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Crisis and Corporate Social Responsibility: Threat or Opportunity?

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Abstract

The objective of this paper is to reflect on the consequences of the current economic and financial crisis on Corporate Social Responsibility (CSR), a concept of great importance nowadays. The core approach is the possible link between CSR and the crisis, if both elements can be combined. After an introduction to the current economic and financial situation, some conceptualizations about CSR are made to clarify the perspective used for this complex and incompletely defined concept. The last part of the paper presents an approach to the combination of both concepts, concluding with the idea that CSR in crisis periods can be converted from being a threat to an opportunity.

Keywords: Crisis, Corporate social responsibility, Business ethics

JEL classification: M10, M14, M21

1. Introduction: the Current Crisis

A great number of economic and financial experts agree in considering the current world-wide economic and financial crisis to be the worst since the Second World War. The crisis began in the United States with the burst of the subprime mortgage housing bubble, after governmental, supervisory and regulatory authorities undervalued the real risk of the situation. But as the world has become closer, economic and financial markets have diminished in number but increased in size and interconnection. The effects of a financial problem are wide-sweeping and all the world economies suffer the consequences.

Other circumstantial elements have made economic and financial markets more unstable. Noteworthy among them are the evolution of the price of oil, the conduct of currency exchange rates, the continued increase of interest rates, the liquidity contraction of the banking system and the uncontrolled growth of several economic sectors, with the loss of investor confidence as a result. All these elements are linked to sustained favourable economic and financial performance. As Geithner[1] said in his speech at the Council on Foreign Relations Corporate Conference in New York City last year:

> "The origins of this crisis lie in complex interaction of number of forces. Some were the product of market forces. Some were the product of market failures. Some were the result of incentives created by policy and regulation. Some of these were evident at the time, others are apparent only with the benefit of hindsight. Together they produced a substantial financial boom on a global scale.
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> …….
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> Global savings appeared to rise faster than did perceived real investment opportunities, and this development helped to push down real long-term interest rates around the world. At the same time, many emerging market economies built up very large levels of official reserves to reduce external vulnerability and to hold the value of their currencies stable against the dollar. The exchange rate policies in these economies—economies that together accounted for an increasing share of global GDP—made overall global financial conditions more accommodative, even as the United States and other countries tightened their monetary policies".

Therefore, the crisis is a result of financial and economic globalization but domestic market weaknesses, after a long period of uncontrolled growth[2], have also played a role. The current decade can be described as a period of "easy money" due to, among other reasons, interest rate policy in industrial countries.

As has been said, the economic and financial bubble exploded with the subprime mortgage crisis in the United States the beginning of this chain reaction. For the financial sector, the role played by the supervisory and regulatory authorities that underestimated the extent of the problem and its short and long-term consequences is questionable. Instead of recognizing the real risk the financial system was supporting, the supervisory and regulatory authorities opted for further deregulation.

Whether the world economy, basically the United States and Europe, will overcome the crisis in a long or short period and what the economic and financial markets will be like when it is over, are questions without answers at the moment. There

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[1] Geithner is the President and Chief Executive Officer of the Federal Reserve Bank of New York. http://www.newyorkfed.org/newsevents/speeches/index.html. Date: 08/September/05

[2] The average world economic growth during the 1990s was around 3 per cent per year, while during the 2000s up to 2007, it was 4.5 per cent per year.

are several aspects to be considered to construct the scenario in which the performance of the new economy will operate:

- How and when it will be possible to recover the previous world growth figures.
- When private consumers will recover their trust in the economy.
- The evolution of economic and industrial activity and investment after this cooling-down period.
- The evolution of financial activity, especially the activity of banks as they assume their role as suppliers of funds, with full guarantees, to promote consumption and investment.
- …

But the current economic and financial crisis is not the only world-wide crisis. In a broad sense, entrepreneurial business activities are undergoing a long process of change which can be considered a crisis of maturity oriented towards the role they play within society[3]. As Porter and Kramer (2002) highlight, companies have to change their focus towards the social setting in which they act and interact. Economic, social and environment goals with a long-term perspective are not independent or in conflict in spite of the fact that they can be contradictory in the short-term.

Specifically, there is a tendency which links the lack of ethics, principles and values in the classic entrepreneurial model as one of the most important reasons explaining the current economic and financial crisis. Stigliz (2008) argues that financial authorities have not innovated as they should have done to respond to the needs of society, in the sense of incorporating other social and environmental variables beyond pure economic profit for the decision making process.

As a result of the combination of the economic and financial crisis with what has been called an entrepreneurial crisis of maturity, Corporate Social Responsibility (CSR) has risen to prominence in the last decade. Even though CSR is a new controversial concept, everybody in the academic and business spheres agree that it is a fundamental strategy for achieving the sustainable development that our globalized world needs.

2. Corporate Social Responsibility

Friedman´s conclusion (1970) about Corporate Social Responsibility (CSR) has probably become one of the most referenced arguments for researchers in this field. The simplification of shareholder goals like "to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom," and the summary of CSR through the payment of taxes, have hardly been criticised since they were published.

[3] Jonker and De Witte (2006b:1).

In spite of this position, CSR is in an exponentially growing path and, generally speaking, companies are increasingly assuming and integrating a social perspective in their internal culture in advance of what is required by law. It can be asserted that responsible firms incorporate benefits from this attitude in several scopes: the enhancement of reputation, retention of high- quality employees and becoming an eligible employer.

However, as the concept of CSR is studied in depth starting from a simple thought, *companies must consider other obligations within society beyond profit-making for shareholders,* it appears to be quite a confusing concept. Academics have not been able to offer a clear and generally accepted framework for CSR. Even basic questions like "*What is CSR*? *How can you define CSR*?" do not have a unique answer. A clear example of what is said is Carroll's paper (1999), which presents close to 25 definitions that have appeared for CSR since 1953, when Howard Bowen's (1953) book, "Social Responsibilities of the Businessman," was published.

Carroll's paper ends with the following quote:

> "As we close out the 1990s and look ahead to the new millennium, it is expected that attention will be given increasingly to measurement initiatives as well as theoretical developments. For these concepts to develop further, empirical research is doubtlessly needed so that practice may be reconciled with theory. The CSR concept will remain as an essential part of business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today. As theory is developed and research is conducted, scholars may revise and adapt existing definitions of CSR or new definitions may come into the literature" (1999:292).

These ideas are now, nearly ten years later, perfectly adapted to the current times, including and completed with the assumption that cultural differences vary definitions of CSR, due to dynamic and evolving ethical standards (Maignan and Ferrell, 2003).

With this background of the growing use of CSR all over the world, firms are increasingly incorporating social strategies and CSR initiatives, giving a positive response to a real citizen's demands.

Different aspects of CSR can be highlighted:

- The participation of different actors, agents, named stakeholders, with different motives.
- The implications for managerial strategy and decisions.
- The growing importance of international initiatives by different institutions for CSR.
- The necessary adaptation of CSR initiatives to the particular scenario where they are going to be applied: the cultural, social and environmental

particularities of each enterprise, each geographic area and each country, where a firm has activity.

- The possibility of implementing a CSR strategy for all kinds of organizations: small or large, private or public companies, for any possible type of ownership structure.

CSR is not an entirely new concept. It can be considered to have part of its roots in guilds and brotherhoods, economic or not, and charitable institutions. Currently, however, CSR cannot be simplified to social activities because there is much more involved in it. The ample literature by different authors like England (1967), Rokeach (1979), Gutman (1988), Frederick (1995), Agle et al. (1999), Adler (2002) and Locke and Latham (2004), in addition to the well-known Carroll (1999), can help in the analysis and revision of this complex and difficult concept, which even Godfrey and Hatch (2007: 87) describe as "a tortured concept within the academic literature". Godfrey and Hatch's agenda (2007) formulate suggestions for future research in CSR. Rundle-Thiele and McDonald, L. (2008), furthering with the agenda, propose a break-up of the CSR concept into different areas, giving the consideration that CSR is a set of different activities that have to be all considered to valuate the overall social performance of the firm.

CSR conceptual evolution and the increasing number of companies that incorporate this strategic business approach offer us an initial argument to analyze CSR benefits: "Over the past decade, a growing number of companies have recognized the business benefits of CSR policies and practices" (Mittal et al. 2008: 1437).

CSR benefits have been extendedly worked on academic literature[4] . The most important benefit is the organization satisfaction for its own responsibility. In addition to this satisfaction and as a resume of key CSR benefits, the following can be highlighted:

- building a reputation as a responsible business; linked to increasing market share, maintaining key personnel and directing investors confidence towards CSR
- assuming consumer selective elections that are increasingly including CSR criteria to make business more competitive5
- changing relationships all along the chain value, based on trust and doing things the right way with suppliers and customers
- improving working climate, thus increasing employee permanence, motivation and productivity
- reducing legal conflicts on complying with regulatory requirements

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[4] Freeman (1984), Soloman and Hansen (1985), Stanwick and Stanwick (1998), Ruf et al. (2001), Geczy et al. (2005) or Bechetti et al. (2007), among others.

[5] Maigna and Ferrel (2003) analyze the perception of costumers of CSR dimensions. This paper is oriented to demonstrate Carroll 1979 and 1999 models.

- improving relations and implications within the local community, given the wide range of opportunities this question poses in terms of reputation, positive press and wealth
- assuming positive and negative impacts of the company activity as a key question in management decisions, with a long-term perspective
- re-designing processes with CSR green parameters, reducing waste, that often simplifies operations and saves money.

Levine (2008) highlights managing risks as a main benefit of CSR in the short-term:

"Why implement a CSR program? In short, to manage risks and to ensure legal compliance companies may be exposed to a variety of legal and reputational risks if they do not have adequate social compliance or corporate social responsibility/sustainability programs in place[6]" (2008: 2).

3. Crisis and Corporate Social Responsibility: Threat or opportunity?

The recent financial scandals and industrial bankruptcies have had consequences on the business perspective of managers and stockholders. This situation has strengthened the tendency to believe in a necessary change of business, which entails focusing on a wider concept of entrepreneurial profit with a long-term view and giving the proper importance to stakeholders, people or groups of people that affect or are affected by a firm's activity[7].

Therefore, the key question is whether there is any relation between CSR and economic magnitudes linked to prosperity, and if so, what is this relation like? There is ample literature dealing with these questions, but the result is inconsistent. Links between CSR and cost, profit, long-range survival, etc. are not clear.

The following table (Table 1) shows a summary of the *state of the art*, reflecting the confusing scenery around CSR and its relationship with financial performance, shareholder's value and investor's perspective, among other economic and financial parameters.

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[6] Levine (2008: 2) continues:

> "Such risks include: lawsuits under the Alien Tort Claims Act, and related class action litigation; governmental investigation by federal and state labor departments, project finance/investment contract issues, and the receipt of shareholder resolutions on labor, human rights, supply chain and sustainability issues, among others".

[7] Becchetti et al. (2007, 3).

Author	Conclusion	What is the relationship?
Geczy et al., 2005	Investors' positive attitude towards CSR and ethical considerations in deciding on investments	Positive
Ingram and Frazier, 1983	Environmental performance has a negative effect on financial statements	Negative
Freeman, 1984	CSR minimizes transaction costs and potential conflicts with stakeholders	Positive
Soloman and Hansen, 1985	CSR costs are clearly covered with benefits in employee morale and productivity	Positive
Freedman and Jaggi, 1982	CSR and shareholder's value don't coincide	Negative
Pava and Krausz, 1996	CSR and financial performance are positively linked	Positive
Preston and O'Bannon, 1997	CSR and the magnitude of financial evolution coincide	Positive
Waddock and Graves, 1997.	Social and economic performance have opposite consequences on financial statements	Negative
Stanwick and Stanwick, 1998	Importance of stakeholders' recognition for a positive evolution of financial magnitudes	Positive
Verschoor, 1998	Positive relationship between corporate performance and stakeholder relationships	Positive
Jensen, 2001	Social constraints and responsible social behaviour can work against value maximization.	Negative
Ruf et al., 2001	CSR and sales increase are observed in several companies, with temporal continuity	Positive
Bauer et al., 2002	Comparison of ethical and traditional investment finds mixed results, with a light positive trend towards ethical funds	Not conclusive
Orlitzky et al., 2003	The results of their meta-analysis confirm a positive relation between social responsibility and financial performance	Positive
Barnea and Rubin, 2005	CSR investment is negatively related to insiders' ownership	Negative

Bauer et al., 2007	Investors appreciate ethical investment funds	Positive
Bechetti et al., 2007	Market penalizes the exit from social responsibility index and ethical funds	Positive
Mittal et al., 2008	Strong evidence against the idea that CSR initiatives have universal or systematic positive financial impacts	Not conclusive

Table 1. CSR and economic-financial performance

It is noteworthy that in many of these contributions, evidence of a positive effect of CSR strategies on economic performance has been found, but this effect is not so clear regarding financial performance. Furthermore, CSR has a positive effect on internal variables, like motivation or entrepreneurial culture. However, the possible benefit for a shareholder's value or the real cost of CSR implementation is not probed. Another important point to highlight, that can explain the aforementioned inconsistent results besides the confusion and complexity of the concept, is the use of different methodologies of analysis, not always appropriated to what is required for CSR[8].

In any case, there is no conclusive and unanimous opinion about the relationship between CSR and economic-financial performance measures. And implementation of CSR needs financial funds because it generates costs[9]. The consequence is evident: CSR in periods of crisis is a threat for firms' survival and such a strategy is not expected in these times of uncertainty. But the decisions based on the cost of implementing responsible strategies are not the only threat, despite being an error in the long-term perspective. The overuse of corporate sponsorship, based on CSR, only with marketing purposes, can change the customers' initial positive perception. Customer sensitivity is much more likely to break out in crisis periods. The press of consultants and advisers, that asset CSR as a new business opportunity, is also a threat to be considered.

Nonetheless, some observations can be made to soften these somewhat harsh assumptions. And even to change the perspective and turn round to convert the negative deduction in an opportunity for those companies who decide to begin or continue with CSR implementation.

The new perspective, necessary for the aforementioned turnaround, is based on the hypothesis that establishes that CSR is more than a temporary fashion[10]; it is a management tool under constant renovation which will last throughout time[11]. The world is still far away from the ideal situation of a global and unique framework for

[8] Orlitzky et al. (2003) argue that most of contradictory results are due to the use of inappropriate methodological and statistical tools.
[9] Levis, 2005, 7.
[10] Fernández-Feijóo, 2008, 209.
[11] Gil et al., 2007, 384.

CSR. To move towards this goal, the development of models to manage CSR tools is necessary. And this important work is being done in several fields: academic, entrepreneurial and institutional, as Jonker and De Witte (2006a) tested with the compilation of more than forty models for managing CSR developed over the five previous years, with different scopes and diverse orientations[12].

Although these models are diverse, there are a set of common issues in nearly all of them which can be redirected to change the perspective of implementing CSR models from a threat to an opportunity in periods of crisis (Figure 1):

Figure 1. CSR implementation process and crisis periods: necessities.

1. CSR model implementation can be assessed as innovation, a key concept for achieving long-term entrepreneurial survival, a logical objective in situations of crisis.

2. CSR provides the desired atmosphere (internal culture, motivation) in which exceptional periods (crises) can be approached.

3. CSR gives adequate treatment to stakeholders, changing their possible position of risk towards the firm to an attitude of alliance.

4. CSR implementation reinforces business strategy, a necessity always covered but which has special relevance in periods of crisis.

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[12] A great number of models compiled by these authors have been designed with EU research projects. This financial support makes it clear that the European authorities want to promote the trend of CSR implementation.

5. CSR model implementation strengthens companies' market position, when it is perceived as such[13]**.** That is why communication and transparency are important. These two characteristics are inherent to CSR.

6. CSR offers a guarantee and confidence to investors, due to information offered by responsible companies. Financial resources are always necessary but they become critical in time**s** of crisis.

7. CSR implementation obligates one to reflect deeply about main concerns clearly linked to long-range survival: identity (including mission and vision), systems (incorporating procedures and rules), accountability (defining what and how much responsibility is wanted) and transactivity (clarifying who affects and who is affected by the firm's activity) (Figure 2).

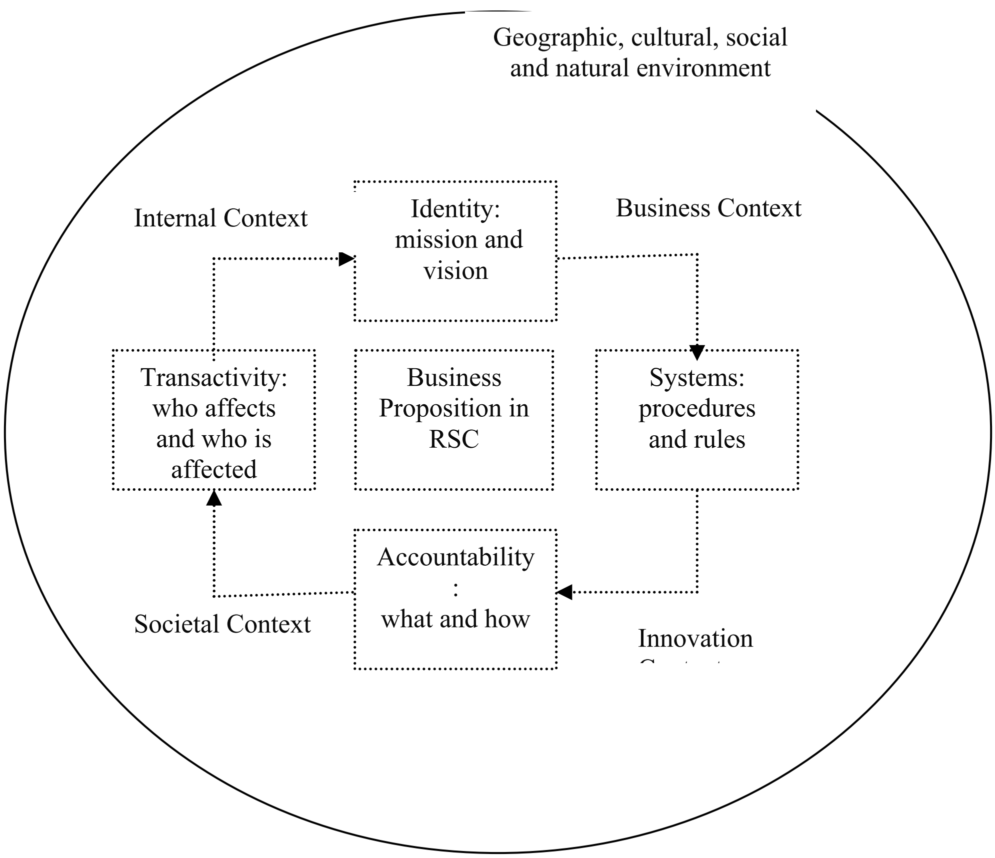

Figure 2. Developed from The CSR Management Model. In: Jonker and De Witte (2006, 5)

[13] Maigna and Ferrel (2003) and Rundle-Thiele and McDonald (2008) approach to CSR through consumers' perception.

This last issue, a deep internal reflection about who the firm is - what it is like, where it is and where it wants to be, and how and with whom it wants to advance on its way towards achieving its objectives - is essential. This task, well done, is enough in itself, because the result obtained by the firm strongly justifies the effort to be made. Another important consequence of this internal reflection is to bring out what Gray (1997, 2001) calls 'silent social accounts':

> "Law has steadily increased the areas of disclosure required of (particularly) companies on such matters as employees, political and charitable donations and governance. At the same time, organisations have steadily increased their areas of voluntary disclosure, most obviously on environmental issues but also on matters such as consumers, product safety and interactions with the community.
> …
> Taken together, these data form the basis of a social account – a 'silent' social account" (2001, 10).

4. Conclusions

Throughout this paper, the double relationship between CSR and the crisis has been acknowledged and explained. This relationship appears in both the lack of CSR as one of the causes of the current economic and financial crisis and as a tool for managing the current situation and helping firms overcome the consequences of the crisis.

The current economic and financial structure, with global markets that, as we have seen in recent months, feel the effects of domestic financial problems all over the world, must be revised. After the evolution of the world economic systems over the last twenty years, capitalism has become the best of all existing economic models, all of which are imperfect. But this affirmation is not enough to resign and not try to improve an old model that needs numerous changes. Each company has its own responsibility in this necessary task, as CSR is a management model for control, with guarantees to avoid undesired facts and to offer more market transparency.

In their CSR implementation process, organizations must redefine their essential business objectives. These objectives must be aligned with the strategy of the company and have to be coherent with the change in organizational culture that CSR represents. The new attitude, forms and perspectives should be the result of a deep internal reflection that will increase the core value of the firm. This core value will be favoured by the innovation inherent in CSR; its positive effects on internal variables~~,~~ like motivation or entrepreneurial culture; the support of stakeholders in their new role within and towards the firm; reinforcement of business strategy; strengthening of company market position; and investor confidence. With this panorama, firms will be in a better position to overcome the turbulent situation of the current economic and financial crisis, using CSR as a business opportunity.

This paper should not conclude without mentioning the negative potential of CSR in periods of crisis. In spite of the benefits that in the long-term are widely recognized, the cost of RSC implementation cannot be forgotten. Throughout this paper, it has been relegated to the background, because the implementation of responsible policies and strategies is a long- term process. This characteristic allows for the planning of a series of tasks, basing the decision of which tasks to carry out on the circumstances of the moment. The implementation process of CSR is long and it can always improve. The output of the deep internal reflection on which CSR must be based, will also provide enough material for a first version of social accounting. Companies have more silent accounting than they realize.

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