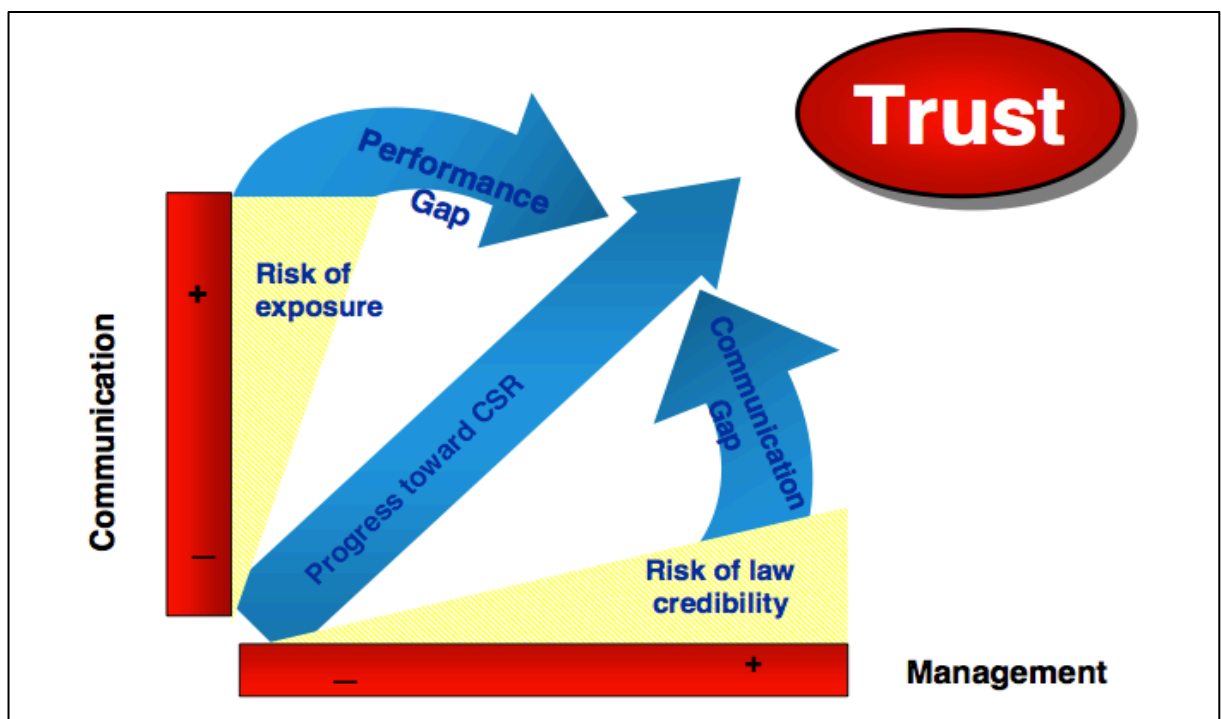
In the second chapter we are going to discuss the outcome resulting from the intersection of stakeholder theory and corporate social responsibility: the corporate stakeholder responsibility.

First of all, we provide the reader with a brief introduction to the wide topic of corporate social responsibility and then, we analyse the corporate stakeholder responsibility as an evolution of the more general CSR.

Our attention will be focused on this specific aspect of the CSR because it is in our opinion one of the most valuable set of policies and practices that companies should take into consideration.

After the identification of which kind of CSR we are referring to, we investigate the role of CSR in the field of business strategy and value creation.

The CSR is perceived as a tool of competitive advantage and in the chapter we identify the main value-oriented activity related to that: management for stakeholders through effective communication and active dialogue.



In the last part we adopt the stakeholder perspective and we investigate how through a weak CSR, such stakeholders can affect the company. Furthermore we go through a brief consideration about the recent evolutions in the CSR field and we discuss common concerns about its voluntary nature and the inadequate role of international guidelines.

The third chapter examines the key topics underpinning the fundamental role of CSR in the shareholder value creation. This unit traces a significant shift from the theoretical perspective of the literature analysed in the first two chapters, focusing more on a practical approach and investigating the impact of Corporate Stakeholder Responsibility on the corporate financial performance (CFP).

In this part the study of the relationship CSR – CFP is enhanced through the analysis of different empirical readings that provide us with meaningful findings. From such analysis the chapter goes through an interesting debate according to which CSR can lead to value creation only if it is meant as stakeholder management or prioritization of some stakeholders. Whereas from another perspective the CSR cannot directly create value but it is a strategic tool to preserve value for shareholders; so the CSR from a risk management standpoint.

Also important in this chapter is the emphasis on the instrument that will allow companies to monitor better their relationships with stakeholders and that will drive to higher corporate social performance and higher corporate financial performance: the stakeholder reporting.

In the ending section, the chapter suggests an explanation of the CSR as a moral development of the organization, according to which three standard stages are identified. As we will see the interesting finding is that companies tend to stop at the middle level and only the government intervention can push such companies to reach the highest level of commitment.

The fourth chapter completes the whole picture of the CSR and its value creation aspect taking into consideration an innovative perspective.

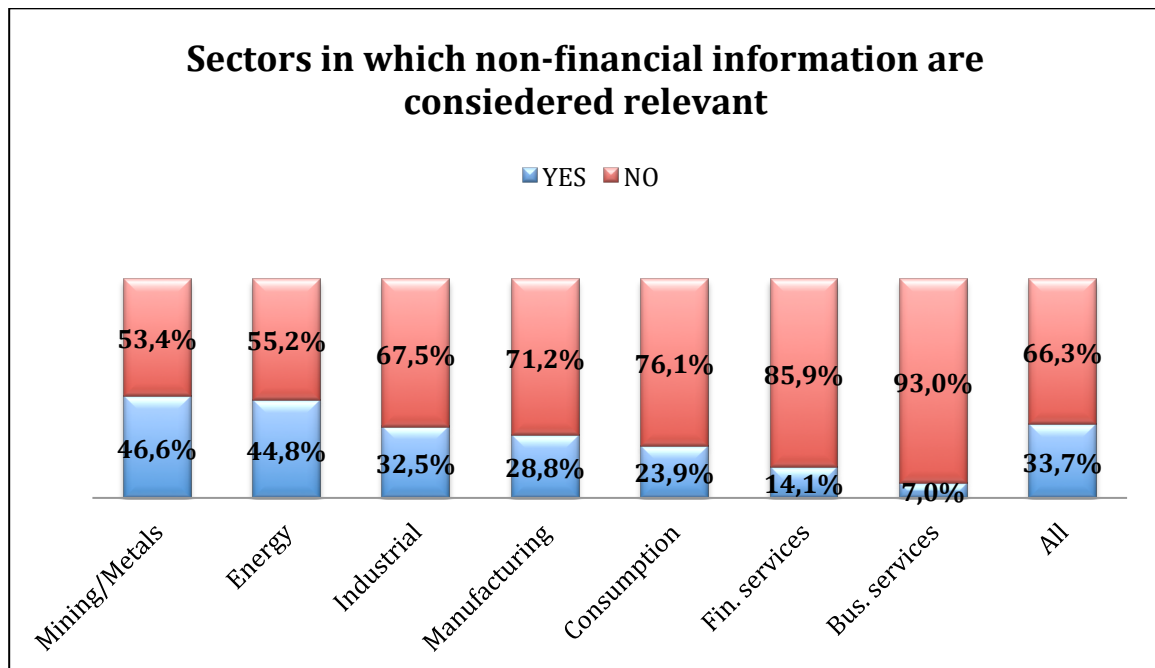
As analysed until now, the adoption of the best CSR practices is one of the multiple factors that allow the company to create value with a positive impact on the corporate financial performance, the bottom line for instance.

At the same time it is very interesting to analyse the value creation concept of CSR from the capital markets standpoint. In fact, in the fourth chapter we will see that the CSR is perceived as a positive driver for the investors' decision-making and stock picking.

This chapter wants to stress the idea of value creation as engaging new resources, such as capital, to be invested.

Obviously if a company with an efficient CSR is able to attract more capital with respect to the ones that do not, this is synonym of value creation. According to that, if the

company can benefit from more equity, it enables such firm to enlarge the business, to invest, and in the end to deliver higher returns to its shareholders



The structure of the thesis started from a more theoretical to a more and complete practical approach to the goal of the thesis, the stakeholder responsibility and the value creation. According to that the real added value of the fourth chapter is represented by the concrete business examples in which the CSR has had a huge impact and it has been possible through the conversations that, in May 2014 during my period of research in Washington DC, I had the honour to held with two of the most powerful CEOs in the businesses world, Sergio Marchionne (Chrysler Group LLC) and Helge Lund (Statoil Oil and Gas).

The chapter outlines the main non-financial pieces of information that investors really value when they invest, and in particular it is stressed the role of the integrated reporting developed by SASB with the aim to provide “materiality” to non-financial information. Indeed investors would seem to be more sensitive to these kinds of factors (environmental, social, and governance) that are able to shape positively their confidence. In the chapter are reported the CSR key success factors that the CEOs identified as vital for the profitability and the sustainability of their particularly challenging businesses. This part concludes with some fascinating empirical examples,



from the pharmaceutical industry to the energy sector, in which the lack/efficient implementation of CSR policies has influenced negatively/positively the stock price.



▪ **Figure.** *The BP Global Stock Price Trend.*



▪ **Figure.** *The Statoil Stock Price Trend.*

Last but not least, the fifth chapter includes the analysis British American Tobacco.

The purpose of this part is to examine critically the case study focusing on the goal of the thesis, so the impact that the Corporate Social Responsibility can have on the value creation process.

This chapter is divided in four sections in which first of all are presented the motivations concerning why the choice of BAT. In this section we will underpin the controversial feature of the tobacco industry and the notion of CSR for BAT. From this section will emerge that the company has a moral principle to behave in the most responsible way it can, according to the fact that CSR is not what the company does but how it does its business. And here we will see that the key success factor is stakeholder responsibility.

Secondly it has been thought to be useful introducing where BAT operates, the industry and the main challenges, always with a specific attention to the instrumental perspective of the CSR. BAT and the main tobacco players are companies that are not widely perceived by the public opinion (communication and marketing are not allowed by law), instead they are well known by the institutional opinion and by the lawmakers that as we will see play a crucial role in the tobacco industry.

Finally in the last two sections is examined the topic of how BAT creates value through CSR meant as coalition building and multiple-stakeholder dialogue. In addition is analysed the relationship between the stakeholder responsibility and the bottom line and which has been the stock price trend in the last twenty years.

Throughout this thesis I will try to investigate that an efficient Corporate Stakeholder Responsibility is able to create value for the shareholders but on the other side, I will adopt a critical approach stressing on the fact that the stakeholder responsibility is definitely part of business strategy of a company and not something that should be considered as a best practice of being socially responsible.



▪ **Figure 29.** *British American Tobacco and its business.*

The Corporate Stakeholder Responsibility has emerged to be a necessary condition for the companies operating in the current business environment. Stronger business relationships and better knowledge of the stakeholders' interests is the intangible part of the business strategy that cannot be ignored in the 21<sup>st</sup> century.

This thesis wants to stress the importance of sustainability of the business even more than profitability, and it is made possible not only by the production of a high quality good for instance but with a deep investment in stakeholder responsibility.

This condition of attention on behalf of the stakeholders should not be perceived as a kind of social responsibility because managing for stakeholders is a crucial step in the value creation for shareholders and it is adopted in an attempt to improve financial performance and to reach long term goals. This is what we called the instrumental perspective of the stakeholder responsibility.

The BAT case study is a clear example that provides us with meaningful findings determining the strategic, and not social, feature of the CSR. It is all about short-term costs for long term benefits that can go from value creation to a kind of risk management perspective that are extremely valuable in a context of exposure at too many risks and uncertainty of profits.

In the elaboration of the thesis we had the chance to connect the dots between the theoretical studies and the empirical evidence, and what emerged to be the key driver of value creation was always the stakeholder management or stakeholder prioritization.

The following important consideration was if the market was sensitive to such kind of non- financial information and actually the answer is it depends. We could assert that always more investors are taking into consideration such kind of information but it is definitely not accepted the hypothesis that an investor will be attracted just by huge investments of the company X in CSR. Actually the investor will be interested in the past about looking the stock price trend, in the present about the bottom line and the financial solidity of the company.

From the perspective of CSR as a crucial aspect of the business strategy and as driver (instrumental) for shareholder value creation, we can definitely accept it as fascinating competitive factor on which companies should invest more in the future. But from the perspective of the communication requirements we come up with some concerns. Indeed the CSR, according to its voluntary nature, is not required with a mandatory disclosure so the main issues arise in the moment in which there is a substantial gap between the CSR as real responsibility of the investment conducted by the company (e.g.

how the company does what it does) and the CSR as communication. So the question is if the market reacts to the information that are disclosed or to the real things that are/are not done by the company in terms of investment. The answer is that the market reacts to the communication.

According to this perspective the market should trust the disclosure of the companies without taking care of the social performance. In the discussion of the thesis emerged an interesting finding that basically concerns the measurability in terms of investment of companies in CSR. As we well know we cannot find an account in the balance sheet with the name expense in CSR, it is not mandatory. But what emerged is that the CSR activities is strictly related with the investments in R&D and innovation and in a certain sense it could provide a slightly perception of how many resources are devoted to the CSR. Finally CSR is communication and each company is free to disclose what is better on the behalf of itself (e.g. reputational effect). The voluntary nature of the CSR makes it a potential key success factor for competitive advantage, but it could be interesting to see in the next years that for those companies that decide to disclose some non-financial information some formal rules should be applied.

According to the fact that the market is sensitive to the communication and to the information, the main assumption is that if the company decides to go for disclosure, binding laws, which at the moment do not exist, should certificate this information.

We could conclude with an optimistic message about the fact that during the period of elaboration of the thesis it emerged that lots of companies really perceive the value the of stakeholder responsibility, from Statoil Oil & Gas, to BAT, to Chrysler Group LLC, but only some of them identify in the disclosure of these information an added value.

According to the non-transparent behaviours adopted in the latest years in many business situations, it would seem that showing the internal practices such as “this is how we operate and this is what allows us to be profitable and sustainable over the long run” is becoming more common. Not exactly because it is meaningful for the business viability but in particular way because it is the market that requires new and more detailed information and as J. Welch, ex CEO of GE said: “If the rate of change on the outside exceeds the rate of change on the inside, the end is near” – “change or die” – “change before you have to”.

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<http://www.unglobalcompact.org>