

Corporate Responsibility in the Age of Irresponsibility: A symbiotic relationship between CSR and the financial crisis?

An IISD Commentary

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Trying to understand the future impact of the financial turmoil of the last few months on the many institutions and actors on the global stage, is a daunting yet fascinating process. The analysis forces us to take a step back and view whatever it is that we may be aiming to understand with rather critical eyes—in my case it was through the lens of Corporate Responsibility. As an advocate of CSR, I often spend my time fighting the cause and countering its many critics. However, as I attempted to make sense of the effects on CSR of the recent financial crisis and potentially extended recession, I was able to see more clearly how close the CSR industry may be to its demise if it does not radically re-shape itself.

Financial Crisis: The Causes and CSR's Role

The causes of this turmoil are multifaceted. Although many issues remain unclear, there are a couple of conclusions to take from the crisis. The first is that this was a crisis of responsibility, or lack thereof. The second is that it will only be repaired by the re-establishment of trust between companies (especially those in the financial sector) and their stakeholders. Logically, this presents a perfect entry-point for CSR to be finally recognized by the business community as a force of necessary good and long-term sustainability. The emphasis placed by CSR on the role of corporations in the larger social and environmental contract is key in preserving an ideal equilibrium of confidence and responsibility.

However, in its current shape, CSR has opened itself to yet more criticism with strong anti-CSR arguments being voiced by businesses, academia and the media. Understandably, in a crisis defined as one of corporate irresponsibility (and arguably also of individual), it is only logical that the inability of CSR to ensure deep-rooted accountability and business governance is being highlighted and condemned. Is this crisis not the antithesis of the core principles of CSR?

What the Crisis Means for the CSR Industry

As we focus ahead, I can see three possible paths for the CSR industry:

Path 1: CSR Fad Fades

The business community will dismiss it entirely as a fad that served a role in creating a market for ethical and environmental products but does not have a wider purpose in society. As a potential recession looms, business expenses will be reduced only to essential and CSR will be considered a 'nice-to-have' but unnecessary outflow. Cost-cutting will result in a number of corporate activities and sponsorships being axed.

Philanthropic activities will be confined to foundations rather than to corporations, which is a shame because those in need of charity are particularly vulnerable during times of crisis and weak economic prospects. Nonetheless, this kind of CSR was arguably unsustainable anyway as it had little to do with integrating responsibility and governance into the core business model.

Path 2: Active CSR Survives – not Thrives

The second outlook for CSR is that companies will come to realize just this and understand that CSR must play an active rather than superfluous role which may be relinquished during hard times. Organizations may choose to engage in actions where their products or activities are linked to a wider social or environmental good. For example, a computer manufacturer joining hands with local schools by supplying classrooms with computers. On the other hand, responsible actions should be recognized as not just necessary, but a business imperative. It is good business to understand the role that your organization plays in the broader society and to leverage your resources in order to manage and satisfy your stakeholders. Keeping CSR at the periphery of the business model will go some of the way towards improving stakeholder relations and re-establishing much needed trust. However, this form of CSR will do little to bring about long-term business and market sustainability, consequently also little to avoid future crises like the one we face today.

Path 3: Non-peripheral, Widescale Sustainable Practices

The third model builds upon the last two and benefits from my eternally optimistic view of the world. In light of the shocks the world is experiencing and the critical need to re-establish trust with stakeholders, companies will not have a choice but to make CSR a main concern.

In this model, I look beyond the CSR which encourages employees to plant trees in low-income housing areas or companies to donate computers to schools. Evidently, these are valuable actions in their own right; both in terms of the benefits to society and the positive corporate culture it fosters. But peripheral CSR, even if strategic, will not be sufficient to minimize risk and promote the long-term health of the system.

As we look ahead to perhaps the largest crisis of business confidence, it is time to shift the focus away from short-term gains to longer-term economic, environmental and social successes. Even in the catastrophically affected financial sector, organizations such as the Dutch Tridos Bank and the U.K.'s Co-operative Bank have proved robust due to their focus on transparency and responsible investing. Tridos Bank's CEO, Peter Bloom, explained that "by lending to businesses

and projects that are sustainable financially, as well as socially and environmentally, we balance a positive impact on society with a healthy financial return.” Hence, “by sticking firmly to our own approach, the crisis currently impacting the banking industry is bypassing Triodos Bank. This crisis is caused by losing touch with the real economy.” Embedded CSR targets good governance, accountable leadership and ethical practices so as to ensure that they create opportunities and contribute to increased performance. This is the opening for CSR to demonstrate its strength and power to bring about the changes needed in the business and financial sectors promoting the adoption of sustainable practices on a wide scale. Sustainability, after all, is what will determine whether a business will outlive the actual and inevitable crises of the future.

Symbiotic Relationship Forged

As I look at these three paths ahead, I realize that this crisis forces corporations and CSR into the perfect symbiotic relationship. Businesses cannot afford to allow for the demise of CSR, as it provides the only way out. Embedding responsible action and ethical conduct into the core business will go a long way to re-establish trust and re-connect stakeholders. At the same time, CSR must re-shape itself and instill confidence in its fundamental importance to corporate and market sustainability. Only by working together with the same goals and priorities, will business and CSR guarantee their own survival—and, maybe even their victory. The economy, environment and society will be much obliged.

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