

THE SIGNIFICANCE OF CSR AND THE EFFECTS OF THE FINANCIAL CRISIS

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Abstract: The aim of this paper consists in presenting the evolution of the concept of corporate social responsibility (CSR). While many authors think that this is a relatively new concept, CSR is perhaps as old as business itself and in some societies one cannot do business without being socially responsible. In the second part of our article we will try to connect this concept to the implications of the current financial crisis.

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1. Historical Development of Corporate Social Responsibility

The concept of CSR has become an increasingly important phenomenon in Romania and around the world. Due to the fact that this concept has been recently adopted in our country and it still poses various questions, we would like to look upon this concept from a historical point of view and to provide a diachronic presentation.

The idea of social responsibility starts from the writings of Andrew Carnegie (1835-1919), the founder of US Steel who elaborated two principles he believed were necessary for capitalism to work.

The first was the *principle of charity* which refers to the compassion exerted by the rich members of the society for the benefit of the unfortunate ones including the unemployed, the elderly and the sick ones. These charity acts could be exerted either directly or indirectly, through community groups, churches or settlement houses.

The second principle entitled the *stewardship principle* requires the business men to act as caretakers of their wealth for the rest of the society. The stewards, as Carnegie calls them should hold their money in trust and use them for any purpose the society regards as legitimate.

The term “social corporate responsibility” dates back from 1930 and was coined by Harvard professors A.A. Berle and C.G.Means. The two professors discovered a new class of managers who were acquiring at that time vast amounts of money. Their opinion was that they should in turn repay society by elaborating or contributing to programs for the benefit of the society.

Another contribution to the development of the concept of social responsibility has been brought by Chester Barnard in the late 1930s. In this book from 1938 “The Functions of the Executive” he argues that social responsibility is a function of the “elite”¹⁹ or of the “executive class”²⁰. Another reference to social responsibility can be

¹⁹ Barnard, Chester Irving *The Functions of the Executive*, Harvard University Press, 1938.

²⁰ Ibid 1.

found in Theodore Krepes's publication entitled „Measurement of the Social Performance of Business”. The author introduced the term “social audit” for the first time and used it in relation to companies.

Howard Rothman Bowen has presented the first definition of social responsibility in his book from 1953 entitled “Social Responsibilities of the Businessman”. He is thought to be the father of CSR. Bowen talks about the types of responsibilities which can be assumed by business people, talking about CSR in the following way: “it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”²¹.

The social responsibility concept develops and becomes more and more important in the following years with the help and contribution of Davis (1960) who limits the actions and the decisions of the business men to technical and economic interests of the enterprises and of Frederick (1960) who considers social responsibility as a civic attitude which consists of human and economic resources and the willingness to help the community. McGuire (1963) thought that the idea of corporate social responsibility involves more than legal and economic responsibilities and that it stands for the responsibility towards the society. In 1966 Davis and Bolstrom present CSR as the obligation of a person to take into account the effects that his or her decision may have on the social system.

The Nobel Prize laureate in economics Milton Friedman (1976) stated that the self isolation of the managers and the differences between the employer and the employee lead to a reduction of the wealth of the shareholders and stated that the managers used CSR for the development of their professional career.

In 1970 Walton talks about the relations between enterprise and society mentioning the fact that these have to be found both in the top spirit of managers and of the groups having the same goal with the enterprise.

In his book “Strategic management: A stakeholder approach” from 1984, R. Edward Freeman states that the managers have to adjust their policies in order to meet the requirements of their employees, suppliers and not only and the expectations of the shareholders. Donaldson and Davis (1991) talk about the moral aspect of CSR considering that managers should do only what is ethically without taking into consideration the way in which the ethical decisions affect the performance of the enterprise. The same aspect is also approached by Donaldson and Peterson who point out the moral and ethical aspect of the shareholders theory.

In Hart's opinion (1995) the environment of social responsibility can be seen as a resource capable to lead to the achievement of a sustained competitive advantage.

Baron (2001) thinks that using CSR in order to draw socially responsible consumers is a “strategic weapon because an enterprise may draw its customers according to its marketing strategy.

CSR has evolved in the past year from an abstract and strange concept, disapproved by the boards of directors of many companies, into a current way of thought and action, both in the business world and in the society, being a useful tool in finding solutions for a multitude of social problems. Among the factors which contributed to the development of the concept, one can mention the following:

²¹ Bowen, Howard. *Social Responsibilities of the Businessman*. New York: Harper and Row, 1953.

technological change, the process of globalization, the consumer's rights and the growth of the public distrust towards the institutions of the free market.

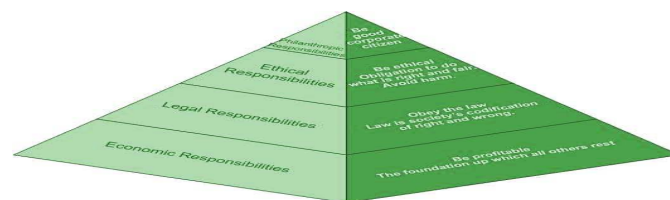
Corporate social responsibility is a concept according to which the companies integrate voluntarily the social and environmental problems in their activities and in the interaction with the stakeholders. CSR means companies which go beyond the minimum legal obligations in order to be involved in solving the social needs. With the help of CSR, all types of companies irrespective of their size may help to the reconciliation of the economic interests with the social and environmental ones.

As one can see this concept can be approached from different angles ranging from Friedman's (1992) profit maximization credo²² to Carroll's liberal view on social responsibility.

The development of CSR over the last 50 years has led to the evolution of the related terminology. The process of CSR includes terms as: triple bottom line (TBL), corporate citizenship, sustainable development (SD), corporate social performance (CSP), and business ethics.

In 1991, Carroll presented his CSR model as a pyramid and suggested that, although the components are not mutually exclusive, it "helps the manager to see that the different types of obligations are in constant tension with one another".

According to Carroll (1983), "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent"²³. Carroll's four part pyramid has been one of the most cited reference literature and has been frequently reproduced in top management and CSR journals. According to him the manager has to comply with the four different types of responsibilities: philanthropic, ethical, legal and economic.



The recent year were characterized by a series of initiatives in the field of CSR, as it follows:

- The Kyoto Protocol which was adopted in Kyoto, Japan, on 11 December 1997 and is an international agreement related to the United Nations Framework Convention on Climate Change. Its main target is the environmental protection and the reduction of greenhouse gas emissions.

²² Friedman, Milton *Capitalism and Freedom*. Chicago, III: Chicago University Press, 1992

²³ Carroll, A. B. *Corporate social responsibility: Will industry respond to cut-backs in social program funding?* *Vital Speeches of the Day*, 49, 1983 p. 604-608.

- The United Nations Global Pact (2000) encourages companies to integrate their social responsibility in fields, as for example: the human and employee's rights, the environment and the anticorruption initiatives and so on.
- European Multi Stakeholder Forum (2002) which aims at the development of some common agreement regarding social responsibility among the companies, NGOs, trade unions and consumers.
- World Business Council for Sustainable Development is a global association of 200 companies dealing exclusively with business and sustainable development. Its main belief is that a coherent CSR strategy based on ethical values offers clear business benefits.
- The UN Global Compact, which was set up in 2000 is the world's largest voluntary corporate citizenship initiative, with the mission of an inclusive and sustainable global economy. The Compact has brought businesses together with not only UN agencies but with governments, trade unions and civil society to advance ten universal principles in the areas of human rights, labor, environment and anti-corruption.

2. The Impact of Financial Crisis on the Concept of CSR

Not only have the internal contradictions of the current capitalism but also the irresponsibility of the individual and the lack of prediction for his actions led to the emergence of the financial crisis.

Many companies have declared that the effects of the financial crisis will not impede the efforts of the companies to reduce the greenhouse emissions. According to a survey carried out on the CSR international blog the majority of the interviewed professionals think that CSR will increase as a result of the crisis.

But the companies may come to an agreement regarding the system of priorities excluding or reducing the social responsibility.

Many companies have embraced the concept of corporate social responsibility. A significant example related to the limited importance of CSR in relation to the financial performance is represented by the company Starbucks. This company has a favorable CSR reputation due to its generous labor policies and its commitment to increase its earnings and to improve its environmental practices. It offers employees healthcare benefits and it encourages the farmers who grow coffee from the developing countries. In spite of these actions, the value of the share started to gradually decrease by 50% from the beginning of 2008. But the low performance of the share does not have anything to do with CSR: this aspect is due to the expansion of the company across borders and to the unwillingness of the consumer to pay for a cup of coffee the value of gallon petrol.

The Company General Electric was appreciated by the people involved in the protection of the environment for its line of products « Ecoimagination », being high efficiency products, responsible from the point of view of the environment.

The price of the GE shares has started to decline for six years. In spite of its current or predicted incomes obtained from the product line Ecoimagination and of the substantial investments in alternative energies, the company was influenced by the disappointment from the Wall Street in what the total earnings of the company are concerned. Moreover, GE continues to invest in energy companies based on fossil fuel

which leads to the fact that there are still reserves for the investments which do not take into consideration the responsibility towards the environment.

The company with the weakest reputation in the field of environment is Exxon Mobil. This reputation also comes from the lack of concern towards the global problem of climate change. In spite of these, Exxon Mobil is one of the most profitable corporations. It has even overtaken the company BP from a financial point of view, the latter changing its name into Beyond petroleum in order to point out the responsibility of reducing the dependence on fuels. Bp is the first company which has made public the fact that the greenhouse gas emissions are responsible for the global warming.

The contrast between Exxon-Mobil and BP points out the limitation in what the social responsibility of the corporations is concerned. It is difficult to differentiate between responsible and irresponsible companies. While BP may be more socially responsible than Exxon-Mobil, when we refer to issues related to climate changes Exxon Mobil has been involved to a large extent in preventing accidents and oil spills. That is why it is not clear and obvious which of the corporations is more socially responsible.

These are only some examples, and only some companies may be thought as responsible or irresponsible along their business operations.

In Romania there are currently some questions regarding social responsibility and the evolution of this concept:

1. What can we understand from the budgets of the companies about the situation of CSR in Romania?
2. Is it efficient from an economic point of view to leave out the priority list the field of CSR?
3. Is the public willing to accept that social responsibility is less important than the welfare of a corporation?
4. Is social responsibility in Romania a reality or just a PR image?

Having an estimated market value of 30 millions Euros, the concept of corporate social responsibility in Romania is still a new field.

It was firstly applied by the multinational companies and it is gradually accepted in the Romanian strategies. The budget granted for this field varies from a few thousands of Euros for the SMEs to even millions of Euros for the large enterprises. The financial crisis and the economic context are problematic aspects for the success of CSR in 2009 under the current circumstances when many companies adopt a strict policy as to reduce costs.

Even if the SMEs which were interested in CSR have reduced with at least 30% the budget given for social responsibility, the large companies have kept the same level as in 2008.

In 2008 over 14.000 companies have been closed. Coface estimates that this year the well known companies will fall and the AOAR prognosis points out many bankruptcies for the SMEs. The Takeovers will be only 25% of the value of the companies before the economic crisis.

The year 2009 will bring at least 28.000 bankruptcies, which represents a double amount as opposed to 2008, produced by the context of the international crisis.

Conclusions

CSR has evolved in the past year from an abstract and strange concept, disapproved by the boards of directors of many companies, into a current way of thought and action, both in the business world and in the society, being a useful tool in finding solutions for a multitude of social problems. Among the factors which contributed to the development of the concept, one can mention the following: technological change, the process of globalization, the consumer's rights and the growth of the public distrust towards the institutions of the free market.

Corporate social responsibility is a concept according to which the companies integrate voluntarily the social and environmental problems in their activities and in the interaction with the stakeholders. CSR means companies which go beyond the minimum legal obligations in order to be involved in solving the social needs. With the help of CSR, all types of companies irrespective of their size may help to the reconciliation of the economic interests with the social and environmental ones.

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