

## Corporate Social Responsibility and Citizenship Decisions

### Explanations — Cause-Effect Relationships — Tips/Suggestions

This decision entry page displays the various optional programs and initiatives that can be employed to create a “social responsibility strategy” for your company and thereby demonstrate a commitment to operating your camera/drone business with a “social conscience.” Aside from the fact that being a good corporate citizen and operating your company in a socially responsible manner is considered by some people as “morally correct” or the “right” thing to do, a good business reason to consider pursuit of a social responsibility strategy is the positive contribution that such a strategy can have on your company’s Image Rating. ***Aggressive and astute pursuit of social responsibility/citizenship initiatives over a 5-year period can potentially increase your company’s Image Rating by as much as 15 to 20 points.***

Nonetheless, it is completely up to your company’s management team to decide whether and to what extent to spend money on social responsibility and citizenship initiatives. You have the authority to spend aggressively, to spend moderately, to spend token amounts, or to spend nothing.

### Five Important Things to Understand Regarding CSRC Initiatives

1. ***Your company can perform at a high level and have a good Image Rating without spending any money on the social responsibility and citizenship initiatives.*** Your company’s image rating is based on three factors: (1) your company’s P/Q ratings for action-cameras and UAV drones, (2) your company’s market shares for both action cameras and UAV drones in each of the four geographic regions, and (3) your company’s actions to display corporate citizenship and conduct operations in a socially responsible manner over the past 4-5 years. An attractively high Image Rating can be achieved by performing well on just the first two factors. So, ***you should not feel “pressured” or “obligated” to undertake any of the actions on this page if the company’s management team really does not wish to do so.*** Prior to your taking over company operations at the end of Year 5, your company spent no money for any of the social responsibility and citizenship initiatives shown on this page.
2. ***Your company’s Image Rating will not be reduced in the event you and your co-managers elect not to spend any money for social responsibility and citizenship.***
3. ***The positive Image Rating gains are minimal unless your company’s actions are “comprehensive” (involve several, but not necessarily all, of the citizenship and social responsibility initiatives), entail more than “token” efforts (measured by how much money is being spent), and represent an ongoing effort of at least 4-5 years.*** Expect it to take time for a company’s CSRC strategy to produce much impact on a company’s Image Rating—annual expenditures of x dollars for 1-2 years will have a substantially smaller impact than expenditures of x dollars for 4-5 years. You will thus have to be patient in expecting sizable Image Rating benefits from social responsibility/citizenship expenditures—it takes time for your company’s “good deeds” to become widely known and to cause the general public to view your company as one that is genuinely committed to being a good corporate citizen and that believes in contributing positively to the well-being of society.
4. ***It is not necessary to spend money on all the different CSRC initiatives in order to “maximize” the image rating gains; however, you will need to spend money on more than just one or two initiatives to substantially increase the image rating.*** Some social responsibility and citizenship actions have a bigger positive impact on your company’s Image Rating than do others. The biggest impacts relate to charitable contributions and “green” initiatives to promote environmental sustainability, not so much because they are “more important” than the others as because they are more visible to the public (and can often entail bigger dollar expenditures).
5. ***Company co-managers have the flexibility every year to alter the company’s social responsibility strategy by ceasing expenditures for some initiatives, beginning expenditures for other initiatives, and/or contributing more or less money to charitable causes.*** Once initiated, the programs to promote

renewable energy, to employ “green” initiatives to promote environmental sustainability, to improve working conditions for plant personnel, and to institute a code of conduct for suppliers may be discontinued and then later restarted. For example:

- You can spend money for renewable energy initiatives for 2 years, stop such spending for 3 years, and then restart spending for renewable energy—the same goes for charitable contributions, green initiatives to promote environmental sustainability, and instituting a supplier code of conduct and compliance monitoring of suppliers.
- You can shift spending for charitable contributions from a specified amount of dollars to a specified percentage of operating profit—or vice versa. You can decide to curtail spending for charitable contributions (by reducing either the annual dollars contributed or lowering the percentage of operating profits donated to charity) and perhaps shift some of the dollars formerly contributed to charitable causes over to instituting a supplier code of conduct and compliance monitoring of suppliers or some other initiative.
- You can decide to build cafeteria and on-site child care facilities (which entails capital expenditures of \$3.0 million and added administrative costs of \$600,000 annually), then in later years decide to discontinue/close down these facilities to save the \$600,000 annual operating costs. Later, you can decide to reopen these facilities and once again begin paying the \$600,000 added administrative costs every year—your company will not have to pay another \$2.5 million in capital investment costs to reopen the cafeteria and child care facilities. The 50 units per year increase in camera PAT productivity and 25 units per year in drone PAT productivity realized by improving working conditions for plant personnel will, of course, be lost if the cafeteria and child care facilities are shut down, but the PAT productivity gains will reappear if and when the facilities are reopened.
- You can decide to acquire additional safety equipment and improve plant lighting/ventilation to improve working conditions for plant personnel for an initial capital investment of \$2.5 million and added annual administrative costs of \$500,000, then in later years decide to discontinue this program in order to save the annual \$500,000 in administrative costs (the capital investment of \$2.5 million is not recoverable). Later, if you wish, you can reinstitute this program and once again begin paying the \$500,000 annual administrative costs—your company will not have to pay another \$2.5 million in capital investment costs to reinstitute the use of additional safety equipment and return to the use of improved lighting and ventilation equipment previously installed. The 50 units per year increase in camera PAT productivity and 25 units per year in drone PAT productivity realized by using better safety equipment and improved lighting and ventilation will be lost if the program is discontinued, but the PAT productivity gains will reappear if and when the program is reinstated.

***Beginning in Year 6 and continuing each year thereafter, you will be provided benchmarking data at the bottom of Page 3 of the Camera & Drone Journal showing the industry high, low, and average expenditures for prior-year social responsibility and citizenship programs as well as the number of Image Rating points such efforts are generating.*** This data will help you gauge the benefits and costs of social responsibility/citizenship expenditures at your company.

## Entering Decisions for the Various CSRC Initiatives

In the middle of the page are the different types of CSRC initiatives that you can employ to create a social responsibility/citizenship strategy for your company. Brief explanations of each of the initiatives are shown on the page. Click on the white decision entry boxes to see the different decision options at your disposal.

The combined cash outlays of your decision entries for the initiatives are shown on the line headed “Cash Outlays for Corporate Social Responsibility and Citizenship” which is just below the decision entry panel.

You should always make a point of watching the numbers in the Performance Projections box showing the projected effects of the expenditures for the various CSRC initiatives on Net Profit, Earnings per Share, Return

on Equity, Credit Rating, and Image Rating (all decision pages have a Performance Projections box showing the incremental impacts of each decision entry). You should pay particular attention to the sizes of the impacts of your decision entries on the projections for Net Profit, Earnings per Share and Image Rating. Remember, however, that these projections are “incomplete” and, at best, “rough approximations” **until you have settled on entries for all the decision boxes on all the decision pages**. Nonetheless, you will want to keep a close eye on whether each decision entry is causing the projections to look better or worse—the size and the direction of the incremental changes is something you will find enormously useful in deciding the merits of one decision entry versus another.

**Note:** Expenditures for CSRC initiatives will not have much impact on your company’s projected Image Rating in the first year or two or maybe three (although you should see some differences between spending a little or a lot and spending more on some initiatives than others). A company’s Image Rating does not blossom and mushroom overnight just because its management team one day decides to demonstrate more of a “social conscience” and begins to spend some money on being a good corporate citizen. ***Building a reputation for operating in a socially responsible manner and being a model corporate citizen requires years of effort where the sincerity of management’s intentions and the depth of a company’s commitment are measured in large part by sustained and meaningfully large expenditures of money and.*** This is why it will take aggressive and astute pursuit of the CSRC initiatives over a 5-year period before you can expect to realize Image Rating gains in the 15 to 20-point range.

**Warning:** Beware of spending so much on the various CSRC initiatives that you unduly impair the company’s profitability and overall financial performance. While your company can afford to undertake such spending, the amount spent does matter. ***It is definitely possible to “overspend” CSRC initiatives*** such that any resulting Image Rating gains are outweighed by the adverse impact that heavy spending on CSRC initiatives can have on operating profit, net income, EPS, ROE, credit rating, and stock price. In other words, aggressively spending large sums on CSRC initiatives to try to drive up your company’s Image Rating can have the unintended consequence of reducing your company’s overall performance because of the dampening effect that such costs can have on EPS, ROE, stock price, and credit rating. It is overall performance on the five scoring variables that matters, not just your company’s image rating performance.

## Suggestions for Year 6 Decision Entries

In making decision entries for Year 6, there is merit in being “cautious” or “conservative” about how much money you spend for CSRC initiatives—at least the first time you visit the decision page. This is because your company spent no money for any of these items in Year 5—hence all such expenditures for Year 6 (shown on the line headed “Cash Outlays for Corporate Social Responsibility and Citizenship” just under the decision entry panel) will represent an increase in costs over the prior year and could adversely impact your company’s achievement of the Year 6 targets for EPS, ROE, and credit rating—shown in the Projected Performance box on the left of this page.

Later on, once you have gone through all the decision pages the first time, then revisited all the other decision pages to fine-tune your initial entries, and see that your company’s projected EPS, ROE, and credit rating performances look acceptable, you may want to come back to this page and consider spending additional sums on one or more of the CSRC initiatives.

## The Information Appearing at the Bottom of this Decision Entry Page

The box at the bottom left of the page shows information on the actions you have taken for each of the CSRC initiatives for the five most recent years.

At the bottom-right of the page, a box showing industry-wide benchmarking data with (1) the industry high, low, and average expenditures for all the different initiatives combined and (2) the industry high, low, and average cash outlay per unit sold.

**TIP #1:** Use the historical data for your company shown in the left side columns to review the actions your company has taken in past years and to guide decision entries for the upcoming year.

**TIP #2:** Use the benchmarking data on the right side of the section showing highest, lowest, and average expenditures of companies in the industry (both the total amounts and the per unit sold amounts) as further guides for your decision entries and further to compare with your “Cash Outlays for Corporate Social Responsibility and Citizenship” for the upcoming year—this line appears on the page just below the decision entry panel.

**TIP #3:** Be sure to scrutinize the data at the bottom of Page 3 of the most recent year’s *Camera & Drone Journal* showing (1) industry outlays for CSRC initiatives and (2) the Image Rating points generated from such outlays. This information will be a valuable assist in determining (1) whether your company’s efforts should be increased, decreased, or remain unchanged in the upcoming year or (2) whether to cease further efforts altogether or (3) whether to continue with no CSRC effort if that, in fact, has been your past practice.

**The Corporate Responsibility Award (for Exemplary Corporate Citizenship).** Beginning in Year 9 and continuing each year thereafter, the World Council to Promote Exemplary Corporate Citizenship will present a Corporate Responsibility Award to the company in your industry demonstrating the greatest commitment to operating its business in a socially responsible manner and being a model corporate citizen. The World Council’s Board of Directors has decided that its annual award will be **presented to the company with the highest CSRC cash outlay as a percent of revenues**—the Council opted to base its award on *percentage* of revenues rather than *total dollars* spent because a total dollar number is “biased” in favor of companies with high revenue streams (the use of a % of revenues measure is size-neutral and a more valid measure of “company effort”). An award for 2<sup>nd</sup> place will also be announced.

The annual Corporate Responsibility Award should be viewed as a *company honor* and as a means of giving special recognition to companies that are striving to be exemplary corporate citizens and to conduct their business operations in a socially responsible manner. But **such awards do not in any way increase the company’s Image Rating** or otherwise improve its performance scores. **Companies failing to receive a Corporate Responsibility Award incur no special penalty of any kind.**