

CSR A STEP AHEAD ON THE WAY OF GLOBAL ECONOMIC RECESSION

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Abstract

In the present day globalised business era, the global economy has been getting change by means of economic downturn, credit crisis, economic recessions, and collapse – whichever way we look at it. Business confidence around the world is diluted and pressures on company budgets are rising rapidly. According to the Bank of England's Financial Stability Report, governments worldwide have already pledged more than \$7 trillion in loans, guarantees, capital injections, and other assistance in their coordinated efforts to support the global financial system. And the ILO estimates the crisis will cost 20 million jobs during the year 2009. Therefore irrespective of nature of companies – MNEs, TNEs, SMEs, are most probably thinking about is how to survive, rather than how to concentrate and invest on Corporate Social Responsibility (CSR) activities, which represents a company's voluntary commitment to address the ethical, social and environmental factors associated with its operations. In these afflictions, it is perceived that the financial crisis will have a substantial impact on corporate social responsibility. According to a survey carried out in the end of 2008 by a CSR specialized blog (<http://csrinternational.blogspot.com/>), 44% of experts believe that CSR policies will be applied more often as a result of the crisis, 28% think that the essence of CSR will change in the context of the new conditions, while 22% believe that the crisis will have a negative impact on CSR. In connection with these significant views, this paper aimed to portray the status CSR in the era of global economic recession.

Key words: Global financial crisis, Corporate Social Responsibility, Impact on CSR

Introduction

More risk, more profit – it is an evergreen business custom in the world, but more risk taken by the US banking industry in the area of housing finance sector yield the reverse result – that is the root cause for financial crisis, and it makes that custom has not been true forever, for instance, in 2006, over 14 million new mortgage loans were originated, and the total amount of home mortgages outstanding crossed \$10 trillion, having doubled in a little over five years.¹ Further that traditional business custom has become out of passion by the widespread financial crisis in the world, because globalization ensures not only the rapid trade activities and also to ensures the noticeable business risk globally, which is inevitably natural gift of globalization to every region in the world, in connection with these subject matter, the financial crisis that originated in housing finance sector in US during 2007 quickly spread to Europe and now most of the world including in India. Irrespective of the geographical and economical nature, the financial crisis has reflected in every aspect of economic activities and every region of the world, for instance, around the world stock markets have fallen, large financial institutions have collapsed, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems, further the changes happening in the business environment during the global economic recession era may influence the corporate policy towards its business activities in a socially responsible manner to the society. Therefore, the approach of Corporate Social Responsibility is perceived as a one of the issue relating to the global economic recession and this study has aimed to portray the status of CSR in the world during the period of global economic recession

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CSR Means.....

CSR stands for Corporate Social Responsibility, it is an approach which has not been defined by means of globally accepted manner, and it is an outcome of various best practices over the period of the global business. However, a widely quoted definition by the World Business Council for Sustainable Development states, "Corporate Social responsibility is the continuing commitment by a business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"² The concept CSR is understood in many other names – corporate citizenship, corporate responsibility, corporate philanthropy, corporate giving, community relations, community affairs, community development, global citizenship, corporate community involvement and corporate social marketing (Kilter and Lee, 2005). In such a way corporate citizenship is defined as "the corporate citizenship is being understood as commitment of duties and responsibilities towards its stake holders i.e. customer, shareholder, employee, Government, Environment Health and safety" (Centre for Social Marketing, 2001) and similarly Corporate Social Marketing is defined as "company launches social initiative that produces social outcomes that may change consumer behaviour to build markets and benefit the company" (Philip Kilter and Nancy Lee)

Global Financial Crisis and CSR

The global financial crisis is interrelated with the different components of the global system and its spread over the various regions of the world. According to Jan Oberg, the global financial crisis is one of the five major crises coming together: 1. Economic system breakdown, 2. Environmental degradation – global warming and other problems, 3. Political – democratic deficits everywhere, lack of hope and political interest in media and among young, 4. Cultural – Intolerance, clash of religions, western cultural dominance 5. Security (drug - like, ever increasing military expenditures to satisfy the Military-Industrial-Media-Academic Complex, MIMAC yielding ever less human security)³ Therefore, the global economic recession may act as a route cause for the many issues relating to the three significant aspects of CSR viz., social development of the people, economical prosperity of the nations, and the environmental quality in the world, these three aspects has been perceived as a Triple bottom line of CSR approach – Social factors, Economic factors and Environmental factors. The tripe-bottom line is a term coined by John Elkington and made popular through his book 'Cannibals with forks' (1997), which refers to the three prongs of social, environmental, and financial accountability⁴, at such the link between the global financial crisis and the approach of CSR is being emerging and which is perceived as a inevitable one. MNC's generally define CSR as Triple P: People, Planet and Profit.⁵ it depends partly on the business sector which aspects are more developed, for example, Industrial companies give more emphasis to environment - planet, financial companies give more emphasis to philanthropic – People, and some other companies give emphasis to stakeholder including profiteering. Irrespective of CSR approaches by the business enterprises, it is likely that the global economic recession by means of financial crisis will have a substantial impact on CSR. The question is how will this impact play out? Who will win and who will lose? According to a survey carried out in the end of 2008 by a CSR specialized blog, 44% of experts believe that CSR policies will be applied more often as a result of the crisis, 28% think that the essence of CSR will change in the context of the new conditions, while 22% believe that the crisis will have a negative impact on CSR.⁶ Similarly, the crisis made substantial impact on the CSR activities of governments, it is evidenced from the source that The Global Fund to Fight AIDS, Tuberculosis and Malaria recently announced it is at least \$4 billion short of the money it will need to continue funding essential HIV, TB and malaria services in 2010. The coalition believes there is a \$10.7 billion funding gap for regional implementation of the Global Plan to Stop TB alone (Kristin Palitza)⁷

Status of CSR

The undeniable influence of the global financial crisis on the approach of Corporate Social Responsibility has lead business enterprises to a crossroad depending on how to go on with their CSR activities. That many companies are cutting their CSR budgets might therefore show that CSR has never been more than a passing fashion. The impact of global economic recession on CSR is depends on how deep CSR runs within the organisation – is it superficial philanthropic CSR, something more strategic or embedded, or even the more revolutionary CSR 2.0 version? In other words, the impact of global economic recession on CSR is depends on how deep global economic meltdown in the area concerned. Hence the impact of Global economic recession on the CSR practices of the organizations is understandable by sorting out the CSR approaches in three ways namely 1. Philanthropic CSR 2, Strategic CSR 3. Embedded CSR

Fig 1
Status of CSR during Global Economic Recession



Philanthropic CSR

The Philanthropic CSR is also known as immature version of CSR, in which CSR is primarily about philanthropy – sponsorship, donations, charity, employee volunteering, supporting NGOs, participating in Social projects etc. irrespective of the nature of industry, this kind of immature CSR activities has made a noticeable negative influence by the global economic recession, particularly many TNEs, and MNEs in the emerging and developing economies are involved in various social projects that meant to uplift the living standards of the community, some of these projects include building of schools, supporting HIV/AIDS organizations, supporting orphanages, etc. since the onset of the Global Financial recession, many MNEs and Local companies have relented on their commitment to social projects posing serious social challenges to the community. The effect of cancelled social projects have been a deterioration of the living standards of the community, increase in poverty, decrease of hygienic standards, increase in sicknesses and thus increase in medical costs among others. The overall impact of global financial crisis ensure a negative effect on the society, particularly the loss of a significant number of jobs has led to an increase in poverty, crime, antisocial behavior such as prostitution, and consequently an increase in HIV/AIDS⁸

Strategic CSR

It is likely that Michael Porter and Mark Kramer's concept of strategic CSR will pay dividends for its followers in the results of the economic recession. They argue that “the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources-and benefit society.” Similarly, David Grayson and Adrian Hodges argue that “Social and environmental benefit is

seen as exciting opportunities for business rather than Responsibilities” Hence, companies that have aligned their philanthropic and broader CSR efforts with their core business are more likely to protect these initiatives, even during the recession. For example, the commitment Coca-Cola has made to become a water neutral company is so closely tied to its core business (which is, after all, mostly about selling huge volumes of sugar water), that they cannot afford to abandon this as a superfluous CSR programme. They know that if they are not perceived to be responsibly managing the scarce water resources of the communities in which they operate, their business will ultimately fail (as they have already found to their detriment in India). Therefore, it is perceived that the impact of global financial crisis on the strategic CSR will be less comparatively to the philanthropic CSR approach.

Embedded CSR

The embedded CSR is perceived as a DNA of an organisation. Irrespective of the changing market situations, fluctuating profits, financial crises and leadership whims, the CSR can survive in the organisation, because it is totally embedded in the corporate culture, strategy and governance systems. The imminent global economic recession will be the ultimate DNA-test for companies. From the starting to now, we will have a much better idea of who has driven CSR deep into the heart of their business and who has simply been wearing it as a mask. Therefore, the embedded CSR has not been largely affected by the global economic recession by means financial crisis.

Conclusion

In the present day globalised business environments, the approach of Corporate Social Responsibility is perceived as an Essence for every business organisations towards their successful survivability in their industry concerned, further irrespective of the nature of organizations the CSR is considered to be required to widen the market and to narrow the competition. So that, the answer to “How will CSR be affected by the global financial crisis?” is play a significant role in this study and it depends on how deep CSR runs within the organisation – is it superficial philanthropic CSR, something more strategic or even embedded CSR? Either way, the global economic crisis or recession is not only to be an acid test for companies' CSR commitment, but for CSR itself. It may very well be that the time has come for CSR to adapt or die.

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