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The Impact of Financial Crisis on Corporate Social Responsibility and Its Implications for Reputation Risk Management

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Abstract

This paper explores the impact of the financial crisis of 2008 on Corporate Social Responsibility initiatives – CSR –and its implications for reputational risk management. The social risk theory suggests that there is a new kind of risk related to CSR that can affect a company's reputational value. This research is a multiple case study that considers two multinationals operating in the same sector. Qualitative data have been collected in many ways such as document analysis, semi-structured interviews and a scaling survey in several locations in three different countries including expert views from reliable sustainability management consultants.

Findings show that the financial crisis of 2008 had a clear impact on CSR initiatives in many companies because of the exceptional pressure that they had to face in order to survive and with massive layoffs and expenditure cuts on community involvement programs being the most obvious outcomes of the crisis. However, not all impacts were seen as negative, many CSR issues were pushed forward and gained more depth after the crisis, such as organizational governance and environmental policies, as well as compensation policies.

The main stakeholders that were affected by the crisis were employees; followed by investors and customers. Similarly, in relation to CSR issues, it was labor practices that were the most severely impacted. What is interesting to observe was that in the studied companies, there was a belief that these issues were not considered as having the highest impact on their companies' reputations.

Companies gave more importance to the issues that related to the stakeholders that they perceive to be the most influential. Therefore, an issue such as environmental policies forms a social risk if green investors decide to withdraw. However, employees are not perceived as influential at the time of the crisis because of the deterioration in labor market conditions and hence the drop in labor practices is not perceived as a threat to reputational value.

Implications for reputation risk management can be identified by risk considerations within the studied companies. Social risks impacting reputation are sometimes reported explicitly in annual reports with direct reference to environmental and human rights issues as well as supply chain management and risks related to compliance and code of business conduct. The reporting is less explicit in other cases with these elements present in the internal documents for risk management but not in the published reports. This implies that many companies have a better understanding of the importance of social risks and their impact on reputation but they do not necessarily report it openly.

Keywords: financial crisis, corporate responsibility, sustainability, reputation, social risk, stakeholders

1. Background

Organisations' capabilities are tested in times of crisis (Sharma & Narwal, 2006). Due to the fact that financial crisis are times of uncertainty, organisations tend to avoid negative effects by remedial actions; the most common actions are laying-off employees, decreasing consumption and postponing investments (Karaibrahimoglu, 2010). On the other hand, there is an increasing public demand for corporate transparency about their Corporate Social Responsibility – CSR – which makes it a new risk factor for companies; its mismanagement can lead to reputation loss (Michel, 2002).

Conversely, the financial crisis of 2008 can be seen as a result of the lack of self regulation and irresponsibility of financial institutions even in areas that are crucial for their own survival. This raises the question of whether companies and multinationals would be expected to keep up the voluntary CSR initiatives during these times of financial problems as it becomes clear that this global crisis revealed an urgent need to call for “binding global minimum standards” when it comes to corporate responsibilities (Emeseh, Ako, Okonmah, & Obokoh, 2009).

A review of the literature shows that there is a general agreement that CSR was affected by the financial crisis of 2008, and that it has an impact on the reputation of companies. Nevertheless, it must be noted that most previous research did not use a stakeholder approach to analyze the issue; the focus was more on the amount of CSR related activities run by the companies in times of financial crisis. Karaibrahimoglu (2010) examined the effects of the crisis of 2008 on 100 companies randomly selected from the list of Fortune 500 for the year 2008 and found that “there is significant drop in numbers and extent of CSR projects in times of crisis” (Karaibrahimoglu, 2010).

This study aims to explore the impact of the financial crisis of 2008 on CSR within two multinationals and the role it plays in enhancing reputation risk management. It attempts to discover the issues that these multinationals faced and how they addressed them, and to investigate which stakeholder groups were the most hit by the crisis, and what were the actions taken by the companies in this regard. All areas of the triple bottom line are covered; the social, environmental and economic aspects are addressed in the data collection and analysis.

In order to go deeper into the analysis, this research investigates the subject from two points of view. On the one hand from an issues point of view, by analyzing which CSR issues were impacted the most in the time of the financial crisis; and on the other hand, from the stakeholder’s point of view by investigating which stakeholders were mostly hit by the crisis. So as to investigate which CSR issues were the most impacted and which kind of actions were taken by each of them, the ISO 26000 is used as a tool, since it covers a considerable amount of CSR issues. The study goes further and investigates which stakeholder groups were the mostly hit by the crisis and which are the most powerful, in relation to the impacted issues in order to identify those with a greater impact on reputation. Combining both these views aims to give a more complete picture of the link between CSR activities and reputation risk management.

1.1 Core Themes of CSR

Hart (2007) defines the responsibility of business by stating “The major challenge - and opportunity - of our time is to create a form of commerce that uplifts the entire human community of 6.5 billion and does so in a way that respects both natural and cultural diversity. Indeed, that is the only realistic and viable pathway to a sustainable world. And business can – and must – lead the way.” The world business council for sustainable development – WBCD – defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (WBCD, 1998).

Many other concepts have been developed to link between corporate goals and global environmental and societal issues, such as CSR, corporate citizenship and corporate governance; but they all suggest the frame work of the triple “bottom line” that was formulated by John Elkington in his renowned book Cannibals with Forks (Elkington, 1998). According to this concept, corporate activities should not only focus on generating profits, but also to be concerned with its social and ecological consequences.

The introduction of the “Sustainable Management” concept emphasized the equal weighting of a company’s economic, environmental and societal goals, which makes economic profits only “one goal amongst others” (Daub & Ergenzinger, Enabling Sustainable management through a new multi-disciplinary concept of customer satisfaction, 2005). CSR should achieve the balance between the three dimensions; on the economic benefits level, businesses should be profitable and supply the society with products and services; on the ecological level, businesses must protect the environment and find new ways leading to eco-efficiency and on the social level, they should safeguard human rights and promote social integration (Daub & Ergenzinger, Enabling Sustainable management through a new multi-disciplinary concept of customer satisfaction, 2005).

Many standards such as ISO9001 and ISO14001, Eco Management and Audit Scheme EMAS and SA8000have been created to measure a company’s performance in areas related to CSR. The ISO 26 000 was created to assist companies in contributing to sustainable development and encourage them to go beyond “legal compliance”, because complying with the law is a duty of any organization or company. The standard promotes common understanding in the field of CSR, and complements other instruments and initiatives for CSR (International Organisation for Standardisation, 2010).

1.1.1 Motives and Source of Competitive Advantage

Companies engage in CSR for different reasons, and many authors set out to define the motives behind this engagement. One of the most well-known frameworks is defined by Carroll (1991) where she explains the CSR as in a pyramid including management responsibility to comply with regulations, to respect society’s ethics and to be a good citizen. Other frameworks suggest that, if a company leverages CSR in a more strategic way, it can create a competitive advantage (Munilla & Miles, 2005).

Incorporating a more stakeholder focused view would create an even wider range of possibilities based on “ambition levels” ranging from compliance driven, to profit driven, to companies driven by care; synergistic or holistic(van Marrewijk, 2003). These proposed frameworks, nevertheless, fail to see that, in the current turbulent social environment that is both globally connected and very exposed to media impacts, companies might be subject to pressure that forces them to engage in CSR related activities that might prevent them from the achievement of their overall responsibilities towards other major stakeholders (Munilla & Miles, 2005). Table 1 explains those scenarios.

Table 1. CSR related sources of competitive advantage

CSR continuum	Source of competitive advantage	Form of competitive advantage
Compliance	CSR expenditures perceived as a cost of doing business	Typically a cost-based positional advantage, attempting to create superior efficiency in value delivery
Strategic	CSR expenditures perceived as an investment in the company’s set of distinctive competencies	Could take cost and/or differentiated position to be either more efficient or more effective in creating value propositions for the customer
Forced	CSR expenditures perceived as a “tax” being mandated by NGOs or other external stakeholders that will diminish the company’s ability to create value for other relevant stakeholders	None

Sources: (Munilla & Miles, 2005) adapted from (Day & Wensley, 1988), (Hunt, 2000), (Karna, Hansen, & Heikki, 2003) and (Miles & Covin, 2000).

The forced scenario suggests that when companies are forced by a “vocal minority” of external stakeholders to engage in CSR activities, it may not necessarily be of strategic benefit to the majority of the stakeholders, and may result in negative effects (Munilla & Miles, 2005).

1.1.2 Major Critiques

As one of the “hot corporate strategies of our era” CSR has been critiqued by many writers and researchers (Corporate Watch, 2006). It is true that many companies do their best to always act responsibly, and other companies do it only when it is convenient, but this “uneven landscape” leaves room for critique (Christian Aid, 2004).

One of the major critiques is the voluntary nature of most CSR activities. Since its beginning in the Earth Summit in Rio de Janeiro in 1992, the World Business Council for Sustainable Development rejected the recommendation on regulation suggested by the UN; alternatively voluntary self-regulation was put in place (Christian Aid, 2004). This voluntarism might have a positive impact on the behavior of the companies seeking to renew their commitment to perform better in a topic for which they were criticized before, or for companies with vulnerable brand-image; but this impact is much weaker when it comes to the majority of companies operating in poorer communities (Newell, 2005).

The fact that many environmental disasters and negative social impacts in developing countries are caused by big multinationals cannot be denied, and those powerful companies do not lose their license to operate but it is sometimes the opposite as they may even become stronger through their PR campaigns as well as mergers and restructuring among many other tools that they use to restore their image (Banerjee, 2008).

The absence of a clear definition of CSR and its concepts such as what is meant by "responsibility" is another source of criticism. The argument is that these loose definitions allow companies to create their own self-defined definitions of different aspects of responsibility as well as the degree to which they will engage with a specific stakeholders group, this can lead to a situation where companies engage only in activities that would be useful to them or only when it affects their operations directly. Critiques argue that the output of CSR activities is too shallow, and that "CSR has created a language shift, a re-brand and a new caring image, but no substance" (Corporate Watch, 2006).

Nevertheless, some critics admit that some positive aspects cannot be denied; it is clear that company reporting has improved substantially to respond to the high demand on CSR, another area that saw improvement was in the development of principles and practices to support companies to meet their commitments (Christian Aid, 2004).

1.2 Stakeholder Management and CSR

There are many definitions for the word stakeholder, but one of the most commonly used is Freeman's definition of a stakeholder as "any group or individual who can affect, or is affected by, the achievement of the organization's objectives" (Freeman, 1984, S. 46). The range of stakeholders according to this definition can vary from one company to another, depending on the location, nature of business and many other aspects (Crane & Matten, 2007, S. 58). However, there are some typical classifications of stakeholder groups; such as the traditional management model that recognizes four stakeholder groups which are shareholders, customers, employees and suppliers; and also the stakeholder model that includes a larger number of stakeholders and adds governments, competitors and civil society to the picture (Daub, Karlsson, & Stiller, The growing importance of Stakeholder dialogues in gaining and transferring knowledge, 2004).

Another familiar classification, splits the stakeholder groups into two major groups, primary and secondary stakeholders; the primary stakeholders group is "one without whose continuing participation the corporation cannot survive as a going concern" and secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation but they are not essential for its survival" (Clarkson, 1995). According to this classification, the survival of the organization would be dependent on its ability to create and distribute value to its primary stakeholders, because the dissatisfaction of any of those stakeholders groups would result in their withdrawal from the system and accordingly would threaten the continuity of the organization. Conflicting interests between primary stakeholders groups, even if inevitable, should be resolved fairly by the organization to maintain its survival (Clarkson, 1995).

1.2.1 Stakeholder Influence and Its Implications

There is a changing nature in an organization's relationship with its stakeholders. The new models include more stakeholders than the traditional models, they include broader groups such as employees' families, local communities and organizations; they go beyond legal issues to address wider issues and new responsibilities such as corruption, social exclusion and health risks; and the one-way communication is now replaced by dialogue and partnership. This changing nature of relationship was the result of the many changes in the business environment such as the new legal obligations regarding the policies of information disclosure, public interest in the business conduct, the rise of the emerging markets in India and China, and the high societal expectations from business and new technologies (Krick, Forstater, Monaghan, & Sillanpää, 2005, pp. 26-27).

In this context, it is important for an organization to identify the stakeholders that would have the power to impact its business the most, alongside those who would be impacted by its activities. This identification would allow for the prioritization of attention and action in a way that promotes the organization's goals without neglecting the relevant stakeholders' interests (Krick, Forstater, Monaghan, & Sillanpää, 2005, p. 43).

Interactions and coalitions between the different stakeholder groups should not be overlooked; many "lobbying" or "advocacy activities" between stakeholders were a key driver for CSR, especially when a high influence stakeholder group - such as consumers - "lent their influence to low influence high dependency stakeholders" such as supply chain workers in developing countries - with the aim of pushing the organization's focus on problems like child labor or poor working conditions (Krick, Forstater, Monaghan, & Sillanpää, 2005, p. 43).

Stakeholder engagement can, therefore, be used as a risk management tool, reactive in nature, aiming to avoid conflicts and minimizing costs and risks; it can be more proactive when used as an early warning system, by identifying issues at early stages; and finally it can be used as a strategic tool to find solutions and resolve conflicts (Partridge, Jackson, Wheeler, & Zohar, 2005, p. 26-27).

1.3 Reputation Risk and CSR

Crisis can impact the reputation of a company; therefore, in times of crisis there is a crucial need for reputational risk management; for that reason a good understanding of corporate reputation is very important for an efficient management of reputation risk (Gotsi & Wilson, 2001). Reputation can be defined as "a stakeholder's overall evaluation of a company over time", this evaluation is made up from the stakeholder's experience of the visible behavior of the company, as well as the images based on the company's communication and in addition its symbolism in comparison with its major competitors (Gotsi & Wilson, 2001).

A good reputation has many drivers, these drivers change over time to reflect the changes in business and in society; in modern times these drivers are extended to include emotional appeal, social and environmental responsibility, treatment of employees, financial performance, products and services and vision and leadership (Gyomlay & Moser, 2005).

Managing the drivers of reputation is not an easy task, because it embraces the management of the conflicting interests of the different stakeholder groups, therefore, the management should ensure transparency, accountability, consistency, authenticity and reliability throughout all the activities of the company. In recent years, soft facts such as the treatment of staff - as well as social and environmental responsibility - became among the major drivers of reputation, and they can have an impact on the company's financial performance by affecting its reputational value (Gyomlay & Moser, 2005).

Reputational Risk, on the other hand, can be defined as "the range of possible gains and losses in reputational capital for a given firm", and since reputation depends strongly on the support of the different stakeholder groups, this implies that they can be source of risk that should be well monitored and managed in a balanced way; each stakeholder group can form a promise of support or a threat to the reputational capital (Fombrun, Gardberg, & Barnett, 2000).

In this context, CSR can be seen as a strategic tool for reputational risk management; but this can succeed only as a long term outcome, because to build the reputation of a strong corporate citizen in a short period has proven highly unlikely to succeed. Therefore, the right time "to build a stock of reputational capital" must be before a crisis hits a company, because only then the long history of good reputation can survive the troubled times, otherwise it would be seen as "self serving" and might cause reputational damage (Fombrun, Gardberg, & Barnett, 2000).

1.3.1 Theoretical Framework: Social Risks Theory

In the modern globalized economy, global companies face new kind of risks, these risks relate to human rights, labour standards, and environmental standards. These are called "social risks" and are on top of the traditional risks such as economic, political and technical risks (Kytle & Ruggie, 2005). These new kinds of risks result from the changes in the global business world such as the more networked operations, global value chains that include many companies in many geographical areas, empowered stakeholders with the rise of modern technologies and internet which makes information reach unprecedentedly immense (Kytle & Ruggie, 2005).

Different stakeholders can transmit a social risk from different entry points to different divisions of a company, for example investors can have the power to change the company's policies, customers can put pressure on a company to change its environmental policies, and so on (Kytle & Ruggie, 2005). Figure 1 emphasizes the social risk entry points.

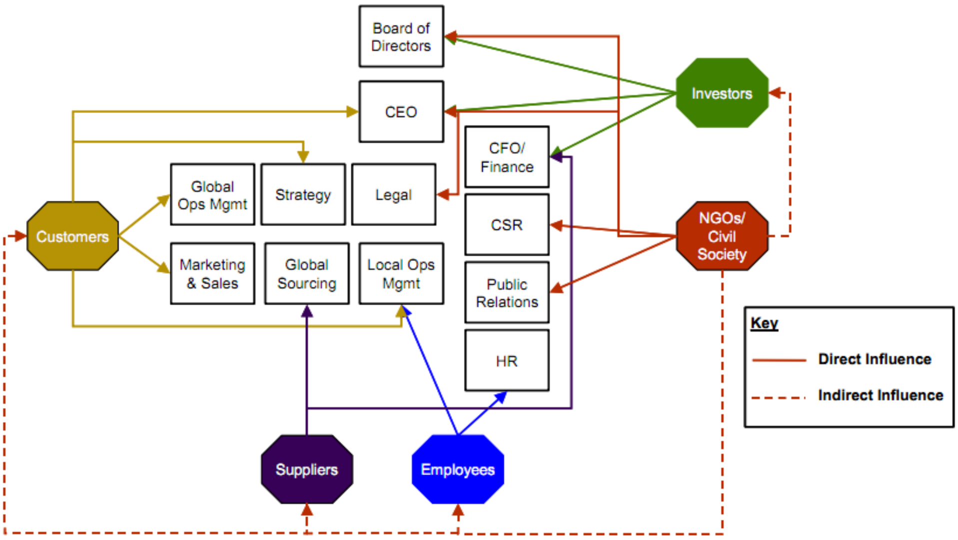

Figure 1. Social risk entry points

Source: Kytle & Ruggie, 2005

Social risk can occur when an empowered stakeholder applies pressure on the company by raising a social issue "exploiting vulnerability in the earnings drivers" such as reputation, hence putting pressure on the company to change its behaviour (Kytle & Ruggie, 2005).

Consequently, the company's ability to balance social risks with business priorities depends on its capability to identify the most powerful stakeholders and their major concerns and, accordingly, to decide the required level of engagement and transparency to address these concerns; therefore a well embedded CSR policy in the company's overall activities would play a very important role in enhancing strategic intelligence and early identification of social issues (Kytle & Ruggie, 2005).

This study explores social risk considerations in the studied companies, what they perceive as the most powerful stakeholders and their major CSR related issues, and how these concerns come into play to impact reputation risk management.

2. Methodology

This paper examines the impact of the financial Crisis of 2008 on companies' CSR practices and its implications on Reputation Risk Management. Below are the sub questions that were investigated:

1) What are the CSR issues that were the most affected by the financial crisis?

2) Which stakeholders were the most hit by the crisis and how powerful are they perceived?

3) Could CSR issues be a source of risk and which implications does this have on reputation risk management?

A Multiple Case Study was conducted to allow the comparison of the findings of each case (Bryman & Bell, 2007, p. 64). A qualitative strategy is used, emphasizing words rather than numbers while collecting and analyzing data; it is basically descriptive and focuses on understanding the social world through the eyes of the participants (Bryman & Bell, 2007, p. 402-03). An inductive approach is utilized which can be explained as "an approach to which the relationship between theory and research which the former is generated out of the latter" (Bryman & Bell, 2007, p. 728). This strategy has been chosen based on the belief that reputation and corporate responsibility are intangible issues that need an in depth view in order to understand them; the qualitative approach allows the researcher to see the world through the eyes of the participants and to have a better understanding of what lies "beneath surface appearances" (Bryman & Bell, 2007, p. 416).

This multiple case study is a "bounded system" that is bounded by a limited time frame and limited places and locations (Creswell, 1998, p. 37). The research took place in a time period of eight months, starting from May 2011 until January 2012. During this period document analysis, interviews and the scaling survey were performed. Interviews took place in Sweden, Germany and Switzerland.

A "snow ball" sampling technique was used to define the list of participants for this research, the researcher initially made contact with some people who were seen as relevant to the research and further contacts were made through this original sample (Bryman & Bell, 2007, p. 200).The setback with snow ball sampling is that it is very unlikely to represent the whole population as it is not a random sample; however, based on the fact that this is qualitative research, it would still be possible to use this technique as “theoretical sampling” rather than statistical sample because it is more appropriate for this type of analysis (Bryman & Bell, 2007, p. 200).

Qualitative data was collected through 17 semi-structured interviews, where one of the interviews was conducted with two interviewees at the same time with a total of 18 interviewees; four of them in Sulzer and nine in Atlas Copco; moreover, four external experts were interviewed to get an outsider point of view for the sake of triangulation of the findings.Documents analysis was carried out to obtain a solid and clear background about the studied companies, their practices, and their specific CSR projects. Table 2 shows the sample demographics.

Table 2. Sample demographics

Age Distribution	3 aged 25-35 years
	9 aged 35-45 years
	6 aged > 45 years
Gender Distribution	14 Males
	4 Females
Geographic Distribution	9 in Switzerland (Basel, Zurich, Winterthur, Biel)
	4 in Germany (Essen and Duesseldorf)
	3 in Sweden (Stockholm)
	2 Online (Skype)
Interviewees Titles and Specializations	Sustainability Management Consultant
	Asset Management and Sustainability Research Manager
	Dean International Management Program
	Senior Sustainability Investment Analyst
	ISO 26000 Expert
	Group President
	Vice President Corporate Responsibility
	Global Marketing Manager Parts & Services
	Country Managing Director
	Country Managing Director
	Country Communications Manager
	Regional General Manager
	Business Line Manager
	Competence Development Manager
	QESH Manager (quality, environment, safety & security, health)
	Global Head of HR
	Global Head of Investor Relations
	SEED Responsible (social, economic, and ecological data)

Unlike quantitative analysis, qualitative analysis is not a linear process; it is a continuous and ongoing process of “Noticing, collecting and thinking about interesting things” (Seidel, 1998). This progressive process keeps truing in a sequence until saturation; it starts by “observing” things and “noticing” them then giving them codes and naming them based on their sense and finally grouping them the same way we do with a puzzle, in a way that makes them meaningful and emphasizes the differences as well as the patterns (Seidel, 1998).

The coding is done using the ATLAS.ti that allows a clean and organised coding process and makes the grouping and pattern identification easier than what it would be if it was done using printed papers. Table 3 shows the codes used for the analysis, as well as their definitions, and whether they are derived from bottom up or top down approach. These codes were used to group the different issues, and compare the different inputs from different participants about a similar point.

Table 3. Coding scheme

Code	Definition	Top Down vs. Bottom Up
Affected_Negatively	Issues or stakeholders that were negatively affected by the crisis.	Bottom up
Affected_Positively	Issues or stakeholders that were positively affected by the crisis.	Bottom up
Crisis_imp_CSR	Passages explaining the different impacts of the Crisis on CSR.	Top down
CSR_Defin	Passages including participants' definitions of CSR.	Top down
CSR_imp_Rep	Passages explaining the different impacts of the CSR on Reputation.	Top down
Good_Practices	Examples of good practices mentioned by the participants.	Bottom up
I_Anticorruption	Issues related to anti-corruption.	Bottom up
I_Consumer_Issues	Issues related to consumer issues.	Bottom up
I_Environment	Issues related to environment.	Bottom up
I_Equality_Diversity	Issues related to equality and diversity.	Bottom up
I_Health_Safety	Issues related to health and safety.	Bottom up
I_Work-Life-Balance	Issues related to work-life balance.	Bottom up
Issues_Postcrisis	CSR related issues that were already facing the company / companies before the crisis.	Top down
Issues_Precrisis	CSR related issues that continued to persist in the company / companies after the crisis.	Top down
Most_Powerful	Stakeholders indicated by the participants as the most powerful to impact companies' reputations.	Top down
Mostly_Hit	Stakeholders indicated by the participants as the most impacted by the financial crisis.	Top down
Not_Affected	Issues or stakeholders that were not affected by the crisis.	Bottom up
Not_so_powerful	Stakeholders indicated by the participants as not so powerful to impact companies' reputations.	Bottom up
Reputation_Defin.	Passages including participants' definitions of Reputation.	Top down
Reputation_Drivers	Elements mentioned by participants as drivers to companies' reputations.	Top down
S_Community	Issues related to stakeholder group Community.	Top down
S_Customers	Issues related to stakeholder group Customers.	Top down
S_Employees	Issues related to stakeholder group Employees.	Top down
S_Governement	Issues related to stakeholder group Government.	Top down
S_Investors	Issues related to stakeholder group Investors.	Top down
S_Media	Issues related to stakeholder group Media.	Top down
S_Suppliers	Issues related to stakeholder group Suppliers.	Top down
CritiqueReaction	Reaction of the participants when asked whether CSR is a pure marketing tool used to manage reputational risks.	Bottom up

To objectify the findings a small survey was conducted that aimed to reach a scaling of 1 to 10 for each of the dimensions of ISO 26000; to give an insight about the variability inside the small sample and whether it is possible to identify trends. Descriptive statistics, calculations and graphs were undertaken using SPSS.

3. Analysis

3.1 Documents Analysis

The documents analyzed are public material on the companies' websites and some unpublished material directly provided by the companies.

3.1.1 Atlas Copco's Sustainability Policy and Risk Reporting

The Atlas Copco group was founded in 1873 with the aim of manufacturing and selling railway equipment, and today it is a world-leading provider of compressors techniques, construction and mining equipment and industrial tools and assembly systems. It operates in 86 countries, with production facilities in 20 countries. And this large-scale capacity allows the group to serve customers in 170 countries. In 2010, it had around 33,000 employees and a turnover of 70 billion SEK. The group's vision is to become and remain First in Mind—First in Choice for its customers and key stakeholders (Atlas Copco, 2010).

Atlas Copco was selected for the sixth time in 2010 as one of the 100 most sustainable companies in the world, and its production units are ISO14001 certified; it also encourages its suppliers to have a health and safety and environmental management system; and some of its big production units are OHSAS18001 certified. It published its first sustainability report in 2001 in accordance with the GRI - Global Reporting Initiative- with a clear stakeholder model, and covering the three main areas of the triple bottom line. Its community involvement programs and philanthropic initiatives date back to 1984 with the establishment of their "Water for All" organization. The brand promise changed in 2010 to become "Committed to Sustainable Productivity" which is a promise to ensure "reliable, lasting results with a responsible use of resources; human, natural and capital" (Atlas Copco, 2010).

Risk factors, and their management, are published in detail in the company's annual report and addresses business and financial risks alongside potentially significant risks as for example legal and reputation risks. Social risks, as well as sustainability risks, are explicitly reported in the annual report, part of them falls under reputational risks; environmental and human rights issues are taken into account, as well as supply chain management, risks related to compliance, business code and internal or external risks of corruption and fraud of conduct are also reported (Atlas Copco, 2010).

3.1.2 Sulzer's Sustainability Policy and Risk Reporting

Sulzer was founded in the year 1834 in Switzerland to produce fire fighting and other pumps in addition to textile machinery and a heating installation business. Today, Sulzer is a major provider in its main markets, of oil and gas, hydrocarbon processing, power generation, water and wastewater, automotive, and aviation. It has a network of more than 170 locations around the globe, and employs around 17,000 people and total sales for 2010 amounted to 3,184 billion CHF (Sulzer, 2011). The group's vision is "to be a recognized leader in innovative, sustainable, engineered, and customer-focused solutions for performance-critical applications in the oil and gas, hydrocarbon processing, power generation, pulp and paper, aviation, automotive, and other selected industries" (Sulzer, 2010).

The company started its environmental data collection in 1993, and officially launched the ISO 9001 certification campaign in the same year. In 1996 it published its first external environmental report receiving its first ISO14001 certificate in 1997. Its first social report was published followed by the publication in 2000, of the integrated QESH - quality, environment, safety and health- management system. The code of business conduct was applied from 2002 together with the launch of SEED –social, economic and ecological data – database for sustainability data collection (Sulzer, 2009). Sulzer's first external sustainability summary was published in 2004and is published every two years with updates issued between publications. The company joined the UN Global Compact in 2010 to emphasize its dedication to good corporate citizenship focusing on human rights, labor practices, environmental protection and combating corruption (Sulzer, 2010).

The sustainability organization is well set up across the different areas and functions at Sulzer. An established network allows the implementation and monitoring of sustainability initiatives throughout diverse corporate functions such as communications, finance, human resources, information technology, LEAN, legal and compliance, QESH and innovation and technology. The sustainability council includes representatives from all relevant functions in order to coordinate and monitor the company's sustainability efforts on a global level (Sulzer, 2009).

The corporate risk council was established in 2003 and is designed to ensure integration within the whole business process (Sulzer, 2010). There was no information about operational risks or social risks explicitly included in the published reports. However, the company's senior management shared all the relevant tools related to risk management for the sake of this research. Those unpublished documents confirmed the presence of social risks in the company's considerations, such as accidents at work, occupational diseases, risks related to recruiting and retaining personnel, discrimination, poor communication risks as well as reputation and brand risks. However, reputation risk is not a separate risk category but a sub-point under communication risks.

3.2 Interviews Analysis

The interviews analysis revealed insights about the participants' understanding of the concept of CSR and reputation, their opinions about the impacts of the financial crisis on CSR, as well as the implications that it might have for the company's reputation.

3.2.1 General Impact of the Crisis on CSR

Both studied companies have a long successful history, which makes the crisis of 2008 not the first crisis they have had to face or overcome; this history has made them more long term focussed in dealing with problems taking the view that they do not sacrifice the future for temporary successes. All participants confirmed that CSR activities continued during and after the crisis, however, the financial pressure was very high, and all businesses had to fight for survival, which encountered many negative effects.

Massive layoffs were the major negative result of the financial pressure on the companies, nevertheless the way they handled the problem was not the same. Employees that showed solidarity and stood together taking their own responsibility were able to overcome the crisis successfully. The same scenario happened in both companies when the workers of some of their factories agreed to have less salary but not to let anyone be laid off in their facility, and the management approved this solution in both cases showing another positive aspect of stakeholder dialogue and mutual responsibility. Another example comes from Atlas Copco when the president of one of the divisions went personally to communicate with the workers of one of the facilities explaining to them that they needed to increase their productivity to prevent the relocation of the production in a less expensive country. In reaction, the factory workers successfully achieved the needed productivity level, convincing the management to keep the production running.

Transparent and continuous communication and engagement in stakeholder dialogue at all levels was the ultimate tool to overcome negative impacts for both companies. Meetings, satisfaction surveys, investor relations conferences and different types of reports were continuously held and published to keep all stakeholders well informed about the problems, the suggested solutions as well as the procedures to reach them. The long term relationship that both companies had with their investors and their customers, as well as suppliers, created a mutual trust and loyalty that ensured the sustainability of cooperation and the continuity of partnership in such difficult times.

Experts have explained that there are differences about how companies handled the crisis. The companies that were the most advanced in implementing their sustainability agenda and truly integrating it in to their day to day business understood that these are long term issues that should not be put on hold; however, those companies that were less advanced in their sustainability agenda started to put things on hold. Another difference is the kind of sustainability initiatives that companies do; environmental policies for example are investments where companies see the financial reasoning behind it in the long run, and were not put on hold; on the other hand other initiatives like the ones related to community engagement were probably more affected.

Community involvement seems to be one of the most controversial issues, because while Atlas Copco puts much focus on its programs and has put a lot of effort to prevent any decrease in the budget going to philanthropic initiatives during the crisis, Sulzer's position was quite different, and the management keeps it to a minimum.

3.2.2 Stakeholders that Were the Mostly Hit versus the Most Powerful

Interviewees agreed that employees were by far the mostly hit by the crisis, followed by investors then customers; while suppliers, community and government have been much less hit. On the other hand, they agreed that employees, investors and customers are equally the most powerful stakeholders; while suppliers, community and government are less powerful. Figure 2 shows how many participants mentioned each stakeholder as mostly hit or most powerful, not to quantify the findings but to emphasize the frequency.

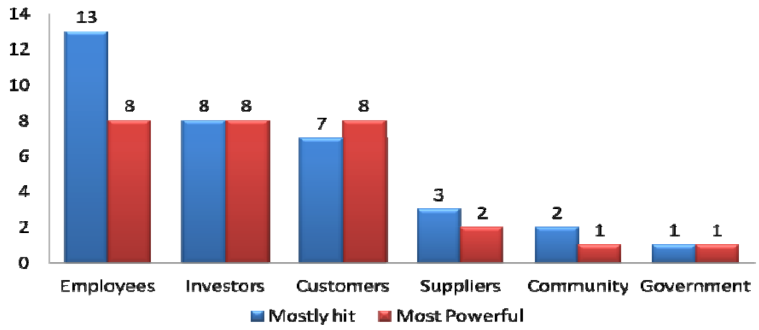

Figure 2. Mostly hit versus most powerful stakeholders

Employees are clearly the mostly hit by the crisis, not only those who lost their jobs in the massive layoffs, but also those who still had a job but had to suffer from a feeling of insecurity. Interviewees agreed that employees together with customers and shareholders are the most powerful stakeholder; however, employees might not be that powerful during the time of crisis, because of the simple offer and demand market mechanism.

One interviewee explains this paradox: Employees do not have much power in bad times; this is a question of the labor market, if there are a lot of people laid off at the same time and the situation is bad then they are not powerful, but as soon as the situation changes and companies start hiring again then of course they have the power and they can bargain.

Investors are the second mostly hit stakeholders in the crisis as the prices drop to historically low levels and the share price becomes very low. However, investors are also one of the most powerful stakeholders because they can decide whether to invest in a specific company or not. Also, the increasing presence of green investors places more focus on ethical considerations and a certain level of CSR, and once this special group of investors is convinced that the company is acting responsibly they usually establish long term partnerships and do not withdraw in times of crisis.

Customers were the third mostly hit stakeholders because of the longer delivery times, and sometimes order cancellations. Within the business to business world, some customers even faced bankruptcy and could not pay for the products that they previously ordered, with this potentially jeopardizing company’ profits. On the other hand customers are very powerful as they can influence the strategy of companies.

Communities and governments were not mentioned much by the participants, as mostly hit or as most powerful. Of course governments can be very powerful if they decide to change regulations, but this does not seem to have been the case in this crisis. As to communities, they are probably not seen as powerful to the companies of the study because both are operating on a business to business level, which makes them not very visible to pressure groups compared to other businesses dealing with consumer goods for example.

3.2.3 Most Affected CSR Issues

The financial crisis did not have the same impact on the different CSR issues. Some issues were negatively affected and became worse with the crisis, whilst some were positively affected and pushed forward with the crisis. Only a few were not really affected. None of the participants mentioned that an issue was caused by the crisis noting that issues were already there. Figure3shows the different impacts of the crisis on CSR issues.

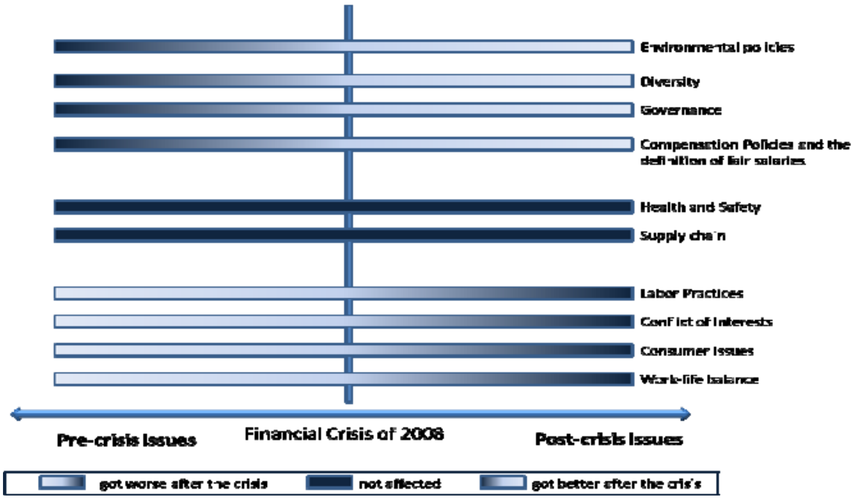

Figure 3. Impact of the crisis on the different CSR issues

The interviewees mentioned that there were health and safety issues before the crisis because of customer pressure to have higher standards; furthermore, there were supply chain issues also related to health and safety as well as labour practices. Both issues are still prevailing after the crisis, but they did not get worse or better.

Work-life balance seems to have worsened after the crisis. The participants mentioned that the massive layoffs resulted in an extra workload for the remaining employees.

As per one interviewee: When you lay off people you never get them back. Managers tend to say we are now more efficient because they are doing the same work that they used to do before with less employees, but look at the people who are still sitting there, they do over time all the time, and work-life balance is not happening, and you have no backup anymore.

Massive layoffs have also badly affected labour practices. Some companies have always had high employees' retention rates and do not have sufficient HR mechanisms that allow them to execute such layoffs in a very short time without problems.

One interviewee explained: We are still suffering, because we had to reduce employees very quickly, and we lost competence, and it takes time to build competence and relation, then the business has been back so quickly, so it was tough to adjust the organization to the volumes needed.

On the other hand, the crisis pushed the companies to have more efficient compensation policies and pushed their efforts towards a clearer definition of fair salaries, and better frameworks for bonus schemes.

One of the experts clarifies: Some companies developed clearer frameworks in how to deal with compensation after the crisis, and also a change on how bonuses are paid, with a tendency to a more long term orientation, such as saying that they will pay the bonus each four years to ensure long term performance, so there is a change in the incentives scheme.

Issues related to governance, diversity and environment appear to be positively affected by the crisis. They were pushed forward and witnessed some improvement; however, the interviewed experts believe that this positive impact was more on a reporting level.

As per one of the expert's explanation: The governance system has also changed, as well as the whole issue of diversity, and this changed in a positive sense with the crisis, the only problem is that it may be has gone in the wrong direction, it is going in an overregulation and over standardization of governance on a level of reporting and less in the direction of having the right means such as management schools who are teaching good governance and building the skills of future managers.

3.2.4 CSR Implications for Reputation Risk Management

Globalization, social media, and the unprecedented use of technology to exchange information made reputation very hard to control. Many social issues related to labour practices, human rights or the environment became more visible and has a direct impact on reputation. Participants of both companies are aware that information within the company would be globally visible the very next day, which highlights the link between the company's CSR policy and its reputation, making it an important part of risk management.

Interviewees explained that society has become more demanding, and what was considered "nice to have" 20 years ago has become a necessity, such as philanthropy for example. It used to be in the 60s and 70s something to be considered but people now expect each big company to undertake CRS, and, if they do not, they may receive severe criticism.

The favorable impact of CSR on reputation is believed to reflect on its financial performance as well, because it would increase mutual trust with major stakeholders and would create loyal employees, customers and investors; as one participant says: "… because then you will attract the right people, and if you have the best people you will attract the investors, and in addition you will attract the green investors that are willing to put their money into responsible companies."

While genuine CSR and sustainability policies can be of real added value to reputation, and of great importance to successful risk management, participants believe that policies would not survive in the long run and, particularly at a time of crisis, if the only driver for their existence was the fear of social risk.

One interviewee clarifies: For me if the only driver is risk management, I would not feel comfortable, it's not the fear that drives me, but there where I want to be, and this is a big part of success, if while I am driving I am afraid of hitting the trees I will hit the tree, but if I concentrate on which road I want to take, then I will take the road! I don't concentrate on the things I want to avoid, I concentrate on the things I want to do good… and I also can then explain if something goes wrong!

3.3 Scaling Survey

Labor practices were ranked as the most impacted by the crisis; while the dimensions that were ranked as those with the strongest impact on reputation were organizational governance, fair operating practices, human rights and environment. On the other hand, organizational governance, human rights and environment were ranked as the least impacted by the crisis; and the dimensions with the least impact on reputation were community involvement, consumer issues and labor practices.

The spreads in the box plot in figure 4 show that the participants clearly had diverse views about labor practices, however it has the largest median as the dimension that was mostly hit by the crisis. Yet they agreed that fair operating practices, environment and human rights are the dimensions that were impacted the least by the crisis. On the other hand the relatively small spread in the red boxes for fair operating practice, human rights and organizational governance shows that the participants agreed that these three dimensions are the ones with the greatest power to impact reputation. Descriptive statistics are shown in table 4.

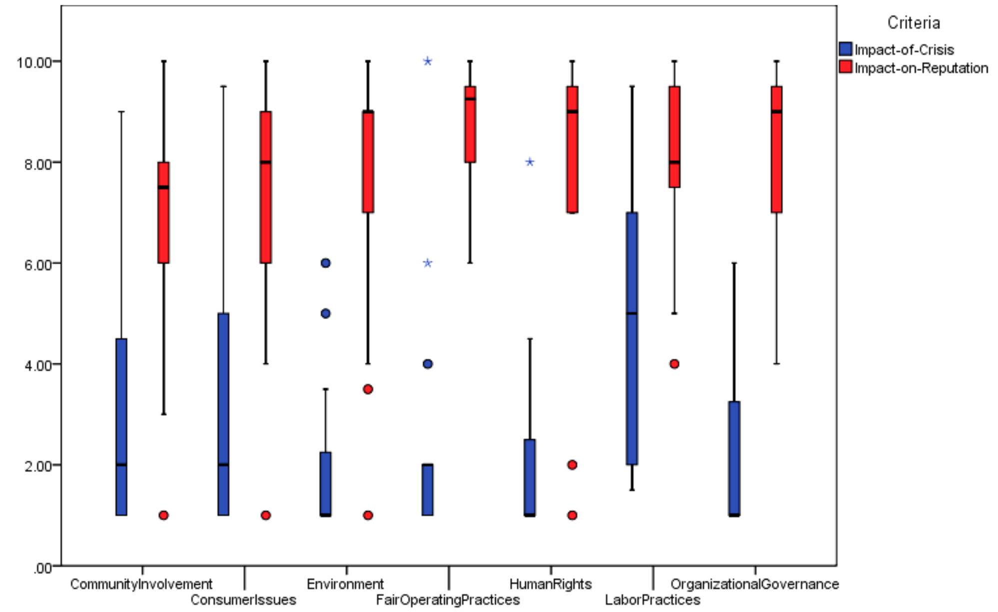

Figure 4. Clustered box-plot

Table 4. Descriptive statistics

		Organizational Governance	Human Rights	Labour Practices	Environment	Fair Operating Practices	Consumer Issues	Community Involvement
How bad is the dimension impacted by the crisis								
N	Valid	15.00	15.00	14.00	15.00	15.00	15.00	14.00
	Missing	0.00	0.00	1.00	0.00	0.00	0.00	1.00
Mean		2.37	2.07	4.82	2.07	2.47	3.23	3.25
Median		**1.00**	**1.00**	**5.00**	**1.00**	**2.00**	**2.00**	**2.00**
Variance		2.87	3.82	7.48	2.53	6.27	8.07	7.34
Minimum		1.00	1.00	1.50	1.00	1.00	1.00	1.00
Maximum		6.00	8.00	9.50	6.00	10.00	9.50	9.00
How strong is the impact of this dimension on reputation								
		Organizational Governance	Human Rights	Labour Practices	Environment	Fair Operating Practices	Consumer Issues	Community Involvement
N	Valid	14.00	14.00	14.00	14.00	13.00	14.00	14.00
	Missing	1.00	1.00	1.00	1.00	2.00	1.00	1.00
Mean		8.39	7.79	8.00	7.46	7.88	7.11	6.71
Median		**9.00**	**9.00**	**8.00**	**9.00**	**9.00**	**8.00**	**7.50**
Variance		2.81	8.14	3.08	7.17	7.55	4.85	6.37
Minimum		4.00	1.00	4.00	1.00	1.00	1.00	1.00
Maximum		10.00	10.00	10.00	10.00	9.00	10.00	10.00

Box plots are used as a graphical way that shows the range and the spread of a variable, they show us the minimum and maximum, as well as the median, and lower and upper quartiles, and furthermore it shows us outliers if any. The median is normally more representative of the central tendency of the sample than the mean, especially in small samples because outliers can affect the mean, while the median is less affected.

4. Findings and Conclusions

The analysis confirms that the financial crisis of 2008 clearly had an impact on CSR initiatives because of the unprecedented pressure that companies had to face in order to survive. Massive layoffs and expenditure cuts on community involvement programs were the most obvious outcomes of the crisis. However, the impacts were not all negative; the participants explained that many CSR issues were pushed forward and gained more depth after the crisis as for example, corporate governance related issues such as code of business conducts and anti-corruption policies.

Issues that worsened after the crisis as per the participants are labor practices, especially work-life balance, and consumer issues, together with a harsher conflict of interests between the different stakeholder groups. Supply chain issues and health and safety do not seem to have been impacted by the crisis. At the same time, issues that improved after the crisis are mainly environmental policies, corporate governance, diversity programs, as well as compensation policies with a better definition of fair salaries.

From the stakeholders' perspective, it was the employees' stakeholder group that was the mostly hit in the crisis due to layoffs, followed by investors because of the huge decrease in share price, and customers due to some delivery issues. On the other hand, participants agreed that employees, investors and customers are equally the most influential stakeholders having the power to impact companies' policies and operations. However, employees seem to be less powerful in times of crisis when many companies are laying-off at the same time, even if they regain their bargaining power as soon as the economic situation regains and the companies start to hire again.

As from CSR issues point of view it was labor practices that were the most severely impacted. Although both companies believe that these issues do not have the highest impact on their reputation. Massive layoffs and cost cuts are the reasons behind this negative impact. On the other hand, the participants believe that the issues with the strongest impact on reputation are organizational governance, fair operating practices, human rights and environment. These facts, together with the issues mentioned by the interviewees as improving after the crisis, underline that companies have put more efforts to enhance dimensions that have the highest impact on their reputation.

Implications for reputation risk management can be sensed from risk considerations in the studied companies; social risks impacting reputation were explicitly reported in Atlas Copco's annual report with direct reference to environmental and human rights issues as well as supply chain management and risks related to compliance and code of business conduct. The reporting was less explicit in Sulzer's case with these elements present in the internal documents for risk management but not in the published annual report. This implies that both companies have a good understanding of the importance of social risks and their impact on reputation.

Best practices include long term orientation that fosters a sustainable management ideology which characterizes both companies; open and continuous communication and stakeholder dialogue, in addition to responsible mechanisms used in problems such as layoffs are but a few examples.

4.1 Practical Implications

Transparent and continuous communication with all relevant stakeholder groups is very important for sustainable success in difficult times; when this is supported by a long term oriented management the benefits of mutual trust and loyalty from its stakeholders after long years of reliability is maintained.

The fact that the employee stakeholder group, along with labor practices as CSR issue, is seen as mostly hit by the crisis suggests the need for improved mechanisms to balance a company's survival in time of crisis with the needs and rights of employees. Those mechanisms can include also more effort from the employees' side in terms of more responsiveness, solidarity and organization that allows for a win-win situation.

Community involvement being the issue that faces the highest cost cut in times of crisis could be adjusted in a way that donations reflect a percentage of the company's profits instead of being an absolute value. This would allow more flexibility in times of financial pressure without jeopardizing the continuity of the donations.

Reputational risk management should clearly take into consideration social risk factors accounting for relatively new risk categories such as environmental and human rights issues, supply chain management, as well as risks relating to compliance and code of conduct.

4.2 Limitations and Recommendations for Future Research

This study's framework can be used as a theoretical starting point for future studies; nevertheless it has several limitations that future research should overcome. It is limited to two companies and four experts, and despite the fact that participants are located in three countries future research should consider investigating the same topic in other countries because the cultural and regulatory differences can drastically affect the CSR practices and accordingly the findings. Moreover, a larger sample of participants would enhance generalizability.

Future research could explore whether the same patterns that prevailed in this study apply to different sectors, for instance business to consumer businesses. The time frame is also limited to eight months, and further investigations in different time frames would bring new insights.

Although it will be hard to reach generalisation for the whole population based on two companies and such a small sample, it is still possible to reach theoretical generalisation that can be tested and complemented by future research.

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