

An investigation into the impact of the financial crisis on the Corporate Social Responsibility (CSR) strategies of Milan-based companies operating on a global scale

by

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Abstract — Over the past decade attention on Corporate Social Responsibility (CSR) has increased steadily. However, in the light of the financial crisis, companies have to promptly tailor their businesses in an attempt to meet the increasing pressures from the external environment. ‘Cost-cutting’ has cropped its way to the top of the agenda, as limited resources and lower budgets are often forced across all functions of the organization. CSR is a costly engagement, and a doubt has now been cast as to whether companies will continue to see CSR as an invaluable source of business opportunities, or whether CSR is literally, doomed to the shelf until the economic climate is resurrected. We aim to investigate whether CSR will continue to be seen as a feasible and sustainable choice and a key source of differentiation, or whether it will be one of the first activities to suffer in light of the current financial crisis. We find that the CSR strategies of organizations in Milan haven’t been dramatically scarified due to the crisis. It seems that CSR activities have been ‘frozen’ to a certain extent, while companies continue to maintain their sustainability pledges to society, larger, innovative projects seeking long-term and/or significant investment, have been put on the back burner until the financial crisis has passed.

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1. Introduction

Over the past decade, public attention on Corporate Social Responsibility (CSR) is mounting over the globe and companies are becoming increasingly more accountable for their financial performance and the impact of their activities on society and the environment. CSR is seen as a way for business to “counter-balance for corporate power, influence and potential wrong-doing” (Keinert, 2008, p. 35). Perhaps now, more than ever, there is growing awareness of CSR with regards to environmental issues, leading to pressures for business to take CSR measures earnestly. Increased public knowledge of CSR issues, enhanced by recent financial scandals, causes pressure on companies to take action to form responsible business behavior, so much economically, as well as socially and environmentally. Additionally, a case is made for the contribution of business to poverty alleviation and sustainable development. As a result, corporate behavior is affected from environmental and social issues and this is evident in their reports and communication about their commitment to society and the environment.

CSR is by no means a novel concept in today's business world. However, its perception has evolved over recent years, and it no longer deals with merely the old hat, philanthropy idea of writing a corporate cheque for a local charity. Since the 1990's “the concept of CSR has expanded to include social compliance and environmental stewardship, climate concerns, philanthropy, and governance, thereby capturing emerging elements of the enterprise not part of the traditional model of capitalism” (Manubens, 2009, p. 50). The European Commission (Commission of the European Communities, 2001, p. 4) currently defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” while according to Siegel and Vitaliano (2007, p. 1) “CSR occurs when firms engage in activity that appears to advance a social agenda beyond that which is required by the law”.

The financial crisis has earned its way to fame recently, with international media reporting daily on its wave of effects across the globe. This phenomenon has rippled across the globe, touching most corners of the world, affecting all

sectors of industry. The financial crisis shows no sign of halting. Moreover, The Economist (2009) recently sustained that “there is a risk a severe and protracted economic downturn could cause corporate and household debt defaults to increase sharply”.

As a result of the crisis, the last months have seen a great number of global companies having to promptly tailor their businesses in an attempt to meet the increasing pressures from the external environment. ‘Cost-cutting’ has cropped its way to the top of the agenda, as limited resources and lower budgets are often forced across all functions of the organization. Management are well aware of the fact that CSR is a costly engagement, and a hovering doubt has now been cast as to whether companies will continue to see CSR as an invaluable source of business opportunities, or whether CSR is literally, doomed to the shelf until the economic climate is resurrected. As a result, much attention has been given to the CSR strategies of global companies, which in view of a slumping economy, has questioned the implications companies have with respect to their sustainability obligations.

At the same time, the entire crisis underlines the requirement for transparency, accountability, stewardship and responsibility. Without doubt, the latest credit crunch has called for greater responsibility on plentiful fronts, with the need for reform to be accomplished in a measured and internationally co-ordinated approach. CSR is posed to play a key role in this financial shakeup.

There exist differing views on the concept of CSR and its value to business. Adderley (2008) suggests that too many companies see the costs rather than the benefits of CSR and that CSR needs to be judged as an investment, not a cost in order to improve financial performance. According to Adderley (2008, p. 121), CSR is central to a business's survival during periods of economic turbulence, rather than a 'nice to have' in times of strong economic growth. This leads to the idea that CSR can be instrumental in sustaining social, economic and competitive value. On the other hand however, evidence shows there is still some confusion as to the role of CSR within organizations, and that CSR is often approached in a somewhat random and haphazard way within the strategies of businesses. It is often the case that activities that go under the CSR and sustainability umbrella are approached by companies in a way which is unsystematic and unrelated to the core of business (Franklin, 2008).

The aim of this study is to investigate the impact of financial crisis on the CSR strategies of Milan-based companies which operate on a global scale. More specifically, we are interested in whether companies will continue to see CSR as a feasible and sustainable choice, or whether it will be one of the first activities to suffer, in light of the current financial crisis. Although the field of CSR is a well document topic, the current financial crisis offers a novel focus for investigation. While companies worldwide batten down their hatchets to cope with the financial crisis, such a topical and opportune moment offers a gap in research to tap into. The results of the research reveal that, generally speaking, the CSR strategies of companies in Milan haven't been dramatically scarified due to the current financial crisis. There is evidence of some cut backs to CSR budgets. It seems that CSR activities have been 'frozen' to a certain extent, while companies continue to maintain their sustainability pledges to society, larger, innovative projects seeking long-term and/or significant economic investment, have been put on the back burner until the financial crisis has passed.

2. CSR, value creation and financial crisis

The debate about whether CSR engagement contributes to company value is an open and lively one. Research by McKinsey & Company (2009) shows that "the perceived importance of corporate environmental, social, and governance programs has soared in recent years, as executives, investors, and regulators have grown increasingly aware that such programs can mitigate corporate crises and build reputations". However, as the research points out, there seems to be no consensus as to whether those programs create value to the company. As put by Callan and Thomas (2009, p. 75) "[a]t issue is whether investment in such social initiatives negatively or positively affects the firm's bottom line". There is also difference of opinions about how to measure the effect of CSR on company bottom-line and how to compare this effect across different companies (McKinsey & Company, 2009).

McWilliams and Siegel (2001) argue that there is a profit maximizing level of CSR that satisfies the demand for CSR from multiple stakeholders. This profit maximizing level of CSR is determined by cost-benefit analysis. The potential benefits of CSR offered by advocates of CSR include among others, competitive advantage, access to new market segments, enhanced reputation and improved

public relations, better management of relations with suppliers and subcontractors, increased ability to attract and retain labor, better management of risks associated with anticipated regulation or collective action from dissatisfied stakeholders (Callan and Thomas, 2009; Keinert, 2008; Husted and Allen, 2007; Siegel and Vitaliano, 2007; McWilliams and Siegel, 2001; Baron, 2001). According to Porter and Kramer (2006, p. 3) CSR “can be a source of opportunity, innovation and competitive advantage”.

There is however skepticism about the effect of CSR on value creation as “problems with measurement of the cost and benefits of CSR activities continue to cloud our understanding of the strategic implications of CSR” (McWilliams et al., 2006, p. 10). It is the case that managers show skepticism in adopting CSR initiatives as they are often confused about the exact content of CSR and unconvinced about the contribution of CSR to the company’s bottom-line ((Husted and Allen, 2007; Baxter, 2006). According to David Vogel (2008) “CSR doesn’t pay”, as a ‘market for virtue’ does exist but it is not big enough to support extensive CSR engagement by business.

As very eloquently put by Husted and Allen (2007, p. 783) “social initiatives may increase costs and, although they may create value for different stakeholder groups, stockholders may see the value of their shares decline”. In trying to identify and qualify as well as quantify the effect of CSR on the company’s bottom-line a large part of the literature examines the link between CSR and financial performance. A review of the literature on the link between CSR and financial performance reveals that there is no consensus regarding whether CSR results to better or worse financial performance or even whether there is a neutral relationship between the two (Husted and Allen; Orlitzky, 2008; McWilliams and Siegel, 2000; Griffin and Mahon, 1997; Waddock and Graves, 1997; Cochran and Wood, 1984). As drivers of this difference of opinions the discussion points to problems of definition and measurement as well as use of appropriate data (Callan and Thomas, 2009). Instead of trying to decide whether CSR in general has a positive effect of financial performance, there is a turn of the literature lately to identifying those types of CSR which have a positive effect on financial performance (as opposed to CSR activities which have a negative or a neutral effect) (Husted and Allen, 2009; Hillman and Keim, 2001).

In the light of this confusion as to whether CSR pays off, managers remain

unconvinced when it comes to deciding to engage in CSR. The question whether CSR pays off is even more prominent in the light of economic turbulence like the one experienced by companies during the current financial crisis. When the word spread recently of a possible recession, companies across the globe reacted swiftly, calling for additional budget revisions and further cost-cuttings. Globally, companies have responded to the financial crisis by cutting costs, even if the kind and degree of reductions are divergent among organizations and industries. With an increasingly volatile and uncertain cloud hanging over the headquarters of many organizations, the recent 'credit crunch' has brought with it a swift check on many budgets, more often than not, to avoid having to make painful redundancies. This in turn leads to question what effect the tightening of the purse-strings, through the cutting of resources, has had on businesses honoring their pledges to society. When times are hard, management is under even more pressure in assigning restricted corporate resources. "Cutting back on CSR, or 'sustainability' as it sometimes known, would seem to be a quick and relatively painless way to save money" (Corporate Foreign Policy, 2009). In times of crisis it is even more difficult to convince stakeholders that CSR is a sensible engagement when staying in business has been put at the top of the priorities list.

The other side of this coin is that CSR is the only way to come out of the crisis with the least possible damage. There is increasing topical confirmation to suggest that not only will CSR still be a feasible choice during times of financial crisis, on the contrary, it could become of even more importance in a climate which now demands companies to take the interest of their stakeholders much closer at hand (Møller, 2009; Manubens, 2009; Ethical Performance, 2008a; Adderley, 2008). It is argued that business executives should see CSR as an opportunity to create value and differentiate from competition and to signal a long term perspective (Manubens, 2009; Husted and Allen, 2009; Corporate Foreign Policy, 2009). There is now higher demand for CSR and more awareness about it. As a result, retrieving from CSR could cause dislike among the stakeholders who could then punish the company for the cut-back on CSR (Manubens, 2009).

Interestingly, there are voices saying that at the heart of the financial crisis is in fact irresponsible business, and that as a result, there should now be more attention paid to CSR (CSR International, 2009; Ethical Performance, 2008b).

Hine (cited in Ethical Performance, 2008b, p. 11) points out that, “the entire crisis underlines the requirement for transparency, accountability, stewardship and responsibility”, while Christensen (cited in Ethical Performance, p. 11) argues that, “in spite, and because of, the ongoing financial market turmoil, environmental, social and governance issues are becoming more relevant as important criteria for investors”. The financial crisis may provide the critical opportunity for companies to appropriately engage in sustainability obligations if they are to increase their prospect of survival in an increasingly competitive environment.

Of late there has been more attention given to CSR in light of the financial crisis, with an abundant source of recently published data available for speculation. However, to date, there has been limited academic research made as to what may be the effect of the very recent financial crisis on CSR, especially with regards to Milan-based companies. This consequently opens a potential research gap which this study seeks to address.

Although there is ample speculation and discussion about the effect of the financial crisis on firms’ decision to continue engaging in CSR and more specifically on the question whether companies are maintaining or cutting down their CSR engagement, there has only been limited research on the topic. Karaibrahimoglu (2010) examines whether the financial crisis has led to a reduction on the number and extend of CSR projects of companies listed in Fortune 500. The study examines the companies’ CSR activity between the years 2007 and 2008 as this comes out of corporate websites and searches on the internet. The outcome of the research is that companies have significantly reduced their CSR activities in 2008 compared to 2007, a result which is attributed to the crisis. Also, it is found that this result of lower CSR due to the crisis is present so much in US companies as well as European and other countries. Njoroge (2009) looks at the effects of the financial crisis on companies’ decision to fund social projects and maintaining labor standards. The study focuses on multinational companies operating in Kenya and finds that social projects undertaken by companies will feel the negative effects of the financial crisis pushing for less engagement in such projects. Our study differs from the two studies presented above so much in terms of geographical focus as well as in terms of methodological approach.

3. Research objectives and methodology

The objective of the study is to determine whether companies will continue to see CSR as a feasible and sustainable choice, or whether it will be one of the first activities to suffer in light of the recent financial crisis. We aim to determine if and how management identify and implement changes in their CSR strategies in order to resist the turbulent and unpredictable arena of the current financial crisis, whilst simultaneously keeping their promises made regarding social and environmental concerns. To address this issue we look at current CSR strategies within companies and the general effects of the crisis on CSR strategies. We also look at whether CSR has been 'sacrificed' in some way due to the crisis and to whether and how cost-cutting has affected CSR choices of companies. With a progressively tarnishing label, CSR may ready for a renovation and the financial crisis may be offering a great opportunity for this. Our research aims to offer an opportunity for managers to gain a greater understanding as to whether companies will continue to deem CSR a feasible and sustainable option and a key source of differentiation, or whether CSR will be diminished, forced to the sidelines as companies are constrained to cut budgets to affront the current financial crisis.

Our study is focused on Milan-based companies operating on a global scale. Milan is a city of intense economic activity and hosts a wide range of globally operating companies, which makes it an appropriate target for our research. In Italy companies have a positive attitude to CSR (Perrini et al., 2006; Canarutto and Nidasio, 2005). Firms show their CSR engagement through issuing codes of conduct, investing in social or environmental projects and spending money on philanthropy. According to Perrini (2006, p. 7), Italy leads Europe in the dissemination of environmental and social management systems, with the number of companies obtaining quality and environmental certifications increasing steadily. In a response to meeting increasing stakeholders' expectations, companies in Italy have demonstrated to have made significant progress in their reporting of CSR. Italian companies seem to have realized that there is a strong link between CSR and risk management, and that CSR should be seen as an opportunity to enhance business and improve performance (KPMG International, 2008).

For the purpose of our study we have targeted companies based on the criterion that they already demonstrated engagement in CSR. The level of commitment in CSR activities was assessed by examining corporate communications initiatives, corporate websites and publically made available documentation, such as Annual Reports. Additionally, the CSR Manager Network Italia as well as CSR Groups on the networking website LinkedIn were used as evidence for the assessment. The targeted companies derived from varying sectors of industry so as to gain a more objective and broad view of how the financial crisis is impacting CSR strategies. Targeted segments included companies with their businesses in the sectors of fashion, automobile, home, food and beverages, communications technology, pharmaceuticals, finance and credit, publishing, television production, furniture, to name a few.

Once the targeted companies were identified, the next step of the research entailed contacting those individuals who are responsible for CSR within the organizations. While the specific role of 'CSR Manager' does not exist in all the organizations, this role is often covered by other functions in the company; communications manager, directors of corporate affairs, external relations managers, for example. Due to the fact these individuals are the figures responsible for the CSR activities in the organizations, even if their job title does not specifically state 'CSR', for the purpose of this study this group is referred to as 'CSR Managers'. The 'CSR Managers' were contacted and asked to participate in an online survey which was sent to them as an embedded link within the contact email. Respondents were able to take part to the survey by simply clicking the link which directly took them to the web-based survey through the website www.surveymonkey.com.

A total of 125 companies meeting the selection criteria were identified as suitable targets for our research. A total of 125 emails were sent to those companies, 73 of these companies were contacted via direct email to the person responsible for CSR. Where the direct email address for the CSR Manager was not obtainable, or on instruction by the company when contacting them by telephone, emails were sent to generic email addresses; for instance, info@companyname.com or crs@companyname.com email, requesting the contact details of the employee to whom the request ought to be directed. The remaining 52 companies were contacted via this channel. At the close of the

survey, the 52 companies which were contacted through generic email addresses requesting CSR contact resulted in non-response. Of the 73 other remaining companies where a direct contact with the CSR Manager was made, 49 were non-responses, 2 respondents answered, but insufficiently to make their input valid. A total of 22 companies effectively completed the questionnaire, hereby forming the basis for the survey analysis representing a 17.6% response rate.

Two weeks after initial contact, a follow-up reminder communication was made, either by email or telephone, to those who had not responded yet. This follow-up contact was successful in influencing more respondents to partake. The survey was conducted between October 2009 and March 2010.

Our questionnaire was formulated to include a section of questions with demographic details about the respondents and their companies. This was followed by standardized questions asking respondents to choose from a set of possible answers. In some cases respondents were given the option to contribute additional possible answers. Demographic questions were followed by questions asking to verify that the company is actually involved in CSR also asking about the kinds of CSR activities the organization is involved in. This section was followed by questions asking about the companies' 'carbon footprint' as well as about companies' strategies for communicating CSR activities to the public. These were followed by a section of questions asking about the perceived importance/value of CSR for the organization. After this point 'the financial crisis' element was introduced with a section of questions regarding the effect of the crisis on CSR activities and strategies. The respondents were also asked about their general feeling regarding the financial crisis, as well as the future of CSR in the light of the perception about the crisis. Finally, the questionnaire concluded with a section where respondents were asked to express their opinion regarding six different statements relevant to CSR using a five-point Likert scale.

The following actions were taken during the design of the questionnaire to ensure the validity of the instrument. First, a thorough review of the literature was undertaken. Inspiration for formulating and structuring our questionnaire was taken from previous researches and from opinions revealed during the literature review. Second, our instrument was pre-tested in a pilot study aiming to iron-out possible defects in the research design and to verify that the survey questions were unambiguous, accurate and relevant. The pilot questionnaire was complete

by 3 respondents and feedback resulted in amending the questionnaire accordingly.

4. Findings of the research

The demographic section of our questionnaire revealed that respondents' roles were not always strictly described as 'CSR Managers', but included positions such as External Relations Director, CSR & Public Affairs Manager, Corporate Communication Manager, Marketing Manager, Director of Communications, Nutrition & Corporate Affairs Director, Country Manager. It is important to note at this point that all respondents identified themselves as the individual managing CSR within their respective organization.

Confirming that our selection of companies was relevant for the study, 100% of our respondents stated that their company was currently involved in CSR. A majority of 45.5% of respondents stated that their companies have had CSR activities in place for between 5 to 10 years, 36.4% of respondents stated that their CSR activities had been in place for 1 to 5 years while 18.2 % of companies stated that they have been engaging in CSR for more than 10 years. No one responded that their CSR activities have been in place for less than a year.

A significant 86.4% of respondents stated that within their company CSR is encompassed into the purpose, values and vision of the company, and an equal percentage stated that CSR is integrated into the company's policies and procedures. Among the respondents 40.9% affirmed that Ethical Leadership is in place in the company, and that their company aims at inspiring and leading other enterprises to become more responsible.

Our respondents were asked to indicate, from six different categories, the activities relating to CSR in which their company engages. The six categories were Market Place Activities, Workforce Activities, Supply Chain Activities, Stakeholder Engagement, Community Activities and Environmental Activities. It is indicative to say that relative to Market Activities, 72.7% of respondents stated that their company engages in cause-related marketing and an equal percentage stated that the company incorporates CSR impacts in product innovation. Only 13,5% of respondents affirmed that the company uses CSR product labeling.

Relative to Workforce Activities, 86.4% of respondents asserted that the company conducts regular staff job appraisals/performance reviews, while an

equal percentage stated that the company provides specific staff training on ethics and CSR. According to our respondents, 63.6% of company offer 'flexible working' to assist employees balance their work and private life, while 54,5% promote health and wellbeing by providing health care provisions. Just 18.2% of companies assists with childcare.

Relative to Supply Chain Activities, an encouraging 72.7% of companies surveyed apply CSR standards throughout the supply chain, with 59.1% affirming that the company actively engages with its suppliers in addressing supply chain issues and identifying new opportunities, and providing access for small and local suppliers. 63.6% of companies monitor the social and environmental performance of its suppliers and 45.5% promotes fair trade.

Relative to Stakeholder Engagement, a promising 86.4% of companies sets commitments, targets and goals for CSR, and almost as many (81.3%) engage in mapping key stakeholders and their main concerns, yet only 45.5% are actively involved in stakeholder consultation. A moderate 59.1% of companies uses quality assurance methods to build credibility in communications and 54.5% utilizes leading guidelines for CSR reporting.

Relative to Community Activities, a startling 95.5% of companies declare that they support charity through donation or sponsorship, thus proving to be the most wide-spread CSR activity in which the companies surveyed are involved in. 36,4% of company are involved in 'giving gifts in kind' by providing or loaning facilities and assets to support community initiatives, while 31.8% support local communities through the giving of employee time.

Finally, relative to Environmental Activities, 86.4% of those companies involved in the survey stated that their choice of material and energy source represents a strategic concern with operational, cost and reputation implications. Almost as many (81.8%) affirmed that the company engages in transport planning through reducing goods transport, employee travel or using teleconferencing and 63.6% of companies asserted that they go beyond their legal obligations in terms of improved pollution and waste management.

When asked if the company measures its carbon footprint, 68.2% of respondents answered that they did, 27.3% did not and 4.5% didn't know. Of those companies which do measure their carbon footprint, all affirmed that they have devised a strategy to reduce it. Also, from the companies that do measure

their carbon footprint, 75% of respondents stated that their budget to reduce their carbon footprint had not been amended due to the crisis, 12.5% of respondents replied that their budget had been amended, while another 12.5% responded that they did not know.

Not surprisingly, a high percentage of companies (86.4%) use CSR/Sustainability reports to provide information regarding their CSR activities, with nearly as many (81.8%) using Code of Ethics/Conduct and information on corporate governance as channels for communications. Corporate newsletters proved to be a relatively popular choice, with 68.2% of respondents stating their companies have implemented this option, with 50% affirming the use of environmental data. Only 22.7% of companies use a corporate blog and only 35.4% affirmed to using video presentations via the corporate website to communication their CSR activities, evidencing that perhaps these are still novel, innovate approaches to communicating CSR. 31.8% relied on the use of word of mouth to convey their CSR messages. Three respondents inserted 'other' comments, those being the use of 'intranet and internet section', 'CSR section of the website' and 'the website' (Fig. 1).

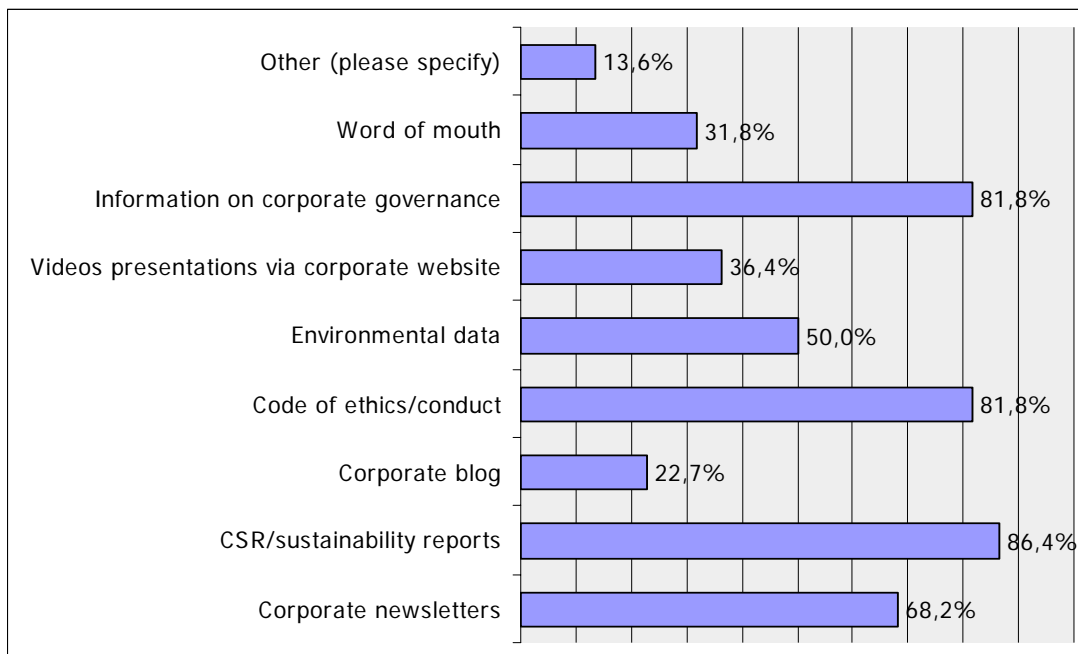


Fig. 1: The communications tools companies use to provide information on their CSR activities.

When asked to comment of the effectiveness of the company's communication tools for CSR, the majority of respondents, 42.9%, perceived that the company meets public expectations, with 19% stating that the company exceeds public

expectations. A significant 23.8% asserted that this is not possible to measure. Another 4.8% of the survey population stated that the company meets it's legal obligations in reporting, while the same amount admitted that the company does not communicate anything in relation to it's CSR activities (Fig. 2).

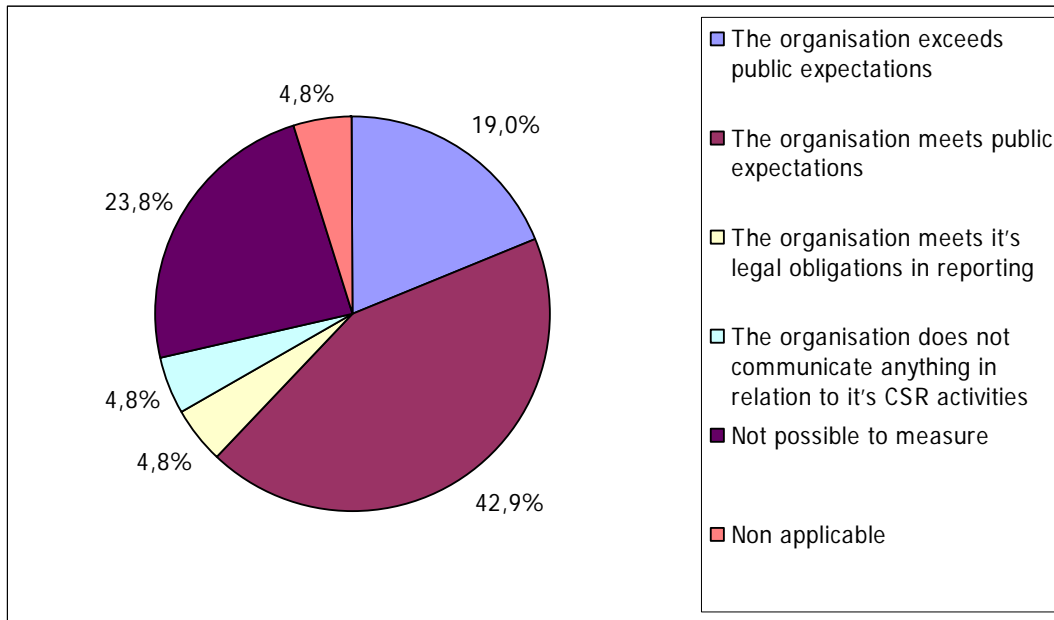


Fig. 2: How effective the communications tools are in communicating the companies' CSR activities.

When asked about the impact of CSR activities on companies' reputation, competitive advantage and risk reduction, 14 respondents stated that CSR activities are fundamental to the company's reputation, while 7 people considered it quite important, with 1 person affirming that it had minor impact. Regarding a company's competitive advantage, only 4 respondents deemed CSR activities to be fundamental, with 17 people who considered it quite important and 1 person affirming that their CSR activities have a minor impact of the company's competitive advantage. 11 respondents said that CSR activities are fundamental to the company's risk reduction, 8 people saw it as quite important and 3 respondents perceived it as having a minor impact (Fig. 3).

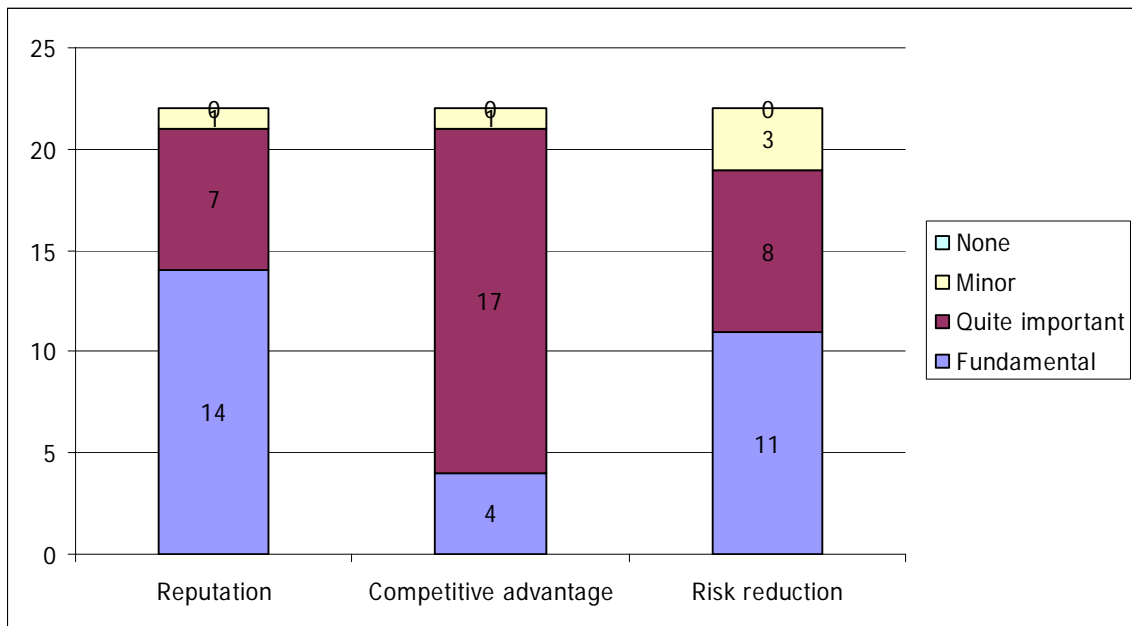


Fig. 3: The impact of CSR activities on company's reputation, competitive advantage and risk reduction.

Our respondents were asked if the company has implemented a technique to measure the benefits from engaging in CSR. The majority, 68.2%, affirmed that their company has implemented such a technique while 27.3% admitted that it has not. The remaining 4.5% responded that they didn't know.

Among the respondents, a significant 36.4% indicated that their companies derive immediate economic value from the CSR activities they are engaged in, while 27.3% stated that their company does not derive economic value from CSR. A significant 36.4% of respondents admitted they do not know if the company derives immediate economic value from their CSR activities, perhaps indicating that it is still a challenging aspect to measure (Fig. 4).

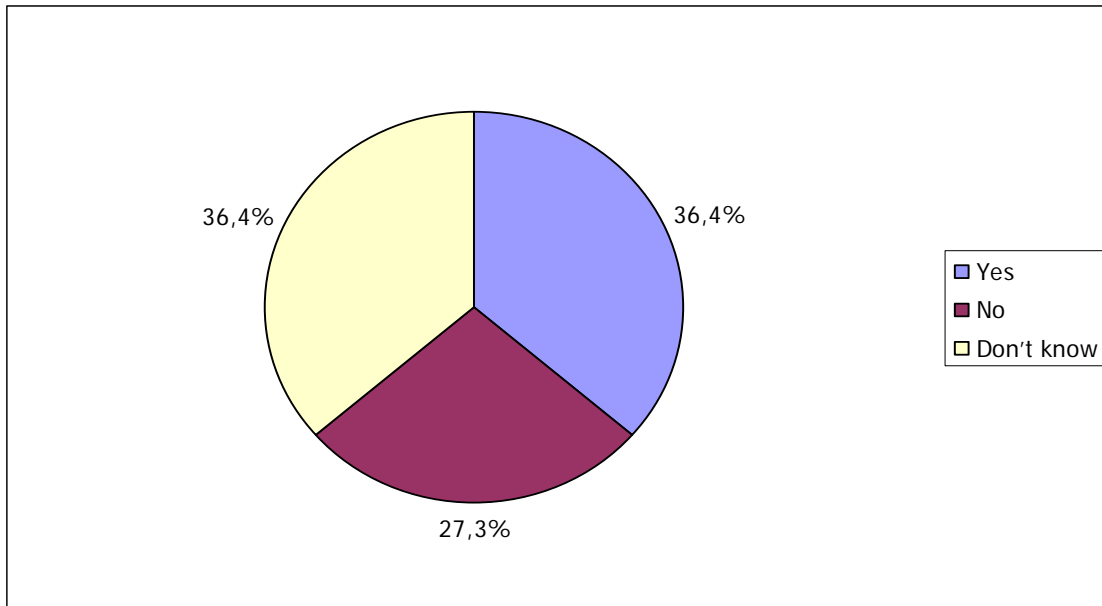


Fig. 4: The percentage of companies that derive immediate economic value from the CSR activities they are engaged in.

It was very encouraging for the significance of the research to get a majority of 90.9% of respondents stating that their company does have a budget for CSR. Yet there were a 4.5% of CSR managers who stated that the company does not have a budget for CSR and another 4.5% who stated that they did not know if a specific budget existed.

Among our respondents 57.1% stated that their CSR budget represents less than 5% of the companies' revenues. Another 14.3% of respondents affirmed that between 5% - 10% of total revenues is destined to CSR activities. Not surprisingly, only 4.8% of companies designate between 20% - 25% of revenues to CSR and the same amount, 4.8% have a budget of more than 25% of revenues. 19% of respondents disclosed that they didn't know the percentage of revenues which are set aside for CSR (Fig. 5).

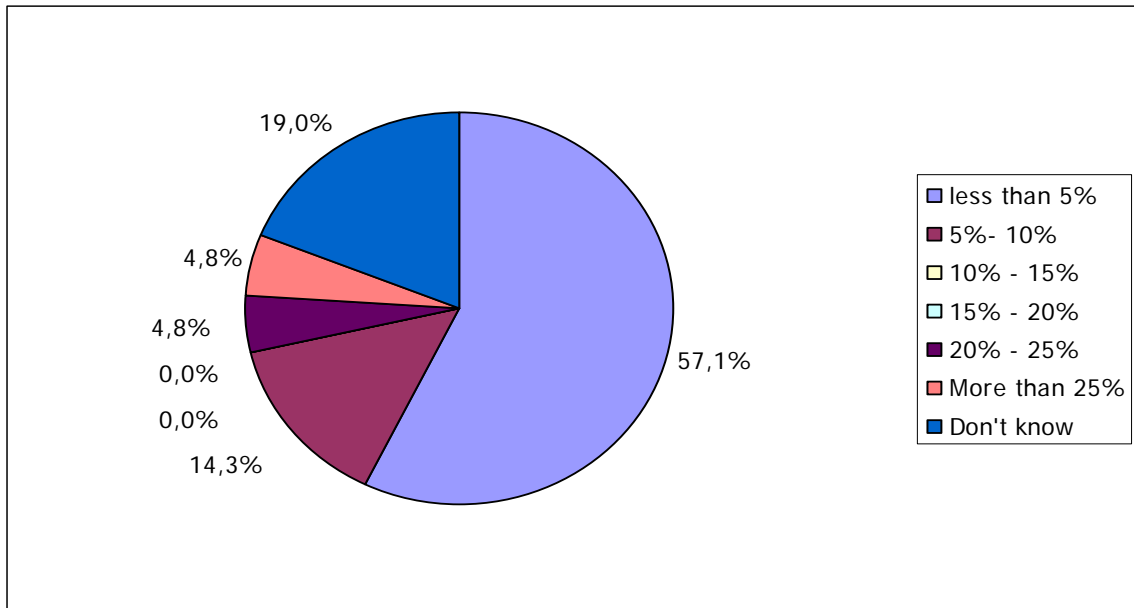


Fig. 5: The percentage of revenue which goes to the CSR activities of the company.

When asked if the company's CSR strategy had been sacrificed in any way due to the financial crisis, a reassuring 77.3% affirmed that it had not, while 22.7% admitted that it had. Encouragingly, according to our respondents, 81.8% of companies have not had their CSR budgets cut due to the financial crisis, while 18.2% declared that there had been reductions.

Of those companies that have seen a reduction in their CSR budgets, 50% stated that they had seen a cut of 20% - 30%. 25% of respondents reported a reduction of 10% - 20% and another 25% of companies have reduced their CSR budgets by less than 10% (Fig. 6).

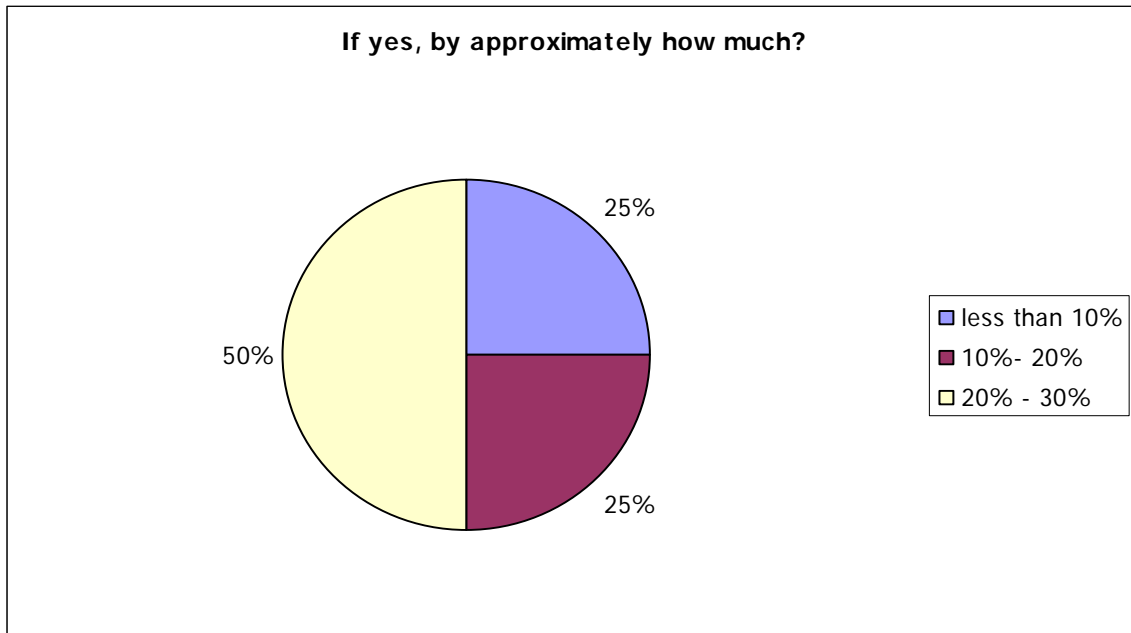


Fig. 6: The percentage by which CSR budgets have been cut for those companies which have had to reduce their budgets.

When asked how employee attitude had been affected with respect to CSR activities during the financial crisis, positively 68.2% affirmed that there had been no change to employee attitude, with an encouraging 31.8% stating that employees were more motivated. Favorably, there was no report of employees being less motivated because of the crisis.

When asked how they thought the general public perceives CSR within the company, 63.6% of respondents answered that they thought it was seen as an essential element which should be incorporated into the core values of every business, and 9.1% said that they believe it is seen as a 'nice to have', but not essential' factor of the business. A notable segment of respondents, 27.3%, believed that there is still some perplexity as to what is meant by CSR and its role within the company.

When respondents were asked if they thought there is more or less public attention on CSR because of the current financial crisis, 36.4% believed there is a bit less attention and 31.8% stated a bit more. 31.8% of considered found the public attention to be unchanged. No respondent favored the more extremes of the scale; much less or much more (Fig. 7).

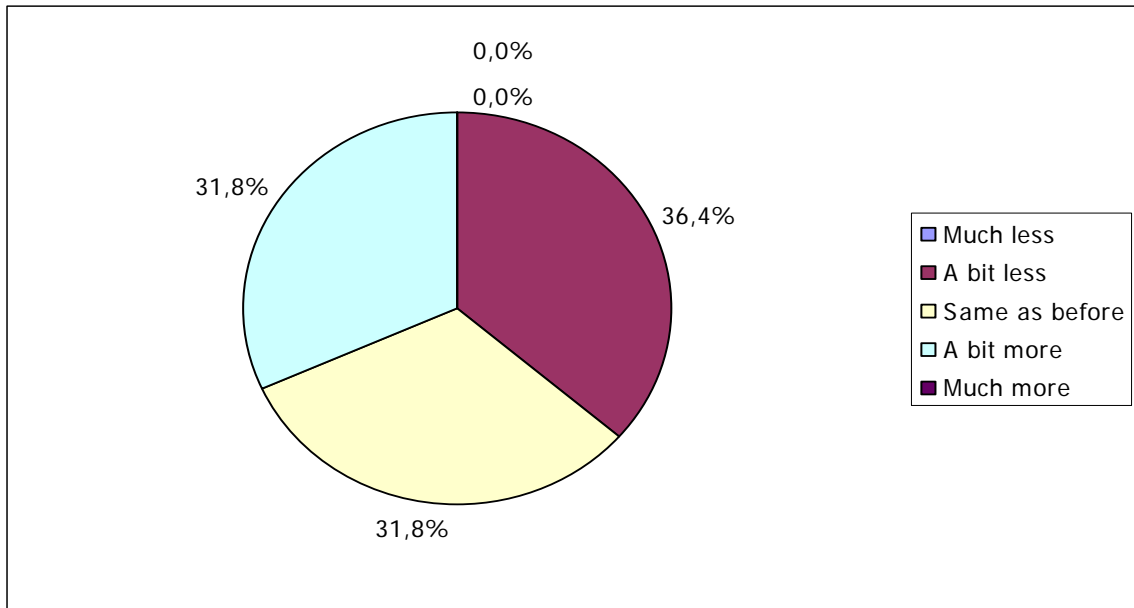


Fig. 7: If there is more or less public attention on CSR because of the current financial crisis.

A mixed result was produced when respondents were asked how the financial crisis will affect CSR. The majority, 40.9%, replied that CSR will be strengthened, contrary to 31.8% who predicted that it will become weaker. Another 18.2% perceived that there will be no effect while 9.1% envisaged it to change but without specifying the direction of the change (more or less CSR) (Fig. 8).

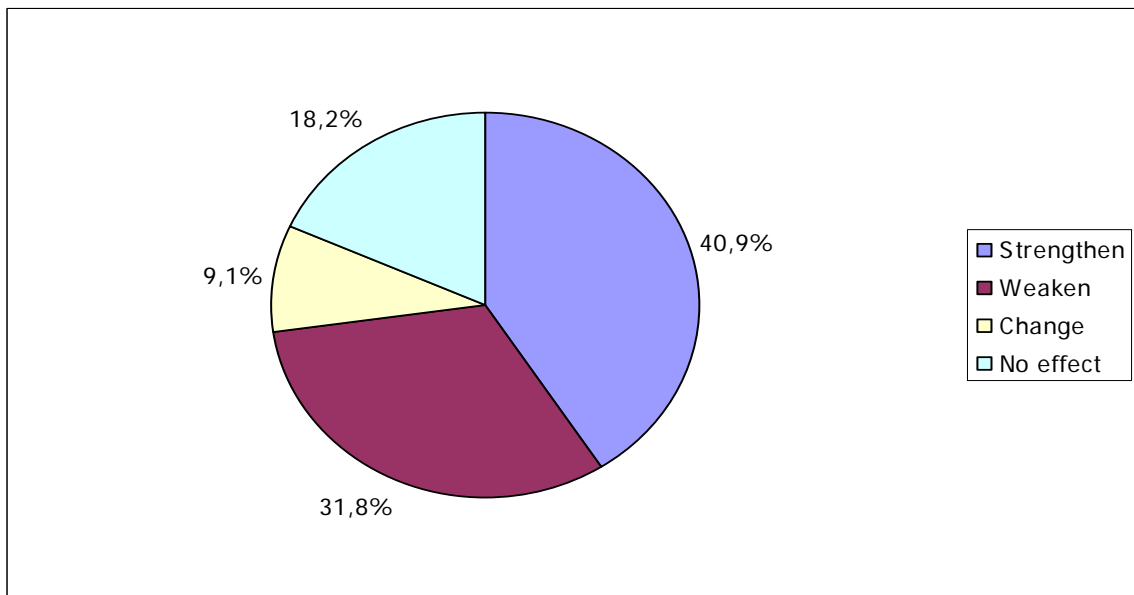


Fig. 8: How the financial crisis will affect CSR.

When respondents were asked when they envisaged the financial crisis to be over, no one thought it would be as soon as within 6 months. The most widely held assumption, representing 45.5% of companies, showed that the crisis will be

over in 6-12 months. 31.8% believed it will take 1-2 years, and a more pessimistic view, shared by 22.7% of respondents, saw that it will take more than 2 years for the crisis to end.

The last part of our questionnaire asked our respondents to state their degree of agreement (on a 1 to 5 scale, 1 being strongly agree, 5 being strongly disagree) with six statements presented below.

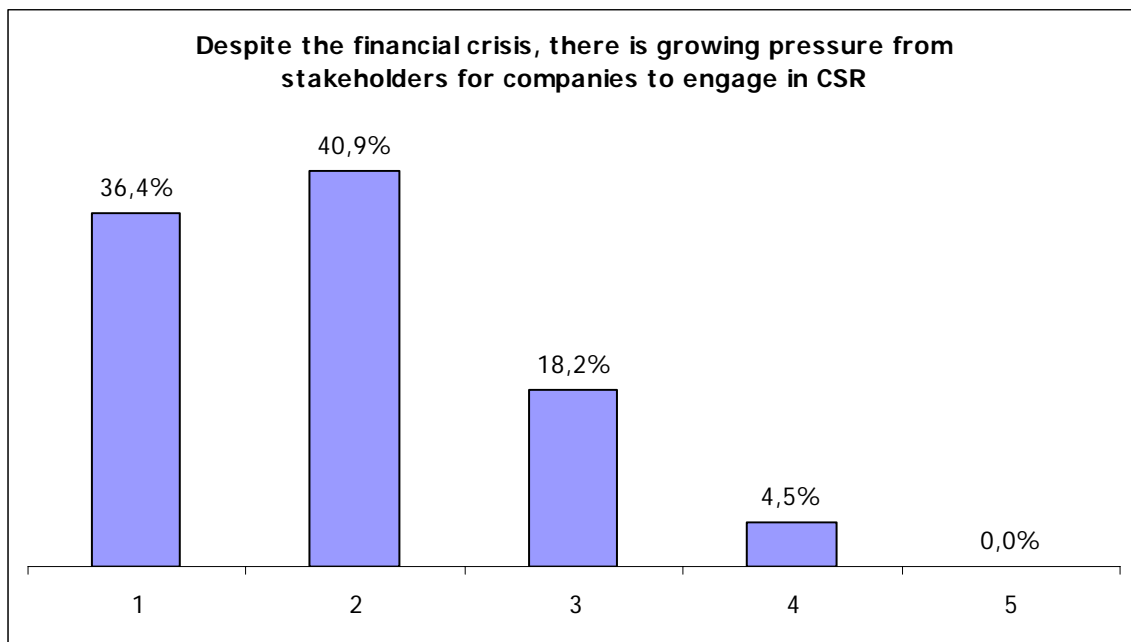


Fig. 9: Despite the financial crisis, there is growing pressure from stakeholders for companies to engage in CSR.

Of the companies surveyed, 36.4% stated they strongly agree that despite the financial crisis, there is growing pressure from stakeholders for companies to engage in CSR. Another 40.9% affirmed that they agree, 18.2% showed they are indifferent and 4.5% slightly disagreed with this statement. Overall, there seems to be clear evidence of the growing pressure from stakeholders to engage in CSR activities (Fig. 9).

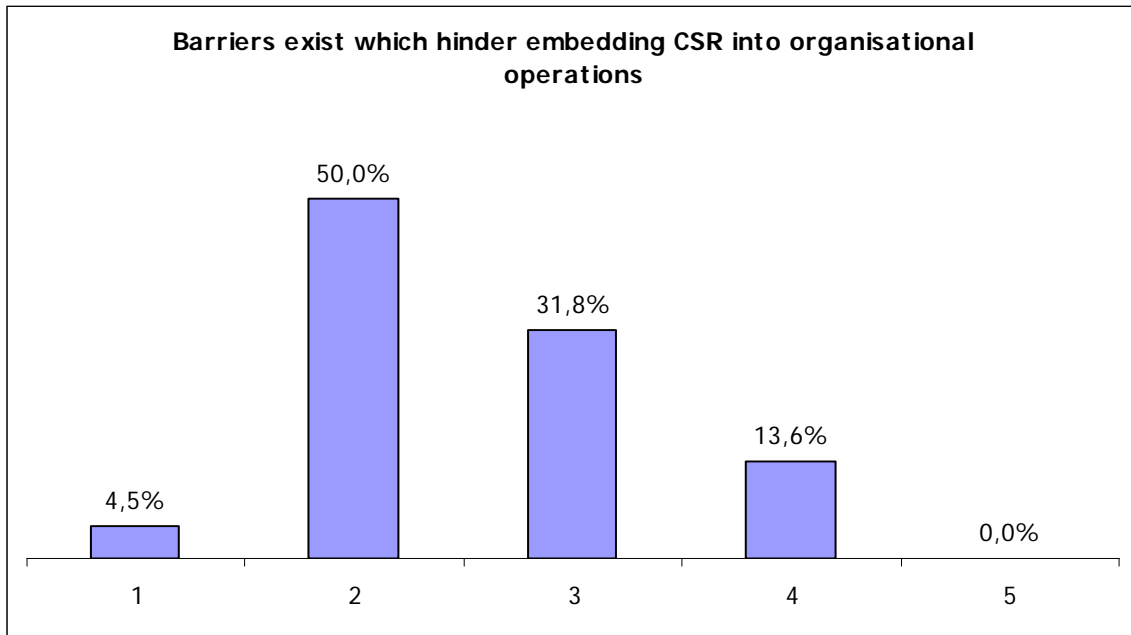


Fig. 10: Barriers exist which hinder embedding CSR into organizational operations.

50% of our respondents agreed, and 4.5% strongly agreed that barriers exist which hinder embedding CSR into organizational operations. 31.8% were indifferent to this statement and 13.6% slightly disagreed (Fig. 10).

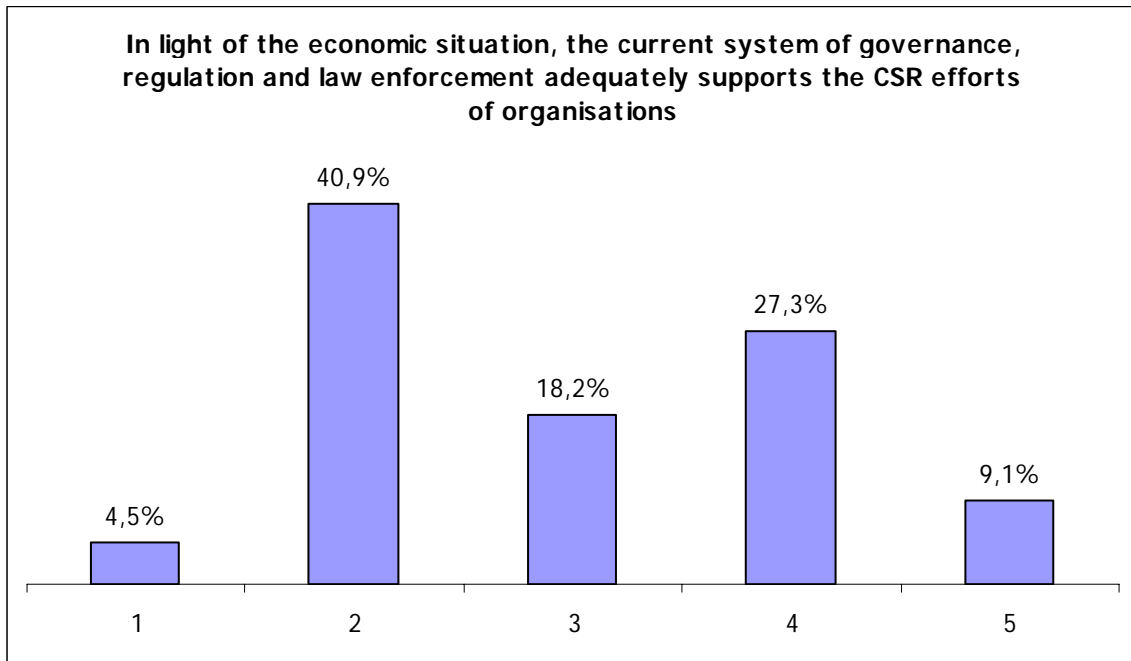


Fig. 11: In light of the economic situation the current system of governance, regulation and law enforcement adequately supports the CSR efforts of companies.

A very mixed result transpired from this statement. 4.5% respondents strongly agreed, and 40.9% agreed, that in light of the economic situation the current

system of governance, regulation and law enforcement adequately supports the CSR efforts of companies. 18.2% stated they were indifferent to the claim, while 27.3% declared they slightly disagreed, and 9.1% affirmed that they strongly disagree (Fig. 11).

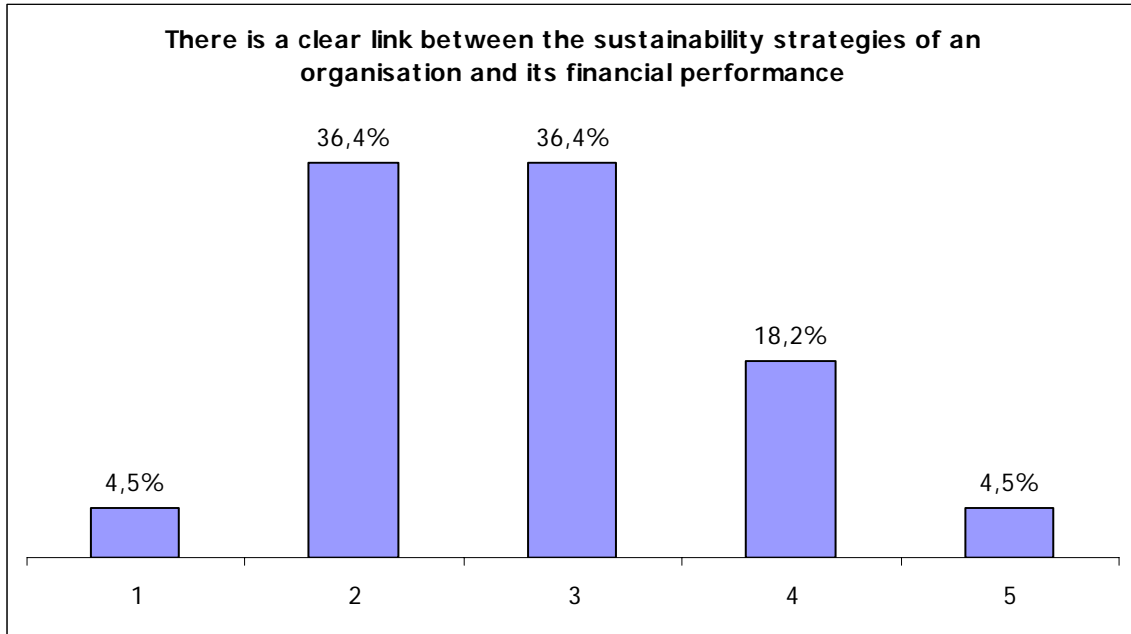


Fig. 12: There is a clear link between the sustainability strategies of a company and its financial performance.

Again, a mixed response resulted from the statement that there is a clear link between the sustainability strategies of an company and its financial performance. Just 4.5% strongly agreed with another 36.4% expressing their agreement. 36.4% remained indifferent, while 18.2% and 4.5% affirmed they slightly disagreed, and strongly disagreed respectively (Fig. 12). In aggregate, there seem to be more positive opinions (40.9%) than negative (22.7%) regarding the link between sustainability and financial performance, while the neutrality effect is also quite significant.

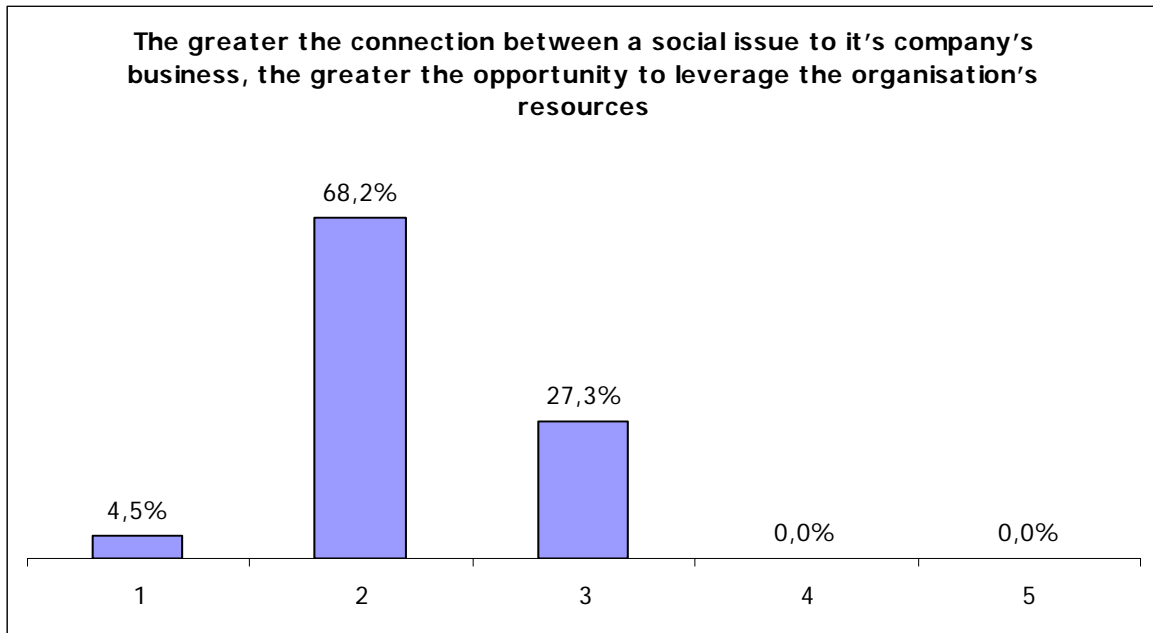


Fig. 13: The greater the connection between a social issue to it's company's business, the greater the opportunity to leverage the company's resources.

A more clear result emerged from the statement that the greater the connection between a social issue to a company's business, the greater the opportunity to leverage the company's resources. Although only 4.5% strongly agreed, a reassuring 68.2% of respondents agreed with this statement. 27.3% remained neutral, with no respondents disagreeing in any way (Fig. 13).

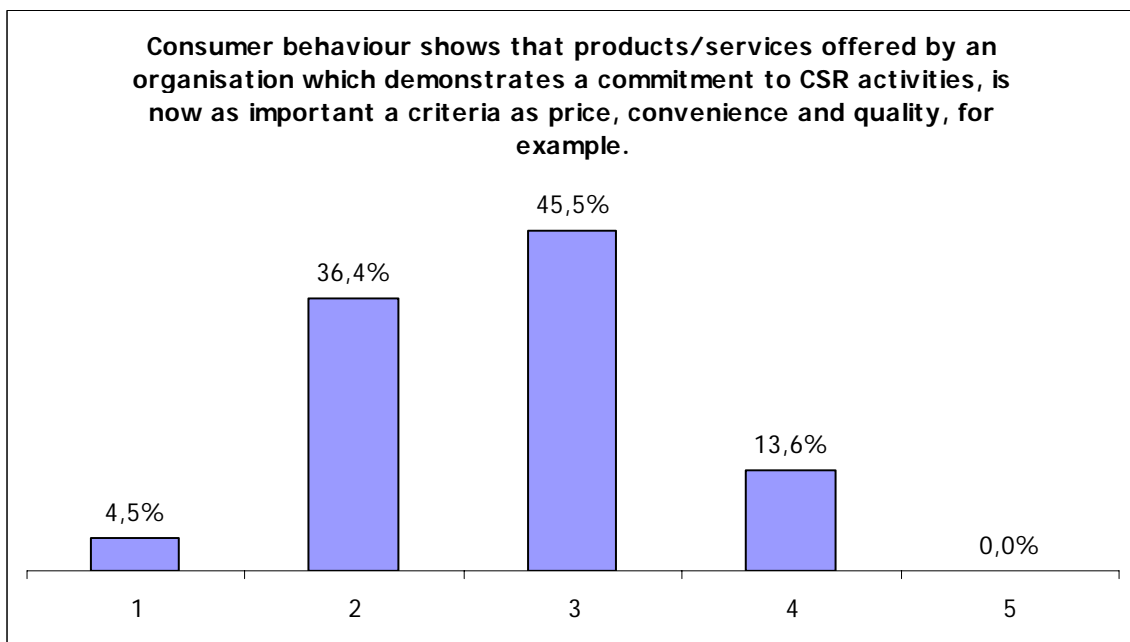


Fig. 14: Consumer behavior shows that products/services offered by an company which demonstrates a commitment to CSR activities, is now as important a criteria as price, convenience and quality, for example.

Although the responses indicated no one strongly disagreed, only 13.6% disagreed with the statement that CSR is equally important as price convenience and quality when consumers make their choice of product. The majority of 45.5% laid on neutral ground of the scale, while 36.4% of respondents agreed and 4.5% strongly agreed (Fig. 14).

5. Conclusions and recommendations

The objective of this research was to investigate what has been the impact of the financial crisis on the CSR strategies of Milan-based, companies which operate on a global scale. The survey results indicate that while for the majority of companies CSR strategies have remained intact despite the financial crisis, CSR strategies have been sacrificed in some way for a number of companies (close to one quarter of participants) due to the crisis. Also, while for most of the companies participating in our study CSR budgets have not been reduced as a result of the crisis, close to one fifth of the companies have had their CSR budgets cut due to the crisis. Our study indicates that despite a turbulent and unpredictable arena in which CSR managers must currently drive their CSR strategies, the financial crisis appears to have had a moderate effect on CSR engagement within companies in Milan. Consequently for companies, generally speaking, CSR activities continue to tick over. It is likely however that any substantial new initiatives requiring long-term commitment and investment are being put on hold for the time being.

It makes sense that the greatest vulnerability will be in those businesses where CSR has been treated as an add-on, rather than integrated throughout the company (Ethical Performance, 2008a). Our survey indicates that CSR is embedded into the culture of most companies. This was reflected in the high percentage of respondents who stated that CSR is integrated in the values and visions as well as into policies and procedures of the company. Our respondents also indicated that CSR is integrated into strategy with for example companies engaging in cause-related marketing, incorporating CSR impacts in product innovation, organizing employee training on CSR and business ethics, applying CSR standards through the supply chain, utilizing leading guidelines for CSR reporting or incorporating processes for pollution and waste management into

their operations. It seems that this is a driver of the moderate effect of the financial crisis on CSR strategies of Milan-based companies. Our companies seem to have made CSR part of the 'nuts and bolts' of their operations, embedding CSR into the corporate DNA rather than adopting unsystematic CSR choices or going mainly for philanthropy. Adopting a systematic approach to CSR has made its chances of survival much stronger than if CSR was just 'bolted' on to the company which would deem CSR to suffer substantial cut backs during the economic recession.

Quite importantly our companies reported that they have implemented techniques to measure the benefits from their CSR engagement and close to one third of our respondents have indicated that their companies derive immediate economic value from CSR. Also, our respondents have indicated that the effect of the financial crisis on employees' attitudes towards CSR have either been unchanged or changed to more positive attitudes towards CSR. What is most important here is that none of our respondents perceived employees as being less positive to CSR as a result of the crisis. These two combined with the view that there has been more attention on CSR because of the current financial crisis, shared by about two thirds of our respondents, demonstrate companies' interests in identifying and quantifying the benefits from CSR.

CSR is still seen as a feasible and sustainable choice in light of the recent financial crisis. Having said that, it has suffered, through sacrifices and budget restrictions in a small number of companies. Companies' first priority in affronting the financial crisis is cost-cutting. CSR is often portrayed as 'an optional' or 'a nice, to have, but not essential', and so while companies tighten their purse strings to affront the turbulent situation, CSR is often one of the first in the firing line for cutting costs. Cost reductions are made where possible, and big expenditures are put on hold for now, in order for businesses to 'survive', whilst maintaining their sustainability promises to an increasingly influential group of stakeholders. It seems that in some ways CSR in organizations has been temporarily 'frozen' to adapt the external challenges of the financial crisis. On the other hand CSR is seen as an opportunity in the light of the crisis as companies recognize that they have to find ways to position ahead of competition and as there seems to be an agreement that despite the crisis there is increasing pressure from stakeholders to demonstrate CSR and a feeling that financial

performance and sustainable business may be linked.

Our results indicate that CSR is here to stay, however there is the feeling that something will change. The financial crisis more prominently than ever poses the question “is CSR a sustainable choice”? The current conjecture can offer an opportunity for companies to rethink CSR so much in terms of what it means to be socially responsible as well as in terms of what it takes to be socially responsible. It is strategic CSR that will yield shared value and reciprocal and sustainable benefits for the company and the stakeholders. Also, the more closely tied a social issue is to the company's business, the greater the opportunity to leverage the firm's resources and capabilities, and benefit society. Companies should structure their CSR strategies around their corporate values and select initiatives that support their broader business goals and that relate in some way to the firm's core products and markets.

For the purpose of our research the geographical focus concentrated solely on organizations based in Milan. However, this study could be conducted on a wider scale, perhaps on a regional level, or national level. We believe that it would be interesting to address this study to different populations and compare our results with those deriving from different populations. Also, we believe that repeating this study under the sponsorship of commission of an influential institution or company might result in a higher response rate and thus help strengthen our findings even further. A follow-up to this study that would go into a deeper analysis of the CSR strategies of the companies would also be interesting. This would help confirm our speculation that CSR has not suffered as much among the companies participating in our study because it is an engagement which is incorporated into the companies' DNA rather than an unsystematic approach to CSR.

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