

CSR: An airbag for the crisis

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While corporate social responsibility may not have averted the current financial crisis, it might have reduced the chances of it happening.

Explaining a crisis - especially one as major as the housing crisis that has shaken global markets since 2007 - is a complex undertaking given the multiplicity of causes involved. While the economic reasons may be clear, one must also consider the psychological, social, political and ethical factors that, while far from being alternative explanations, offer complementary perspectives.

The ethical interpretation of the crisis adds another dimension to the economist's analysis. An economic explanation of the crisis is undoubtedly appropriate, although the ethical perspective paints a clearer picture of the human motivations and explanations, which may not be distinct but are certainly more complete, and thus provides a more precise identification of the consequences of the economic decisions, particularly with regard to the long term.

In the article "[Can Corporate Social Responsibility Help Us Understand the Credit Crisis?](#)" IESE Prof. [Antonio Argandoña](#) discusses the ethical causes of the crisis and addresses three specific questions:

1. What does ethical interpretation add to the other explanations of the crisis?
2. Is this a crisis of values?
3. Could the crisis have been averted if those behind it had behaved responsibly?

In order to respond to these questions, the concept of corporate social responsibility (CSR)

should be defined. According to the author, CSR entails assuming the set of responsibilities given to executives in terms of their obligations not only to stakeholders - both internally (owners, employees, associates) and externally (customers, suppliers and society in general) - but, first and foremost, to themselves.

An ethical crisis?

There has been much debate, particularly in the media, about the cause of the financial crisis. Fingers have been pointed at the greed of the bankers, the escalating fraud, the creation of depraved incentive schemes and imprudent behavior as causes of the current recession. While these are indeed factors to consider, they alone do not constitute a full explanation.

A number of conditions developing over the past few years (e.g., low interest rates, cash surpluses, financial innovations) have allowed for increased profitability from acts motivated by greed. Society on the whole may have fallen for this type of behavior, but it is the regulation and control mechanisms that have also failed. In the author's opinion, we are facing a problem with two dimensions: ethical and technical.

One particular case of greed that has drawn considerable attention is that of the lofty payouts for executives and financial analysts. Granted, this does not appear to be considered a cause, but rather an effect of the present situation. But what we can see, in the design and implementation of these compensation systems, is imprudent conduct and signs of bad governance.

Specific cases of fraud, such as that of Bernard L. Madoff, are also insufficient for explaining the crisis. Instead, they confirm the notion that the causes derive from regulatory failures.

Under the existing conditions of the past few years, prudence has been cast aside. Booming economic growth, low interest rates and moderate inflation led to increased leverage among families and financial institutions and lower perceived risk, which opened the door for bad management practices by both companies and regulators.

Who looks out for the common good?

If failures in financial regulation and supervision contributed to the onset of the crisis, then the question arises: who shall be held responsible for the consequences of the individual decisions for society? The responsibility, according to the author, is threefold.

First, the market itself: This crisis has shown that the market cannot always be self-regulated. Second, the State, which has designed and implemented policies (e.g., continuous lowering of interest rates) that have not exactly hit the mark. Finally, the companies, which in addition to accepting the regulatory framework must consider the consequences of their actions and ultimately accept them.

Can crisis be prevented?

A company managed on a foundation of CSR is a well-run company. Yet that does not necessarily prevent it from making mistakes or suffering the consequences of its environment. Thus, while a responsible company is likely to survive and prosper, the converse might also happen. If the success of a responsible company cannot be guaranteed, then neither can that of any country, even if all its companies act responsibly.

So, if CSR-based management would not have averted the crisis, then what good could it have done? The author suggests:

- CSR could have prevented the bankruptcy of certain institutions, or at least made it less likely. We have seen examples of conduct that show a lack of professionalism, prudence and other virtues necessary for properly managing those institutions.
- CSR could have created a different climate in the business world. While searching for the common good, executives would have considered the consequences of their decisions, and not just in terms of their shareholders.
- CSR could have maintained confidence, the loss of which - in the laws, institutions and financial entities - has been one of the most important consequences of the current crisis.

CSR, therefore, emerges as an airbag in a context of market crash. When activated properly, it can help provide a way out of a situation as complicated as this one. It certainly appears necessary for restoring confidence.

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