

**Committee: Economic and Social Council**

**Issue: The effect of financial crisis on corporate social responsibility performance**

**Student Officer: Leonidas Ntoulos**

**Position: Deputy President**

## **INTRODUCTION**

The financial crisis of 2008 is considered by most economists the second most severe financial crisis since the Great Depression. Beginning in the United States, it led to the collapse of its banking system and then spread overseas. This crisis has clearly affected corporate social responsibility initiatives because of the extraordinary pressure companies undergo to survive. The most evident outcomes of the economic crisis were massive layoffs and drastic cuts on community involvement programs. The impacts are distinguished in positive and negative ways. The crisis has affected and worsened issues like labor practices, especially work-life balance, and consumer issues, together with a harsher conflict of interests between the different stakeholder groups. However, not all the impacts were adverse; many corporate social responsibility issues were raised and were advanced after the crisis such as codes of business conduct and anti-corruption policies. Corporate Social Responsibility (CSR) aims in aiding society. It can help it in four main aspects. The first one is the environment. In this, companies adopt environmentally-friendly equipment and policies in order to protect the environment. The second one is poverty. Through philanthropy, companies give to those who need funds for survival. This does not only happen through donation, but also through the initiation of training programs. The third aspect is ethical labor practices, which involve business ethics. Finally, volunteering, which involves the presence of some companies at specific events, showing in this way their concern on an issue. Corporate Social Responsibility aims in tackling other social issues as well. The most important of them are child famine, poverty, women's rights, human rights, cultural respect and disease prevention, among others. It is important to understand that the crisis has affected the level of CSR initiatives. Companies now pursue CSR strategically or, due to a lack of funds, do not pursue it at all, as will be analyzed later on.

## **DEFINITION OF KEY TERMS**

Economic crisis<sup>1</sup>; a long-term economic state characterized by unemployment and low prices and low levels of trade and investment. Specifically talking about the 2008 economic crisis.

---

<sup>1</sup> The Free Dictionary, "economic crisis." WordNet 3.0, Farlex clipart collection. 2003-2008. Princeton University

Corporate social responsibility<sup>2</sup>; a corporation's initiatives to assess and take responsibility for the company's efforts on both environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups.

Gross Domestic Product; the total value of all final goods and services produced in the domestic economy by foreign or domestically-owned resources, in a specific period of time.

## **BACKGROUND INFORMATION**

In 2007 the USA's expenditure on consumption exceeded its GDP (Gross Domestic Product). Because of foreign financing, along with the Federal Reserve who backed the falling interest rates, an era of debt-financed consumption began. Following an increase in housing prices (around 40%) during 2000-2004, the demand for loans which would fund house purchases increased. The increase in the price led to an increase in the supply of houses. Thus, bankers seized the opportunity to facilitate lending to consumers. They granted a large number of loans believing that even if the borrowers were unable to repay their loans, they would sell their houses so as to pay them back. However, towards 2008, interest rates would increase and housing prices would fall, leading house owners to foreclosure. Meanwhile, banks faced a negative equity, where liabilities were larger than their assets, leading them to potential bankruptcy. The crisis in the financial systems was transferred into the real economy, increasing rates and thus reducing consumption and investment by consumers and firms. This brought about the recession in the US. However, the financial institutions harmed by the crisis were multinational corporations spread all over the world. Overseas employees were made redundant due to the fact that the banks they were employed by faced negative gains and some of them had gone bankrupt. The consequences were disastrous all over the world. After the outbreak of the crisis, some countries were plunged into recession (e.g. Greece and Ireland). Before 2010, the effects of the crisis had spread all over the world.

### **Effects on Corporate Social Responsibility**

Corporate Social Responsibility is based on the idea that a company should attempt to generate the maximum profit, within ethical and societal laws. However, this is hardened by an economic crisis, which reduces a firm's profits. Seeing the firm as a purely profit maximizing organization, it can be understood how it becomes more and more difficult to maintain the same levels of Corporate Social Responsibility actions than in a period with no economic crisis. Due to a recession

---

<sup>2</sup> Staff, Investopedia. "Corporate Social Responsibility." Investopedia. N.p., 29 Aug. 2015. Web. 09 July 2017.

existing in an economy, firms are forced to lay off workers, drastically increasing unemployment, so as to cut production costs. According to the International Labor organization, it is estimated that the economic crisis has left 210 million people unemployed<sup>3</sup>. It is also believed that due to the shortage of money, firms will be less willing to pursue Corporate Social Responsibility policies. However, this view is contradicted by some economists or policy makers who believe that the firms in crisis would prefer to pursue such policies. More specifically, it is believed that many companies would attempt to ameliorate their social image by engaging in such actions. Business strategists admit that such policies are a sustainable way to ensure survival in the corporate world, even in periods of crisis. By that, we can understand that firms are likely to pursue Corporate Social Responsibility.

As mentioned previously, Corporate Social Responsibility can either deteriorate or ameliorate during a period of economic crisis.

Firstly, we have the scenario when Corporate Social Responsibility actually worsens. This again takes place when a firm is regarded as a profit-maximizing organization. In this scenario, firms will lay off workers, will stop funding public programs, will stop caring about the working conditions of their employees, will probably use cheaper materials which pollute the environment and in general will disrespect society.

However, companies might engage or further pursue Corporate Social Responsibility in periods of crisis. The one reason might be the altruistic one, where companies want to help society and ameliorate the living conditions of its citizens to the greatest extent possible during such a period. Another reason that they might engage in CSR is to improve their social status, and thus increase their popularity. Such actions might be environmental initiatives. For example, companies that want now to pursue environmental friendly policies and use clean energies will be able to profit in the future since this market is growing. In addition, companies which donate money to the public, create events with the aim of improving society or help raise awareness on an issue (for example cancer) will improve their image among the public and will attempt promote their brand and increase their sales and popularity.

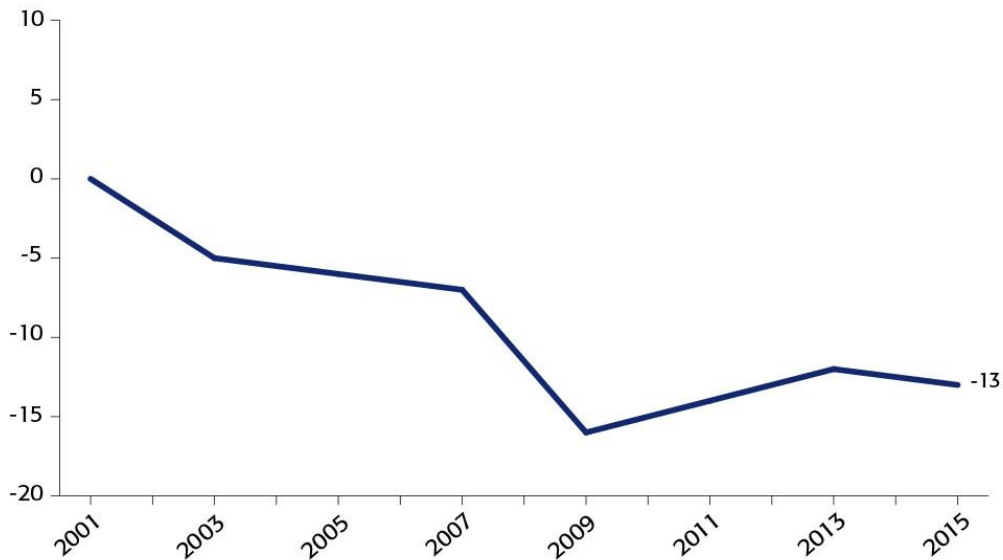
The conclusion reached, however, is that ultimately during a financial crisis, CSR is reduced. The main reason is said to be that companies have fewer assets to devote to such actions. Companies lose the sense of necessity that they should provide benefits to society. They regard their existence as a benefit to society; thus they do not further pursue it. In addition to that, firms have to cut back their spending on CSR initiatives, due to the large internal pressures they face. Companies attach importance to issues which are more severe at the time of publication.

---

<sup>3</sup> Allen, Katie. "Global Unemployment to Rise to 212 Million, Says ILO." The Guardian. Guardian News and Media, 19 Jan. 2015. Web. 09 July 2017.

## CSR Performance of Banks/Finance Industry

Net Performance,\* Average of 19 Countries,\*\* 2001–2015



R15\_15\_track\_banks

\*"Among the best" and "Above average" minus "Below average" and "Among the worst"

\*\*Includes Argentina, Australia, Brazil, Canada, Chile, China, France, Germany, Greece, India, Indonesia, Italy, Mexico, Russia, South Korea, Spain, Turkey, UK, and USA. Not all countries were asked in all years.

On the above graph, the performance of Corporate Social Responsibility is illustrated after 2000. We observe that during the first years there is a continuous fall in CSR. Immediately after the crisis CSR keeps on falling; however after 2009, half a year after the beginning of the crisis, CSR becomes to increase. There is a positive relationship between the economic crisis and CSR. During the crisis, CSR actions increase.

## MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

### Greece

Greece is one of the countries which has struggled the most during the economic crisis. Greece remains in recession (a period of negative GDP growth which lasts for more than six months) and faces high rates of unemployment, and until 2016 it experienced levels of deflation. The recession lasted for five and a quarter years and had significant effects on the Greek economy. At the beginning of 2015, the numbers were rather discouraging: youth unemployment exceeded 50%, at least 80% of the unemployed had been without jobs for more than six months, and gross government debt exceeded 160% of GDP. Greeks find themselves unable to conduct monetary policy, since they cannot print money. Consequently, Greece's economic potential has been significantly reduced. In addition to the already existing difficulties, the Greek government appears to be unwilling to cooperate, the Greek people do not want to accept the bailout conditions, exacerbating the situation by making it more difficult for the country to exit the crisis. There are two effects of the economic crisis. In the first case scenario, a firm which is struggling

financially for its survival is consequently forced to cut back on its expenses by reducing the money spent on CSR. Thus, the level of CSR is deteriorating in Greece. The second case scenario is that a firm tries to exploit the situation by trying to make its goods more attractive to consumers and increase its profits, and thus invests in actions of Corporate Social Responsibility in order to show society its good intentions.<sup>4</sup>

## **Japan**

Japan's economic problems date back to the 1990s, so they were not just created by the economic crisis in 2008. They were created by the aggressive economic policies (expansionary monetary and fiscal policies). Those policies initiated the longest-running Keynesian experiment. The result was almost zero interest rates, housing bubbles, chronic stocks and enormous government indebtedness, 240% of Japan's GDP. Between 2012 and the first half of 2015, Japan had negative GDP growth in six out of 14 quarters, resulting in higher unemployment. In the beginning of 2015, Japan had small wage increases, high taxation, increases in the prices of essential goods, and a significant demographic problem. Despite the efforts of the government and the central bank, Japan was unable to become the economic behemoth it was after the Second World War. Overall, after the 1990s Japan had experienced stagnation.<sup>5</sup> However, some incidents in Japanese society, along with the highly globalized firms led society to a quick understanding that government cannot ensure the perfect functioning of society and that corporate help is needed. Despite the economic crisis, Japanese firms seem to be more than willing to engage in actions of CSR in an attempt for Japanese society to progress. Such actions are observed in diverse fields and firms try to incorporate equality, human rights, eradication of poverty and many other fundamental rights in society.

## **Russia**

From 1991 to 1999 the Russian Federation went through a period of remarkable economic growth. However, the increasing rates of GDP came to a halt with the global market crisis of 2008. Then a large decline in GDP and an extremely bad performance was observed in the Russian stock market. The benchmark share index and the RTS lost 75% of their value by the beginning of 2009. Industrial output declined by 12.5% in 2009 and many of the previous year's gains were lost. Positive GDP growth and the amelioration of productivity was observed during 2012-3 and were considered the first signs of recovery. In October 2015, Forbes magazine ranked Russia as the single worst economy in the world. Crude oil prices, which was an important component of Russian exports, fell.<sup>6</sup>

---

<sup>4</sup> Ross, Sean. "4 Countries in Recession and Crisis Since 2008." Investopedia. N.p., 16 Nov. 2015. Web. 09 July 2017.

<sup>5</sup> Ross, Sean. "4 Countries in Recession and Crisis Since 2008." Investopedia. N.p., 16 Nov. 2015. Web. 09 July 2017.

<sup>6</sup> Ross, Sean. "4 Countries in Recession and Crisis Since 2008." Investopedia. N.p., 16 Nov. 2015. Web. 09 July 2017.

## **Italy**

Italy is another Balkan country, in close proximity to Greece, which has been facing enormous economic problems, especially in the period of 2008-2015. Italy was officially declared out of recession in the third quarter of 2009. However, even after exiting recession, Italy has been facing economic problems, especially with its labor productivity. Productivity per worker in Italy was higher in 2007 than in 2015. Since the peak in 2008, Italy's GDP has decreased by around 10%, a number which reflects the problems in the economy. Consumption and investment remain low while unemployment has reached unprecedented levels- exceeding 44% among young people and 12% overall. Italy remains the 'slowest gainer' after the Great Recession.<sup>7</sup> However, especially during the crisis, Italian entrepreneurs prioritized the need to support their society and invested great amounts of money in such actions.

## **United States of America**

Nine years after the beginning of the economic crisis, the country is still struggling to recover. According to many economists, the situation is that the period is compared with the Great Depression. However, the effects are obvious in the US economy. The housing industry has lost its prominent role in the US economy. Regarding unemployment rates, they have now returned to normal; however, the US has a large debt to pay off. In the US firms are divided into two categories. The one involves firms which, due to the costs which are exacerbated by the crisis, drop every endeavor relevant to corporate social responsibility. Then, there are the firms that exploit the crisis and want to promote the good face of their company, while trying to attract more customers. This leads to an increase in CSR.

## **International Labor Organization**

The International Labor Organization (ILO) actively participates in efforts to improve CSR, especially during crises. In an effort to achieve economic and social progress, CSR is considered an obligation for every company. In addition to the economic and social progress, ILO tries to promote the voluntary nature of CSR and its benefits to society. Finally, ILO offers advice to policy makers and governments on how to maintain CSR even in periods of crisis.

## **United Nations Global Compact**

The UN Global Compact is an organization which tries to promote sustainable development in society. It is linked with companies and tries to promote CSR. The UN Global Compact is responsible for monitoring how firms function based on specific principles of sustainability and reporting on their implementation. The initiative counts more than 13000 participants with stakeholders in more than 170 states. Overall, it is one of the largest organizations focusing on Corporate Social Responsibility, and controls the way CSR is performed through its 10 principles.

---

<sup>7</sup> Ross, Sean. "4 Countries in Recession and Crisis Since 2008." Investopedia. N.p., 16 Nov. 2015. Web. 09 July 2017.

## TIMELINE OF EVENTS

Date	Description of Event
9 August 2007	BNP Paribas freezes three of its funds, showing that it has no way of valuing its complex assets (collateralized debt obligations (CDOs)), or packages of sub-prime loans. This was the first bank to admit the risk of exposure and bankruptcy.
14 September 2007	Northern Rock, a former British bank, borrows a large amount of money in order to fund customer mortgages. Now, it can only pay off its debt by reselling those mortgages in the global markets. With low demand for securitized mortgages, Northern Rock faces a crisis and is in need of a loan from the British government. This generates fears that the bank will shortly go bankrupt leading depositors to withdraw their savings.
24 January 2008	Analysts report the largest fall in US home sales in the last 25 years.
17 February 2008	After two rejected private offers, Alistair Darling nationalizes Northern Rock claiming that it would be a temporary, necessary measure. The bank eventually returns to the private sector after four years.
14 March 2008	JP Morgan acquires the investment bank Bear Stearns. This action was noted as the biggest effect of the crisis up to that point.
7 September 2008	The US government bails out Fannie Mae and Freddie Mac- two enormous firms which had guaranteed thousands of sub-prime mortgages
15 September 2008	The American bank Lehman Brothers files bankruptcy, spreading terror in the international markets. The main reasons for bankruptcy were the high risks taken and the exposure to sub-prime mortgages.
17 September 2008	The UK's largest mortgage lenders, HBOS, is rescued by Lloyds TSB after a huge drop in its share price.
21 September 2008	Goldman Sachs and JP Morgan Chase change their status to banking holding companies, terminating the era of the dominant investment banking model.

	What triggers this change is a drop in the value of US banks stocks.
25-29 September 2008	Washington Mutual and Wachovia, two other American banks, also collapse.
30 September 2008	Ireland is the first European country to enter a recession. The Irish government promises to secure the Irish banking system, a promise which the government is unable to keep.
October 2008	Henry Paulson, a former United States Secretary of the Treasury, passes in Congress the Troubled Asset Relief Program (TARP), which purchases or insures the sub-prime mortgage securities from large banks. This is one of the actions which affects the crisis.
7-8 October 2008	Iceland's three biggest commercial banks – Glitnir, Kaupthing, and Landsbanki – collapse. To protect British customers, Gordon Brown, the former Chancellor of the Exchequer, uses anti-terror legislation to freeze assets in UK subsidiaries.
8 October 2008	Eight central banks including the Bank of England, the European Central Bank, and the Federal Reserve cut their interest rates by 0.5% in an attempt to reduce the pressure on borrowers. This is considered one of the worst weeks for the Dow Jones
13 October 2008	To avoid the collapse of the UK banking sector, the British government decides to bail out several banks, including the Royal Bank of Scotland, Lloyds TSB, and HBOS. However, the deal fails in the same week.
7 November 2008	It is reported that 240,000 Americans were left unemployed the previous month.
12 November 2008	After heavy criticism, Henry Paulson, alters the policy of TARP, stops purchasing toxic sub-prime mortgages and instead aids the banks via cash injections.
14 November 2008	The G20 holds a summit meeting, the first one after Lehman Brothers collapse.
2 April 2009	The G20 agrees on an international stimulus package of \$5 trillion.
27 August 2009	Adair Turner, the chairman of the Financial Services Authority in the UK, calls some banking activity "socially useless".



10 October 2009	Papandreou's administration in Greece admits that the hole in Greek finances is twice as large as expected.
27 April 2010	The Greek debt is downgraded.
2 May 2010	Greece is bailed out for the first time, with a program worth \$110 billion. This action initiates the Eurozone crisis. Meanwhile, the austerity program in Greece is intensified, resulting in many protests.
28 November 2010	European ministers agree to bail out Ireland in a program worth \$ 85 billion.
5 May 2011	The ECB bails out Portugal.
21 July 2011	Unable to bring its economic situation in order and under control, Greece is bailed out for a second time.
5 August 2011	S&P downgrades US sovereign debt.
12 February 2012	Greece passes its most important austerity package.
12 March 2012	Unemployment in Europe reaches unprecedented levels.
12 June 2012	Levels of borrowing in Spain reach extreme levels.
26 July 2012	ECB president Mario Draghi, gives his strongest defense for the Euro, triggering markets to rally.

..

## **UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS**

### Annual Sustainability Summit

The Annual Sustainability Summit is a conference which takes place every year. At this summit, topics relevant to sustainability in modern corporations are discussed. Its main role is to raise awareness among the executives of the corporations but also offer them ways for a more sustainable and socially-oriented corporate environment. The summit takes place under the UN Global Compact.

### European Parliament resolution of 6 February 2013 (2012/2097(INI))

The resolution refers to the issue of Corporate Social Responsibility. It aims at promoting society's interests and a route to sustainable and inclusive recovery. The following clause mentions what the EU promotes:

“Recognises that the Commission communication is part of a series of policy statements serving to ensure that CSR is promoted more widely, is embedded in EU policies and will become an established principle for European action; calls on the Commission and the Member States to use the 2014-2020 CSR strategy as the basis for practical measures to encourage companies to become involved in CSR”<sup>8</sup>

### European Parliament resolution of 13 March 2007 on corporate social responsibility: a new partnership (2006/2133(INI))

In this resolution, the importance of the initiation and the strengthening of Corporate Social Responsibility in Europe is discussed. Parliament tries to promote measures to encourage companies to engage in such actions.

Some clauses:

Clause 1; “Is convinced that increasing social and environmental responsibility by business, linked to the principle of corporate accountability, represents an essential element of the European social model, Europe's strategy for sustainable development, and for the purposes of meeting the social challenges of economic globalization”

Clause 10; “ Points out that CSR should tackle new areas such as lifelong learning, the organization of work, equal opportunities, social inclusion, sustainable development and ethics, so as to operate as an additional instrument for managing industrial change and restructuring”

### NGO interventions

In the United Kingdom and many other countries, there are Non-Governmental Organizations (NGOs) which take actions in order to promote CSR in their societies, but also monitor actions

---

<sup>8</sup> EU resolution 2012/2097(INI)

taken by firms. A characteristic example of such an organization is the Corporate Watch, which operates in the United Kingdom. Corporate Watch remains active in most sectors of the economy; banking and financial, environment, arms trade and many others. They investigate corporations and provide an analysis of how their power is used in society. Their motto is "information for action" and what they intend to do is give people as much information as possible about corporations for them to judge accordingly how one works. Corporate Watch is independent of state or corporations: an organization which monitors the role of companies in society. Through this kind of initiative, Corporate Social Responsibility is further promoted and assured in a society.

## **POSSIBLE SOLUTIONS**

### **Providing an enabling environment for enterprises to adjust to crises**

It has been discussed and considered necessary, the creation of an environment which is going to allow firms to thrive in a sustainable way. The importance of a conducive environment is increasing, especially during periods of crisis. Governments should participate in the formation of such an environment by enacting labor-relevant legislation, altering the institutional and legal framework and create a new way in which firms can cope with social issues. If governments implement such policies, society can reach the maximum level of CSR, promoted and engaged by the firms. In addition, with the new legislation, the productivity of firms can increase, making themselves more profitable and efficient than before. Thus, policy makers and governments should consider which measures will lead society to the result desired.

### **Providing wage subsidies to firms**

Subsidizing firms during a period of crisis would lessen the burden of production costs. Were the production costs lower, firms would have more capital to devote to actions of Corporate Social Responsibility. In addition to that, wage subsidies would prevent firms from laying off workers, since every worker would cost the firm less. This measure has been implemented in Germany, for companies which were not able to perform well because of the European economic slowdown. This measure proved effective since unemployment remained at low levels. Also, lower production costs would leave more available capital for the companies; capital which could be invested in actions of Corporate Social Responsibility. In this way, this measure could prove to be more than effective.

### **Encouraging social dialogue at the enterprise, sectoral and national level**

Social dialogue and consultation are very important in periods of crisis in order to come up with tangible solutions concerning societal issues. Corporate Social Responsibility can be promoted in

the corporate world. All levels of social dialogue are linked and can play a role in reforming. An example given by the ILO is that "a framework of reference can be set at national and/or at sectoral level, and the detailed implementation of measures can then be negotiated at company level".

### Tax benefits offered to firms who perform CSR

An initiative to lessen the taxes corporations pay in cases where they perform actions of Corporate Social Responsibility would be an exceptional way to incentivize firms to participate in such attempts. The government should thus adjust the tax relief for each company according to the money invested in CSR and by taking account of other factors such as its size and the nature of its product. It is important to assure that the firms will gain by this measure and definitely pursue it. Thus, the money they spend on CSR must be less than the tax they would pay. The measure would be effective since firms would both lessen their tax burdens but at the same time will advertise themselves in society.

## **BIBLIOGRAPHY**

Staff, Investopedia. "Corporate Social Responsibility." Investopedia. N.p., 29 Aug. 2015. Web. 09 July 2017.

The Free Dictionary, "economic crisis." WordNet 3.0, Farlex clipart collection. 2003-2008. Princeton University,

Jacob, Christine K. "The Impact of Financial Crisis on Corporate Social Responsibility and Its Implications for Reputation Risk Management." *Journal of Management and Sustainability*. N.p., 2012. Web. 09 July 2017.

Allen, Katie. "Global Unemployment to Rise to 212 Million, Says ILO." *The Guardian*. Guardian News and Media, 19 Jan. 2015. Web. 09 July 2017.

Ross, Sean. "4 Countries in Recession and Crisis Since 2008." Investopedia. N.p., 16 Nov. 2015. Web. 09 July 2017.

"The Over-simplified Version: What Caused the 2008 Financial Crisis?" Catch21. N.p., 27 Feb. 2012. Web. 09 July 2017.

Texts Adopted - Tuesday, 13 March 2007 - Corporate Social Responsibility - P6\_TA(2007)0062. European Union, 3 Mar. 2007. Web. 09 July 2017.

"Economic Crisis." The Free Dictionary. Farlex, n.d. Web. 09 July 2017.

Kingsley, Patrick. "Financial Crisis: Timeline." The Guardian. Guardian News and Media, 06 Aug. 2012. Web. 09 July 2017.

"EUR-Lex Access to European Union Law." EUR-Lex - 52011DC0681 - EN - EUR-Lex. European Union, n.d. Web. 09 July 2017.

Holme, Caroline. "Seven Years On From The Financial Crisis: Optimism in Africa but CSR Ratings Deficit Elsewhere." @GlobeScan Blog. N.p., 13 Aug. 2015. Web. 10 July 2017.

"What We Do." [www.corporatewatch.org](http://www.corporatewatch.org). Corporate Watch, n.d. Web. 10 July 2017.