

Corporate Social Responsibility in periods of Economic Recession: The case of Cyprus

Prepared by :

Dr. Marlen Martoudi Demetriou

Assistant Professor,

University of Nicosia,

Demetriou.m@unic.ac.cy

Ria Morphitou

Assistant Professor

University of Nicosia

Morphitou.r@unic.ac.cy

Abstract

Due to the Economic Recession in Cyprus with the highest unemployment rate ever in the island (17%), strategies like Corporate Social Responsibility may be left in the CEOs drawers of the majority of corporations in island. Right now most of the corporations are struggling for their survival. According to the European Commission Annual Report on European SMEs. the financial crisis in Cyprus has led to a drastic decrease in the volume of business of local Small and Medium Enterprises (SMEs) and the primary concern of local SMEs during 2013 was to survive, Nevertheless, there are corporations in the island which continue to promote their CSR Programs surprising positively the majority of the Economists. This thesis focuses on the impact of the global economic recession on Corporate Social Responsibility (CSR) behavior and activities, companies adopt in Cyprus.

The researchers aim to explore the negative effects of the World Economic Crisis and the current period of recession in Cyprus on the budgets dedicated to CSR strategies by Cypriot companies. Thus the main research objectives are as follows: 1) to examine literature on CSR as well as existing literature on CSR during economic turmoil globally. 2) To examine businesses perceptions on CSR locally in Cyprus (in favor or against) and 3) to identify changes in commitment levels by businesses for CSR, during recession periods and further 4) to identify a possible link between CSR and business' economic performance. In order to achieve the above stated objectives, an adequate methodology is used. This entails the use of triangulation technique which involves the use of both quantitative data through self completed questionnaires and qualitative data collected from interviews. Both analyses reveal that, there is adequate available literature for CSR; however it is full of contrasting views. Again, a greater majority of firms in Cyprus view CSR as being positive. Their commitment levels witness change in times of recession with divided impact and finally, it is hard to actually place a link between firms being corporate citizens and their economic

performance. However, the research findings indicate that it is important for firms to incorporate social responsible behavior more, because at the close of the day, being good is good in itself.

Key words:

Corporate Social Responsibility (CSR) , Economic Recession, Cyprus Market.

Introduction

The Economic recession is defined by the United States National Bureau of Economic Research as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, income, unemployment, industrial production, and wholesale-retail sales” (Tradepla 2008).

On September 15, 2008, Lehman Brothers, a perfectly good 158-year-old company, and one of the most prestigious players on Wall Street, filed for bankruptcy protection after a frenzied weekend of negotiation failed to find a way of saving the company, marked the arising of the global economic recession(IMF,2008), plaguing the world today. In times of economic recessions, most companies react by cutting sales and marketing budgets/expenditures. According to the Marketing Sherpa’s survey of 407 marketing professional (2008), 60% of large companies have cut their marketing budgets. According to Ronald and Peng (1992), this is the traditional method of dealing with a recession, and similarly, Quelch and Jocz (2009: 54) explain that “such indiscriminate cost-cutting is a mistake”. In the space of just 18 months, the global economic crisis has become one of the greatest assaults on global economic stability to have occurred in three-quarters of a century (Rudd, 2009).

Given the global recession, some companies are also beginning to view CSR activities as an expense and not a benefit, However contrary to that scenario, “recessions do

offer a myriad of opportunities for those marketers who understand marketplace dynamics and who are willing to plan thoughtfully for recession survival, learn from the problems and then move on to prosperity’’ (Goodell and Martin, 1992: 5).

In the Cyprus Market a number of Big to Medium size corporations have introduced very dynamic CSR strategies the last two decades and have managed to gain recognition and respect on behalf of the Cyprus Society for the role they play in different aspect of economic and social environment in Cyprus given the research findings of a survey implemented in year 2004-2005 and repeated in the year 2007. (Demetriou et al, 2009). This year when tendencies of Economic recession are more than obvious in the Cyprus Economy the decision to continue the investment on CSR strategies may become a serious dilemma for the above mentioned corporations. The dilemma and the decisions of those corporations to continue to invest on CSR strategies are going to be analyzed in this research paper.

Literature Review.

The concept of “improving society’s well-being” has become part of many companies’ strategic plans and marketing decisions. Corporate Social Responsibility (CSR) is faced as an opportunity for Brand Equity and there are many companies which invest a considerable percentage of their budget on different CSR activities in order to enhance their image. According to the European Commission published its response on CSR: “CSR: a business contribution to sustainable development”. The communication highlighted the importance of CSR for corporations since it is for their long-term interest and it contributes to sustainable development by integrating their economic, social and environmental impact in their operations (the so-called ‘triple bottom line’) (Euroabstracts 2004).

A lot of skepticism may be applied on behalf of the corporations in continuing to invest on CSR programs at periods of Economic Recession.

The Marketing Sherpa's report (2008), after a research, states that not all companies think of the worst in recessions. These companies according to Ronald et al. (1992) can adopt the opposite strategy by actually increasing advertising in a recession, a strategy by which marginal competitors are driven out and their market shares grabbed, thus complementing Diez's view in Newborne (2002), that recessionary periods are times of crucial marketing opportunities.

According to Parert and Eibert (1975), and Ullmann (1985) if corporate social responsibility is viewed as a significant cost, firms with relatively high past financial performance may be more willing to absorb these costs in the future. It is also expected that poor performers would seek more immediate results and consequently they may prefer short-term and high-yield investments to the uncertain and in general longer-term CSR investments.

Ullmann (1985) argued that corporations must reach an acceptable level of economic performance before devoting company resources to meet social demands. This is supported by the assertion that corporations with strong prior economic performance appear to be more likely to have high current levels of social disclosure. Ullmann (1985) also suggested that companies with less stable stock market patterns would be relatively less likely to commit resources to social activities.

CSR and the Global economic Recession are both hot topics of today (year 2013), when the research commences, and corporations are appreciating even more, the need for being held accountable for any of their actions that affect people, their communities, and environment. This explains why a lot of research has already been carried out on CSR; however, very little research has been done on Cyprus companies

especially in times of recession, as the impact of the recession is not that visible yet, when compared with other countries of the world.

Research:

Research Objectives:

- 1) To examine literature on CSR as well as existing literature on CSR during economic turmoil globally.
- 2) To examine businesses perceptions on CSR locally in Cyprus (in favor or against)
- 3) to identify changes in commitment levels by businesses for CSR, during recession periods and further
- 4) To identify a possible link between CSR and business' economic performance.

Research Methodology:

A two phase research was implemented combining Qualitative and Quantitative research for triangulation purposes.

Phase one:

Qualitative Research: An in-depth Interview with the President of the Cyprus Chamber of Commerce has taken place on January 2013.

Phase two:

Quantitative Research: with questionnaires of a combination of closed end and open end questions was sent to 40 big and medium size corporations with rich CSR reports.

Research Findings:

Phase One:

The president has provided the researchers with an insight of the problems faced by most of the corporations due to the Economic crisis. He has also explained to the researchers the role the Cyprus Chamber of Commerce plays in encouraging the managers of corporations to learn about CSR programs through seminars and conferences organized or supported by the chamber on a regular basis.

A list of names of 40 corporations with significant CSR reports has also be provided to the researchers by the officials of the Cyprus Chamber of Commerce.

Phase two:

The research findings of the survey implemented among the Marketing managers of the 40 corporations with rich CSR reports as provided by the Chamber of Commerce is as follows: Only 30 out of 40 corporations responded to the questionnaire with very interesting results

The majority of the businesses in Cyprus perceive corporate social responsibility very vital for any business venture with a 47% strongly agrees that social responsible behavior is necessary for an organization, 33% simply agreed to it, 13.3% were neutral to this assertion, while only 6.7% strongly disagreed. It was also found that during recessions, many organizations in Cyprus, intend to increase their CSR dedication, with up to 47% with the goal to be more corporate citizens, 20% with the goal to decrease and 33% who have other issues more pressing than being socially responsible. An additional interesting finding in this research is that the majority of the firms in the researchers' sample are in support of a positive relationship between them being socially responsible, and their economic performance as well. 60% supports CSR leading to economic performance, 30% deny any link and 10% really have no clue concerning this point.

Conclusions

The findings of this research, based on the sample constituting of firms in Cyprus with rich CSR strategies, clearly prove that there is a greater positive perception towards corporate social responsibility by companies, than the negative or indifferent few firms. Again, the research findings reveal that, there is a change in commitment levels to CSR by businesses in recessionary times, with the majority to desire to increase

CSR activities in economic slowdown periods as they see such times, as the best time to boost image and reputation. The research also reveals a positive relationship between corporate behavior and the economic performance of companies. While researching this objective, several businesses which support this fact, however explained that there is an indirect positive relationship between CSR and their performance. This is so because, employee motivation and satisfaction which is a core part of CSR, contributes greatly to economic performance.

References

- Demetriou, M., Papasolomou, I., Vrontis, D., (2009) Cause-related marketing: Building the corporate image while supporting worthwhile causes , *Journal of Brand Management* 17, p.266-278
- European Commission Annual Report on Small and Medium Size Corporations in Europe (2014) as quoted by the Cyprus Mail on Jan 8, 2014 available from <http://cyprus-mail.com/2014/10/04/eu-commission-financial-crisis-in-cyprus-led-to-a-dramatic-decrease-in-smes-business/> (accessed August 2014)
- Euroabstracts (2004) “CSR Europe sets the standard”, European Commission, Vol 42-1, p. 28.
- Goodell, P.W. and Martin, C.L. (1992), “Marketing Strategies for Recession Survival”, *Journal of Business and Industrial Marketing*, Vol. 7, No. 4, pp. 5-16.
- IMF(2008), “*World economic Outlook*”, International monetary Fund, Washington, DC.

Newborne, E. (2002), ‘‘Spending Now, Win Later’’, *Journal of Sales and Marketing Management*, Vol. 154, No. 4, pp. 65.

Parert, I.R. and Eilbirt, H. (1975), ‘‘Social responsibility: the underlying factors’’, *Business Horizons*, Vol. 18 No.4, pp. 5-10.

Quelch, J.A. and Jocz, K.E. (2009), ‘‘How to Market in a Downturn’’, *Harvard Business Review*, April 2009 Edition

Ronald, B. and Peng, C.S. (1992), ‘‘Managing In Difficult Times: Lessons from the Most Recent Recession’’, *Journal of Management Decision*, Vol. 30, Iss. 8, pp. 34..

Rudd, K. (2009), *The Global Financial Crisis*. (online). Available from: <http://www.themonthly.com.au/tm/node/1421> (accessed February 1, 2014).

Marketing Sherpa’s Special Report(2008) , *Marketing During a Downturn* {Internet}
Available from <<http://www.marketingsherpa.com/Reports/DownturnReport.pdf>>
website [Accessed 10th April,2010]

Tradepla (2008), *How to Define an Economic Recession*, [internet] Available from:
<<http://www.content4reprint.com/culture-and-society/current-affairs/how-to-define-an-economic-recession.htm>> website 2 [Accessed 10th December, 2009].

Ullmann, A. (1985), ‘‘Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms’’, *Academy of Management Review*, Vol. 10 No. 3, pp. 540-57.

