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Corporate Social Responsibility Performance during Crisis. A EU Approach

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Abstract: This paper aims at analyzing the impact of the financial crisis on Corporate Social Responsibility (CSR) performance, emphasizing the case of companies from European Union (EU) countries. An empirical analysis is conducted using the database available on Global Report Initiative (GRI). For accomplishing this, we will use Wilcoxon signed rank sum test, in order to test the CSR performance evolution for period 2007 – 2015. According to the GRI reporting guidelines we transform the application level of report standards in a point score system. The results indicated increased CSR performance before, during and after the financial crisis except for 2015, which confirm the results obtained by other researchers. The present study is important both for managers and policymakers: for managers to continue their CSR actions because is demonstrated the positive relationship between CSR and financial performance; and for authorities who have to adopt more incentives for supporting companies involved in CSR activities.

Keywords: Responsible Finance; Global Reporting Initiative; GRI Guidelines; performance scale

JEL Classification: G01; G34; M14; O16

1. Introduction

There is a limited number of articles discussing CSR published in recent years in the top academic finance journals which suggests that this topic does not appear to be a main concern in the finance literature. Social activities or corporate responsibilities are discussed related to the impact on financial performance or shareholder value: "where CSR does not directly increase shareholder value, it is an inappropriate misallocation or misappropriation of funds" (Friedman, 1970).

CSR is about "doing good and doing well" (Margolis & all, 2009). There is a continuous debate regarding Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) because the narrative reviews of the literature and the empirical evidence is too varied to allow for definitive conclusions. Orlitzky (2011) states, "Many academic researchers regard the business case for CSP as unresolved despite the more optimistic conclusions reached in several meta-analyses". Margolis and Walsh (2003) also note: "A simple compilation of the findings suggests there is a positive association, and certainly very little evidence of a negative association between a company's social performance and its financial performance." Many scholars such as Margolis and Walsh (2003) suggest moving beyond the CSP/CFP debate and move on to new research into the relationship between business and society.

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The financial crisis is assumed to pressure companies into decreasing their investments in CSR activities. In this paper, we want to analyze if there are mutations of CSR performance before, during and after the financial crisis. There are also other papers evaluating this issue and in this context we want to mention the paper of Giannnarakis and Theotokas (2011) who found increased CSR performance before and during the financial crisis except for the period 2009-2010.

This paper has the following structure: section 2 reviews the literature based on previous studies regarding the CSR concept and also the relationship between CSR and the recent financial crisis. Section 3 describes the methodology used in order to highlight the impact of the financial crisis on CSR performance and section 4 provides the analysis of the results. Finally, we present the conclusions of our research.

This research, which is limited to companies listed on the GRI Report, has significant practical implications because it can motivate managers to continue their CSR activities even during periods of crisis and also can improve policymaking through appropriate policies or incentives for CSR activities. This paper is an original research that presents new empirical results and it adds to the literature on the field since the literature on the relationship between financial crisis and CSR is scarce.

2. Literature Review

CSR definition is both complex and complicate. Also, there is no consensus regarding the CSR concept between academics, researchers, managers or other interested parties and a universally accepted definition of CSR does not exist yet. Even so, we want to highlight a few approaches of the term in order to provide a better understanding of what CSR means.

There are institutions and organizations who tried to define CSR and from those we mention the World Business Council for Sustainable Development (WBCSD) and the European Commission (EC). The WBCSD (2000) consider that “Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”.

Our analysis is based on EU companies and the EC definition of CSR is important. European Commission (2016) considers that “CSR refers to companies taking responsibility for their impact on society”. Also, the EC believes that CSR is important for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy because “it brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management.”

From a definitional perspective, Osuji (2011) consider that “CSR is undeveloped with respect to its precise meaning, content and practice, definitiveness of relationship with the law and clarity of regulatory design and implementation”. His paper submits that recognition and application of this “ethical” and “instrumental” CSR distinction is fundamental to the development of CSR and resolution of connected questions of regulation.

Sheehy (2015) provide a broad study regarding the CSR definition in order to identify the problems and to encounter the solutions. After reviewing different approaches of the concept from a multidisciplinary perspective, Sheehy (2015) define CSR as a particular genus, differentia and species of social phenomena, which consists in a form of international private self-regulation focused on the reduction and mitigation of industrial harms and provision of public good.

In his paper Carroll (1999) present the evolution of the concept and various definitions of CSR over time beginning with the 1950s, which marks the modern era of CSR, continuing with the 1960s till the 1990s. In his opinion, CSR is the decision-making and implementation process that guides all company activities in protecting and promoting international human rights, labor and environmental standards, and compliance with legal requirements within its operations and in its relations to the societies and communities where it operates.

In the field of CSR is very known the Friedman-Freeman debate on the social responsibility of the business. According to Friedman (1970), there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. Friedman consider the corporation as an artificial person and in his approach only people can have responsibilities. In this sense, companies may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense. In contrast with this argument, Freeman and Elms (2011) consider that the social responsibility of business is to create value for stakeholders, not only for shareholders but also for customers, suppliers, employees, local community. Thus, the corporation serves a broader purpose, to create value for society. The explanation of Freeman (1998) consist in the fact that “managers bear a fiduciary relationship to stakeholders. Stakeholders are those groups who have a stake in or claim on the firm...[including] suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups”. Porter and Kramer (2006) agree to Freeman approach by suggesting that “the purpose of the corporation must be redefined as creating shared value and not just profit per se, by at least implicitly prioritizing economic over social value and by proposing, shared value as “a new way to achieve economic success.”

In this context, the United States social investment firm Pax World Investments (2011), one of the first investment firms to formally implement a stakeholder framework contend that “well managed companies that maintain good relations with employees, consumers, communities, and the natural environment, and that strive to improve in those areas, will in the long run better serve investors as well.”

A company that treats employees well and works hard to maintain good community relationships would have numerous advantages over companies that do not make similar efforts, which consist in superior financial performance. That is why we propose to analyze the importance of CSR activities even during periods of crises.

Even if in the United State the first signs of financial crisis was noted starting with February 2007, when the price index ABX for credit default swaps started to decline and the drop has become more and more pronounced, in EU, a decrease of GDP is recorded from the second quarter of 2008, when GDP decreased with 0.4% for EU-27. Based on this information, we consider that the first signs of financial crisis for EU were noticed starting with the second quarter of 2008, and the biggest negative effect was felt in 2009, when the GDP drop over 4.5% (Dornean & Oanea, 2015).

In this circumstances, companies are compelled to restrict their expenses including withdraw from their corporate social responsibilities as it generates costs (Fernández & Souto, 2009). Njoroge (2009) concludes that CSR initiatives can be postponed or cancelled because due to the financial crisis.

Fernández & Souto (2009) analyzed the consequences of the recent economic and financial crisis on CSR and they concluded that CSR in crisis periods can be converted from being a threat to an opportunity. In their opinion, implementation of CSR needs financial funds because it generates costs and 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 each company has its own responsibility to 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. In this context, firms will be in a better position to overcome the turbulent situation of the economic and financial crisis, using CSR as a business opportunity.

In another study (Yelkikalan & Köse, 2012), the effects of the crisis on CSR activities have been evaluated in the light of the developments following the 2008 global financial crisis and the authors proposed a model. This model present two hypothesis regarding the perception of the crisis as a threat or opportunity for CSR activities. In their opinion, the crisis has different implications on different levels of CSR and they conclude that such a perspective could be useful for understanding the behavior of businesses that perceive the crisis as a threat to their economic activities and take precautions, but at the same time continue their CSR activities at the level of philanthropy without interruption in times of crisis.

As we could see, some researchers tried to identify a clear link between financial crisis and CSR. There are arguments to consider that companies engaged in CSR actions in financial crisis time would have to gain in a mid and long term basis. Our purpose is to demonstrate this fact based on CSR reports retrieved from Global Reporting Initiative.

3. Methodology

3.1. Global Reporting Initiative Report

The evaluation of CSR performance is based on companies that are certificated by CSR report standards. The GRI guidelines framework is considered the most complete framework concerning the CSR report. It is voluntary and presents reporting principles on an organization's economic, environmental, and social performance. A GRI-based report includes five sections named vision and strategy, profile, governance structure, GRI content index and performance indicators which are distinguished in three dimensions of economy, environment and society. An important aspect of GRI guidelines is the application levels which provide information to the reader concerning the extent to which the GRI guidelines have been utilized. There are five versions of the GRI Guidelines applied in the report: GRI – G1 (published in 2000); GRI – G2 (published in 2002); GRI – G3 (published in 2006); GRI – G3.1 (published in 2011) and GRI – G4 (published in 2013) which is currently valid.

The evaluation of CSR performance is based on annual corporate reports where the application level of GRI guidelines is modified in CSR performance. The annual report is considered as a methodological tool measuring CSR performance.

In order to convert the application level, three main levels are distinguished, named A, B and C which can be self-declared, third-party-checked and/or GRI-checked and each with the option of recognizing external assurance ("+"). This adherence levels reflects the extent to which the GRI Sustainability Reporting Framework has been applied to a report. In total, six reporting levels exist ranging from C to A+ (Table 1).

Table 1. The system score

Application level	Point system score
C	1
C+	2
B	3
B+	4
A	5
A+	6

3.2. Data and Research Description

The empirical analysis of CSR performance is based on companies from European Union countries (EU28) that are certificated by GRI guidelines in order to ascertain whether their performance has changed. The analysis period includes nine years from 2007, pre-crisis, 2008-2012, during crisis and 2013-2015, post-crisis.

The data are obtained from Global Reporting Initiative. A complete description of the data is available at http://database.globalreporting.org/search and in Table 2. The initial database is unbalanced and contains 223 up to 947 statistical observations, regarding the variables, referring to period 2007- 2015.

Table 2. Description statistics

Year	Observation	Mean	Std. Dev	Min	Max
2007	223	3.5291	1.5031	1	5
2008	356	3.5056	1.5282	1	5
2009	538	3.1598	1.6681	1	5
2010	712	3.0786	1.6584	1	5
2011	835	3.0742	1.6327	1	5
2012	947	3.0147	1.6151	1	5
2013	947	3.1351	1.5601	1	5
2014	714	3.1401	1.5612	1	5
2015	298	3.0134	1.5996	1	5

As we can observe in Table 2, during the period 2007-2012 the mean is decreasing as a consequence of the financial crisis and in the following years, 2013 respectively 2014, after overcoming the crisis we notice that mean is increasing Also, we have to mention that in the period 2007-2015 are 24 common solid companies and in their case the mean is increasing. Thus, a possible explanation can be that the other companies, the majority of the sample, presents a low scoring.

4. Results

In order to test the CSR performance evolution for period 2007 – 2015, we used Wilcoxon signed rank sum test. The outcome for each pair of CSR performance is presented in table 3.

Table 3. CSR performance

Hypothesis	Year	Sign	Observations: By group	Observations: Total & Ties	Mean	Std. Dev	Z	Asymp. Sig.
2007=2008	2007	Positive	26[a]	169	3.7100	1.4695	4.539	0.0000
	2008	Negative	2[b]	141[c]	4.0177	1.3114		
2008=2009	2008	Positive	39[a]	277	3.5848	1.5099	5.780	0.0000
	2009	Negative	2[b]	236[c]	3.8664	1.3936		
2009=2010	2009	Positive	59[a]	426	3.2629	1.6708	6.931	0.0000
	2010	Negative	4[b]	363[c]	3.5305	1.5853		
2010=2011	2010	Positive	66[a]	522	3.2720	1.6235	6.905	0.0000
	2011	Negative	7[b]	449[c]	3.4980	1.5318		
2011=2012	2011	Positive	73[a]	618	3.1650	1.6038	7.195	0.0000
	2012	Negative	8[b]	537[c]	3.3721	1.5687		
2012=2013	2012	Positive	52[a]	699	3.1688	1.5951	5.506	0.0000
	2013	Negative	9[b]	638[c]	3.2918	1.5460		
2013=2014	2013	Positive	32[a]	570	3.1964	1.5516	3.783	0.0002
	2014	Negative	8[b]	530[c]	3.2842	1.5674		
2014=2015	2014	Positive	2[a]	210	3.1047	1.6158	1.414	0.1573
	2015	Negative	0[b]	208[c]	3.1238	1.6144		

a. $CSR_{T(1)} < CSR_{T(0)}$, b. $CSR_{T(1)} > CSR_{T(0)}$, c. $CSR_{T(1)} = CSR_{T(0)}$,

Based on the results we are able to see that for each pair of years between 2007 and 2014, the CSR performance is statistical significant and different from one year to another. In the same time the mean value for CSR performance is increasing. Going further, we can see that only for year 2015 CSR performance is not statistically different by the value recorded in 2014.

5. Conclusions

This paper' objective was to analyze the effects of the most recent global economic and financial crisis on CSR performance. Our results confirm those obtained by Giannarakis and Teotokas (2011) which indicate increased CSR performance before, during and after the financial crisis except for 2015. Thus, we can conclude that companies increase their performance in order to regain the lost trust in businesses and CSR activities can be used as an opportunity for business. The reason for this increase is the companies' objectives for maintaining their brand value and previous gained assets. CSR is increasingly viewed as making good business sense and also contributing to the long-term prosperity of companies and ultimately its survival and taking into considerations our results, we consider that it is important for companies to continue their efforts in CSR direction. Our conclusion is that CSR activities must be developed during the financial crisis. We consider that the government should encouraged companies to continue their development and correct engagement in CSR actions through different incentives (e.g. reduce tax burden, fiscal measures) because on a mid and long-term this will advantage companies and also the society. There are two limitations to this paper: first, the analysis is based on companies that present available data during the period 2007-2015 of GRI listing and the number of observations differ every year of analyzed period, thus the database is unbalanced; and secondly, it is based on large companies and so does not study the behavior of small and medium enterprises (SMEs). Further research can extend the analysis including SMEs in order to see if we obtain the same results such as in the case of large companies. It would be interesting also to analyze the evolution of CSR performance only for the companies that are common to GRI listing during the period 2007-2015to the extent that more data will be available.

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