Corporate Social Performance around the World Pre- and Post the Global Financial Crisis

Abstract

Our aim in this study is to examine if, and how, corporate social performance (CSP) has changed since the global financial crisis (GFC). We argue that intensified institutional pressures post-GFC have impacted the way firms around the world address their societal obligations and responsibilities towards stakeholders, and therefore firms have increased their CSP systematically post-GFC. We adopt an event-study approach based on 929 firms across 30 countries, and develop hypotheses to examine: 1) differences in pre-GFC and post-GFC CSP in general; 2) across national business systems (i.e., country risk); 3) across dimensions of CSP (i.e., environmental, social); and 4) between industry sectors. We find broad support for our main expectation that worldwide CSP has increased post-GFC. Our additional findings suggest firms in high risk countries are improving their CSP at a rate greater than firms in medium and low risk countries; that the environmental dimension of CSP is improving at a greater rate than the social dimension; and that firms in the banking industry are improving their CSP at a greater rate than all other industries. The results are discussed along with implications and future research directions.

Keywords

corporate social performance, corporate social responsibility, global financial crisis, institutional theory

Studies suggest that firms perform better when their policies embrace the needs of societal stakeholders, but, paradoxically, act in irresponsible ways that inflict harm on society (Campbell, 2007; Galbreath, 2009). The implications of being socially irresponsible can be far-reaching, even leading to market failures such as recently experienced in the global financial crisis (GFC) of 2007–2008. The GFC was the worse financial crisis since the Great Depression and was a market failure bringing about great uncertainty to firms worldwide (Emeseh, Ako, Okonmah, & Obokoh, 2010).[1]

Past research reveals that financial crises increase the cost of capital, decrease consumer spending, and bring about cash-flow issues that force firms to prioritize some stakeholder groups and needs at the expense of others (Courtenay, 2009). During these challenging times, expenses perceived as non-essential for short-term survival are often set aside, or otherwise postponed, particularly those related to environmental and social programs and activities (Bansal, Jiang, & Jung, 2014; Jacob, 2012; Karaibrahimoğlu, 2010; Taylor, 2009).

As firms emerge from the turmoil of the GFC, some commentators claim that socially-oriented activities and programs have been permanently relegated to a lower company priority. This can be due to the fact that increased cost-consciousness, demand for higher profit margins, and higher monitoring and control expenses take priority over a firm's "immeasurable" standing in the community (Courtenay, 2009; Karaibrahimoğlu, 2010). However, others suggest that treating socially-oriented investments and activities as non-essential might be the root of the behaviors leading to the crisis (Jacob, 2012; Stahl & Sully de Luque, 2014; Trent, 2010). As such, although disruptive in the short term, market shocks such as the GFC can also serve as a

[1] Some would argue that the GFC was also partly a government or regulatory failure. This perspective will be discussed in the Theory and Background section.

necessary wake up call for institutional correction of socially irresponsible behavior, recalibration of collective morals, and updating norms of behavior (Hollensbe, Wookey, Hickey, George, & Nichols, 2014). As the economic downturn caused by the GFC technically ended in 2009 (Bansal et al., 2014), we ask: *Has corporate social performance (CSP) changed worldwide?*

In this study we draw on the GFC as a globally observable market shock, adopt an event-study approach based on 929 firms across 30 countries, and develop hypotheses to examine: 1) differences in overall CSP between pre-GFC and post-GFC periods; 2) national business systems (i.e., country risk); 3) across dimensions of CSP (i.e., environmental, social); and 4) between industry sectors. We address an important call for research by examining how increased institutional pressure placed on firms prosocial activities and programs *post*-GFC might affect CSP (Hollensbe et al., 2014), with some suggesting that this could be leading to improvements over pre-GFC levels (Stahl & Sully de Luque, 2014). In taking this approach we offer several main contributions.

First, the GFC was labelled a "crisis" of corporate behavior, resulting in firm collapses, government bailouts, and economic and societal disruption (*The Economist*, 2013). However, we examine whether there may actually have been socially-beneficial consequences of the GFC. We argue that firms emerge in an altered business environment after the GFC, where CSP can no longer be considered non-essential. As such, we highlight a potential societal upside of the GFC, by contending that the GFC may have served as a "wake-up call" for firms around the world. In taking this position we carry the literature away from the often studied CSP-financial performance relationship, which Wood (2010, p. 75) suggests "is not what CSP is really about." She argues that the nature of CSP is such that its consequences are important (if not equally

important) to stakeholders and society, in addition to firms' bottom lines. This study aligns with such a perspective and a new socially-responsible mindset for conducting business.

Second, we contribute by examining institutionally-constrained adaptation to market failure. During the GFC and post-GFC one can observe many institutional responses to firms' social responsibilities. Movements such as Occupy Wall Street, Conscious Capitalism, CSR 2.0, and USDIME were all institutional responses aimed at educating and alerting society to corporate misbehavior, while pressuring firms to demonstrate that they not only take social responsibility seriously, but to demonstrate higher levels of CSP (Lauesen, 2013). Our study provides a preliminary explanation of how institutional pressures delineate the logic of CSP adaptation post-GFC and helps us understand how institutional pressures guide firms to correct their behavior, in turn reinvigorating the attention given to social responsibility and firms' social performance. This is important to understand the logic of how firms adjust their prosocial activities and programs to market deficiencies and identify areas where corrective action might be required.

Third, we take a global perspective that provides a more comprehensive view of CSP adjustments post-GFC, as previous studies have primarily looked at small and narrow samples (e.g., US only) of adaptations to a *global* crisis that affected many of the world's financial markets. We provide empirical evidence based on a unique dataset that includes firms from 30 countries and multiple industries in two time periods (2004–2006; 2009–2013), which more accurately captures pre- and post-GFC comparisons, particularly accounting for lagged effects. The time periods covered account for a more robust "pre" assessment or an adequate "post" assessment, given that the GFC officially occurred in 2007–2008 (Iannuzzi & Berardi, 2010; Sikorski, 2011). Taken together, we offer novel insights into global CSP responses to the GFC.

Theory and Background

Corporate Social Performance (CSP)

Contemporary interpretations of the social responsibilities of business largely posit that firms have responsibilities beyond shareholder profit maximization, and include a focus on the environment, prosocial activities, and the stakeholders to which businesses owe responsibility (Aguilera, Rupp, Williams, & Ganapathi, 2007; Campbell, 2007; Clarkson, 1995; Freeman, 1984). A firm's social responsibilities are generally articulated as policies and practices "which reflect business responsibility for some of the wider societal good" (Matten & Moon, 2008, p. 405), and include target stakeholders such as employees, customers, suppliers, communities, and the environment. Policies and practices include, for example, those aimed at employees through various human resource management practices, those aimed at customers through product quality, those aimed at communities through philanthropy, and those aimed at the environment through voluntary carbon emissions reductions. According to Campbell (2007), these reflect behavioral standards with respect to firms' social responsibilities.

While various policies, practices, and behavioral standards represent prosocial activities, firms deliver results and outcomes against these policies, practices, and behavioral standards (Wood, 1991). Results and outcomes, as with financial performance, vary (Oikonomou, Brooks, & Pavelin, 2014). More specifically, as firms engage in prosocial behavior, while commitment may be manifested and demonstrated in a policy or a practice, how a firm performs against prosocial behaviors represents its CSP (Wood, 1991). In this way, what a firm says it will do, or what it commitments to explicitly, or implicitly, is measured against an actual outcome, if not against its competitors, its industry, and time. Hence, in this study, CSP is defined as the

continuous improvements, generated through corporate actions and activities, in prosocial behavior.

Although it is easy to do good when things are going well, in crisis situations, firms tend to favor cost-saving strategies, where they seek to prioritize liquidity management (Bansal et al., 2014). The GFC caused a global recession and decreased liquidity in capital markets, coupled with slowing consumer confidence and spending. In safeguarding the resources to secure their ability to deliver on their obligations to key providers of capital, firms often cut spending on activities not directly contributing to the continuity of their operations, making it difficult for firms to attend to broader stakeholder groups. Given the need to be more selective, firms are inevitably forced to prioritize some stakeholder groups and needs ahead of others in their efforts to adapt and remain viable. As broader stakeholder satisfaction has been argued to be critical for firm success and survival (Clarkson, 1995; Freeman, 1984), self-preservation behaviors from a cost-saving perspective might not be a sustainable approach for traversing a market shock and this mindset might be difficult to change once market conditions improve.

As the trade-offs related to firms' adaptive social responsibilities remain unclear (Hahn, Figge, Pinske, & Preuss, 2010), there is cause to expect that differences with respect to any improvements in CSP may exist. In particular, it remains to be examined whether firms re-engage with their social programs after a market crisis. Market crises present such scenarios and the GFC of 2008 presents a unique context to understand how firms have adapted to these tradeoffs and extent of commitment to social activities—if at all. Matten and Moon (2008, p. 407) place firms' social responsibilities within the institutional environment, arguing that they are "located in wider responsibility systems in which business, governmental, legal, and social actors operate according to some measure of mutual responsiveness, interdependency, choice,

and capacity." Accordingly, the institutional mechanisms within which CSP is enacted are crucial for understanding CSP adaptation.

Institutional Theory

Institutional theory focuses on the influence of the societal or cultural environment on organizations (DiMaggio & Powell, 1983). As suggested by Scott and Meyer (1994), assumptions, beliefs, and expectations exist in society which determine the organizational practices within firms. They argue that organizational practices are not adopted on the basis of efficiency or an optimal input-output balance, but because they correspond to institutionalized expectations. Where the mechanisms of coercion, imitation, and normative pressure are greatest, the adoption of institutionalized elements leads to an isomorphism of organizational environments (DiMaggio & Powell, 1983). Hence, the focus is on the reputation and legitimacy which is awarded to organizations by the institutional environment (Scott & Meyer, 1994). However, the legitimacy and reputation of firms is challenged when their behaviors and actions are perceived as inappropriate and undesirable within their respective societal contexts (Palazzo & Scherer, 2006).

According to Scott (2001), the institutional environment comprises three types of institutions: 1) cognitive; 2) normative; and 3) regulative. Cognitive influences include abstract rules associated with the structure of cognitive distinctions and taken for granted understandings. Normative influences include the informal rules associated with values and explicit moral commitments. Regulative influences include formal rules and incentives constructed by the state and other agents of the collective good. Scott (2001) also argues that the three institutional pillars are interrelated and internally consistent, various factors influence the ways in which ideas, concepts, or practices that impart legitimacy spread within and across fields. For example,

government beliefs and values related to every American owning a house (normative) created lax financial regulation of housing loans (regulatory), leading to an understanding that housing investments carry little to no risk ("value of houses always goes up") (cognitive).

Institutional forces are particularly defining during periods of high uncertainty (Scott, 2001; Scott & Meyer, 1994), such as in a market crisis. When markets are munificent, firms can slowly deviate from institutional norms and accrue value by differentiating themselves from competitors through innovation and high risk strategies (Deephouse, 1999). As such, financial performance is a sufficient manifestation of legitimacy when markets are functioning (Greenwood, Oliver, Sahlin, & Suddaby, 2008). However, when there is high uncertainty and scarce resources due to market failure, institutional norms will dictate strategic behaviors to which firms much confirm to be deemed legitimate. Under these conditions, when firms' legitimacy is threatened, firms will tend to conform to institutional pressures and make extra efforts to restore their legitimacy in order to gain resources and support for their continuation (Pfeffer & Salancik, 1978). Thus, one can expect firms to adapt to institutional pressures that arise from the market crises. To understand this, we first provide some context of the GFC and then interpret the institutional mechanisms that arose from it.

The Global Financial Crisis (GFC)

The GFC had far-reaching impacts on firms, their stakeholders, and societies around the world. This created a groundswell of criticism of for-profit businesses, if not capitalism itself, while focusing renewed attention on firms' social responsibilities (Adler, 2014; Emeseh et al., 2010; Faiola, 2008; Stahl & Sully de Luque, 2014). Amidst this activity, scholars examined if firms were demonstrating improvements in CSP. The results appear to be mixed. Giannarakis and Theotokas (2011) find that 112 firms implementing the Global Report Initiatives (GRI) reporting

guidelines increase CSP pre-GFC (2007), during the GFC (2008), and during 2008–2009. However, this does not appear to be the case in 2009–2010 (post-GFC). In her study, Jacob (2012) studies two multinational firms (one Swedish, one Swiss) during the GFC (2008) and finds that it had different impacts on CSP: negatively on labor practices and HR issues and positively on environmental policies. Relying on a US sample of 24 firms participating in the United Nations Global Compact, Arevalo and Aravind (2010) find that during the fiscal years 2007–2009 those firms who had integrated social responsibility into policies, programs, performance, and goals were affected the most by the GFC, while those firms that demonstrated active conformity to the principles of the Global Compact were least affected. Finally, Bansal et al. (2014) investigate US firms pre-GFC (2005–2007) and during the global recession (2008–2009) and find that both tactical social responsibility (e.g., support of community programs) and strategic social responsibility (e.g., environmental and product investment) were negatively impacted.

The GFC of 2007–2008 began in the US with the burst of the subprime mortgage housing bubble, after governmental, supervisory, and regulatory authorities undervalued the real risk of the situation (El-Agraa, 2011). Ironically, there is an argument that financial *deregulation*, particularly after the repeal of the Glass-Steagall Act in the US, and Bill Clinton's promise in 1995 that every American was entitled to own a house, set in motion the wheels for banks to engage in investments, merge with investing companies, and make risker loans to businesses and also mortgages to ordinary people and families, regardless of income or ability to repay—the subprime mortgages (Lauesen, 2013; White, 2008).

As the result of Presidential mandates, deregulation of the banking system, and new policies such as the Gramm-Leach-Bliley Act of 1999, in order to meet demand for securitized

products, US banks had significantly relaxed their lending standards in the lead up to the financial crisis (in line with government policies of the time), with very little financial screening procedures being implemented (Immergluck, 2009). Lenders were knowingly offering predatory loans to high-risk borrowers, including illegal immigrants, minority groups, and consumers who could not afford the mortgage repayments from the beginning (Immergluck, 2009). Irresponsible consumer mortgage lending practices were evident in three main areas, including high debt proportioned loans, poor recorded documentation, and highly complicated mortgage products being offered. The housing boom began to collapse in 2006 as a result of borrowers' inability to meet their mortgage repayments, leading to loan defaults and ultimately causing a decline in US house prices. With the estimated loss on foreclosure being between 30 and 60 percent of the outstanding balance, it caused those who had invested in securitized mortgage products to suffer significant losses (Mian & Sufi, 2008; Pence, 2006). As Bernanke (2009) contends, the cause of the GFC was a dramatic turn in the US housing market brought about by a significant rise in the level of subprime mortgage defaults leading to significant investor loss and a resultant reduction in investor confidence.

The impact of the GFC was wide-spread and had far-reaching social impacts for industry, businesses, local communities, and individuals. The ripple effect transcended national boundaries and was world-wide (Emeseh et al., 2010). Businesses were closed, jobs were lost, economies went into recession, people lost their homes, and credit tightened dramatically. To address the matter, enormous monetary policy efforts and the fiscal stimulus of governments around the world were required in an attempt to maintain stability and economic growth (Emeseh et al., 2010). At the same time, significant debate arose over firm's social responsibilities, especially as the GFC forced firms into survival mode where firms prioritized their obligations to

capital market stakeholders. By focusing on cost-savings (e.g., downsizing) and decreasing long-term investments, firm decisions further contributed to the accelerated downward spiral of the crisis. Some scholars argue that the GFC occurred because of a *management* crisis (Argandoña, 2009)[2]; namely, management myopia, misbehavior, and irresponsibility. Argandoña's (2009) thesis is that the GFC could have been averted by firms acting in a socially responsible manner, although, even firms who act in a socially responsible way are not automatically guaranteed greater financial results (Orlitzky, Schmidt, & Rynes, 2003).

Hypotheses

Institutional Pressure

The cognitive element of institutional theory concerns those institutions which determine the way in which reality is conceived in society and through which reality is given meaning (Scott, 2001). In the case of the GFC, there were a number of institutions that appear to have focused wide-spread attention to businesses social responsibilities, and shaped a renewed (if not new) reality concerning firm behavior. This is particularly true with the media, where attention and scrutiny was immense. For example, many articles and books outside of the academy and the financial press were published and discussed. *Time Magazine* famously published "25 people to blame for the financial crisis" (Time, 2009). Authors, economists, and journalists, such as William Greider (former editor at the *Washington Post*), Michael Hudson (economist), Michael Lewis (former bond salesmen and author), Kevin Phillips (American writer and commentator), and Peter Schiff (investment broker, author, commentator) contributed books and analyses on the causes and implications of the GFC. A film about the crisis entitled *Inside Job* (Sony Picture

[2] Argandoña (2009) also suggests that regulatory, supervisory, and control mechanisms were lacking.

Classics) won an Academy Award for Best Documentary of 2010. Of course, numerous stories and accounts of the GFC were published and telecast around the world, not just in the US. Corporate attention from the media can create an environment where reality is conceived in society around expected behavior, while creating pressure on firms to conform to the "way things should be done" (Aerts & Cormier, 2009; Bansal & Clelland, 2004). Given that a good deal of the attention in the media during the GFC focused on improved behavior of firms and social *ir*responsibility, to correct this course it is expected that firms around the world attempted to improve their CSP to solidify their public legitimacy, particularly given a recent climate of corporate mistrust and scandal (Crouch, 2006).

Second, the normative element of institutional theory concerns the prescriptive, evaluative, and obligatory dimension of institutions. According to Matten and Moon (2008, p. 412), educational authorities are particularly important in setting standards for "legitimate" organizational practices, and are increasingly exerting normative pressures on firms to improve CSP. This has been especially true given the timeframe under study. For example, many business schools around the world rushed to implement business ethics, corporate social responsibility, and sustainability programs in their courses during and post-GFC (Danko, 2009; Evans & Weiss, 2008; Silver, 2012). In fact, some argue that business schools, in part, are to blame for the GFC because they were graduating students who put too much emphasis on shareholder value and profit maximization at the expense of the broader environmental and social context within which business operates (Blaine, 2009; Jacobs, 2009; Smith & Rönnengard, 2014). This appears to have weighed on business schools, as the number of ethics courses (including business ethics, corporate social responsibility, and environmental sustainability) increased by 50 percent from 2005 to 2007, and by a further 29 percent from 2007 to 2009 (Rasche, Gilbert, & Schedel, 2013).

Further, the UN Principles of Responsible Management Education was launched in 2008 to address some of the issues in management education. It follows that as business schools around the world were pressured to address the matter, the increased uptake of business ethics courses created isomorphic pressures for businesses to increase their own focus on ethics and social responsibility, likely resulting in attempts to improve CSP to legitimize their status in society.

Third, the regulative element of institutional theory focuses on the constraining and regularizing aspects of institutions. Central are rule-setting, observation, control, and sanctioning of behavior. The initial response to the GFC, particularly from regulatory authorities such as central Reserve Banks (e.g., European Central Bank, Reserve Bank of Australian, US Federal Reserve), and the International Monetary Fund (IMF), was one of bailout and stimulus. Regulatory reform was presented later, such as "The Volker Rule" in the US and Basel III (or the Third Basel Accord) regulations in Europe. Essentially, these regulatory reforms are aimed at the banking sector, and cover issues including consumer protection, executive pay, financial cushions/capital requirements, and derivatives. However, this is likely creating an environment for all firms where operating in the "shadow of hierarchy" (Wolf, 2008, p. 230) increases the potential threat that stricter regulations will be enacted unless business firms adapt their behavior to the expectations of legislators—and society (cf. Jaeggi & Hutter, 2014).

Alternatively, so-called "soft laws"—or quasi-legal instruments which do not have any legally binding force—instruments can influence the organizational field. These are referred to as private regulatory initiatives (Mena & Waeger, 2014). The Dow Jones Sustainability Index (DJSI) is a good example. Established in 1999, the DJSI tracks the financial performance of leading sustainability-driven firms worldwide and although not a legal instrument, carries authority in the business community. In 2006 (pre-GFC) 1,200 firms participated in the DJSI

assessment; in 2013 (post-GFC and the final year of data collection for our study) 1,831 firms participated—a straight-line growth of seven percent. While not dramatic growth, this nonetheless suggests that mimetic forces could be at play as firms seek to emulate the practices of their peers and demonstrate a commitment to socially responsible business practices post-GFC. Other soft law instruments include the Corporate Responsibility Index, the Global Reporting Initiative, United Nations Global Compact, and the London Benchmarking Group. While these have no formal regulatory or legislative power, they do reflect institutional expectations of corporate behavior regarding social responsibilities and are seeing the number of participants involved growing post-GFC.

Society's view of business took a major blow during the GFC, one where its legitimacy was questioned, scrutinized, and challenged perhaps on a scale not seen in recent years (*The Economist*, 2013). We argue that given the extraordinary circumstances of the GFC, not only did some firms face substantial challenges to restore their financial positions, but most faced unprecedented institutional pressure to address their social responsibilities—and their legitimacy (cf. Scherer & Palazzo, 2011). Legitimacy is vital to firms as it is a precondition for the continuous flow resources and for securing the sustained support of its stakeholders (Pfeffer & Salancik, 1978). In this respect, the expectation is that coercive and mimetic forces, and normative pressures, are leading to improvements in CSP. Further, Scherer and Palazzo (2011) argue that in a "post-national constellation" due to accelerated globalization, the ability of nation-states to regulate business activities around the world, to provide public goods, and to avoid or compensate externalities, is diminishing. This is significantly increasing the pressure placed on firms around the world from civil society actors to self-regulate and to provide "social goods" in order to keep their licenses to operate (Scherer & Palazzo, 2011).

Alternatively, during and post-GFC, businesses appear to have maintained their interest in socially responsible business practices (Berns et al., 2009), while a "renewal" of interest in the social responsibilities of business has come from institutions that shape the organizational field, including cognitive, normative, and regulative institutions (Stahl & Sully de Luque, 2014).There is evidence to suggest that the greater the institutional pressure, the broader and more deeply developed firms' socially responsible business activities and programs are (King & Pearce, 2010; Murillo-Luna, Garcés-Ayerbe, & Rivera-Torres, 2008; Proffitt & Spicer, 2006; Weaver, Treviño, & Cochran, 1999). Hence

Hypothesis 1: Overall, the CSP of firms around the world is higher post-GFC (2009–2013) than pre-GFC (2004–2006).

Differences by country context. The national country context is one way of delineating the institutional boundaries within which firms operate. According to Matten and Moon (2008), countries have socially responsible business practice profiles that are shaped by national business systems. Whitley (1999) suggests that national business systems are characterized by the political system, the financial system, the education and labor system, and the cultural system. In this sense, national business systems not only comprise formal organizations of government and other enterprises, but also norms, incentives, and rules. Further, the national business system acts as a coordinating and controlling mechanism for the governance of firms (Matten & Moon, 2008). National business systems can also be characterized by relatively "strong" or "weak" institutions. For example, countries that are considered higher risk countries tend to display low government stability, unstable socioeconomic conditions, corruption, and religious tensions (Political Risk Services Group, 2008). In such instances, this environment prevents the development of rules and regulations based on the values, and norms, of institutions. Hence, the

institutional pressure placed on firms to increase CSP is lessened, as institutional sanctions for not being legitimate are negligible. Alternatively, as country risk decreases, formal institutions in the national business system strengthen, which leads to increased pressure placed on firms to lift their CSP (Campbell, 2007). This is due to the institutionalization of societal values and norms as reflected in its rules, regulations, or adherence to industry standards (Matten & Moon, 2008). Overall, when the country risk decreases, institutions are more stable, allowing them to assert themselves by requiring firms to take on more institutionalized responsibilities.

We argue that the stability of the national business system post-GFC affects country-level differences in CSP. Post-GFC, institutional pressure in lower risk countries appears to be heightened, prompting responses on the part of firms to lift their CSP (Schwartzkopf, 2009). However, where institutions within the national business system are weak due to higher levels of country risk, the expectation is that firms operating in these countries will demonstrate lower levels of improvement in CSP. Therefore

Hypothesis 2: Firms in higher risk countries demonstrate lower levels of change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels.

Differences in the dimensions of CSP. CSP consists of environmental and social performance dimensions (Lou & Bhattacharya, 2009; Wood, 1991). While there is evidence to suggest that firms around the world engaged in expenditure reducing strategies during the GFC, with some withdrawing social commitments (e.g., Bansal et al., 2014), the immense institutional pressure to search for non-financial sources of legitimacy, post-GFC is, we argue, leading to overall improvements in CSP (Hypothesis 1). However, we recognize that addressing firms' social responsibilities involves trade-offs between financial and non-financial objectives, between non-financial objectives themselves, and between different stakeholders, making it

difficult to optimize across all of these dimensions (Hahn et al., 2010). In trade-off situations, following institutional theory, firms are likely to adopt expected structures and management practices by complying with the greatest institutionalized expectations of their environment (DiMaggio & Powell, 1983). The greatest institutional pressure post-GFC appears to be linked to key stakeholders such as employees, customers, and communities—particularly given that employees, customers, and communities appeared to be most affected. This is evidenced in both proposed regulatory frameworks and soft-laws. Alternatively, there is little evidence to suggest that institutional pressure post-GFC was mainly concentrated on firm response to the natural environment. We argue this is greatest in the social dimension of CSP post-GFC, hence

> *Hypothesis 3:* The change in the social performance of firms around the world post-GFC (2009–2013) from pre-GFC (2004–2006) levels is greater than the change in environmental performance.

Differences in CSP by industry. Industries that have incurred the highest reputational losses (or legitimacy losses) are likely to exhibit the largest increase in CSP performance. For example, it is believed that socially *ir*responsible behavior on the part of banks was a catalyst for the GFC (Jacob, 2012; Stahl & Sully de Luque, 2014; Trent, 2010). Further, the behaviors and actions of the banking sector, in particular, were argued to have led to weakening the legitimacy of business in general during and post-GFC (Emeseh et al., 2010; Faiola, 2008). Alternatively, the banking sector has been noted for its positive contributions to socially responsible business practices over the years. The industry has a reputation for philanthropy, donations to charitable foundations, fair treatment of employees, equal opportunities for employees, responsibility for downstream impacts, promotion of diversity, job creation, and implementation of corporate responsibility reporting (CAF, 2009; Jeucken, 2001; KPMG, 2005; Schmidheiny & Zorraquin,

1996). However, the banking industry is the *only* industry held at least partially responsible for the GFC (El-Agraa, 2011; Immergluck, 2009; Lauesen, 2013; White, 2008).

Scholars have argued that deregulation in the financial industry led to the GFC (Lauesen, 2013; White, 2008). This is only partially true. While regulatory laxity may be partially culpable, moral hazard and greed among banking managers led to extreme profit seeking behavior that ultimately created risk that could not be mitigated (Hellwig, 2008). The resulting collapse of large banks triggered the GFC. As noted previously, however, this appears to be confined to a select—yet highly powerful—group of banks. Nonetheless, it is the banking sector that required the greatest government assistance and bailout efforts (Lauesen, 2013). Further, the banking sector perhaps took the greatest shock to its standing and legitimacy in society (Jizi, Salama, Dixon, & Stratling, 2014). As the sector recovered, institutional pressure to reform, change behavior, and improve the demonstration of their responsibility to society was intense (Jizi et al., 2014; Lauesen, 2013). For example, in the US, nationwide campaigns, such as Bank Transfer Day on November 5, 2011, encouraged customers to leave their "big" banks for credit unions and community banks. In another example, in August 2012 Bank of America released its second annual CSR report, highlighting a number of initiatives such as a ten-year, $1.5trillion community development lending and investing goal; a ten-year, $2 billion philanthropic investment goal, and a ten-year, $50 billion environmental business goal. Undoubtedly, such pressures and representative actions had spillover effects in the sector and to the banking industry in other countries.

While institutional pressure with respect to social responsibilities likely had influence on firms in all industries post-GFC, this appears to be to be most evident in the banking sector (Jizi et al., 2014). And while tougher or stricter regulation in the industry was not necessarily

forthcoming, due to the substantial cognitive and normative pressures, and the threat of potential or proposed regulatory action, we argue banks have sought to improve CSP at a greater level than other industries in order to restore their legitimacy and reputation. This is supported by the fact in the "World's Most Sustainable Companies," out of 100 companies studied, firms in the banking sector outnumber all other industries by almost two to one (Smith, 2014). Therefore

> *Hypothesis 4:* The change in the banking industry's CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels is greater than the change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels of all other industries.

Methods

Sample

This study uses data from all firms in the MSCI World Index, which has been assessed by GES Investment Services, a top three ranked CSP research agency (Schäfer, Beer, Zenker, & Fernandes, 2006). GES rates MSCI World Index firms based on information obtained from official company documents (e.g., annual reports), through direct dialogue that comes in the form of company surveys or site visits, and public information from, for example, the media and NGOs. For this study, data were included from two time periods: 2004–2006 and 2009–2013. We used a five-year window post-GFC to allow for lagged effects of the institutional pressures expected to drive firm behavior around prosocial activities and programs. Descriptive statistics are presented in Table 1. In the first period (2004–2006), there were 1,185 firms; in the second period (2009–2013), 1,936 firms. However, because we were interested in changes in CSP, only firms that were available in both time periods were included. This resulted in a final sample of 929 firms. The US dominates the sample with 42 percent of the firms, while four countries are tied (Egypt, Kazakhstan, Panama, and South Africa) for the lowest representation rates. While

there is no dominant industry, the capital goods industry group is the largest representative in the sample with 11.54 percent of firms, while household and personal products is the smallest at 1.68 percent of firms. Banks, which are related to Hypothesis 4, represent 6.43 percent of firms in the sample.

Insert Table 1 about here

Measures

CSP. CSP is defined as the measurement of a firm's performance in relation to its prosocial activities and programs (Wood, 1991). GES measures CSP in two ways: environmental performance and social performance. For environmental performance, a battery of 21 indicators is used to assess how a firm handles its environmental impacts in terms of product performance, energy use, greenhouse gas (GHG) and volatile organic compound (VOC) emissions, waste treatment, water use, and other environmental outcomes. For social performance, assessment is based on employee, community, and supplier subcategories. For each subcategory, there are between three and six indicators derived from the United Nations' Universal Declaration of Human Rights, the United Nations' Convention on the Rights of the Child, and the International Labor Organization's Core Labor Convention. For measurement, scores for each indicator are in alphabetical form ranging from C (low) to A+ (high). We convert these into a metric variable from 1 (lowest) to 7 (highest). Scores are then taken for each firm for each year (and subcategory with respect to social performance) to create a mean score for each time period studied (2004–2006 and 2009–2013). Although GES does not provide any form of weighting system for the dimensions or indicators, use of an independent third party for assessment is appropriate—and

even preferred (Graafland, Eijffinger, & Smid, 2004). Further, a risk of sample selection bias in this sample is minimal as GES covers all firms in the MSCI World Index.

Country profiles. For country comparisons, we created country risk profiles by relying on the Heritage Foundation Indices; namely, the Heritage Foundation Economic Freedom Index (HFEFI). Since 1995 the HFEFI has assessed well over 100 countries on key measures including rule of law (e.g., property rights, level of corruption), limited government (e.g., fiscal freedom, government spending), regulatory efficiency (e.g., business freedom, labor freedom), and openness of markets (e.g., trade freedom, investment freedom). The overall goal is to develop an a rigorous way of assessing the various components of country risk that could be applied to a range of institutional settings. Each category carries equal weight and is assessed on a scale of 0 to 100. For our study, we created an overall index, which is the mean of all categories across the time periods, and grouped countries by high risk (scores of 0 to 59.9), medium risk (scores of 60 to 69.9), and low risk (scores of 70 or higher). Firms where then grouped into these risk profiles so that we could compare differences in CSP by country.

Industry profiles. With respect to industry comparisons, firms are demarcated by 24 industry groups (plus one "unknown" group) based on 4-digit MSCI Global Industry Classification Standards (GICS) classifications (Table 1).

Results

In line with Hypothesis 1, we observe that overall the CSP of firms around the world is *higher* post-GFC than pre-GFC (as shown by the paired *t*-test in Table 2). As for environmental performance, the results suggest significantly higher scores in 2009–2013, compared to 2004–2006 (t = 13.841; p = 0.000). Similarly, the social performance scores in 2009–2013 are significantly *higher* compared to the scores in 2004–2006 (t = 10.046; p = 0.000). Overall CSP

scores in 2009–2013 are also significantly higher compared to CSP scores in 2004–2006 (t = 15.356; p = 0.000). These findings suggest support for Hypothesis 1.

Hypothesis 2 predicted that firms in higher risk countries demonstrate lower levels of change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels. To examine this hypothesis, firms in high risk countries were compared to the combined CSP of firms in low and medium risk countries (comprising "lower" risk countries). The results are opposite the prediction: the change in CSP of firms in high risk countries (Δ+1.137) is *higher* than the change in CSP of firms in medium and low risk countries (Δ+.395), which is statistically significant (t = 3.348; p = 0.006). Thus, Hypothesis 3 is rejected.

Insert Table 2 about here

Will did not find support for Hypothesis 3. In fact, relative to pre-GFC, the change in the social performance of firms post-GFC around the world was *not* greater than the change in environmental performance (using a paired t-test). Specifically, we calculated the rate of change between the two time periods in each of the CSP dimensions. The opposite of our prediction is found: the change in environmental performance (Δ+.530) is greater than the change in social performance (Δ+.299), which is statistically significant (t = 5.465; p = 0.000).

Hypothesis 4 states that the change in the banking industry's CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels is greater than the change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels of all other industries. The means of all firms in the banking industry were compared to the means of firms in all other industries. Firms in the banking industry do have a higher rate of change (Δ+.663) between the two time periods relative

to all other industries (Δ+.395), which is statistically significant (t = 2.598; p = 0.010). This finding provides support for Hypothesis 4.

Robustness Check

In order to assess the robustness of the results and explore the data in a deeper way, we chose to re-examine the country data. Specifically, we separately compared firms in high risk countries to firms in both medium and low risk countries. For firms in high risk countries, the results suggest that the change in their CSP levels (Δ+1.137) is greater than the change of those firms in medium risk countries (Δ+.449), which is statistically significant (t = 3.153; p = 0.009). Similarly, the CSP change between the two time periods for firms in high risk countries (Δ+1.137) is also greater than the change for those firms in low risk countries (Δ+.388), which is also statistically significant (t = 3.508; p = 0.005). This corroborates our main findings.

Discussion

The GFC has raised serious concerns regarding firm behavior and the role of business in society (e.g., *The Economist*, 2013). This view is reflected in the alleviated post-GFC institutional pressures on firms to honor social responsibilities. In this study we argue that such pressures have led to improvements in CSP. To address this research question, we examined 929 firms in the MSCI World Index across two time periods (2004–2006; 2009–2013) to compare pre- and post-GFC measures of CSP. The results suggest that CSP is improving around the world post-GFC relative to pre-GFC levels. By country, contrary to the prediction, firms in high risk countries are improving their CSP at a rate greater than firms in medium and low risk countries. As for specific areas of CSP, contrary to our prediction, the environmental dimension is improving at a greater rate than the social dimension. The results also demonstrate that banking

industry is improving its CSP at a greater rate than all other industries. These findings have some key implications.

First, given the significant cognitive, normative, and regulative pressures placed on firms around the world post-GFC, the expectation was that firms would place emphasis on their prosocial activities and programs to improve legitimacy, leading to improvements in their CSP from pre-GFC levels. This is confirmed. However, an interesting aspect of this finding suggests that the greatest rate of improvement in CSP is in the environmental dimension, not the social dimension. This could suggest the heterogeneous nature of institutional pressure. For example, in the US (42 percent of the sample), this country appeared to be most affected by substantial employee layoffs and other effects to employees (e.g., wage freezes, hiring freezes, reduced working hours, etc.) during the GFC, where considerable institutional pressure appears to be linked to the care of employees post-GFC. Alternatively, a country like Australia was far less affected economically and therefore employees fared better (Financial Services Institute of Australasia and Access Economics, 2009), reducing the pressure to "lift the game." On the other hand, an environmental issue such as climate change is truly a global issue (Howard-Grenville, Buckle, Hoskins, & George, 2014). Although the G20 countries have yet to agree on a universal target for carbon emission reductions, we speculate that growing interest in the environment post-GFC (and particularly climate change) around the world could be leading to almost "universal" institutional pressure with respect to environmental performance—more so than with other dimensions of prosocial activities and programs. This could explain the difference in our findings and could suggest that environmental groups around the world, for example, are becoming better organized (cf. Kassinis & Vafeas, 2006), and therefore have more capacity to pressure firms to improve their environmental performance relative to the social dimension.

Second, the level or intensity of institutional pressure is dependent upon a country's national business system (Matten & Moon, 2008; Whitley, 1999). Theoretically, the more developed and robust the national business system—including political, financial, cultural, educational, and labor systems—the stronger institutions will be and the greater capacity they have to exert pressure and shape the organizational field. Thus, post-GFC, our expectation was that in lower risk countries (i.e., those with "strong" national business systems) there would be greater change in the CSP levels of firms than those firms in higher risk countries (i.e., those with "weak" national business systems). The finding was contrary to our expectation. What this could suggest is that given firms are increasingly connected to global markets, coercive isomorphisms, mimetic processes, and normative pressures are more widespread and more impactful—regardless of the strength of the *national* business system. In this sense, the organizational field is likely becoming transnational and reflects a global institutional context. Here, firms in high risk countries may feel even more pressure to lift their CSP, as they are exposed to world markets, in order to meet increasingly globalized expectations of social responsibilities (Matten & Moon, 2008). In other words, lagging firms operating in countries with weak national business systems post-GFC may perceive globalized pressures for socially responsible business behavior as even greater, therefore leading to a greater level of change in CSP to pre-GFC levels. Over time, this may be less dependent upon the robustness of the national business system.

Third, this study has practical implications. Matten and Moon (2008) suggest that prosocial activities and programs are becoming increasingly institutionalized throughout the world due to coercive, mimetic, and normative isomorphisms. While our results generally confirm this observation, particularly in the context of pre- and post-GFC comparisons, the

public remains distrustful of business. For example, a recent survey found that CEOs who run businesses rank as the second lowest (politicians being the lowest) to win public trust (Edelman Berland, 2014). One way that firms can potentially reverse this public perception—if not their reputation and trust with key stakeholders—is through better CSP (Galbreath, 2010). For example, in this study, the mean CSP score of 3.161 is out of a possible maximum of score of *seven*, based on the GES rating system. This suggests much room for improvement. Further, although not examined specifically, the mean score of the supplier subcategory post-GFC is 1.267 out of seven. Given the increased reliance on global supply chains and the reality of trade-offs regarding investments in prosocial activities and programs, one way firms might seek to improve their CSP is by investing in socially responsible practices in their supply chains. This could be done through certification, adoption of supply chain codes of conduct, or through requiring suppliers to meet certain standards with respect to social responsibility. As the supply chain is the weakest CSP area in our sample, it represents the greatest area for improvement and investment by firms around the world. In fact, the supply chain currently represents a key means through which firms can demonstrate societal responsibility (Zadek, 2004), which can potentially afford increased legitimacy in a post-GFC world.

Limitations and Future Research Directions

This study is not without limitations. First, institutional theorists argue that organizational practices (e.g., prosocial activities and programs) are not adopted on the basis of efficiency or an optimal input-output balance, but because they correspond to institutionalized expectations. The focus is on the legitimacy which is awarded to organizations by the institutional environment (Scott & Meyer, 1994). Thus, firms tend to be portrayed as passive pawns, adapting willingly to institutionalized expectations (Greenwood & Hinings, 1996; Oliver, 1991). Institutional theory

has thus been criticized for an over reliance on the willfulness of actors to adopt institutionalized practices (Ashworth, Boyne, & Delbridge, 2009; Greenwood & Hinings, 1996; Oliver, 1991). This minimizes, if not undermines, strategic choice. In other words, critics argue that institutional theory is not known for adequately explaining the "black box," or how internal dynamics and characteristics might affect acceptance or rejection of institutionalized practices. That this study did not examine the strategic choice of firms (or any relevant proxy measures of strategic choice) is a limitation. Future research might, for example, study how individual values or organizational culture post-GFC has shaped the extent to which firms embrace or disavow response to social responsibilities. Furthermore, other research could examine the interaction between institutional pressures and internal firm dynamics, such that insight is expanded into ''push–pull'' scenarios, determining whether institutional pressures or strategic choice are more important (or equally important) in the diffusion of prosocial activities and programs.

Second, that this study did not examine "explicit" versus "implicit" social responsibilities is a limitation. In their work, Matten and Moon (2008) define explicit social responsibilities as those responsibilities that address issues perceived by stakeholders as relevant. Implicit social responsibilities are those responsibilities that describe a firm's role within the wider formal and informal institutions for society's interests and concerns. Future studies can define and measure CSP as explicit and implicit, testing to see if there are differences in the performance of these two dimensions post-GFC relative to pre-GFC levels.[3]

A final limitation of this study is a lack of closer examination of the institutional context.

[3] Alternatively, future research could include "strategic" and "tactical" measures as used by Bansal et al. (2014).

More specifically, given that there were observed improvements in CSP performance over time, future studies could examine the institutional context more closely to determine whether regulative, normative, or cognitive institutions exert the most influence over the rate at which firms demonstrate changes in CSP. In this context, research could also investigate whether or not there are interactive effects (e.g., moderating or mediating effects) among the three institutional pressures on CSP.

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Tables

Table 1. Descriptive statistics

Number of firms	
2004–2006	2009–2013
1,185	1,936
(Final sample = 929 firms)	

Industries	
4-Digit GICS	Percent
Capital goods	11.54
Energy	6.98
Banks	6.43
Real Estate	5.38
Materials	5.10
Technology, hardware & equipment	5.08
Commercial & professional services	4.75
Utilities	4.72
Food, beverage & tobacco	4.60
Media	4.35
Insurance	3.66
Diversified financials	3.56
Software & services	3.53
Retailing	3.52
Health care equipment & services	3.45
Transportation	3.35
Pharmaceuticals, biotech & life sciences	3.23
Consumer durables & apparel	2.98
Telecommunications services	2.68
Consumer services	2.43
Automobiles & components	2.42
Food & staples retailing	2.14
Semiconductors & equipment	1.89
Household & personal products	1.68
Unknown	0.54
Total	100.00

Countries		
Country	Country risk level	Percent
United States	Low	42.0
Japan	Low	17.8
Great Britian	Low	8.3
Canada	Low	6.4
Australia	Low	4.7
France	Medium	3.3
Germany	Low	2.8
Switzerland	Low	2.1
Sweden	Low	2.1
Italy	Medium	2.0
Netherlands	Low	1.9
Singapore	Low	1.8
Spain	Medium	1.8
Hong Kong	Low	1.5
Belgium	Low	1.0
Denmark	Low	1.0
Finland	Low	0.9
Norway	Low	0.8
Ireland	Low	0.8
Austria	Low	0.7
Greece	High	0.7
Israel	Medium	0.7
Portugal	Medium	0.5
New Zealand	Low	0.4
China	High	0.2
Luxembourg	Low	0.2
Egypt	High	.04
Kazakhstan	Medium	.04
Panama	Medium	.04
South Africa	Medium	.04
Total		100.00

Table 2. Tests of hypotheses

Hypothesis 1: Overall, the CSP of firms around the world is higher post-GFC (2009–2013) than pre-GFC (2004–2006).

Statistics	ENVP 2004–2006	ENVP 2009–2013	SOCP 2004–2006	SOCP 2009–2014	CSP 2004–2006	CSP 2009–2013
Mean score	2.727	3.257	2.766	3.065	2.747	3.161
t -test (*t* statistic)	13.841		10.046		15.356	
Sig.	$p = 0.000$		$p = 0.000$		$p = 0.000$	

Hypothesis 2: Firms in higher risk countries demonstrate lower levels of change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels.

Statistics	Firms in high risk countries (n=23)		Firms in low/medium risk countries (n=906)	
	CSP 2004–2006	CSP 2009–2013	CSP 2004–2006	CSP 2009–2013
Mean score	1.788	2.925	2.679	3.163
Δ in CSP score	+1.137		+.484	
t -test (*t* statistic)	3.348			
Sig.	$p = 0.006$			

Hypothesis 3: The change in the social performance of firms around the world post-GFC (2009–2013) from pre-GFC (2004–2006) levels is greater than the change in environmental performance.

Statistics	SOCP 2004–2006	SOCP 2009–2014	ENVP 2004–2006	ENVP 2009–2013
Mean score	2.766	3.065	2.727	3.257
Δ in CSP score	+.299		+.530	
t -test (*t* statistic)	5.465			
Sig.	$p = 0.000$			

Hypothesis 4: The change in the banking industry's CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels is greater than the change in CSP post-GFC (2009–2013) relative to pre-GFC (2004–2006) levels of all other industries.

Statistics	Firms in banking industry (n=68)		Firms in all other industries (n=861)	
	CSP 2004–2006	CSP 2009–2013	CSP 2004–2006	CSP 2009–2013
Mean score	2.663	3.326	2.753	3.148
Δ in CSP score	+.663		+.395	
t -test (*t* statistic)	2.598			
Sig.	$p = 0.010$			