

## Integration of Corporate Social Responsibility Criteria in Employee Variable Remuneration Plans

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**Abstract :** Since a few years, some French companies have integrated CRS (corporate social responsibility) criteria in their variable remuneration plans to 'restore a good working atmosphere' and 'preserve the natural environment'. These CSR criteria are based on concerns on environment protection, social aspects, and corporate governance. In June 2012, a report on this practice has been made jointly by ORSE (which means Observatory on CSR in French) and PricewaterhouseCoopers. Facing this initiative from the business world, we need to examine whether it has a real economic utility. We adopt a theoretical approach for our study. First, we examine the debate between the 'orthodox' point of view in economics and the CSR school of thought. The classical economic model asserts that in a capitalist economy, exists a certain 'invisible hand' which helps to resolve all problems. When companies seek to maximize their profits, they are also fulfilling, de facto, their duties towards society. As a result, the only social responsibility that firms should have is profit-searching while respecting the minimum legal requirement. However, the CSR school considers that, as long as the economy system is not perfect, there is no 'invisible hand' which can arrange all in a good order. This means that we cannot count on any 'divine force' which makes corporations responsible regarding to society. Something more needs to be done in addition to firms' economic and legal obligations. Then, we reply on some financial theories and empirical evident to examine the sound foundation of CSR. Three theories developed in corporate governance can be used. Stakeholder theory tells us that corporations owe a duty to all of their stakeholders including stockholders, employees, clients, suppliers, government, environment, and society. Social contract theory tells us that there are some tacit 'social contracts' between a company and society itself. A firm has to respect these contracts if it does not want to be punished in the form of fine, resource constraints, or bad reputation. Legitime theory tells us that corporations have to 'legitimize' their actions toward society if they want to continue to operate in good conditions. As regards empirical results, we present a literature review on the relationship between the CSR performance and the financial performance of a firm. We note that, due to difficulties in defining these performances, this relationship remains still ambiguous despite numerous research works realized in the field. Finally, we are curious to know whether the integration of CSR criteria in variable remuneration plans - which is practiced so far in big companies - should be extended to other ones. After investigation, we note that two groups of firms have the greatest need. The first one involves industrial sectors whose activities have a direct impact on the environment, such as petroleum and transport companies. The second one involves companies which are under pressures in terms of return to deal with international competition.

**Keywords :** corporate social responsibility, corporate governance, variable remuneration, stakeholder theory

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