Committee: Economic and Social Council (ECOSOC)

Topic: Investigating the impact of financial crises on the performance of corporate social responsibility

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Topic Introduction

"In times of financial distress, the character of a corporation is revealed in its commitment to social responsibility." proclaims renowned economist, Michael E. Porter[1] in his prototypical Harvard business review article, "Creating Shared Value."[2] Financial crises, highlighted by precipitous declines in asset valuations throughout a particular macroeconomic model, systemic failures of financial institutions, major decline in Gross Domestic Product (GDP), as well as pervasive disruptions in general economic activity,[3] compel corporations to reassess their operational and strategic priorities. During such tumultuous times, in turn, the commitment to Corporate Social Responsibility (CSR), namely a business model that entails an amalgamation of environmental stewardship, societal equity, community engagement, and ethical governance with the purpose of formulating a positive brand image and awareness, faces rigorous scrutiny[4]. This, in a nutshell, is the direct result of monetary hardship, rendering the upkeep of both standard activities and the Corporate Social Responsibility model extremely arduous.

[1] Michael E. Porter | Porter, Michael E. "Michael E. Porter - Faculty - Harvard Business School." *Hbs.edu*, 2014, www.hbs.edu/faculty/Pages/profile.aspx?facId=6532.

[2] Creating Shared Value | Porter, Michael, and Mark Kramer. *The Big Idea Creating Shared Value: How to Reinvent Capitalism-and Unleash a Wave of Innovation and Growth*. 2011.

[3] Financial Crises, Investopedia | Kenton, Will. "Financial Crisis: Definition, Causes, and Examples." *Investopedia*, 15 Feb. 2023, www.investopedia.com/terms/f/financial-crisis.asp.

[4] Corporate Social Responsibility, Investopedia | Fernando, Jason. "What Is CSR? Corporate Social Responsibility Explained." *Investopedia*, 6 Mar. 2024, www.investopedia.com/terms/c/corp-social-responsibility.asp.

It is imperative to note that CSR, on an economic, environmental, and international basis, is crucial[5]. This stems from its potential to engender long-term value for both businesses and society. Particularly for corporations, CSR initiatives bolster brand reputation, enhance customer loyalty, attract and retain human capital, and mitigate regulatory risks. Concurrently, for society, CSR addresses salient social and environmental challenges, fosters equitable economic development, and augments the overall quality of life. Indeed, the nexus between financial crises and corporate social responsibility (CSR) has captivated the attention of scholars, policymakers, and business executives alike, particularly during periods of acute economic turmoil, wherein it holds particular solemnity.

Definition of Key Concepts

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) corresponds to the practices and policies undertaken by enterprises, international conglomerates, or general corporations to exhibit values of altruism and principles of natural law, with the purpose of having a positive impact on society.

Economic Recession

An economic recession is a major and evident decline in economic activity across a particular macroeconomic model, frequently the one of a nation, that may last for an extended time frame.

Liquidity

Liquidity, specifically concerning monetary and entrepreneurship affairs, refers to the ability of a company to meet its ephemeral obligations via the utilisation of assets that can rapidly be converted into cash without significant loss of value. This mandates efficient cash-flow management, cost control, and asset liquidation, usually via the stock market. High liquidity indicates that a company can easily finance its operations, whereas low liquidity can constrain a firm's ability to conduct certain activities.

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[5] The Quintessential Nature of CSR, Mishra, Gaurav. "Importance of Corporate Social Responsibility: Creating Positive Impact through Business." *Www.linkedin.com*, 11 May 2023, www.linkedin.com/pulse/importance-corporate-social-responsibility-creating-impact-magazine.

Credit Crunch

A credit crunch occurs during a sudden reduction in the availability of loans, resources, monetary provision, and credit, or a sudden tightening of the conditions required to obtain a loan from banks, rendering the obtainment of such aid arduous.

Corporate Governance

Corporate governance circumscribes the amalgamation of rules, practices, and processes by which a company is directed, managed, and controlled. An imperative aspect of this, are the mechanisms by which companies, and their administrators, are held accountable. Effective corporate governance is statutory, has a democratic board of trustees, and ensures that operations are transparent and ethical.

Dot-Com Bubble

"The dotcom bubble was a rapid rise in U.S. technology stock equity valuations fuelled by investments in Internet-based companies during the bull market in the late 1990s."[6]

Gross Domestic Product

Gross Domestic Product (GDP) is the "total market value of the goods and services produced by a country's economy during a specified period of time."[7]

[6] Rasure, Erika. "Dotcom Bubble Definition." *Investopedia*, https://www.investopedia.com/terms/d/dotcom-bubble.asp. Accessed 15 August 2024.
[7] Bondarenko, Peter. "Gross domestic product (GDP) | Definition & Formula." *Britannica*, 12 August 2024, https://www.britannica.com/money/gross-domestic-product. Accessed 15 August 2024.

Background Information

The Impact of Financial Crises on CSR

Figure 1: As the January 2021 edition, the authors of the article Michael E. Kamer and Mark R. Krumer provide existential insight into Corporate Social Responsibility and its wide range of implications. [8] *Read more here:* https://www.communitylivingbc.ca/wp-content/uploads/2018/05/Creating-Shared-Value.pdf

The extent and nature of CSR activities are regularly and invariably influenced by external economic vicissitudes, especially during said financial crises. Again, this occurs because of the added strain on such corporations. Financial crises are even further precipitated by various factors, such as excessive stock leverage, whereby buyers invest borrowed money instead of their own[9], speculative bubbles, with assets gaining unrealistically detached values from their fundamental worth[10], as well as exogenous shocks which, despite being external and not directly relevant, muster immense effects upon an economic structure[11]. The substantial financial strain and burden that is imposed by financial crises, simply, deems CSR activities as economically inviable, and, to an unfortunately large extent, as

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[8] Harvard Business Review | ---. *The Big Idea Creating Shared Value How to Reinvent Capitalism-and Unleash a Wave of Innovation and Growth*. 2011.
[9]Stock Leverage, Dangers | "Leverage in Stock Market - Meaning, Benefits and How to Use?" *Groww*, groww.in/p/leverage-in-stock-market. Accessed 24 June 2024.
[10]Speculative Bubbles | tutor2u. "Economics of Speculative Bubbles." *Tutor2u*, 11 Mar. 2021, www.tutor2u.net/economics/reference/economics-of-speculative-bubbles.
[11]Exogenous Shocks | "What Is Exogenous Shock | IGI Global." *Igi-Global.com*, 2024, www.igi-global.com/dictionary/the-impact-of-health-crisis-on-the-volatility-of-commodity-price-return/102538

redundant expenditures. Nevertheless, they can also directly highlight the pressing nature of CSR, its values, and the benefits it may have, especially in a period of recession and difficulty.

Negative impact

The repercussions of these crises permeate the economy, affecting businesses, households, and governments. During such periods, businesses frequently encounter severe liquidity constraints, diminishing revenues, and escalating uncertainty in demand for certain commodities. Ultimately, especially in accordance with the 2010 Kemper & Martin study[12], financial crises limit CSR activities as businesses are economically obliged to re-evaluate their commitments to socio-political and environmental initiatives amidst financial duress.

In turn, one of the primary repercussions of financial crises on CSR performance is the reallocation and prioritisation of resources. During economic downturns, businesses are obliged to concentrate fundamental operations with the purpose of ensuring viable financial stability, thereby leading to a diminution in funding for CSR initiatives, which are perceived as trivial expenditures

Positive impact

However, the impact on CSR performance is not homogeneous across all firms. Some enterprises continue to invest in CSR activities, recognising their immense, historic, value, and stakeholder importance. These firms may adopt a strategic approach, concentrating on CSR initiatives that align closely with their core business operations and yield measurable benefits. Companies in the renewable energy sector, whose primary business model corresponds with sustainability and the promotion of environmentalist ideals, may persist in investing in environmental sustainability initiatives, as these are integral to the promotion of their key product and general sustenance.

[12] Martin & Kemper | Marin , and Kemper . "Corporate Social Responsibility and Financial Implications ." *Research Gate*, Christin Jacob , Aug. 2010, www.researchgate.net/publication/236868898_The_Impact_of_Financial_Crisis_on_Corporate_Social_Responsibility_and_Its_Implications_for_Reputation_Risk_Management. Accessed 24 June 2024.

Financial crises, occasionally, even amplify stakeholder expectations and pressure businesses to exhibit social responsibility. During economic downturns, stakeholders may look to corporations for support and leadership. This scenario creates a paradox for businesses, as they must balance the obligation of curtailing costs with the expectation to maintain or even enhance their CSR commitments. For instance, during the COVID-19 pandemic, numerous companies demonstrated their CSR commitment by supporting employees, donating to relief efforts, and engaging in community support activities.

Case Study: The Dot-com Bubble

Another modern financial crisis is the Dot-com Bubble of the early 2000s where investment expenditures were severely narrowed to solely the start-up sector. The crisis highlighted the need for CSR in promoting diversified and sustainable investment strategies rather than speculative investments focused solely on start-ups.

Read more here: http://corporatefinanceinstitute.com/resources/career-map/sell-side/capital-markets/dotcom-bubble/

Case Study: Asian Financial Crisis

One modern instance of a financial crisis is the Asian Financial Crisis of July 1997 to December 1998, where the Thai Baht was devalued. During the Asian Financial Crisis, CSR's emphasis on strong corporate governance could have mitigated the excessive risk-taking and lack of transparency that exacerbated and, irregularly, proliferated the crisis.

Read more here: www.federalreservehistory.org/essays/asian-financial-crisis

Figure 2: Protests after the Asian Financial crisis in Hong Kong, after the local currency was also devalued. A jocular imposition may be seen, with the key subject referring to the International Monetary Fund's initials as "being fired."

Major countries/ organisations and alliances

Bangladesh

Bangladesh, is widely recognized for its CSR efforts and activities. Companies in Bangladesh, particularly in the textile and garment sectors, have increasingly adopted CSR practices aiming to improve working conditions, promote fair wages, and ensure environmental sustainability. Grameen Bank, a prominent Bangladeshi microfinance organization, exemplifies CSR through its commitment to empowering the poor through providing them with small loans that allow them to start businesses. Moreover, many Bangladeshi firms are actively engaging in projects that intend to reduce carbon footprints and manage waste responsibly.

China

China's rapid economic development and industrialist expansion is unprecedented and modern. Specifically, monetary reform and an open-door policy commenced with the adoption of a new economic development strategy at the Third Plenary Session of the eleventh Central Committee of the Chinese Communist Party (CCPCC) in late 1978, with Hua Goefeng and Deng Xiaoping utterly transforming the nation. As such, this member-state is a critical player in global CSR initiatives and dynamics, with their responses to financial crises affecting international supply chains and miscellaneous standards. The Chinese government has increasingly emphasised the importance of CSR, fruitfully incorporating it into the Five-Year Plans, intended to ameliorate local socioeconomic frameworks, as well as Belt and Road Initiatives. During financial downturns, Chinese companies are actively obliged to maintain and enhance their CSR efforts, with the "New Company" statute imposing fines. As such, renowned companies such as Huawei, or Alibab have launched the "Seeds for the Future" and "Rural TaoBao" programmes respectively. Nevertheless, several occurrences of delinquency, lack of transparency, and corruption have occurred, wherein major international conglomerates, including the China Petroleum & Chemical Corporation (SINOPEC) or the GlaxoSmithKline Company (GSK) have been engaged in malpractice, scandalous operation, and even bribery. The 2008 financial crisis in addition to repeated such incidents saw the Chinese government launching extensive stimulus packages, primarily aimed at sustainable development and the influence of corporate behaviour towards social and environmental responsibility. These efforts were part of a broader strategy to not only stabilise the economy but also to ensure sustainable growth. Ultimately, notwithstanding fundamental ideological differences and widespread corruption, the People's Republic of China is instrumental in CSR, introducing tactical legislation, regulatory framework, and campaigns.

United States

As an efficacious macroeconomy and a renowned testament to the values of capitalism and consumerism, the United States constitutes a paramount role in the realm of entrepreneurship, venture capital, corporate behaviour, and CSR initiatives. In fact, approximately 33 million enterprises are currently registered there, the vast majority conducting crucial operations. The United States, simply as a result of this grandiosity, radically influences global standards for corporate transparency, ethical conduct, and moral obligations. Regulatory frameworks such as the Sarbanes-Oxley Act and the Dodd-Frank Act, for instance, not only highlight the member-state's position of transparency and aspirations to enhance corporate accountability, but, notably, affected companies at a multilateral level. It is, moreover, sacrosanct to state that such corporations frequently re-evaluate their CSR strategies, regularly integrating nouvelle risk management technologies and sustainable practices, restoring stakeholder trust and adhering to evolving legislation.

Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) is crucially vital in the proliferation of CSR ; it, as a multilateral organisation that aspires to nurture monetary development and economic prosperity, formulates the international standards and fundamental frameworks of responsible business conduct, to which corporations and conglomerates adhere. Specifically, it actively strives for labour rights, environmentalism, and anti-corruption measures. In financial crises, moreover, the OECD has provided thorough analysis and key policy recommendations that sustained CSR, with its action during the 2008 one, serving as a key one. The OECD's guidance, from its establishment in 1961, has historically prioritised CSR, aiding in the integration of sustainable and ethical practices into core operations.

Previous attempts to solve the issue

Certain Corporate Social Responsibility Initiatives

This saw mixed success, with some companies integrating CSR into their core strategy, whereas others reduced CSR efforts as a result of major monetary constraints during crises. Historically, simple profit has been the primary incentive.

Consumer Activism and Boycotts

Unfortunately, this was successful to a minor extent whereby it raised awareness and pressured companies, but inconsistent consumer behaviour limited long-term impact. This was ineffective in monopolies, duopolies, and even certain oligopolies, as the enterprise holds a vast majority of the market share, leading to a dependence of the consumer on the company, unprecedented control of all supply, and allowing it to regularly fluctuate, increase, or even decrease, in an attempt to utilise the monetary strategy of 'dropping' with the purpose of mitigating potential competitors, prices.

Government Bailouts with CSR Conditions and Incentives for Sustainable Business Practices

The former showed limited success; some companies adhered to CSR conditions, but the vast majority, inevitably, prioritised financial recovery over social responsibilities. The latter, in contrast, corresponded with a notable degree of success; tax breaks and subsidies encouraged CSR, but effectiveness fluctuated upon the basis of economic stability and political incentivisation,

Possible solutions

CSR Crowdfunding Platforms and Community-Based CSR Partnerships

Muster crowdfunding platforms, are strategically designed and intended for CSR projects, permitting the public to directly fund and support corporate initiatives during financial crises, ensuring continued investment in social and environmental programs. Simultaneously, this will proliferate substantial societal awareness and inhibit the Keynian economic paradox of thrift, referring to an exponential decrease in aggregate demand, and subsequent monetary growth. Additionally, they can empower employees to design and lead CSR initiatives within their organisations, fostering a sense of ownership and commitment, ensuring CSR remains transparent, relevant, and a quintessential priority even during economic downturns.

CSR Financial Mechanisms

They can ensure the regular availability of financial products such as, but certainly not limited to, grants, bonds, and loans that are linked to CSR performance, offering lower interest rates or better terms for companies that maintain or improve their CSR efforts during economic downturns. Furthermore, CSR tax incentives, especially during crises, may be detrimental. Specifically, this demands the nuanced implementation of a dynamic tax system, which alters during financial crises, encouraging companies to maintain or enhance their CSR activities with the benefit of significant tax breaks or generally lower taxes, thereby limiting redundant extortionate expenditures. Moreover, another fundamental aspect of potential economic solutions lies in the establishment and prudent management of corporate CSR resilience funds. One must establish funds that companies can contribute to during profitable years, which, in turn, can be drawn upon during financial crises in order to continue funding CSR projects, ultimately ensuring sustainability and resilience.

Global CSR Compliance Standards and Crisis-Responsive CSR Regulations

Develop international standards for CSR compliance that include provisions for maintaining CSR during financial crises, ensuring global consistency and accountability, as well as encouraging multinational companies to adhere to best practices regardless of economic conditions. Should a crisis occur, ensure that regulations have been enacted and specifically address CSR during financial crises, requiring companies to demonstrate how they will sustain their social and environmental responsibilities even when facing economic challenges.

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