

**CORPORATE SOCIAL RESPONSIBILITY, THE FINANCIAL SECTOR AND  
ECONOMIC RECESSION**

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# **CORPORATE SOCIAL RESPONSIBILITY, THE FINANCIAL SECTOR AND ECONOMIC RECESSION**

## **Executive Summary**

The financial crisis has brought about dramatic consequences for our economy and society and we are still witnessing a fragile recovery. The financial sector has been broadly held at least partly responsible for the financial crisis, albeit in the context of regulatory failure and borrower short-sightedness. The question of sources of responsibility for the crisis has drawn attention to the concept of corporate social responsibility (CSR) and its relationship with the recession.

CSR is a contested and cluster concept which in essence refers to the expectations that business is i) responsible for its impacts on society and the environment, ii) accountable for these impacts, iii) conducted in a responsible fashion and iv) managed within the corporation-society interface. This paper briefly introduces the concept of CSR, particularly with regard to its relationship to the financial sector and the recession. Building upon a short analysis of the UK recession in the 1980s and the rise of CSR since then, our main interest is debate around the group of questions which emerge from the current recession and the role of CSR in the financial sector.

With this in mind, the paper presents findings from a discourse analysis of articles and reports which were published in UK media between September 2007 and August 2009. The four discourses which emerge from our analysis provide insights into distinct types of attitudinal change and expectations of the change required to ensure a more responsible financial sector. They are titled 'Market Rationalisation', 'Moralisation and Ethical Leadership', 'Reconceptualisation and Professionalisation' and 'Political Economy Restructuring' and presented in depth the paper using illustrative quotations.

Findings reveal a tension in the discourses concerning the sector's ability to 'heal itself'. Moreover, the function of accountability and the question of the capacity of CSR to be a reliable feature of responsible business emerge across all four discourses and are discussed in the paper. Crucially, the insights into the array of possible responses enable leaders and professionals, companies and institutions to better understand the shared disquiet about the state of responsibility in the financial sector and may act as a device to better embed responsibility in the financial sector and avoid future crises.

# **CORPORATE SOCIAL RESPONSIBILITY, THE FINANCIAL SECTOR AND ECONOMIC RECESSION**

**‘we must say now clearly that the age of irresponsibility must be ended’**

(Gordon Brown, Prime Minister of the UK, to the UN General Assembly, September 2008)

**‘The time has come to usher in a new era – a new era of responsibility’**

(Barack Obama, President of the USA, Presidential Inauguration, January 2009)

**‘The Recession is a test of companies’ commitments to doing good’**

*(The Economist 16.5.2010)*

## **INTRODUCTION**

As noted by Ashby (2010) the financial crisis (2007 – 2009) has had dramatic effects on the global economy, evoking comparisons with the Wall Street Crash and the Great Depression. Already the recent financial crisis has brought severe implications for western economies in particular, most dramatically perhaps, Iceland, Ireland and Greece, but also the USA and the UK, where there have been stories of falls in investment, demand, output and employment. Even now doubts remain about the extent to which the UK economy has recovered particularly in view of the managerial expectations of the impact of the deflationary effects of the Comprehensive Spending Review, (e.g. Eatwell 2010). Similarly, in the US scepticism comes to the fore that the recent backsliding might develop into a double dip recession (Foroohar 2011). In any case there is certainty that after a rather slow and uneven recovery a return to pre-recession levels of employment will take much longer than after previous recessions (McKinsey Global Institute 2011).

Notwithstanding debates as to whether this will prove to be a single or a ‘double-dip’ recession, a bundle of questions has emerged about the locus of responsibility for the crisis, the proper burden of obligation to compensate for the costs of the recession, and the nature of responsibility for future market regulation and social welfare in future regimes of national and global governance. Witness debates about public ownership of financial institutions, the arrival of sovereign wealth funds,

regulation of the banks, the big society, and the prospect of massive public expenditure cuts. These concerns have pre-occupied employees, shareholders, mortgage-holders, taxpayers and policy-makers. Viewpoints over responsibility, retrospectively and prospectively, appear confused and often contradictory. For example, banks are held responsible both for contributing to the financial crisis by extending credit irresponsibly in the lead up to the recession and for impeding the recovery by failing to extend credit in the period of recession.

Our purpose is not to catalogue let alone evaluate the range of questions and arguments referred to. Our focus is debate and emerging understandings around the group of questions about the financial sector, the recession and corporate social responsibility (CSR). The loose association of these phenomena is straightforward. The financial sector has been broadly held at least partly responsible for the financial crisis, albeit in the context of regulatory failure and over-optimistic / exploited / feckless mortgage holders. Moreover, the criticism of self-rewarding of finance sector executives has acquired an additional sting in the wake of financial crisis and in the midst of the downturn. The recession has brought costs not only for shareholders and a small number of financial institutions but also for taxpayers, those losing jobs, welfare recipients and other beneficiaries of public expenditure. The question of sources of responsibility in and for future financial markets has invited debate about the proper balance of regulation and self-regulation, and even of public and private sources of finance and financial services.

Narrowing down this group of questions, our interest is in the responsibility of the financial sector for the crisis and for its short and long-term consequences. This introduces the concept of CSR. Although this is something of a contested and cluster concept (see below), in essence it refers to:

- the expectation that business is responsible *for* society (in the sense of avoiding, reducing or at best compensating for negative externalities and contributing to social welfare) and responsibility *to* society (in the sense of accountability);
- the expectation that business be conducted in a responsible fashion (to ensure market stability and probity); and
- the management by business of the *corporation-society interface* through the enhancement of stakeholder relationships (Gond and Moon 2011).

The term 'expectation' underlines the point that business responsibility is in large part a social construction as well as a consequence of regulation and of corporate governance: hence the frequently-cited business motive for CSR of 'legitimacy'. As in all senses of legitimacy it is not for the business to stipulate what constitutes legitimacy but rather for it to judge what, for society, would constitute legitimate business behaviour. This legitimacy is clearly a function of *place* because morés of business responsibility are contextualised in wider national and even regional business systems (Matten and Moon 2008). But business legitimacy is also a function of the *times* and individual and collective business legitimacy can change with the times due to broad tides in business – society relations (e.g. the impact of the muckrakers in American business in the 1920s) perceptions of cronyism) as well with individual business shortcomings (e.g. the impact of the Enron and Madoff debacles on public perceptions of business trustworthiness ). This will be discussed at greater length in the context of UK business and recession (below).

In our study, we ask *how CSR is socially constructed in relation to the financial sector in the context of the recession*. Based on a systematic analysis of discourses on CSR and the financial sector in the UK media at the very time when the prospects of financial institutions may have been most threatened, we aim to better understand the social construction of CSR, its relationship with the recession as well as the motivation and means of companies and other agents to respond to the crisis.

We examine articles and reports that were published between September 2007 and August 2010 in UK media. Our data collection process provides evidence from discourse analysis of newspaper articles and media reports which were published in the leading business newspaper *The Financial Times* and two CSR-related monthly magazines, *Ethical Corporation* and *Ethical Performance*. Analysis began in September 2007 because this was the time when the financial crisis started to show its effect in the UK and globally. The following three years cover the phase when these problems were substantiated, leading to the 'economic downturn'.

Based on this analysis the paper identifies and develops four distinct discourses of CSR, the financial sector and economic recession. These are respectively *Market Rationalisation* of the fit between CSR, business strategy and markets; *Moralisation and Ethical Leadership* as essential for responsible

business conduct; *Reconceptualisation and Professionalisation* of CSR and business people as the key to responsible business; and *Political Economy Restructuring* as vital for ensuring responsible business. The heart of the paper is concerned with elaborating upon, illustrating and interrogating these discourses.

The paper draws conclusions on how the financial sector could respond to the current crisis and what role government, business associations and other institutions play in advancing CSR in the financial sector. It discusses the future role of the UK CSR movement in the financial sector and concludes with managerial and policy implications.

Readers who wish to go straight to the analysis of the contemporary situation should go straight to the *Analysis and Findings* section. However, the ground for the main analysis of the paper is prepared by a number of preliminary sections. First the concept of *CSR* is introduced in general terms and more specifically attention is turned to *CSR in the Financial Sector* and *CSR and Recession*. The following two sections present an analysis of the *UK recession in the 1980s and the rise of CSR* and a brief introduction to the *UK Recession and CSR 2007 - ?*. The *Methodology* is then presented followed by the *Analysis and Findings* and *Conclusions*.

## **CORPORATE SOCIAL RESPONSIBILITY**

As noted above, CSR is conventionally associated with the responsibility of business for society (in the sense of avoiding, reducing or at best compensating for negative externalities and contributing to social welfare) and to society (in the sense of accountability); and the expectation that business be conducted in a responsible fashion. Beyond these very basic propositions, the concept of CSR has proved difficult to pin down as it combines a number of key features. It is *dynamic* – in that its meaning, application and uses have changed over time. Thus from hesitant beginnings in the 1950s as an academic concept, it has emerged to putatively cover economic, legal, ethical and philanthropic responsibilities (Carroll 1979). However, its immediate impacts have proved unpredictable within this broad canvas (Carroll 2008). Thus a casual glance back over three decades in the UK reveals changing CSR agendas from the context of economic recession in the early 1980s (see below), through environmental impacts (e.g. Shell and Brent Spa); through child labour issues in



textiles, clothing and footwear (e.g. the highly branded sports-wear companies such as Nike); through the agendas of work-life balance (e.g. return to work programmes for mothers); and abuse of migrant labour in the UK (e.g. UK cockle-pickers tragedy).

CSR is also *overlapping* with other cognate concepts such as business ethics, corporate governance, community investment, corporate citizenship, sustainable development. The relative stresses of CSR over time (the *dynamism*) in part then reflect the relative magnitude of *overlap* with other concepts depending on the trends, issues and events to which CSR is attached. Think of how CSR has reflected different stresses in the light of: Enron (business ethics), executive remuneration (corporate governance), de-industrialisation (community investment), taxation and governmental relations in developing countries and tactical corporate head-quartering and taxation (corporate citizenship), and corporations and climate change (sustainable development).

Thirdly, CSR is *contextual*, having grown from a US management and academic concept to appear in a variety of national business systems, in inter-governmental organisations systems (e.g. the United Nations, the World Bank, the OECD), and in a host of new, multi-stakeholder global governance systems (e.g. the Global Reporting Initiative, the Marine Stewardship Council, various socially responsible investment and fair trade institutions) (Moon, Kang and Gond 2010). This recent global spread of CSR is not to say that business in the non-American world was necessarily irresponsible until recently. Rather, the point is that these responsibilities would have been couched in rather different terms and usually entailed in wider systems of responsibility (Matten and Moon 2008).

Nor is this a story of simple export of a North American model. On the contrary, CSR has adopted from and adapted to long-standing and often implicit features of responsible business norms and practices in other continents (Matten and Moon 2008). This again reflects the different ways in which CSR overlaps with the cognate concepts we noted above in different countries (compare the stress on regulated responsibilities to labour in Germany with the stress on personal ethics associated with Indian business philanthropy).

These dynamic, overlapping and contextual features arise because CSR belongs to a class of concepts that are 'essentially contested'. Whilst this might sound like an unnecessarily academic perspective on the very practical matter of CSR, in fact it should be noted that among other essentially contested concepts are democracy (Gallie 1955). Thus, being labelled an essentially contested concept is no mark of being arcane. Connolly (1983) has summarised Gallie's (1955) formulation by describing them as appraisive, internally complex and open-ended.

The significance of the term 'appraisive' is that the concepts are in themselves valued and that they are unlikely to be used by companies in any negative sense. In other words, companies engage in and report their CSR on the assumption that all such engagement and reportage is positive. This clearly contrasts with their engagement in and reporting of financial activities which sometimes necessarily entails 'bad news'.

The significance of the term 'internally complex' lies both in CSR motivations and the alignment of its main elements (e.g. response, strategy, performance, impact). Hence, it is not always clear whether the decision to invest in environmentally friendly technology is necessarily about social responsibility, cost saving or competitive advantage *however such an investment was described*. This reflects the more general point about whether socially positive outcomes can be secured by individually self-seeking motivations. For Friedman (1970), the investment by a company in the social infrastructure of its operations is simply a business investment and not to be confused with CSR. This contrasts with the literature on social capital which recognises that short-term sociability can result in long-term self interest (e.g. Coleman 1990; Putnam et al. 1993; Ostrom 1990) which has also been applied to CSR (Moon 2001; Muthuri, Matten and Moon 2009).

The significance of the term 'open-ended' is that there is not a stable and authoritative definition of the CSR concept. This in part follows from the previous two points, but in addition, CSR is defined not only by the companies who wish to demonstrate their commitment, but also by organisations who wish to highlight what they perceive to be business irresponsibility. In the last decade or so we have also witnessed governmental interest in defining CSR (e.g. UK, Germany, EU) as they have sought to bring CSR to serve wider governance challenges (Moon and Vogel 2008). Moreover, the growth of CSR consultancies has encouraged a proliferation of definitions to enable the respective

consultants to differentiate their products (McCarthy and Moon 2009). Academics have contributed to the alphabet soup such that CSR can reasonably be seen to possess a number of synonyms (e.g. Corporate Responsibility, Responsible Business) as well as numerous important overlapping concepts (e.g. Business Ethics, Corporate Governance, Sustainable Development). Each point of overlap captures a particular point of CSR stress in a particular context.

One might have thought that this essentially contested character of CSR, informing its dynamism and overlapping and contextual character would have detracted from its practical use. But on the contrary more and more companies appear to at least sign up to the rhetoric (KPMG 2005, 2008) and spend money on membership of CSR associations and on consultant to develop their CSR capacities.

In sum the definition of CSR is bound up in its application. Our task will be to consider the application of CSR in the context of economic crisis and recession. But first, what do we already know about CSR and the financial sector?

## **CORPORATE SOCIAL RESPONSIBILITY AND THE FINANCIAL SECTOR**

The issue of CSR had become salient in the financial sector in the years before the financial crisis. This is true to a varying degree for different areas within the financial sector (e.g. banks, building societies, insurers, real estate companies). One of the earliest examples may be represented by the origins of modern banking and the Medici family's patronage of artists in the Florentine Renaissance – despite a somewhat troubled relationship between the Medici Bank, politics, arts and religion (Parks 2005).

More contemporarily, banks and building societies have been committed to being responsible members of their communities for a long time. They have been to the forefront in employee volunteering, mentoring, and sponsorship of local activities (CAF 2009) and are said to be committed

to continuing their support of CSR activities as part of their identity and commitment to the communities they live and work in (Hagenah 2009). Banks and building societies have also been prominent members of collective CSR associations, most significantly Business in the Community ([www.bitc.org.uk](http://www.bitc.org.uk)), but also the London Benchmarking Group – an initiative to improve the implementation of corporate community investment projects and measure their outputs and longer-term impacts on society and on the companies themselves ([www.lbg-online.net](http://www.lbg-online.net)).

According to a report by Oxford Economics (2008) the City of London Corporation has had corporate community investment programmes for over twenty years and grown steadily in this period. In 2006 £0.5 billion was distributed to communities and schools, in the following proportions: Social welfare 30%; Education and youth 29%; Economic development 10%; Health 10%; Arts and cultural projects 6%; Remainder 15%. Oxford Economics calculated that this investment generated a ROI of £1.63 per £1. This reflected contributions worth between 0.6 and 0.8% of pre-tax profits or £325 per full time employee; about 33% of charities' annual income; helping people on 15.6 million occasions. Questions arise about the value of these contributions considering that 50% of the contributions were defined as low impact; 40% medium; and only 6% high or long-term impact.

Besides benefitting from enhanced community relations and reputation, financial organisations have also improved their internal processes related to environmental and social management. From the early 1990s some banks have controlled the direct environmental impacts of their operations (in particular waste and energy usage) often in order to improve their 'internal environmental care' (Jeucken 2001) and, simultaneously, realise cost savings through increased energy and resource efficiency (Jeucken and Bouma 1999; McCammon 1995). Cost-effective measures helped, for example, NatWest to save approximately US\$50 million in energy costs between 1991 and 1995 (Jeucken and Bouma 1999). Bouma et al (2001) point to further examples such as the introduction of the first biodegradable credit cards in 1997 by the Co-operative Bank in partnership with Greenpeace in order to reduce the reliance on chemicals which have the tendency to persist in nature. Concerns with 'going greener' now involve issues such as carbon neutrality or eco-friendly properties/buildings. HSBC announced in 2005 a carbon management task force to determine the measures needed to abate its contribution to the release of greenhouse gases in 2006 (Kimbell and Marshall 2005). There has been a trend towards broadening the management systems for the

environment by including community, social/workplace and more wide-ranging socio-economic considerations (IFC 2007).

However, whether and how these management control systems are used by financial institutions, integrated in the overall management process and extended to more conventional organisational structure and strategic planning activities remains under researched. Thompson and Cowton (2004), for example, state that banks have not received much attention in the social accounting literature to date (see also O'Sullivan and O'Dwyer 2009).

Overall, the financial sector has responded to the challenges of ecological sustainability more slowly than industrial sectors with more obvious negative environmental impacts (e.g. chemical, paper or energy industries) (Coulson and Dixon 1995). The sector is traditionally viewed as relatively non-polluting (Schmidheiny and Zorraquin 1996) although its overall size is sufficient to make a significant environmental impact (Jeucken and Bouma 1999). Whilst the International Finance Corporation stresses that banks themselves do not generate significant social impacts either (IFC 2007), their impact on employment and periodically through the massive restructuring and mass redundancies suggests otherwise. <sup>1</sup>

The foregoing discussion mainly addresses the financial sector's direct impacts on the society and the environment. However, the financial sector has received much attention because of its actual and potential role in influencing – and being affected by – the indirect impacts of the environmental and social activities of its clients. These indirect impacts far outweigh the direct impacts of the financial sector. Insurance companies have engaged with the issue of liabilities for cleaning up contaminated industrial sites or weather-related damage from disasters such as flood, draughts, mudslides or wildfires (Schmidheiny and Zorraquin 1996). Stricter liability regimes and environmental risk management have also influenced bankers' awareness of environmental issues in their banking operations and to embed sustainable development issues in their core business activities in the 1990s (UNEP 1997 – see also Vaughan 1995, Thompson 1998, Coulson and Monks

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<sup>1</sup> Citigroup recently eliminated 52,000 jobs (approximately 14% of the global workforce; The New York Times 18.11.2008) the Royal Bank of Scotland Group added another 3,500 job cuts in September 2010, taking the total number of UK-based staff made redundant to 20,600 (The Observer 3.9.2010).

1999, Jeucken 2004). However, the emphasis has been placed on managing environmental risks rather than harnessing the opportunities presented by lending operations (Thompson 1998, Tarna 1999). One analysis concluded that: "Indeed, it could be argued that banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as filtered by regulators, etc.) upon bank lending." (Thompson and Cowton 2004: 215).

However, more recently the financial sector has been conspicuous in CSR initiatives in bank lending and project financing. For example, after consultation with power companies and environmental groups, in February 2008 Citigroup, JPMorgan Chase and Morgan Stanley launched carbon principles for advisors and lenders to evaluate and address carbon risks in the financing of electric power projects. The Equator Principles, launched in 2003, offers a voluntary framework for assessing and managing social and environmental risks in project financing that can be applied across all industry sectors (<http://www.equator-principles.com>). However, their effectiveness has been criticised for example by Greenpeace or BankTrack given the continued financing of controversial projects. NGOs continue to question the legitimacy of Equator Principles-related project finance activities given the absence of institutionalised accountability for their implementation (O'Sullivan and O'Dwyer 2009 – and see below).

Turning to consumer banking whilst some criticisms directed at banks have revolved around the problem of financial exclusion and mis-selling of financial services and products, on the other hand some of the best examples of financial sector social contributions has been through micro-credit to relatively poor consumers and would-be entrepreneurs. Whilst for some the provision of micro-credit is a socially-led innovation, this is also an obvious opportunity to find a new and burgeoning segment of business.

Another area in which the financial sector can influence and control for its (significant) indirect impacts on society and the environment is this of investment. In its broadest possible meaning SRI refers to the inclusion of ethical, religious, social and/or environmental aspects in investment decision processes – over and above considerations of financial risk and return (Kurtz 2008). There has been an impressive rise in SRI in recent years, manifested in institutional developments such as SRI indices and rating organisations, assessment techniques and investment funds. The market for

SRI has grown steadily over the last years, reflecting a positive trend in integrating environmental, social and governance (ESG) issues in investment activities.

However, the concept of social investment is also contested with different writers vesting different meaning in the term and there are fundamental differences in defining and measuring social responsibility within investment techniques (approaches include different screening procedures, best-in class, positive investing, etc.). Critics find that SRI lacks transparency and methodological rigour (Hawken 2004, Chatterji et al. 2009). Still, despite the fact that SRI is still conceptually evolving, SRI markets have expanded notably in recent years (European Pensions, 2010), making SRI an important intersection of ethical reasoning and economic and financial theory (Kurtz, 2008).

As noted above, CSR is not only associated with the responsibility of business for reducing, as effectively as possible, its impact on society and the environment but also with being accountable for its impact. In the UK financial sector, the Co-operative Bank and NatWest were the pioneers in environmental and social reporting in the late 1990s (Tarna 1999). The Co-operative Bank provided a socially rounded report in 1997: 'The Partnership Report: Seven Partners, A Balanced View' (SustainAbility and UNEP 2000; Owen 2003) and NatWest issued a 'Social Impact Review' for 1998 (Tarna 1999). However, findings from several cross-sectoral studies revealed that the financial sector as a whole was a laggard in disclosing non-financial information (SustainAbility and UNEP 2000; Stray and Ballantine 2000, WIMM and KPMG 1999, KPMG 2002) and concern was raised that the sector had little interest in such reporting: "if it does take place, it is a relatively token gesture not undertaken with serious conviction" (Stray and Ballantine 2000, 175). The most frequently cited reason for the sector's non-disclosure of environmental and social information is that financial institutions would not generate substantial environmental and social impacts themselves (see above). The KPMG survey series in the 1990s and 2000s however revealed a constant increase in the quantity of non-financial reports published by the financial sector and, in 2005, pointed out that sustainability reporting in the financial sector has even caught up with other sectors regarding their reporting intensity (KPMG 2005).

We now turn from the specifics of CSR in the finance sector generally to the relationship of CSR to recession.

## **CORPORATE SOCIAL RESPONSIBILITY AND RECESSION**

Recessions, or 'Hard Times' as Charles Dickens poignantly described them, often bring renewed debates about responsibility. Three types of debate can be distinguished. First, there is debate about responsibility for the advent of those hard times themselves or responsibility in the explanation of recession. Secondly, there is debate about responsibility for contributing to survival of those hard times or responsibility in providing welfare during the recession. Thirdly, there is debate about responsibility in new systems whose design reflects lessons learned during the hard times, or responsibility in new institutionalisation.

Often, of course, these debates overlap and are connected. Some arguments about the provision of welfare during recession may be predicated on assumptions about blame for the recession. Thus it might be argued, for example, that business should contribute to meeting the social costs of recession because this is deemed an appropriate punishment for business. Other arguments about the design of new institutions might be predicated on assumptions about blame for the recession. Thus it might be argued that the social responsibility of business should be assured in a new institutional context in order to avoid the excesses or negligence evident in the explanations for the recession.

Historically, there is of course great variety and texture in these debates. In the USA, following the Great Depression there was a new consensus that business bore some of the blame for the recession (responsibility in explanation) and that therefore it was government that should provide welfare in the face of the hard times (responsibility in providing new welfare) and that new institutions (Roosevelt's fledgling welfare state - Skocpol 1995) should reflect a greater governmental rather than business responsibility in the new institutionalisation (Moon, Kang and Gond 2010). However, in the context of US race riots and urban deprivation which emerged in the late 1960s and early 1970s, business responsibility was a prominent response.



We turn to examine business responsibility in the UK recession of the early 1980s with additional reference to the Australian recession of the early 1990s and the beginnings of the recurrent recession.

### **UK Recession and the first wave of modern UK CSR in the 1980s**

***'Perhaps the very survival of our institutions in this country for so long without revolution owes much to the sense of responsibility of those who enjoyed the power of capital.'***

Michael Heseltine, UK Secretary of State for the Environment, 1982

In the UK recession of the early 1980s, there was a Thatcherite rhetoric of government being blamed for the recession (faulty monetary policies, a bloated public sector, faulty industry policy). Likewise there was at least a rhetoric of governmental withdrawal in welfare (i.e. the individual should take more responsibility for their circumstances epitomised in the phrase 'get on your bike' to find work). Although this rhetoric belied the reality of dramatic increased public expenditure, including to deliver welfare, it was also accompanied by the debate between government and business and within business about its own responsibility in welfare and in new institutionalisation.

Between 1970 and 1983 the salience of unemployment in public opinion, media coverage and political contest increased dramatically as the numbers of people unemployed increased from one million in 1970 to three million in 1983 (despite governmental efforts to reduce the official numbers unemployed by statistical and definitional means - Richardson and Moon 1984). It was a period of dramatic de-industrialisation, urban decay and de-nationalisation of certain public industries. In the midst of this hiatus, a new wave of CSR emerged (Moon and Richardson 1985). Although Thatcher herself was not as publicly associated with this trend as might have been expected (or as much as Tony Blair later proved – see Moon 2002), several of her Ministers (particularly Michael Heseltine, Secretary of State for the Environment) threw themselves into encouraging UK business to increase its social responsibility.

This new wave of CSR was evident in the number of individual companies who re-assessed their relations with society and developed new strategies for CSR. This was also evident in their propensity to join associations for business responsibility, most notably and most long-lived, Business in the Community (but also others e.g. Practical Action, the CBI Special Programmes Unit). These associations provided information and networks for their members; offered frameworks for collaborative responses to recession particularly unemployment at the local and regional levels; and represented their business members to local, regional or national governments.

Another key feature of CSR in recession was the new networks in which companies operated to achieve more effective and more legitimate responses. These often included local and regional governments, community groups and other non-governmental organisations (Moon and Richardson 1984; Moore et al 1989). Moreover, these partnerships often re-defined CSR in a range of new institutional forms 'between' state and market, in which respective public and private resources were combined in 'marriages a la mode' (Moon 1991). Surprisingly, perhaps, the main financial contributions came from governmental organisations. Business brought expertise (often in the form of secondments and partnership boards); spare space and other resources (e.g. for start-up companies); opportunities for on-the-job training and work experience; and business networks, particularly for nurturing new enterprises (Moore et al 1989).

What motivations did business give for these new forms of engagement at the very time when their own prospects may have seemed threatened? As *The Economist* commented, on Marks and Spencer's recognition that a healthy high street depends on healthy backstreets, it 'was making a sensible long term investment in its marketplace. If urban disorders become a regular fact of life, many of its 260 stores would not survive' (20.2.1982). Lord Carr, Chair of the Prudential Assurance Society, put it more bluntly: 'the commercial success of business organizations is affected by the health and prosperity of the communities where they produce or sell their goods and services' (quoted in Moore and Richardson 1988: 271). These 'license to operate' motivations were also complemented by an awareness of the need for companies to engage with issues of skills development and the reputational advantages that community involvement could yield. Companies' involvement can be explained with reference both to their individual and shared legitimacy as well as more business-related motivations concerning labour market skills and reputation.

Research into CSR in the last 25 years, i.e. in the wake of the 1980s UK recession, shows further integration of CSR issues with core business strategies at corporate level and institutionalisation of CSR with governmental and societal responses to the problems raised in the recession (Moon 2002; Matten and Moon 2005; Gond et al 2011).

The number of companies explicitly claiming their responsibilities through a dedicated CSR report - has increased dramatically. The spheres of CSR have expanded from the *community* to the *marketplace* (e.g. ethical supply chains, labelling), the *workplace* (e.g. fair trade, diversity policies), and the *environment* (e.g. product stewardship, energy conservation, waste disposal policies). These developments not only reflect business strategies but also the engagement of successive governments (Labour even appointed Ministers for CSR); civil society (e.g. the Fair Trade Movement), international NGOs (e.g. Oxfam) and investors (e.g. the small socially responsible investment movement and the wider adoption of their investment criteria for social, ethical and environmental risk).

Overall, CSR in the UK has become institutionalised within companies (e.g. board level responsibility, reporting cycles), among companies (e.g. through Business in the Community), between companies and government (e.g. local and national partnerships), and with other governmental and societal CSR initiatives (e.g. from partnerships with local community groups to national fair trade agreements, to international multi-sector alliances, compacts and the like (Moon and Vogel 2008; Moon, Kang and Gond 2010). However, the development of CSR from periods of recession should not be taken for granted and we turn briefly to the case of Australia for a counter-story of a very spasmodic CSR response to recession.

Australia experienced a brief recession in the mid 1990s following the Asian financial crisis and a collapse in demand for Australian raw materials. The subsequent period of unemployment was politicised, addressed by government through public policies and associated with a period of conspicuous CSR activity. The government, particularly Simon Crean (Minister for Employment, Education and Training), like his UK counterparts, identified the success of government counter-unemployment policies with business and in encouraging 'good corporate citizenship'. CSR was evident in Local Enterprise Partnerships bringing business resources to address problems of local business conditions, employment, skills development and enterprise. A network, Business in the

Community, loosely based on its UK counterpart, was formed both as an interlocutor with governments and to mobilise of business (Moon and Sochacki 1996). But once economic growth and employment resumed, there was a tailing off of interest and withdrawal from business social responsibility.

This brief comparative historical tour informs us that in the USA, having been blamed for the Great Crash, business responsibility played no part in addressing the problems of the 1930s recession. However, the UK 1980s story reveals that CSR may be (re-) invigorated by recession and that as a result CSR can become embedded in business such that it informs a much wider and ongoing set of responses to problems and forms of social engagement. However, the Australian story reminds us that even if CSR is fuelled by recession, this does not guarantee a lasting legacy of business social responsibility. This brings us to the question of the prospects for CSR in the face of the current UK recession: could CSR disappear with recession, survive it, or consolidate and grow with it?

#### **UK Recession and CSR 2007 - ?**

What do we know about CSR in the current recession? Our research into CSR and community investment among leading companies, conducted with the Charities Aid Foundation early in the recession, suggests some uncertainties (CAF 2009). Most companies anticipated a re-balancing of economic and social objectives necessary in an uncertain business environment. 53% expected greater integration between their corporate community investment and core business strategies and another 34% were unclear about the prospects. With respect to the specific question of the availability of financial resources for community investment: 40% were unsure and the remainder divided more or less equally between those not expecting and those expecting a decline in financial resources. Similarly, whereas 45% expected more innovation in stakeholder engagement as a result of the recession another 46% were uncertain about the prospects for future stakeholder engagement.

It should also be noted that because CSR in the UK is now much more institutionalised than it ever became in Australia in the 1990s, it will be difficult to imagine it disappearing in these 'worst of

times'. CSR is more institutionalised within companies (e.g. Board level responsibility, reporting cycles), among companies (e.g. through BiTC), between companies and government (e.g. local and national partnerships) and with civil society (e.g. from partnerships with local community groups to national fair trade agreements, to international multi-sector alliances, compacts and the like).

Given the expansion of UK CSR agendas beyond the community sphere over the last quarter century, one might also expect leading companies to direct their responses to the recession rather more widely than simply on unemployment, training, enterprise development and community development. One might expect CSR to connect with product selection and marketing to meet consumer demands for more economical purchases. These strategies might also be reflected in review of the sustainability of supply chain practices. Companies might also build their strategies for recession into workplace policies, particularly concerning issues of reduced working time and even down-sizing.

Our basic picture of UK companies revitalising their CSR in hard times is broadly reflected in the USA. Boston College's Corporate Citizenship survey (BC 2009) was in the midst of rapidly rising unemployment and business failures. However, not only were the majority of the survey respondents still committed to being good corporate citizens but also over half believed that this was even more important in a recession. The respondents signalled that this additional importance should inform greater integration of corporate citizenship within their business strategy in, for example, valuing or treating employees well, including by boosting their skill and educational development, particularly of the lower paid sections of the workforce. Another example of this increased attention to employee well-being was in the form of greater investment in work-life balance. Explanations given for such investments were basically that good corporate citizenship adds value to the firms. Many companies respected this in budget terms notwithstanding other cuts that they made in the face of the downturn. These relationships and responses to the recession are the focus of our study. We aim to investigate how CSR is socially constructed in relation to the financial sector in the context of the recession through implementing a discourse analysis of UK media.

## METHODOLOGY

Our study aims at identifying discourses on CSR and the financial sector in the face of economic recession. Discourses are socially constructive phenomena (Berger and Luckmann, 1966). They shape people's notions of reality, constitute their way of thinking and influence their acting upon the world. Likewise, discourses viewed as a form of social practice are also shaped by social structures (Fairclough 1995). Social reality is largely constituted through language (Fairclough 1995, Gill, 2000). Common to the many strands of discourse analysis is thus the concern with the use of language – either in speech, writing or through working with symbols and pictures – and the relationship between its use and social structures (Phillips and Hardy, 2002, Phillips et al, 2004, Fairclough 1995, Gill, 2000). Discourse analysis has begun to make its inroads into CSR research in determining new understandings of the contours and evolution of discourses on CSR. Recent studies have investigated the sense-making and legitimization of organisations as socially responsible at both organisational and national levels. Analytical approaches used for investigating internal organisational processes include, for example, discursive strategies (Siltaoja 2009) and narratives (Humphreys and Brown 2008). Laine (2005, 2006) and others (e.g. Biloslavo and Trnavcevic 2009, Milne et al. 2005, Coupland 2005) bring interpretive and discourse analysis to bear on CSR / sustainability reports, websites and other written texts such as of business associations. For example, Coupland (2006) focuses on the rhetoric of UK banks to articulate a stance with regard to CSR by analysing the physical positioning of CSR information on their websites and the nature of language used. Caruana and Crane (2008) explore how consumer responsibility is organised into meaningful cultural knowledge through corporate communications. Going beyond a corporate and business discourse, Canto-Mila and Lozano (2009) draw on political speeches to critically examine the positioning of actors within the discursive field of CSR.

Whilst the role of media in the social construction of environmental issues has been the subject of linguistic research for about 30 years (e.g. Schoenfeld et al., 1979, Lowe and Morrison, 1984, Dispensa and Brulle, 2003, Carvalho and Burgess, 2005), discourse approaches to CSR in the media are more recent and have usually focused on individual environmental or social issues of the responsible business agenda. For example, Salignac et al. (2010) carried-out a two-country comparison of the discursive construction of a 'Fairtrade identity' in newspaper articles. In our study we are also interested in media text. We follow Philipps et al.'s (2004) view that discourses are

structured collections of meaningful texts and analyse how the relationship between 'Corporate Social Responsibility, the Financial Sector and the Economic Recession' is socially constructed in three UK media publications: *Financial Times*, *Ethical Performance* and *Ethical Corporation*.

The *Financial Times* is one of the world's leading financial newspapers with an average daily readership of about 418,000 in the UK (April 2009-March 2010; NRS 2010) and 1.9 million people worldwide (April 2010; FT 2010). Since 2005, the *Financial Times* has run the Sustainable Banking Awards in collaboration with the International Finance Corporation. *Ethical Performance* and *Ethical Corporation* are two dedicated CSR media. Both magazines were founded in the UK about 10 years ago and now provide CSR information for companies, investors, consultancies and institutions worldwide. *Ethical Performance* is a monthly business magazine on CSR and Socially Responsible Investment (SRI) which is read by more than 3,300 CSR and SRI personnel in large companies and investment institutions. It includes regular articles focusing on the development of, and issues for, the professionals working in the CSR field. *Ethical Corporation* is published 10 times a year and aims to encourage debate and discussion on global ethical business and how large companies are responding to the responsible business agenda.

Thus our database is derived from discourse in a leading mainstream financial medium which is aware of responsibility and sustainability issues, the *Financial Times*, and in two leading CSR media which are expressly attuned to business agendas, *Ethical Corporation* and *Ethical Performance*.

The analysis was conducted for the period September 2007 until August 2010. It begins in September 2007 because this was when the financial crisis started to show its effect in the UK and globally. The following three years cover the period of economic recession (in the UK: 2<sup>nd</sup> quarter 2008 – 4<sup>th</sup> quarter 2009) and its aftermath.

Articles were collected using the search terms *Recession*, *Crisis*, *Downturn* and *Crunch*. Factiva was used to search for articles in the *Financial Times* classified as CSR. A large number of the articles were irrelevant to this study as they picked up on either single uses of one or two of the keywords (e.g. CSR and Recession or CSR and Financial Sector), different uses of the keywords (e.g.

humanitarian crisis, climate crisis, etc.), or, in some cases, CSR, the financial sector and economic recession were merely referred to in passing. A total of 46 articles were analysed as part of the Study.

Entering the keywords into the search archive of *Ethical Performance* magazine yielded 59 hits including many articles which picked up again on single or different uses of the keywords or addressed CSR, the financial sector and economic recession in passing. We identified 37 articles which we ultimately used for the study.

Likewise, the full search of *Ethical Corporation* magazine produced 80 articles deemed to be of interest to our study. The search also revealed substantial graphic content which was not captured by the analysis in order to focus on the language as if it had been from the text-only Factiva database (*Ethical Performance* does provide almost no illustrations). They are however used for illustrative purposes in this report.

In total, we examined discourses based on 163 articles that have been published in the three UK media. We prepared the texts for analysis using NVivo 8 and took a first in-depth look at the material to account for themes emerging from the texts. Our attempt was to identify and reconstruct basic argumentation structures of competing discourses in and capturing the spread of the entire data. We re-read the texts several times in order to progressively capture and identify meaningful discourses within the overall body of data and identify further extracts of relevant data. Our approach to engage with the data in a sequential and correlated process is orientated towards grounded theory (Glaser and Strauss 1967, Strauss 1987) and utilises the concept of "minimal" and "maximal contrast" to uncover fragments of discourses.

Our empirical study ultimately identifies four distinct discourses which are characterised by different framings of responsibilities associated with the financial sector and the economic recession. They are introduced in the following section and extracts are used to represent the respective discourses.



## ANALYSIS AND FINDINGS

Using the method described above, four discourses of ‘CSR, the financial sector and economic recession’ were generated. The first discourse is *Market Rationalisation* of a fit or alignment between CSR and mainstream business operating in markets: get the fit right and business will act responsibly. In contrast, the second discourse, *Moralisation and Ethical Leadership*, focuses on the need for a moral or ethical element to infuse business from the top down in order for it to function responsibly. The third discourse *Reconceptualisation and Professionalisation* of CSR and business people focuses on a critical analysis of the CSR concept and the re-evaluation of the awareness and capabilities of CSR and other professionals to ensure that business is conducted in a responsible way. The fourth and final discourse presumes that there is a need for wider *Political Economy Restructuring* in the form of systemic power and governance re-alignments in order to ensure the responsibility of business.

All these discourses recognise responsibility shortcomings in the financial sector but attribute these to different causes and recommend different remedies which entail different CSR configurations. They reflect different basic assumptions and relationships between CSR and financial business; they focus on different agents and their respective responsibilities; they focus upon different actions; they assume different motivations within CSR; and they employ distinctive metaphors and rhetorical devices. As the analysis unfolds we will also identify some key differences contained within the broad parameters of the respective discourses. The discourses are briefly introduced below before each discourse will be presented in more detail using illustrative quotes.

*Market Rationalisation* discusses the necessity and ways of embedding CSR across financial organisations. Lack of integration of CSR across the financial sector and its member organisations is viewed to have caused the crisis. The discourse illustrates evolutionary trends and developments in refocusing the emphasis of CSR within the financial sector and describes steps to realign institutions to their operating environment. It focuses on the business context and constructs CSR primarily as a *Market Rationalisation* phenomenon. Organisational and business change which contributes to a more responsible agenda is seen to make business sense and the logical way forward, often leading

to the development and realisation of market opportunities which are economically attractive and advance environmental and social sustainability.

*Moralisation and Ethical Leadership* emphasises that there has never been a better time for CSR in the financial sector to make the case for ethical business. It emphasises that leaders in the financial sector who maintain their ethical commitment in the economic downturn are more relevant than ever. As with *Market Rationalisation*, the pressure for change is viewed to come from within the sector. Individuals and institutions with vision and brave initiatives to move the responsible business agenda forward put pressure on others in the sector to follow. In so doing, the discourse connects an organisation's ethics and its possible contribution to structural change within the financial sector in the name of the public interest. In contrast to *Market Rationalisation*, *Moralisation and Ethical Leadership* takes a more cautionary and sceptical view on achievements being made to date in the financial sector in exploring new 'corporate social opportunities'.

*Reconceptualisation and Professionalisation* refers to the capacity of CSR to advocate transformation towards a more sustainable development of the financial sector and the society as a whole. CSR is viewed here as a key concept through the lens of the profession, i.e. individual practitioners. The discourse addresses the (re-)construction of CSR as an influential factor that both caused the problems and can help to deal with the complexity and uncertainty related to the recession and challenges arising for responsible business.

*Political Economy Restructuring* expects that irresponsible behaviour in the financial sector will inevitably recur in the absence of changes to the political economy. The discourse reveals a frayed social fabric between the financial sector, government and society and draws on alternative framings of the economy in order to meet irresponsible behaviour. Two variants of this discourse are distinguished: reformist and radical. The reformist discourse focuses on a range of issues around the regulation of business, including general increases in the regulation of financial business, corporate governance reforms and the use of regulation to enhance trust relationships between business and society. The radical variant of the discourse focuses upon the need for systemic change to the political economy. Overall, the discourse appreciates the recession as an opportunity to reconfigure the financial landscape and focuses positively or negatively on the public sector's role in ensuring responsible business.

Table 1 gives an overview of the five key elements of each discourse. First, it presents the basic assumptions about the relationship between CSR, the financial sector and the economic recession for each discourse (causes and effects). Secondly, it outlines perceived responsibilities within the financial sector and of institutions and agents both before and in response to the economic recession (causer and problem solver). Thirdly, there is a description of CSR actions of financial agents which are seen to be necessary to respond to recession (solutions). Fourthly, the basic attributed motivations (not) to respond to recession (value orientation) are identified. Finally, key metaphors and rhetorical devices used within the respective discourses are presented.

**Table 1** Overview of discourses on ‘CSR, the financial sector and economic recession’

<b>Discourse</b>	<b>Basic assumptions and relationships</b>	<b>Agents and their responsibilities</b>	<b>Actions</b>	<b>Motives / value orientation</b>	<b>Key metaphors and rhetorical devices</b>
<b>Market Rationalisation</b>	<p>Lack or insufficient integration of CSR into the core activities of financial organisations has contributed to the economic recession;</p> <p>Gradual evolution of CSR in core operations will positively impact on both financial and non-financial performance, and will help to avoid future crises;</p> <p>Greater integration of CSR will follow sector’s improvement efforts;</p> <p>Prevailing business logic is not questioned.</p>	<p>Individual and collective initiatives should come from within the sector and drive the integration of CSR into financial businesses;</p> <p>Self-regulation is a means to establish CSR as a serious factor in the operation of global financial markets;</p> <p>Prescriptive approaches to the responsibility agenda are seen to be counter-productive.</p>	<p>Organisational and business changes towards a more responsible agenda are needed to realign financial institutions with their operating environment;</p> <p>Demands organisational integration of CSR across all functions;</p> <p>Cut ‘fluffy’ CSR and focusing on strategic, financially beneficial CSR;</p> <p>Re-build reputation and trust.</p>	<p>Demonstration of wider institutionalisation of CSR;</p> <p>Increasing profitability through ‘streamlining’ CSR, entering new markets and realising market opportunities;</p> <p>Legitimation of financial sector’s response to the crisis.</p>	<p>Metaphors: corporate social opportunity, netting rich returns;</p> <p>Legitimation devices: efficiency/win-win rhetoric, makes business sense and contributes to the financial bottom line;</p> <p>Empirical evidence: statistics/ figures and surveys.</p>
<b>Moralisation and Ethical Leadership</b>	<p>Time to recover a sense of what is right in order to avoid another crisis;</p> <p>Ethical leadership in and after the recession is more relevant than ever;</p> <p>Cautious view on progress in responding to the crisis.</p>	<p>Pressure for moving the responsible agenda forward comes from individual and institutional leaders of the financial sector;</p> <p>Ethical leaders can take a structural-political role;</p> <p>Critical view on the reliability of CSR engagement of some financial agents (e.g. private equity).</p>	<p>Ethical leaders to demonstrate responsibility in executive payment and deal responsibly with the negative effects of the recession;</p> <p>Provide an honest and visionary account of the achievements and objectives;</p> <p>Realise responsible business opportunities with solid long-term returns;</p> <p>Calls for firmer evaluation of initiatives and progress made in integrating CSR.</p>	<p>Ethical motivation to move responsible business agenda forward (‘the right thing to do’);</p> <p>Fairness and long-term thinking as an inherent part of the response to the crisis.</p>	<p>Metaphors to encourage ethical leadership (e.g. not give up during the downturn);</p> <p>Metaphors to warn against misuse of the CSR concept and misbehaviour (e.g. easing the barbarians through the gate).</p>

**Table 1** Overview of discourses on ‘CSR, the financial sector and economic recession’ (cont’d)

<b>Discourse</b>	<b>Basic assumptions and relationships</b>	<b>Agents and their responsibilities</b>	<b>Actions</b>	<b>Motives / value orientation</b>	<b>Key metaphors and rhetorical devices</b>
<b>Reconceptualisation and Professionalisation</b>	Lack or dysfunction of CSR mechanisms and institutions cast shadow over the capacity of CSR to necessitate the transformation process; Critique of insufficient knowledge and capabilities of CSR and other professionals.	Individual and institutional advocates of CSR need to coordinate the ‘reconstruction’ of CSR ; CSR and SRI professionals need to address fundamental issues (e.g. deep distrust) and long-term societal challenges.	Reflects on necessity of conceptual reinvention of CSR; Demands better integrated, balanced, collaborative, thought-through approach to CSR in the financial sector; Individual and institutional capacity building play critical role in this process.	Self-reflection and self-critique; Instrumental to the survival of CSR as a concept and profession.	Irony and cynicism used to question and criticise the role of CSR; Empirical evidence which show that CSR has proven to be a driver of value and will not disappear.
<b>Political Economy Restructuring</b>	Reveals a frayed social fabric between the financial sector, government and society; Questions the sustainability and ethicality of the current political economy; Expects more irresponsible behaviour without change in the political economy; Draws attention to alternative framings of political economy to ensure responsible business.	Several financial agents turned a blind eye on what has been happening in the past; Collective greed requires institutional response; Changes in interrelated governance factors to avoid future crises; Two variants: <i>Reformist</i> – regulation of business, corporate governance, trust relationships <i>Radical</i> – radical changes to the political economy.	<i>Reformist</i> discourse: Reform to enhance government and regulatory oversight and better embed CSR; Greater accountability, higher transparency and more balanced power for better trust relationships. <i>Radical</i> discourse: Reinvention of capitalism; Question bailouts; Structural change to inform cultural and norm changes.	Remedies for financial sector / regulatory failures.	Classical political-economic critique of system: ‘Socialism for the rich and capitalism for the poor’; Metaphor: greedy and selfish bankers; Use of sarcasm.

## Market Rationalisation

This discourse emphasises that there has been insufficient integration of CSR into the core business activities of financial institutions and this has significantly contributed to the economic recession. It presents developments in re-evaluating and re-focusing CSR within financial organisations towards closer realignment to the operating environment. Accordingly, financial organisations' re-orientation is justified by the expectation that the integration of CSR makes business sense as it creates business opportunities which impact positively on both financial and non-financial performance, lead to better control of financial and other risks, and, consequently, help to avoid future crises. In this discourse, the financial crisis is seen to 'stimulate' interest in socially responsible behaviour and to raise investors' awareness and better understanding of multiple risks. Moreover, enhancing social measures is expected to help financial sector agents to simultaneously increase the financial bottom line and act socially responsible. A possible lack of interest in society's well-being or nature's survival is not questioned as the discourse constructs the developments in CSR as conflict-free – all will benefit if it is just done correctly. This discourse is clearly distinct from the discourse on *Moralisation and Ethical Leadership* which centres on moral obligation. Moreover, the *Market Rationalisation* of the financial sector's response to the financial crisis also leaves no space for questions of power shifts or change in the economic order, as expressed by the *Political Economy Restructuring* discourse.

There was a varying degree of CSR integration within the different areas of the financial sector prior to the economic crisis (e.g. banking, investment, properties, and pension funds). Despite this diversity however, within the *Market Rationalisation* discourse there is unanimity that financial organisations, particularly banks, have often been well-regarded because of philanthropic activities, charitable foundations, treatment of employees, equal opportunities, diversity and job creation and that they have, for many reasons (e.g. because of the need to retain talent or skilled staff), often been pioneers on these fronts. At the same time, there is also strong agreement that these CSR areas are less important in the face of the current recession and in meeting future challenges, and that the financial crisis revealed considerable deficits in integrating CSR into core business activities. The banking sector in the UK is seen to have made great strides in building a reputation in CSR in recent years, whilst the integration of CSR has obviously failed and it therefore has found itself in the frontline of critical debate.

"They [*the corporate responsibility teams of UK banks*] were seen as extremely professional parts of those financial institutions ... who used to win lots of awards. But the reality is they never, ever got close to the business model of those banks. They were never given access to the decisions being taken about changing the investment strategy, about rethinking approaches to risk, or about the balances of portfolio or a different approach to asset management."

*Ethical Corporation, September 2009*

Thus, there is a strong argument in some financial organisations that CSR has been peripheral, an 'add-on' or a marketing device which will be vulnerable when times are tough. In contrast, in other such institutions, CSR has been regarded as part of core operations and will therefore receive increased attention in recession. It is argued that financial organisations closer to the latter type will have realised that CSR has helped them to survive the recession and be motivated to continue to pursue CSR in the future. Thus the *Market Rationalisation* discourse constructs the recession as a proof of the need of real integration. In some cases, reference is also made to results of current surveys.

"Environmental, social and governance practices, which are at the core of socially responsible investments, will have a key role to play in the current investment climate," he [*Robin Hepworth, Ecclesiastical Amity International fund*] says. "Recessions are often the time when failures in corporate governance come to light so best practice in this area is of increased importance."

*Financial Times, February 2009*

"Banks that have realised that their sustainability initiatives have helped them manage business and reputational risks during the recession have all the motivation they need to integrate sustainability principles throughout their business. And those that ignored sustainability and pursued greed driven profits have had a hard lesson. The leaders have learnt that sustainability makes business sense."

*Ethical Corporation, November 2009*

"A third of wealth managers are more likely to offer responsible, or 'ethical', investments to their richest clients as a result of the credit crunch, according to a report to be published on Monday by independent researchers Eiris. [...] 'There seems to be a growing awareness that there is a strong business case for the inclusion of responsible investing in the investment process,' said Victoria Woodbridge of Eiris, who led the project."

*Financial Times, October 2009*

In addition, numerous organisational examples and initiatives which construct evolutionary trends in broadening CSR engagement within financial institutions are presented in this discourse. Hence, the recession is seen to primarily accelerate the process of integrating social and environmental issues into core business activities. Advances in CSR in the financial sector, for example the implementation of environmental and social risk management frameworks and policies, are usually emphasised by representatives of financial organisations as if the integration of CSR is easy to achieve or even fully accomplished.

“Our environment and social risk framework is much more than only the Equator Principles. We have sector policies, human rights policies and environment management policies.’ [...] Schreve [*ING Bank*] says that the impact of financial crisis has only increased the importance of these policies in making business decision. [...]

Chung [*Standard Chartered*] says making environmental and social risk assessment an integral part of the credit approval process has improved the bank’s overall risk management. [...] She says a seamless integration of sustainability into every aspect of business is a key feature of Standard Chartered’s approach.”  
*Ethical Corporation, November 2009*

A related sub-discourse, which can only be found in the *Ethical Performance Magazine*, refers to career opportunities and recruitment developments in the fields of CSR and SRI. Given the general state of the labour market, a decline in optimism, and job cuts within CSR or SRI teams in the run-up to and early in the recession, is not surprising. At the height of the recession, this sub-discourse includes the view that unchanged CSR workforces would represent a show of commitment. However, it also includes the *Market Rationalisation* of justifying the redundancies by stressing that i) shrinking teams do not reflect a decline in the importance of CSR and SRI or the role the CSR and SRI professionals more specifically, and ii) alternatively that redundancies may reflect higher CSR integration and could even be an indicator of CSR. This rationale is consistent with the justification of sustainable business activities and reinforced by the hope that integrating CSR or SRI functions into more mainstream areas could allow for seeding activities within the overall organisation and possibly strengthen an integrated approach to social responsibility. There is evidence in this discourse that CSR employment may reflect firm by firm market conditions.

“The consequences for corporate responsibility of an impending recession remain unclear, but many in the field are taking an optimistic view as business begins to grapple with redundancies and falling sales. [...] For now there seem to have been no departures of senior corporate responsibility executives even in financial services, although specialist recruitment agencies, while reporting continued strong activity in the job market internationally, have told EP of some executives in the banking world registering with them in anticipation of losing their jobs. One senior CSR executive at a global financial services company reflected the thoughts of many when she told EP that she was not overly concerned about significant retrenchment within her department.”  
*Ethical Performance, June 2008*

“Signs that the global financial crisis is starting to affect jobs in the responsible business world emerged last month as three large businesses – Eversheds, JPMorgan and Citigroup – shed key positions in the field. While Citigroup restructured its Citi Investment Research unit, making analysts Mike Tyrrell and Natalie Davis redundant, JPMorgan disbanded its environmental, social and governance (ESG) service, leaving Claudia Kruse, its European ESG analyst, and two others in the US and Asia jobless. Each business said the need for financial cuts in today’s climate was at least partly responsible. At Citigroup, which intends to eliminate 52,000 jobs to cut costs, the respected SRI brokerage team at Citi Investment Research has been axed after the parent group’s recent \$20billion (£13.3bn) bail-out by the US government.”

*Ethical Performance, January 2009*



“A Citi insider told EP: ‘We’re moving from a bespoke service on SRI to a more integrated model whereby clients will get their research in this area from sector analysts, such as those who specialize in aviation or the energy sector. There’s no point in saying this has nothing to do with the financial crisis, but we do believe the new approach will be better for the client.’” [...] At investment bank JPMorgan, which is expected to cut about 3000 jobs, or ten per cent of its global workforce, the in-house SRI research function is also to be ‘integrated’ with mainstream analyst activity during the next few months. [...] Penny Shepherd, Uksif’s chief executive, said: ‘This is not a statement about sustainability research. The long-term health of such research is very strong, but in the short term we’re seeing significant issues in the City.’”  
*Ethical Performance, January 2009*

“What can be said, however, is that those companies that have so far cut back in this area at least appear to have made arrangements for the continuance of a focus on socially responsible business behaviour, rather than ditching it altogether. And while their claims for a new period of integration may be overstating the situation, the re-housing of CSR or SRI functions within more mainstream areas may, in truth, push responsible business practices further across an organization than may otherwise have been the case. Certainly if companies are going to have to make cuts in this sector, then it is better that they plan to keep CSR alive in other parts of the organization by planting seeds and appointing temporary gardeners elsewhere. As a side effect of the recession, such limited succession planning could even hasten the generally hoped-for move to integration.”  
*Ethical Performance, January 2009*

“While some companies have cut back on CSR staff over the past year, BBVA [Spanish Bank] has recently hired three to work at its group headquarters in Madrid, plus two in Portugal, and one in Mexico. [...] the recruitment drive means BBVA now has 60 staff who are ‘100 per cent dedicated to CSR’ [...]”  
*Ethical Performance, March 2010*

“US investment bank Citigroup is re-forming its SRI brokerage team, disbanded in 2008 as a result of the financial crisis.”  
*Ethical Performance, June 2010*

*Market Rationalisation* also draws on a broad range of individual and collective initiatives developed by financial sector organisations in order to legitimise the sector’s response to the financial crisis and to demonstrate progress towards the institutionalisation of socially responsible business, most prominently the United Nations Principles of Responsible Investment (UNPRI) initiative of 2006 - the most frequently mentioned single initiative in our database. The UNPRI aims to align better the fiduciary duty of investors with the broader objectives of society by adopting principles which require investors to take a long-term approach to investment that recognises the impact that environmental, social and corporate governance issues can have on the performance of their portfolios. In this discourse, the UNPRI, along with other voluntary initiatives (e.g. the Equator Principles, the Carbon Disclosure Project) are presented as indicating that responsibility is a standardised procedure, helping to correct the systemic failure of capital markets. In case of the UNPRI, data are often deployed to demonstrate a steady stream of signatories and the impressive scope of assets under the initiative in order to construct socially responsible investment practices as a serious factor in the operation of global markets.

“Signatories to this chapter, which calls for investment to be in line with six straightforward principles of responsibility, represent more than \$18,000bn (£11,000bn, €13,000bn) in assets. If this is a niche, it is quite a big one.

When launched in 2006, there were 30 ‘asset owners’ (mostly pension funds) and 27 asset managers. The following year, that had risen to 80 and 75. Last year, the balance had altered, with 137 asset owners and 163 managers. [...]

‘What this shows is that investors recognise that responsible business is going to be core,’” says James Gifford, executive director of the UN PRI.” *Financial Times, June 2009*

Thus, CSR in the financial sector is generally constructed through various ways of managing governance, environmental and social issues. This is particularly true for the integration of SRI into mainstream investment activities. However, despite a consensus that SRI is about social, ethical, environmental and long-term economic issues there is ambiguity and subjectivity about the constituent terms used. Within this ambiguity the financial sector appears to dominate definitions or defining what responsibility in this context all means. Perhaps as a consequence of a largely arbitrary and ill-defined understanding of responsibility, it is difficult to tell to what extent and with what effect corporate practice has altered during after the recession. There have obviously been achievements in factoring in environmental and social aspects in decision-making processes in the financial sector but the expectation that integrating a few individual environmental and social indicators into investment policies would represent a ‘bold’ attempt to measure the impact investment portfolios have on the environment and society reflects the basic *Market Rationalisation* of the market systems.

*Market Rationalisation* tends to emphasise gradual evolution of CSR integration into core business and praises any manageable advances which originate from within the financial sector in this context. However, given that responsibility for environmental and social impacts of financial transactions is a matter of profound public interest, it remains a valuable question if this quasi ‘laissez-faire’ attitude can ensure wide and effective integration of CSR into the financial sector. The following example illustrates this theme.

“Attempting the impossible, the Pictet paper suggests that two measures are sufficient to benchmark the impact of SRI policies: one environmental and one social. For the first, it selects carbon intensity units (CIUs), a metric developed in co-operation with consultant Centre Info.

A recent report by Eiris [*Ethical Investment Research Services*] found that while high risk (ie carbon emitting) companies do now mostly disclose carbon emissions, the data released is unreliable. Mr Butz [Pictet] thinks he has found a way around that. He says CIUs are calculated by analysing a company’s economic activities in detail, arriving at an estimate of all emissions triggered along the value chain. ‘The great advantage is exactly that you do not depend on companies’ environmental disclosure practices.’

Using carbon emissions as a measure of environmental impact is open to accusation of being too narrow. 'There are companies whose main impact on the environment is not climate change', says Stephen Hine of Eiris.

The Pictet metric for social impact is also narrowly defined. On this scale, a company is judged on how many jobs it creates.

'It does not claim to grasp everything, for sure, but it captures something which is probably the most important single contribution of the private sector to society and it has the big advantage of being measurable and verifiable with reasonable effort.' says Mr Butz.

'It's a great attempt,' says Matt Christensen, executive director of the European Social Investment Forum (Eurosif), about Pictet's initiative. 'It'll be tested in the marketplace and we'll see what comes of it.'"

*Financial Times, July 2008*

The UNPRI initiative also reflects another key element of the discourse on *Market Rationalisation*, namely that the integration of CSR into the financial sector's activities is and should be largely driven by the sector itself. Organisational, inter-organisational and sectoral initiatives are efforts and a compliance approach is viewed as counter-productive. Avoiding future crises by accepting responsibility within the financial sector is associated with the general understanding that there is no point in changing the prevailing economic order, as advocated in the *Political Economy Restructuring* discourse. In the discourse of *Market Rationalisation*, valid mechanisms to enhance and control for progress include self-reporting and self-assessment, collaborative engagement and exchange of experience (e.g. learning from best practice) as well as capacity building and the introduction of incentive structures. Only these measures are seen to be effective in 'really shifting the market' and catalysing 'real improvements in investor consideration of environmental social and governance issues within investment decision making and ownership practices'. At some points the *Market Rationalisation* discourse appears to be expressly about the avoidance of regulation, in obvious contrast to much of the discourse of *Political Economy Restructuring*.

In general, the *Market Rationalisation* discourse offers the construction that nothing is wrong with the prevailing business logic and that those adjustments necessary to bring financial success and sustainable development together will automatically follow from the sector's initiatives. One caveat is that many investors are at an early stage of understanding the *Market Rationalisation* and progress will likely be slow. However, several good practice examples provide evidence that financial organisations with a CSR or sustainability focus have done relatively well and continue expanding their environmental and social risk or investment frameworks to other business areas (e.g. insurance).

Overall, *Market Rationalisation* constructs CSR and financial success as mutually supportive and places market opportunities arising from CSR at the centre of the discourse. Metaphors such as ‘corporate social opportunities’ or ‘netting rich returns’ (see Figure 1) are used to link the CSR and recession agenda with market opportunities which are economically attractive and which advance environmental and social sustainability. These opportunities emerge in several areas of the financial services industry such as banking, investment, pension funds, and private equity. Organisational and business change which contributes to a more responsible agenda is seen to be the logical way forward and in conformance with business as usual.



**Figure 1** ‘Netting rich returns’, Ethical Corporation (March 2009)

“Doughty Hanson is the first large equity to hire a dedicated executive, Adam Black, to run its sustainability practice and is now addressing environmental, social and governance issues in its annual review. ‘We are not doing it to earn brownie points’, says Doughty Hanson’s Guy Paisner. ‘We are doing it for cold, commercial, opportunistic reasons. Firms that operate in a sustainable way significantly de-risk their business model and ultimately attract higher valuations in the capital markets. Cases in point: energy efficiency audits at rug manufacturer Balta have cut energy costs by as much as 12%, saving €575,000 per plant; [...]’. ‘We [*Riverside, a Cleveland-based private equity firm*] believe it’s consistent with running lean and effective businesses.”

*Ethical Corporation, May 2009*

Within *Market Rationalisation*, the most dominant devices to legitimise social practices as responsible are ‘contributions to the financial bottom line’ and ‘efficiency’. These legitimisation devices cannot be found only in relation to business activities but also in articles discussing the impacts of CSR measures within financial organisations upon society and the environment. Despite a brief discussion of their broader benefits (e.g. the reduction of global warming), the focus lies on the efficiency gains of these measures. The recession appears to provide a justification for ditching those CSR activities which are non-essential to a business case in order to prioritise CSR strategies which ensure operational efficiencies. Specifically, simple philanthropy is regarded as being likely to be reduced, as it is seen as a public relations expense. In contrast, environmental activities such as reducing expenses on heating and paper, which have a clear positive impact on the bottom line, are expected to be scaled up. The most frequently mentioned measures refer to carbon management and carbon emissions reduction which bring cost savings (e.g. reducing greenhouse gas emissions through environmental efficiency programmes, promoting video conferencing to cut air miles). However, it should be noted that, overall, the organisational level plays a minor role within the discourse of *Market Rationalisation*.

“In the short term the biggest casualty is likely to be corporate giving and community programmes, which are often directly linked to profits. Catherine Sermon, director of community at Business in the Community, said: ‘An economic downturn can become a societal filter for projects that aren’t working, making room for more valuable ones’.”  
*Ethical Performance, November 2008*

“[...] chief executives will now be pressing harder than ever for a business justification for their existence. For the many who survive [...] this will mean re-presenting everything through the prism of the business case. This in turn may necessitate a re-focusing on environmental matters, where it is easier to provide concrete figures. To some this may seem a step backwards, but it should be regarded as a welcome opportunity to restate the case for CSR. If the recession forces woolly minds to concentrate, then that can only be a good thing.”  
*Ethical Performance, January 2009*

The managerial view of CSR in the recession is also evident in the framing of the purpose of CSR reports. Investment in CSR reports and related communications predominantly follows a business case perspective. Evidence from surveys (e.g. Reputation Institute 2008) is given showing that bank reputations suffered from the consumers’ perceptions of the sector’s role in the economic crisis. Consequently, the aim of CSR reporting is to regain public trust, to reassure stakeholders such as consumers, employees, investors and governments that the situation is under control, and to avoid ‘over-prescription’. So whilst the discourse acknowledges that the situation is one of the most threatening for the financial industry to deal with, it is largely seen as an opportunity to seek out the most profitable mechanisms that measure and report CSR performance and rebuild trust. Recommendations given to financial institutions refer to measures which, for example, restore confidence, enhance morale-building and greater productivity, reduce costs and secure workforce.

“Those that see sustainability as key to successful implementation of their business strategy will continue, or even step up, the integration of business practices. And they will take a hard look at the effectiveness of their sustainability communications efforts. Companies that value reporting are unlikely to scuttle reporting entirely, but will be looking for ways to extract the highest value from the reporting effort. [...] Yet, while reporting today is generally characterised by greater transparency across the board by and large these reports still trumpet the good and give short shrift to the real challenges of integrating sustainability into business strategy and operations. [...] While the recession is unlikely to bring about such an extreme degree of honesty, there is no better time to engage in brutal transparency than when everyone is suffering. [...] ‘In a downturn, it’s hard [for NGOs] to keep the pressure up.’”

*Ethical Corporation, April 2009*

“Being able to demonstrate proper systems that ensure responsible and transparent business practice may be the only way that many sectors may be able to hold off the threat of new and vigorous government intervention.”

*Ethical Corporation, November 2008*

“[...] as corporate social responsibility becomes, by necessity, more integrated into business practice this should lead naturally to integrated reporting.”

*Ethical Corporation, March 2009*

To conclude, *Market Rationalisation* portrays an optimistic view on CSR and the financial sector in and after the economic recession. Much improvement comes from within the sector itself and it is assumed that, in retrospect, financial agents, particularly institutional investors, will be seen to be a much bigger part of the solution than the original problem. There is confidence that voluntary measures will foster developments in CSR in the financial sector and help to avoid future crises.

## Moralisation and Ethical Leadership

The discourse *Moralisation and Ethical Leadership* views the financial crisis and recession as having helped to put ethical business on the agenda again. It acknowledges that financial innovations have benefited economies and societies by, for example, dispersal of risk and the provision of cheaper credit to companies and individuals. The critique is that these innovations should not be seen as ends in themselves or as vehicles for making as much money in quickest possible time but as means to providing credit to those businesses that need it to prosper. The discourse suggests that the time has come to 'recover a sense of what is right' and focuses on the role of ethical leaders who maintain their ethical stances in challenging times.

"The current financial crisis provides a unique opportunity for responsible investment. This sounds hard to believe for the investors in niche funds focusing on environmental, social and governance issues who have suffered heavy losses in recent months. [...] The current market turmoil, however, could have a positive outcome by making investors of all stripes rethink the purpose of investment. [...] The finance industry must now reassert the link between modern finance and the bigger social objective of a sound economy. Just as investors need to reconsider why it is they invest, so banks and other financial institutions need to rethink what their purpose is. Is it to find ever-more innovative ways to make their bonuses bigger? Or is it to support a healthy economy? We may wait in vain for the masters of the universe to start understanding their role as servants of the people. But as the public backlash, government scrutiny and the threat of regulation rise, everyone in finance has a reason to make the case for sustainable markets. Responsible investors can lead the way."

*Ethical Corporation, November 2008*

There has never been a better time for the financial sector to make the case for ethical leadership. Examples of leadership in responsible business are often presented in this discourse as voluntary initiatives setting a new high ground for other individuals and institutions. Those with vision and courage to move the responsible agenda forward appear to put pressure on others in the sector to follow. In so doing, the discourse makes an important connection between an organisation's ethics and its actual and potential contribution to structural change within the financial sector in the name of the public interest.

"Howard Pearce [*Head of environmental finance and pension fund management, UK Environment Agency*] has won a reputation among responsible investors as a no-nonsense asset owner. As head of the £1.5bn Environment Agency pension fund, this year Pearce dropped two fund managers for failing to take account of matters green when investing money on behalf of his members. Pearce ditched financial services giants State Street and Capital International as his global equity fund managers because of poor annual performance, and because they had not signed up to the UN Principles for Responsible Investment. [...] Pearce replaced the failed fund managers in September with PRI signatories Impax Asset Management, RCM and Generation Investment Management. He argued that appointing fund managers that consider risks such as climate change would produce better returns, in a way that was entirely consistent with his fiduciary duty. For responsible investment to gain traction, more asset owners must

adopt the hardline stance of Pearce. As more investment managers struggle during the credit crunch to hit their return targets, pension funds and other asset owners may be more willing to drop those funds that have not committed to the PRI. Pearce may have started something.” *Ethical Corporation, December 2008*

“Part of the problem is that those who vote – asset managers – come from a culture where bonuses are integral to pay packets. ‘The idea that poor pay policies affect performance probably remains the niche view of SRI investors, although many of their clients may think differently,’ he adds. [...] The solution, according to Powdrill, may be for asset owners such as pension funds to take more responsibility for the way fund managers vote on their behalf. ‘The ultimate responsibility lies with asset owners. Pension funds should take responsibility for this issue themselves. Trustees are likely to have less of a ‘City view’ of compensation than asset managers – and fewer conflicts of interest. *Ethical Performance, June 2009*

“Royal Bank of Scotland, which is 70 per cent owned by the taxpayer, has broken ranks with the rest of the industry and halved charges for customers who are overdrawn. The fee for paying an item when overdrawn will be cut in half to £15 a day from the beginning of October. The cuts will also see the fee for returning a cheque, direct debit or standing order cut to £5 from £38. The move is one of the first actions taken by Brian Hartzler, new chief executive of RBS's retail bank, which owns NatWest. He described it as good news for customers, not least because the fees for unarranged borrowing had been a worry for them. [...] Louise Bond, personal finance expert from uSwitch.com, the price comparison website, said: “Slashing unauthorised fees and charges for current account customers is a really brave move by NatWest and RBS and it could be seen as a lifeline for consumers that are struggling to keep their heads above water in the current financial climate. As the first provider to step up to the plate and do the decent thing before the outcome of the test case, we eagerly await the other big banks to follow suit.”

*Financial Times, September 2009*

Honest and visionary engagement with a business agenda to the benefit of a sustainable economy can also be found in the disclosure and stakeholder communication practices of financial institutions as the review of GE’s 2008 Citizenship Report illustrates:

“A corporate responsibility report titled Resetting Responsibilities raises expectations. Will there be a candid discussion of the transformation needed in big business – especially the financial sector – following the economic crisis? Will we see commitments to making these changes? GE doesn’t disappoint. Chief executive Jeff Immelt begins with powerful, honest but succinct rhetoric about the scale of the challenge. His letter uses strikingly frank language such as “meltdown” and “corporate social detachment”, and the rest of the report maintains this level of candour. The Resetting Responsibilities chapter includes bold statements about how industries and governments need to change. A diagram on p8 depicts GE’s vision for moving into “tomorrow’s economy”, calling for a greater government role and increased regulation of corporate governance – unusual from a US company, to say the least. [...] All in all, this is an exceptional effort. It provides the vision, context, policy, commitment and honesty missing from most corporate responsibility reports. While there are areas for improvement, GE’s reporting is already streets ahead of most and sets an example for others to follow.” *Ethical Corporation, November 2009*

The discourse underlines that the financial crisis has put the accountability of the financial sector under the spotlight. By referring to an increase in the number of sustainability reports during the last economic downturn (1999-2001), some advocates of CSR reporting (here: Corporate Register) give credit to the way in which companies can hold up their values in reports. However, the



discourse also reveals that financial institutions that produced CSR reports and winning awards for them were also caught up in the scandals. This informs a conclusion that voluntary reporting does not tell us much, not least because standards are missing and nobody had tested the CSR reports for their veracity. Beside this, some of the bankrupt institutions did not produce a CSR report (e.g. Bear Stearns, Lehman Brothers). To overcome flaws in the financial system in the future, greater and more meaningful accountability is needed from various agents such as banks who should provide fair and balanced views of their CSR activities. Fund managers too should make decisions more transparent and responsive to the owners of capital and it is suggested that the public disclosure of fund managers' bonuses may help to critically reflect on managers' incentives to counter short-termism.

"Incentives can encourage the success of those fund managers who understand the real economy, and rid us of those whose short-term trading mentality lies at the core of the problem. One step in this direction would be to let the truth be told, through a published list of every bonus that has been earned in recent years by every fund manager involved in today's failing funds. Then we can show how his compares to the true, medium- to long-term financial value added by these custodians of our wealth."

*Ethical Performance, July 2007*

"The rise and rise of corporate responsibility reports might make the casual observer think there has been a revolution in responsible business behaviour. But the storm in the financial markets suggest otherwise [...]. This must challenge our industry to [...] find a way of measuring genuinely ethical behaviour that is unmistakable [...]. One key problem comes from the disconnect between communications people, who control reporting, and ethics officers and others who worry about behaviour. In the current crisis it is clear that the approach to reporting with its emphasis sometimes on gloss rather than a real appraisal of responsible behaviour should become obsolete."

*Ethical Performance, November 2008*

"The entire crisis underlines the requirement for transparency, accountability, stewardship and responsibility, says Hine."

*Ethical Performance, November 2008*

"The UK's Co-operative Group has set aside £70million (\$100m) for the next financial year to advertise and promote its ethical credentials during the recession. The British group, with interests in food, funerals, travel, pharmacy, motors, financial consultancy and legal services, said the decision to spend record amounts on publicizing its ethical stance was a direct result of the financial crisis, which it believes has put a premium on responsible business behaviour. Chief executive Peter Marks maintained that because consumers were increasingly disillusioned by the behaviour of many businesses, there had 'never been a better time' for the company to promote its ethical credentials. The campaign [...] will emphasize the 'increasing relevance of our ethical way of doing business'. [...] 'While some commentators might imagine that sustainability should take a back seat as the country struggles with economic turmoil, the Co-operative is demonstrating it is the key to moving business forward,' he said."

*Ethical Performance, March 2009*

*Moralisation and Ethical Leadership* presents fairness as an inherent part of CSR in the financial sector during and after the economic recession. Emphasis is placed here on responsible practice in

the determination and use of executive payment – a theme which is largely omitted in the discourse on *Market Rationalisation*. What leadership in CSR in times of the recession means is illustrated for example through taking modest salaries, waiving bonuses, redistributing the bonuses among employees, or paying ‘taxpayer-funded bonuses’ to charity (e.g. the arts). This also applies for banks which were not bailed out by taxpayers. Progress in executive payment is also documented by referring to equity issues concerning the scale of executive payment and new bonus/malus systems within which bonuses can be clawed back if it can be proven that performance was misstated or impacted negatively on social and environmental issues.

“Three UK companies have had their remuneration reports voted down this year – RBS, Bellway Homes and most recently Shell – and their fates illustrate a number of the issues that so incense people on the street when it comes to executive pay. [...] Meanwhile, RBS’s vote saw UK Financial Investments, the government body that owns 70 per cent of the bank, lead a revolt against the notorious £17m pension package for former chief executive Sir Fred Goodwin that was agreed in spite of his role in pushing the company to the UK’s biggest ever corporate loss of £24bn in 2008. The 90 per cent of votes cast against the company’s remuneration report was the largest in UK corporate history. [...] ‘It was only last year that we started to see an increase in votes against remuneration plans, and even then the worst was passed with 81 per cent approval,’ says Powdrill. ‘What message were the banks supposed to draw from votes of 80-90 per cent in favour of their pay policies?’ [...] A factor that receives less attention is the idea of equity. While many executives spend a lot of time highlighting the differences between their pay and that of other senior managers, the comparison between executive pay and the average worker’s has been ignored. [...] In Germany, the SPD political party reports that senior managers at the 100 biggest companies earn 43 times more than the average staff member, compared to 15-20 times more in 1996. Meanwhile, in the US, the Institute for Policy Studies and the not-for-profit group United for a Fair Economy calculated in 2008 that the average chief executive of an S&P500 company was paid \$10.5m, more than 344 times the average US salary. Thirty years ago, the difference was 30-40 times.”

*Ethical Performance, June 2009*

“Citigroup’s chief executive, Vikram Pandit, declared in a testimony before the US Congress’ financial services committee in February that he would take a salary of only \$1 and no bonus until the bank returned to profitability, setting a new high ground for other chief executives.”

*Ethical Performance, November 2009*

Ethical leadership is also seen as critical for dealing responsibly with the consequences of the recession. Examples are refinancing adjustable rate mortgages or ensuring that job cuts are done with dignity and fairness in tough economic times. If redundancies are unavoidable, and the financial sector appears to be at the frontline in layoffs, these should be conducted in a way that is respectful and as generous as possible in order make the process feel fair and equitable to both employees and the general public (see Figure 2).



**Figure 2** ‘Retrenchment – Responsible downsizing’, Ethical Corporation (February 2009)

Overall, there is a notion of not giving up in hard times and to continuing with CSR activities such as giving more money to good causes, community involvement or employee volunteering programmes helping to avoid outright job cuts in tough times and retain valuable staff with key skills, useful for when the recession ends.

“Financial services executives are increasingly offering their skills to provide free advice to charities, even as their public image is battered by the economic crisis. Pilotlight, an organisation that puts charities in touch with corporate managers volunteering their advice, has seen a jump in interest from working executives as well as those who have lost their jobs in recent months. [...] The trend reflects a broader recent surge in volunteers.”  
*Financial Times, March 2009*

“[...] 'community investment by the four big UK banks increased in 2009-10 when it might have been expected to fall, with in excess of £210m being reported.' Nick Anstee, Lord Mayor of London, points out that the number of corporate volunteers in the City rose 24 per cent in 2009.” *Financial Times, June 2010*

However, financial sector's response to give back in the form of manpower, cash donations or bonuses donated by chief executives needs to be carried out with caution. There is some doubt as to whether these measures will help re-build trust and confidence of the general public as it may be seen as a strategic move to repairing the image of bankers.

“We do not believe that charitable donations are appropriate to rebuild trust in banks.’ The bank [*Sarasin*] does give to a number of charities [...]. However, charitable donations are not the cornerstone of Sarasin's commitment to being a sustainable bank. Trust cannot be purchased, but has to be gained on a day-to-day basis when delivering on commitments to clients and the public.”  
*Financial Times, June 2010*

Finally, ethical business in the financial sector is constructed in this discourse as the responsibility to improve risk management and foster CSR activities which restore sound corporate practice across the financial sector and avoid another crisis or a double blow/second dip. As with the discourse on *Market Rationalisation*, relevance is attached to initiatives around ethical/sustainable finance, and pressure for change is seen to come from within the sector. Firstly, adopting policies and strategies such as the Equator Principles or the Climate Principles is seen to help banks to improve risk management. Secondly, responsible business opportunities are seen to arise in many ways – for example, in form of new products and services, tapping into new or under-served markets, or new business models. A prominent example in the discourse on ethical leadership and financial business is microfinance which has remained recession proof and contributes to social inclusion, development and poverty reduction. Other responsible products and services which help financial institutions to gain new marketplace insights include socially responsible investments, clean tech investment or sharia-law-compliant financial products. Demand for responsible investments seem to rise through

an increase in ethically minded investors such as a new generation of young high net worth individuals with different set of cultural values and an interest in CSR and sustainability. However, some developments are still regarded with caution. The responsible investment movement is viewed as still learning to work with private equity as it tends to be suspicious about private equity's ethical credentials, illustrated by such critiques as 'casino capitalism' and equating private equity with 'asset strippers'. The unease with private equity rolling out environmental or social initiatives across their portfolio is reflected in an article of Ethical Corporation titled 'Easing the barbarians through the gate' (see Figure 3).



**Figure 3** 'Private Equity - Easing the barbarians through the gate', Ethical Corporation (May 2009)

In general however, these new initiatives, policies and market opportunities are regarded as a key way for CSR to acquire greater status in the financial sector. Whilst the discourse on *Market Rationalisation* draws attention to achievements in embedding CSR in the financial sector in recent years, *Moralisation and Ethical Leadership* takes a more critical and cautionary view on assessing the business agenda and scrutinises the motivation of new agents (such as private equity). It asks whether responsible measures have been carried out for ethical reasons or for other purposes (e.g. to avert more restrictive governmental regulation). In the example below, the motivation for the private equity sector to engage with CSR is criticised for primarily following the win-win paradigm: the heart of the *Market Rationalisation* discourse. This constructs CSR as narrow and possibly temporally transient. Moreover, to strengthen responsible business, a more rigorous approach and firmer evaluation of whether CSR initiatives in the financial sector are living up to their potential are demanded:

"Still, the jury is out on how far this movement in the private equity world will carry. With the financial sector going through a game-changing crisis, it's unclear how far private equity firms will go in instituting ESG reforms that cut into profits. The corporate responsibility advocates' feel-good mantra, "win win", often falls flat in the ruthlessly competitive world of international business. Margins are in a terrible vice. Many private equity executives whom Ethical Corporation talked to were too busy harvesting the low hanging fruit – publicising what are still marginal environmental savings from nips and tucks – to hazard a prediction of what might happen if their NGO partners recommended major reforms that could hurt the bottom line."

*Ethical Corporation, May 2009*

“Despite the impressive numbers, it is still difficult to tell what signatories are doing in practice to alter business as usual. The PRI should avoid becoming an ineffective club based on “voluntary and aspirational” principles. Having proved the appetite for responsible investment by recruiting large numbers of members, the PRI secretariat should feel confident taking a firmer line with those signatories doing the least to implement the principles.”

*Ethical Corporation, November 2008*

Overall, the financial sector as a whole is viewed as not moving fast enough yet. However, in contrast to the *Political Economy Restructuring* Discourse which calls for system change from the outside, the emphasis here is on moral focus and leadership within business.

“The trouble is that many of the individuals in whom this faith is invested are not such great leaders, in fact. The proud ones, the arrogant ones, the command-and-control ones that are admired and feared in equal measure - they have a pretty poor track record of performance in actually delivering results. Robert Willumstad, who took the reins for three short months at AIG before the government bail-out required a change of leadership - he probably has the right stuff. He came to the job well respected by previous colleagues. He was one of the few executives who refused the pay-off he was, on paper, due because he saw that it would not be right. That is real leadership. If the quality of leaders was more consistently high amongst those whose services are so hotly contested then there would be more of a collective realisation that restraint would serve the business community so much better than taking the most that can be grabbed from the system. That is not the same as saying that all executives should take a pay-cut. Talent should be rewarded and the job of leadership can be onerous with long hours and high pressure. But the balance of incentives is wrong.”

*Ethical Corporation, October 2008*

“And as the finance sector will be at the heart of rebuilding the economy, it is important that it goes beyond addressing climate change in its own business activities and takes steps to push politicians towards a global deal on climate change – one that will speed up action already being taken by the sector.”

*Ethical Corporation, December 2008*

There is a broad consensus that this change of leadership requires a change of the short-term profit-maximising mindset prevailing in recent years. The SRI movement has always stressed that the real purpose of investment is to serve sustainable businesses which generate solid long-term returns. Whilst this view has not been fashionable recently with investors nursing losses in the wake of the economic crisis a unique opportunity is seen here. More broadly, there is an argument proposed that CSR may gain extra funding in a crisis, because there is no need to change the business structure when times are good - now that businesses are in trouble, the argument is that by restructuring to improve the health of the society upon which business relies, taking a holistic approach to business and CSR, organisations can ensure their long-term prosperity. Still, to better balance corporate and public interest and to encourage long-term system thinking individual and institutional advocates for responsible business will need to be prepared to go against the prevailing opinion in the financial industry and the inability of society to make decisions that have long-term benefits rather than immediate results.

“At the moment, pay scales are so high that CEOs can console themselves over the high probability that they will only be in post a short time (the average life of a CEO in post is 3 years) by the fact that they may earn enough that they never have to work again. If it all goes wrong, that is some compensation. That creates incentives to play for the short term, and to take risks that may lead to problems later - after the individual concerned has moved on.”  
*Ethical Corporation, October 2008*

“A decade of rising asset prices caused investors to get overexcited at the prospect of short-term gains. Investors rewarded companies that hit the numbers. They supported banks that geared up their balance sheets to become more profitable. [...] The current crisis shows that a healthy economy depends on making sure that capital is allocated to companies that are productive, successful and sustainable. In the long term, businesses that understand a wide range of risks, including social and environmental ones, and have good relationships with their stakeholders, will be in a better position to do this. The object of investors should be to identify these firms so that they can prosper as they do. [...] The UN Principles for Responsible Investment could spearhead this development, as executive director James Gifford argues in our debate from p30. The message of the PRI – about investing for the long term, engaging with companies and working with policymakers – should resonate now more than ever before.”

*Ethical Corporation, November 2008*

To conclude, this discourse highlights that ethical leaders who move the responsible business agenda forward and do not give up even during the downturn are more relevant than ever. As with *Market Rationalisation*, the pressure for moving the agenda forward comes from within the financial sector. Often, single individual and/or institutional leaders put pressure on others to follow. In contrast to *Market Rationalisation* however, it takes a more cautious view of the progress made so far and acknowledges that firmer evaluation of institutions may be needed.

## Reconceptualisation and Professionalisation

This discourse elaborates on how CSR in the financial sector, at both conceptual and individual level, has contributed to the recession and on the capacity of CSR to emerge from the recession. This is captured by two distinct perspectives. On the one hand, CSR in the financial sector is viewed to have exacerbated the problems by legitimising a fundamentally irresponsible social agenda of extending credit to people who could not repay loans and then risked even greater financial difficulty. On the other hand, CSR is viewed as having failed to tackle the systematically unsustainable behaviour that has been prevalent in the finance sector in recent years.

Starting with the former, the financial crisis represents a classic case of misplaced good intentions or of an 'excess of social responsibility', respectively. In the USA particularly, there had been political pressure on financial institutions to relax lending safeguards and to offer more flexible loan products to promote home ownership throughout both the Clinton and Bush administrations (see Figure 4). However, bypassing market forces and lowering lending standards to increase home ownership among people who may not have been deemed able to repay the loan is seen to be highly irresponsible. CSR in the financial sector is described here as 'the elephant in the room' which embraced ethical investors and social progressives and resulted in misleading social engineering policies of business. CSR is evoked in a negative way as it has contributed to the recession by 'injecting' a social agenda into the financial system. Proponents of this view are cynical about the fact that these lending products were initially highly praised and have later been referred to as 'predatory products' and that companies, financial institutions, markets, governments and the public alike are now calling for more transparency and oversight of the finance sector.



**Figure 4** 'All guilty', Ethical Corporation (October 2008)

"It could be argued that the subprime crisis arose out of a corporate social opportunity turned sour. The subprime mortgage market emerged to meet a social need – housing loans for people not being serviced by mainstream mortgage lenders. And it relied on new community channels to reach these under-served customers. But the opportunity was almost too good for some lenders, which mis-sold mortgages to customers with poor credit ratings, leaving them saddled with debt that they could not afford to pay."

*Ethical Corporation, September 2008*

At the other extreme, a lack of effective CSR mechanisms is seen as responsible for the recession. The question is raised as to why lessons of the past had apparently been forgotten as 'responsible' investors have repeated their mistakes made during the speculative dot-com bubble in the late 1990s and have invested in a sector which is considered to be inscrutable when it comes to evaluating the social impact of organisations' operations. Why, it is asked, were SRI analysts so enamoured with the financial sector and gave financial institutions positive ratings although they were involved in, at best, unsustainable and, at worst, fraudulent practices? Why was the financial sector seen as leading in CSR given its rather patchy record of social accountability practice? The main reasons cited are the shortcomings of traditional screening mechanisms in understanding the complexity of today's collateralised products and that many financial institutions had endorsed and manifest a type of CSR that was effective in building reputation but mostly cosmetic and thus ineffective in identifying and making transparent the risks in financial operations. In this discourse irony is often used as a rhetorical device to question the value of CSR policies and programmes of financial institutions and highlight the limitations of social research methods which have tended to look at the visible environmental and social initiatives instead of more important governance issues and actual core business operations.

"Between 2000 and 2004, Fannie was named the top corporate citizen in America based on data compiled by the leading US social research firm, KLD Research and Analytics in Boston, and was on many approved lists well into this year. But it didn't quite live up to its billing. This quasi-government agency and its sibling GSE [*government sponsored enterprise*], Freddie Mac, ended up as the catalyst for trillions of dollars of losses by shareholders and taxpayers. On the other hand, Fannie Mae does have a nice diversity programme." *Ethical Corporation, October 2008*

"In an article 'Can Strategic Investing Transform the Corporation?' in the September issue of *Critical Sociology*, Linda Markowitz, a professor at Southern Illinois University, reviewed the largest 41 US SRI funds. Three of the top eight holdings were financials: AIG, Bank of America and Citigroup. AIG was praised for its retirement benefits and sexual diversity policies; Bank of America strived to reduce greenhouse emissions and promote diversity; and Citigroup donated money to schools and 9/11 victims, and tied some of its loans to environmental guidelines. The stock price of all three of these companies cratered in part because their loan portfolios were weighed down by securities that even their own accountants could not understand." *Ethical Corporation, October 2008*

"Oh, by the way. Bear Sterns produced no CSR report of any sort. Lehman Brothers did not produce a CSR report, but they produced a philanthropy report. Even if they had gone further, it seems unlikely that the complex nature of how they created wealth would have been a feature." *Ethical Corporation, October 2008*

This discourse on CSR's shortcomings is occasionally mediated by the view that mainstream investors were seemingly no better placed than their ethical counterparts and that poor decisions have been made by all sorts of analysts and managers. However, the *Reconceptualisation and*



*Professionalisation* discourse entails a fundamental critique of the efficacy of CSR and its suitability as a proxy for responsible business performance. Accordingly, the recession appears to have elevated the concerns about the moral certainty and stakeholder accountability of financial institutions as raised by Enron and similar affairs. In so doing, the recession is seen to cast a shadow over the capacity of CSR.

“There are echoes of Enron here. While the charge against Northern Rock is mismanagement, not impropriety, the US oil and gas trading company was likewise famous for community initiatives in its home town of Houston. Once again there is a sense of CSR being wrong-footed; perhaps all those good works distracted attention from fundamental problems in the business.” *Ethical Performance, November 2007*

“[...] the same financial institutions and companies that are caught up in the scandals are also writing corporate responsibility reports – and even winning awards for them. This must challenge our industry to question the value of these documents and, more importantly, to find a way of measuring genuinely ethical behaviour that is unmistakable for employees, customers, shareholders, regulators and suppliers alike. The danger is that these reports, and by default CSR itself, are becoming discredited because of the disparity between reported and actual behaviour.” *Ethical Performance, November 2008*

“ [...] there are also too many examples of corporate responsibility deployed by companies with fundamentally amoral business models that cannot stand up to scrutiny. He [Porritt] says a particularly stark example is the UK banking industry.” *Ethical Corporation, September 2009*

On a more forward-looking and positive note, the discourse also refers to the fact that the concept of CSR has emerged from, survived, and was even granted a new lease of life by previous crises (e.g. the 1980s recession, the ‘dot-com bubble’). To this extent, at least, there is support for the expectations born of our own analysis of CSR and recessions (above). Partly supported by reference to empirical findings from surveys (e.g. of the UK Business in the Community network), CSR is constructed as a concept that has proved itself as a driver of value and will need to focus on issues that enhance the business in the long term at the expense of the more superficial puffery – or CSR as ‘window’ dressing’ as Milton Friedman (1970) would aver.

“There is nothing like an economic downturn to sharpen corporate minds. When budgets are being cut, and all aspects of a company’s behaviour are under scrutiny, every investment and outlay has to really and truly prove its worth. It is a great way of separating the wheat from the chaff. This hasn’t come a moment too soon for corporate responsibility as a discipline. A little bit of critical analysis, and a lot of re-evaluating of priorities, is exactly what advocates of responsible business need if they are to help companies as we go into an economic downturn, rather than hold them back. Everything done in the name of corporate responsibility that is poorly thought-through, non-strategic and superficial will be eliminated. If it is just a “nice to have” it is not going to happen any longer. In the long term, we will be left with corporate responsibility done properly; responsibility that focuses on and addresses those social and environmental issues that matter most to the business and its stakeholders; an effective and ever-increasingly essential business process that is built on a real analysis of the commercial landscape and provides a roadmap for success. The financial services sector is a great case in point.”

*Ethical Corporation, September 2008*

In this context of the prospects of CSR, the term 'balance' plays a crucial role. A major beneficial outcome of the recession lies in balancing environmental and social risks, which had either been neglected or poorly related to financial considerations (e.g. social risks building in the subprime market). Likewise, it is expected that, once the recession has passed, issues such as climate change and carbon risks, which have been temporarily relegated by the crisis, will come more strongly to the fore.

At the level of individual practitioners in the financial sector, it is often noted that almost no one understood the operations of financial institutions and the nature of the investment products being traded, not even their originators (Figure 5). This inability to understand made this a financial crisis waiting to happen. However, assuming that complex aspects of today's collateralised products, sustainability investment models and risk tolerance must be factored within decision-making and that the move from crisis mode to reconstruction mode must be coordinated, it is deemed necessary to foster individual capabilities and to enhance the knowledge of people involved. *Reconceptualisation and Professionalisation* features heavily in the coverage of the two CSR-related business magazines and, albeit to a lower extent, in the *Financial Times*.



**Figure 5** 'Complex debts; helpless traders', Ethical Corporation (October 2008)

The conceptualisation of the CSR profession and recession within this discourse includes a remarkably large amount of self criticism. CSR executives are viewed here as bearing a share of responsibility for what has happened. They are conceived as lacking the required expertise in economics and finance, analytical skills and knowledge, as well as lacking a proper grasp of mainstream issues relevant to the core values and overall business models of sustainable financial institutions. For instance, one area where CSR professionals are perceived to have failed was on excessive executive pay:

"CSR teams are not financial modellers. But they must understand enough of business basics to raise questions before viability is threatened. Otherwise, all the talk of 'integration' and 'embedding' of the corporate responsibility function is just that – talk. Part of the problem is that they often lack knowledge of other business disciplines. Half of CSR and sustainability managers have never worked in another corporate function, last year's CSR Salary Survey found." *Ethical Performance, November 2008*

“Few, if any, senior corporate responsibility practitioners saw the bonus culture as a business risk, or raised the subject in discussions with the board or in policy documents. Yet the skewing of corporate priorities caused by the proliferation of enormous, short-term bonuses was one of the major reasons for the poor business decisions that precipitated the crisis.” *Ethical Performance, September 2009*

The discourse emphasises that crises such as the recession can only be avoided if people have the capability to recognise and understand warning signs and are bold enough to challenge accepted practice. This does not necessarily imply that CSR professionals could have stopped inappropriate pay levels or changed the unsustainable lending practices. But challenging the practices would have appeared to be a legitimate contribution of the CSR profession and the failure in questioning these practices is certainly not a positive sign of the proper functioning of CSR.

“Many people were caught with their pants down when the global financial crisis erupted a year ago – and CSR practitioners were among them. A key role of a corporate responsibility executive is to be the canary in the coal mine and alert management to potential reputational problems. Yet you would do well to find anyone in the profession who could say they had been working behind the scenes over the years to counter the reckless business practices that led to meltdown. Of course, it would be ridiculous to lay the blame for the financial crisis at the door of CSR executives. But if there was such a collective failure to identify and address the fundamental risks that had built up in the system, then it is legitimate to ask whether the profession can make more than a marginal contribution to society.”

*Ethical Performance, September 2009*

So what to do? Now, as the financial crisis eases the expertise of CSR professionals is seen to be needed in order to address fundamental issues and to rescue and rebuild the reputation of the financial institutions. The debate takes place in an atmosphere of deep distrust, all the more as financial institutions appear to be returning to the bonus system - in some cases with relish and in others hesitatingly. The action that is deemed necessary to integrate sustainability into core business activities, to increase accountability and to restore public trust, ostensibly puts the CSR function centre stage and shows that CSR professionals have a critical role to play. However, whilst this could be seen as a trump card for the justification of CSR professionals, it can also make CSR professionals feel discomfort at the idea of being charged with rescuing the banks' reputation single-handed.

Another crucial agent involved in enhancing CSR within financial institutions is the investment analysis industry which assesses environmental, social and governance (ESG) risks. Despite their failure in responding to the subprime risks at an early stage and in looking for material risk in the right place and over the right timescale, authority is attributed to them that supports the discourse

of future long-term benefits from dealing with sustainable development. This optimism is partly based on the perceived benefits that are attached to the performance of SRI funds in the past and partly based on the experience gained over the last two decades in identifying social and environmental opportunities and risks faced by companies and industry sectors and the barriers to integrating ESG factors into decision-making processes.

Finally, closer collaboration between ESG analysts and 'conventional' wealth managers is deemed necessary both to educate asset managers and investors through the SRI/ESG community and to avert fundamentally unbalanced and ultimately irresponsible investment activities in the future. Often, the capacity of asset managers is viewed to be limited and criticised for not keeping up with the demand from investors. Concerns are raised that they are unlikely to be able to recommend sustainable investment products to clients (even if they exist within the organisation).

"[...] almost half of those surveyed [global readership of WealthBriefing] said they did not promote responsible investment to their clients, with 65 per cent of wealth managers saying the proportion of socially responsible investment in their clients' portfolio was less than 5 per cent."

*Financial Times, October 2009*

It is therefore noted, more positively, that several financial institutions have established initiatives which aim at strengthening the relationship between sales-oriented client-facing teams and relationship managers, on the one hand, and sustainability-minded or socially responsible investment teams, on the other hand. This reveals the importance attached to capacity building programmes on sustainability for banking professionals and others. However, hardwiring sustainability considerations into investment processes is in its infancy as the following example elucidates:

"Many signatories have hired new responsible investment staff and have really taken up the PRI challenge. HSBC Investments, for example, has rolled out PRI training to more than 500 staff in 18 different countries. The first goal of the PRI initiative is to persuade investors of the value of being responsible investors, and the long-term financial benefits that are likely to flow from incorporating the full spectrum of risk into investment analysis and taking ownership responsibilities seriously through active dialogue with companies around ESG issues of concern. This capacity-building work has to be the first priority, as most investors are at a very early stage of their responsible investment journey. [...] 500 staff in 18 countries have had PRI training. In some ways this example makes the point. HSBC has more than 300,000 staff globally, of whom 27,000 are in the global banking and markets division."

*Ethical Corporation, November 2008*

As business schools are the financial services' major recruitment source, showing up the shortcomings of a traditional business school education and overcoming the failures in integrating societal needs and addressing tomorrow's challenges is seen to be essential in this discourse. However, according to this construction of CSR and recession, business schools are failing so far in leading thought and actions on this and related CSR issues. They are criticised for making little headway overall in imbuing finance courses with ethics to enhance sustainable business practices. For example, a rather cynical view of legitimising bonus payments in the recession is taken when referring to the need expressed by the finance sector to reward the 'best people' and simultaneously stressing that the reality during the financial crisis has demonstrated that the 'best' talent of the financial sector was, in reality, quite the opposite.

"Some are left wondering where, if anywhere, these executives learnt their business ethics. Much of their training comes from the cut and thrust of work. But a large proportion can be found being taught in business schools. It now seems a fundamental failure of business school ideology has been to focus on how companies can make the most money with minimal regard to social consequence. [...] The rhetoric of ethics may be in vogue in business schools, as it is in business itself, but the next generation of executives continues to be trained under an ethos of entitlement, with a disposition to exploit rather than add value to society."  
*Ethical Corporation, February 2009*

"[...] while many schools offer broader courses on areas such as corporate responsibility and social entrepreneurship, few take sustainability issues into more technical areas such as accounting or finance. Moreover, even where schools launch courses [...] they remain electives, with few of the topics they cover finding their way into the core finance courses of MBA programmes. 'The people going into the mainstream financial functions aren't necessarily taking a course like this,' says Nancy McGaw, deputy director of the Business and Society programme at the Aspen Institute."  
*Financial Times, April 2010*

Possible solutions require fundamental changes to the way business is taught and done involving aspects such as: turning out graduates who contribute value to society and supporting them in dispelling archaic notions of entitlement; instilling in students a greater sense of humility in a changing global environment; recognising the need for greater honesty and integrity at an intellectual level in dealing with the role of business in society and within a resource-constrained planet; promoting business thinking that is to the benefit of the common good; prioritising a far wider range of perspectives to counterbalance the current prevalence of short-term decisions and ideas about money making.

These measures are deemed necessary and stem from the belief that graduates would concentrate more on long-term impacts such as quality of life and creating truly sustainable businesses if sustainability is well embedded in business schools' teaching and learning and research environments. Business schools are expected to be rewarded if they contribute to society rather than

simply training young leaders to exploit it. The development of an ethics guide for UK business schools as a response to the criticism of business schools role in educating people who led and managed the financial institutions which contributed to the financial crisis is therefore regarded as desirable. Perhaps the most radical element of the reconceptualisation and professionalization of business is for changes in mind-sets resulting from studying the failures of the financial capitalism and from graduates' greater acknowledgement of their professional role and responsibility in global challenges going beyond the accumulation of personal wealth. However overall, there are only few articles discussing the role of business schools in the context of CSR, the financial sector and economic recession.

"The global economic slowdown is rapidly changing the aspirations of India's most talented graduates, leading many to reassess what they want in life. Fat pay cheques and a job with a foreign bank or multinational have ceased to be the main goals for students leaving business school. What they seek now is the pursuit of happiness and a more active role in the social and economic development of India, according to deans of the country's top business schools. "As we have seen the subprime bubble burst, people have begun to ask more questions of themselves," says Ajit Rangnekar, dean of the Indian School of Business. "The mad pursuit of money seems to have come down a bit." [...] The shift away from the financial services sector and multinationals also means that students are prepared to accept lower wages, something which would have never happened even a year ago, according to several placement officers."

*Financial Times, February 2009*

To conclude, the discourse challenges the capability of the CSR concept and the awareness and boldness of 'CSR agents' to enhance the financial sector's transformation process and frame its current and future responsibilities. CSR and recession is often characterised as the most expensive learning opportunity which we will have in a long time. It is stressed that this should not be wasted if we want to overcome unsustainable behaviour in a consumption-driven capitalist economy and in order to better prepare tomorrow's leaders for future market realities arising from sustainable development. In short, the financial sector is seen to require a conceptual reinvention of CSR and individual and institutional capacity building.

## Political Economy Restructuring

This discourse centres on questions about the sustainability and ethicality of free market capitalism and draws attention to alternative models of economic power and order. It suggests that the long period of economic growth and increased consumption, problems in the political economy such as the growing income gap in countries such the US and the UK as well as the contradictions of capitalism were easily overlooked. With the looming recession and a market in which credit flow/liquidity had dried up, concern that this period of stability had ended took centre stage (see Figure 6). The discourse reveals a frayed social relations between the financial sector, government and society. Irresponsible behaviour is constructed around two main notions: first, the classical critique of “socialism for the rich and capitalism for the poor” is used to describe the privatisation of profits through irresponsible lending and investment practices while losses are publicly shared through taxpayer-funded bailouts of financial institutions. Second, irresponsibility is expressed in the metaphor of greedy and selfish bankers who were well aware of the risks associated with the questionable lending and investment practice and willing to pass the risk onto others. Arguments around these two notions reinforce a perception of unfairness at the heart of the political economy, expressed most frequently in the Ethical Corporation.



**Figure 6** ‘Stability means not just chasing the quick buck’, Ethical Corporation (February 2008)

“It’s time to take stock when Goldman-owning “ethical” fund managers fete a Wall Street firm for not only dodging the subprime mortgage train crash, but also turning the credit collapse to its advantage. [...] Let’s call it the Goldman Greed Factor – celebrating other people’s misfortunes. It’s a trait that cuts across ideological lines. [...] I can’t shake a growing uneasiness that the sight of any firm profiting from this disaster may not sit so well with large sections of the population that find themselves losing their houses or suddenly finding car loans hard to come by. If the credit crunch spreads it could tear the social contract that has been in place for decades.”  
*Ethical Corporation, February 2008*

“The history of world finance could be told as a constant succession of crises.” So says Green in his book *Good Value*, one of the year’s best-selling business titles. If crises are repetitive, what have we learned from the global recession that has defined so much of 2009? Much we already knew. International financiers are greedy. Global finance lacks good governance. And banks, basically, rule the world.”

*Ethical Performance, August 2009*

“That fateful autumn has led many to rethink the relationship between business and society. Judging by readers’ e-mails, there is a deep unease about the way companies have been run and the role they play in communities. Many readers have asked why banks wandered so far from their mission of taking in savings and making loans. They have pointed to the chief executives who reaped huge personal rewards by agreeing to the takeover of their companies. They have asked why maximising shareholder returns

became a near-sacred goal when shareholders' transience and lack of involvement made the idea that they were the company's stewards absurd. [...] Banks lost society's respect." *Financial Times, February 2010*

Irresponsible behaviour of the financial sector is viewed as having implications for the social fabric and the economy as a negative spill over of banks' failures undermine trust in all businesses and threaten a crisis of legitimacy (as indicated by studies such as the one by the Institute for Business Ethics and Centrica 2010).

Despite attention to irresponsible behaviour of individuals (in particular concerning bankers who exploited the system and then exited with personal fortunes), this discourse is mainly concerned with institutional failures. The discourse, for example, criticises credit agencies which gave their seal of approval to worthless bundles of debt. It also questions how well and in whose interests governments steered the financial markets. For example:

"In August the credit crunch took a decidedly "moral" turn when the US Federal Reserve moved to stabilise financial markets shaken by a deepening credit crisis stemming from problems in the sub-prime mortgage market. It cut its discount rate on loans to banks by half a percentage point and lengthened the maximum term of its discount window loans from one day to 30 days. Market participants jumped for joy. The move was interpreted as a sign that a cut in the federal funds rate on loans made between banks – the move Alan Greenspan, during his tenure as Fed chairman, made whenever markets began looking shaky – would not be far behind. This proved enough to lift spirits and share prices, at least for a time. And, as it turned out, [...] the four largest US banks did take advantage of the lowered discount rate. [...] the markets had indeed interpreted Fed chairman Ben Bernanke's discount rate move correctly. On 18 September the Fed announced it was reducing both the funds rate again and the discount rate by half a percentage point. With these rate cuts, the issue of "moral hazard" reared its head. Moral hazard, in this context, is when lenders and investors, confident that they will be bailed out if the deals go sour, make more loans or riskier investments than would otherwise be sensible. [...] Many are still not convinced that the rate cut, which has seen the dollar plummet in value, was not merely a dubious move by the Fed to bail out its banking buddies." *Ethical Corporation, October 2007*

Overall, the discourse paints the picture that irresponsible practices have become widely accepted and institutionalised. Increasing executive payments and bank bonuses are interpreted as arising from misaligned incentives and are an expression of a system that manipulates and pools individual greed.

Despite all its benefits, our economic system institutionalizes greed in at least two ways: it inculcates and enforces the truisms that corporations are never profitable enough and people never consume enough. To increase profits, we must be conditioned into finding the meaning of our lives in buying and consuming. Consider the stock market. It functions as an ethical 'black hole' that dilutes responsibility for the actual consequences of the collective greed that now fuels economic growth. On the one side of that



hole, investors want increasing returns in the form of dividends and higher share prices. That's all that most of them care about, or need to care about. On the other side, however, this generalized expectation translates into an impersonal, but constant, pressure on corporate managers to maximize profitability and growth, preferably in the short run. [...] Everything else, including the environment and the quality of life, tends to become subordinated to this anonymous demand for ever more profit and growth."

*Ethical Performance, November 2009*

According to this discourse, collective failure requires an institutional response, and it discusses the role of interrelated governance factors which allowed financial institutions to act in their self-interest and to carry out unconscionable lending practices. Scepticism is prevalent about eradicating irresponsible behaviour without substantial change in the political economic order (illustrated with reference to the return of bankers' bonuses, see below). Hence, emanating from the recession there are calls to 'rein unfettered capitalism' and avoid similar crises in the future.

Within the discourse of *Political Economy Restructuring* we can distinguish two main variants. There is the *reformist* discourse which focuses on a range of issues around the regulation of business, including a general increase in the regulation of the financial sector, corporate governance reforms and the governance of trust relationships between business and society. A somewhat more diffuse *radical* variant focuses upon the need for more radical change to the political economy.

The reformist variant of the discourse assumes that constraints in embedding CSR will not be overcome without improving and strengthening governance. We identify three main sub-discourses within this variant: the roles of government, corporate governance and trust within the financial industry and between it and society.

Whereas Reagan and Thatcher's periods were driven by deregulation, this sub-discourse emphasises the importance of the public sector in the global economy. This includes encouragement of tighter rules for and regulation of financial institutions. While some call it stricter enforcement, others talk more about greater interaction between governments and the financial sector. There is consensus that greater governmental and regulatory oversight should include wider sustainable development agendas. According to one poll which is cited in the discourse, nine out of ten CSR professionals expect increased government regulations on CSR related issues including, for example, corporate governance and financial transparency (see below).

Given the governments' stake in bailed-out or nationalised banks, there is for example hope that governments' involvement could be used as leverage for public and private finance of sustainable investment projects. The debate about creating investment conditions for a low carbon society included, for example, the stakeholder demand to establish the world's first green bank operated by the government. Urged by several interest groups to use its influence over the finance sector after bailing out several banks, the UK government ultimately decided not to convert one of the bailed-out or nationalised banks into a 'green' bank but to establish a new Green Bank to finance environmentally sound investments. Beside this example, financial responsibility requires wide areas of public as well as private reform and there is a great complexity of challenge for governments if long-term consequences and complex relationships have to be considered.

The second sub-discourse focuses on corporate governance reform and investor influence/control involve debates about inappropriate executive payments (e.g., reflected in an increasing number of 'say-on-pay' proposals giving shareholders a non-binding advisory vote), inadequate board oversight and risk management (seen to be responsible for Lehman Brother's failure), and limited accountability. The hope is that revised governance procedures will embed CSR more strongly and better orient financial institutions towards governance of the long-term interests of society. It thus comes not with a surprise that high pay scales and banker bonuses are scrutinised as they usually create short term incentives. Whilst excessive payments have raised corporate governance issues for many years, this was often an issue of degree, not of principle. However, in the context of the economic crisis, the use and justification of taxpayer-paid bailout funds to pay generous payment packages is widely criticised:

"And listening to the justifications of the bonus payments put forward by current and former chief executives, it is doubtful whether anything will ever dent their conviction that they are worth the astronomical sums they and their employees are paid. John Thain, the recently fired head of Merrill, has argued, for example, that the bonuses were needed to retain his company's staff. Yet in an industry on the brink, most bankers will be grateful merely to retain their jobs. And Jamie Dimon of JPMorgan Chase argued in February that it was "unfair" to tar all financial firms with the same brush when it came to pay, since "not every company was responsible". It is true that Dimon's company has been outperforming most of its rivals by registering a mere \$29.5bn in losses, writedowns and credit provisions since the crisis began. But if Dimon considers that making an 11-figure loss and taking \$25bn from the US government's Troubled Asset Relief Program while the financial industry stands at the edge of an abyss justifies bonuses, then it would be interesting to know what he thinks would not." *Ethical Corporation, March 2009*

Interestingly, it is also noted that social investors share the blame for the crisis as problems of inadequate transparency and accountability led socially responsible investment (SRI) funds to trade

in publicly traded government sponsored entities and other financial institutions leading to huge losses by shareholders and taxpayers. Some critics thus argue that SRI research methods were not better, maybe even worse, than conventional methods of identifying risks:

“They have tended to look at the visible social initiatives that have always appealed to this community, and not at the governance issues or the actual operations of a business. Yet that’s what makes corporations viable enterprise.”  
*Ethical Corporation, October 2008*

It is the public anger about the rapid return to the bonus culture and to business as usual in payment practice which turns the corporate governance issue into a political one. There is unanimity in the sub-discourse that bonus schemes intended to ascribe the performance of banks to the actions of a few individuals – and to reward them disproportionately in a recession are at odds with CSR. A prominent example of this criticism was of Stephen Hester, the incoming chief executive of the Royal Bank Scotland (RBS), who received £9.6 in 2009. Although RBS was one of the first banks to change its approach by basing compensation on long-term performance with deferred payments subject to claw-back, the UK government’s bailout and 70% stake in RBS makes the bank an easy object of criticism (see Figure 7). As the (usually short-term orientated) bonuses are viewed to be a major reason for poor management decisions that preceded the economic recession, there is also concern that we will not get the behavioural change needed to prevent a (re-)occurrence of the economic crisis or other environmental/social crises. This, to some extent, reinforces the call for stricter regulation:



**Figure 7** ‘Fewer Corporate jollies now’, Ethical Corporation (October 2009)

“Guy Hands, the private equity tycoon, has launched a stinging assault on the return of big bonuses within the banking industry, lambasting bankers for taking home “wheelbarrows of money” on the back of taxpayers’ support. [...] “I wrote my 2008 annual letter days after the failure of Lehman Brothers,” Mr Hands says. “At the time, the newspapers were full of bankers carrying cardboard boxes as they were sent home from their jobs . . . Only 12 months on and today’s papers are again full of photos of bankers - but this time they are going home with wheelbarrows of money as the bonus season kicks in.” [...] He also renews his call for legislation separating “high risk” investment banking activities from “utility” banking operations. He says: “It cannot be right to continue with a system that allows risk to be taken in the knowledge that, if things go right, bankers will take on average 60-80 per cent of the profits generated through compensation and, if they go wrong, shareholders and ultimately the government will pick up the costs.”  
*Financial Times, December 2009*

“Remuneration and performance-pay cycles are too short, rewards for failure are too great and this works to the detriment of the long-term sustainable future of these companies and the wider economy. It’s not just happening in RBS [*Royal Bank of Scotland*]. It is business as usual all across the City and financialised capitalism across the globe.” While there is a place for corporate responsibility initiatives, Hayes [*general secretary of pressure group Compass*] says, the risk to the wider economy necessitates “systemic change” led by government.” *Ethical Corporation, October 2010*

Relatedly, it is also noted that some bailed-out banks paid back the government early partly to avoid stricter regulation on executive payment attached to the bail-out money. Conversely, the controversy generated by the payment cap in bailed-out US businesses introduced by Barack Obama in 2009 highlights the complexity of rewarding executives in a universally responsible way.

Finally, a third sub-discourse of the reformist *Political Economy Restructuring* discourse addresses trust relationships within the financial sector and between the financial sector and society. The sub-discourse contends that greater accountability, higher transparency and more balanced power could have avoided the crisis. The importance of trust for the financial system became evident when banks stopped to believe each other and refused to do business together, a key stage in creating the economic crisis. The discourse uses rhetorical devices such as metaphors and sarcasm:

“The fact is that all these companies, Lehman Brothers, Bear Stearns, AIG and the rest, had massive financial holdings that were worth considerably less than they thought. Nobody was able to penetrate the fog to get to the truth of it. [...] How do we keep doing this? A few years ago, it was the dot com bubble, when a bunch of apparently sane, rational people began to believe that the laws of gravity had been suspended by the advent of the internet. This is the economics of Disney - the character who runs of the edge of the cliff, and can keep running up until the point he looks down and realised there is no ground under his feet.” *Ethical Corporation, October 2008*

“With much of the blame for the credit turmoil having been laid at the door of “Moody’s and its fellow rating agencies – which gave AAA ratings to about 80 per cent of the sub-prime-mortgage-backed securities that fuelled the meltdown and then dithered for months before cutting them – the agency’s own view of what happened makes for interesting reading. [...] The argument is that the banks that ended up holding the subprime-mortgage-backed securities had little understanding of quite how spurious their genesis and valuations were. But the authors go on from this to make a remarkable claim, saying: “Risk traceability has declined, probably forever. It is extremely unlikely that in today’s markets we will ever know on a timely basis where every risk lies.” Why then, given this reduced risk traceability, did Moody’s and its fellow agencies bestow AAA ratings on securities that would eventually prove near worthless? The authors answer this by citing a fifth potential culprit, which they describe as “the misconception that highly rated securities are necessarily liquid”. They argue that a security is rated based on its issuer’s balance sheet, and this should not be confused with a market-risk judgment “based on a speculation about the quantum of buyers for this debt at any point in time”.

While the ratings were certainly wrong, if this definition is true, then it gets the agencies somewhat off the hook. And, in fact, a recent Citigroup research note called “Testing Times” seems to confirm the authors’

claim, stating: “The concept of what ‘AAA’ actually meant ... became very distorted, without the full realisation of those investors or risk managers.” [...] And the authors then make another remarkable suggestion when discussing the final aspect of the financial system treated in the report – the demand for exactitude in financial reporting. They suggest that the increasing complexity of the financial system is making precision in financial reporting impossible.

Take this together with the earlier comment about the impossibility of the timely tracing of risk in today’s markets, and things start to sound very worrying. Markets are our best mechanism for dealing with uncertainty and risk. But when the uncertainties and risks start taking an indiscernible shape, one has to wonder where these times of crisis are leading us.” *Ethical Corporation, February 2008*

Accordingly, one of the biggest tasks identified is to change regulatory frameworks to secure transparency in capital markets. Advocates of CSR/ sustainability reporting such as the Global Reporting Initiative (GRI) or Ceres assume that the crisis could have been substantially mitigated, if not fully avoided if standardised, mandatory reporting had been in place:

“Consider the case of the current global financial meltdown, in large measure a crisis of transparency, through the lens of non-financial reporting. Imagine if standardised, mandatory reporting had been in place during the last five years. Had this been the case, the financial industry – investment banks, commercial banks, pension funds and others in the supply chain – would have been subject to mandatory reporting of the environmental, social and governance (ESG) risks associated with their policies, practices and products. If such reporting had been required and, moreover, faithfully executed and verified, the societal consequences of mortgage-backed securities, credit default swaps and other exotic instruments would have been exposed for their potentially disastrous consequences for families, communities and whole nations. In this scenario, it is fair to say that the current financial crisis would have been substantially mitigated, if not fully avoided.” *Ethical Corporation, January 2009*

Thus mandatory CSR reporting of institutional investors (e.g. banks, pension funds) is expected to make transparent how these organisations implement sustainability criteria into their businesses and take account of longer-term consequences of their activities. This also includes private equity firms and sovereign wealth funds which are seen to threaten market transparency and corporate governance practices. Relatedly, financial institutions such as the European Sustainable Investment Forum (Eurosif) call for wider mandatory disclosure of CSR data by large companies in order to enable financial institutions to better incorporate ‘environmental, social and governance’ (ESG) analysis.

More broadly, this sub-discourse invokes the notion of stakeholder accountability to underline the need for a fair deal for society (see above) and to regain employee loyalty. Restoring confidence and accountability is at the forefront of commentary on many areas of the financial sector (e.g. mortgage

industry, housing market, pension funds) and supported in the form of guidance documents provided by organisations such as the Institute of International Finance.

Credit rating agencies also come in for critical scrutiny having been of little use in anticipating the economic crunch as evidenced by their high ratings of mortgage-backed securities. Credit rating agencies are prompted to change the way they rate structured finance products as initially urged by the European Commission, prosecuted under a draft European Union law concerning new accountability rules, and subsequently entailed in new US Securities and Exchange Commission approves rules requiring greater disclosure and means to help avoid conflicts of interest. This sub-discourse tends to endorse further regulation to improve transparency of pension funds, local government pension schemes, companies pension funds, investment managers, private equity firms, sovereign funds, etc. This is often debated in the context of a perceived a need to align incentives of the investment community and remuneration of fund managers with CSR criteria.

Whereas the first and main variant of the *Political Economy Restructuring* discourse views the post-recession era as offering a business environment with the same but reformed regulatory regimes, the second variant of this discourse identifies fundamental flaws in the business system, with implicit or explicit calls for more fundamental change. As the media selected for this analysis have no wider radical orientation these instances are relatively rare, but that they occur at all herein is worth noting. This sub-discourse underscores endemic problems of aligning the financial sector with CSR, and urges the creation of new forms of political economy, either in the name of some implied true model of capitalism or of some idealised other model (see Figure 8).



**Figure 8** 'Ethical activism: business needs to keep up', Ethical Corporation (May 2009)

Starting with the most fundamental expression of political economy reform, there is the view that capitalism can best thrive when regulated and when societies are well-provided for:

“Capitalist systems function less well without state protection of investors, lenders and companies against monopoly, deception and fraud. These systems may lack the requisite political support and cause social stresses without subsidies to stimulate inclusion of the less advantaged in society’s formal business economy. Last, a huge social insurance system, with resulting high taxes, low take-home pay and low wealth, may not hurt capitalism... the idea of all-knowing bankers and unerring entrepreneurs is laughable... if we still have our humanist values we will try to restructure these (financial) sectors to make capitalism work well again.”

*Financial Times, April 2009*

Another theme in this sub-discourse is the identification of a simple problem that proponents see reformists as ignoring:

“globalisation and the spread of free market capitalism have greatly increased the power of big business at the expense of democratically-elected governments and other institutions”

*Financial Times, January, 2009*

Thirdly, there is the out and out view that

“we can no longer assume that unfettered capitalism is for the public good. Change is needed... who is responsible for this (system of ever-increasing debt)? The system has attained a life of its own. We all participate in this process as workers, employers, consumers, investors and pensioners with little, if any, personal sense of moral responsibility for what happens... perhaps corporate charters need to be restructured , so that corporations exist primarily because they serve the public good, rather than private gain. We can no longer assume that pursuing the latter also promotes the former.”

*Ethical Performance, November 2009*

Whether neo-liberal or socialistic these contributions to the Political Economy Restructuring discourse are not simply systemic level manifestos, but they also entail more specific critiques.

First of all, bailouts to ward off recession are regarded as following a path of least political resistance and as imposing costs on future generations. Such policies are seen as preserving some failed institutions at the expense of younger companies which may have more favourable investment strategies. Hence, there is concern that the circumstances which led to the crisis will be replicated creating a similar future crisis.

Secondly, in contrast to the *reformist* discourse which calls for systematic change led by government, here the debate is about the necessity to change norms, cultures and investment beliefs – particularly concerning the institutionalised culture that rewards short-term risks over long

term sustainability. This sub-discourse views statements by banking leaders about voluntary transition (drawing on elements of the other three discourses) as fanciful and rhetorical at best:

“Yet even if the old deal has been a good one for bankers, their self-interest – which was to a great extent the immediate cause of the crisis – may have them accept and even possibly help draw up a new, more balanced deal. What may lead them to change their behaviour is the fear of what could happen if they do not. Governments may not in future be willing or even able to bankroll further bailouts should the risk-taking lead once more along the path of ruin. And if banks fail to react to the general unease and even disgust at how they have behaved in recent years, they may find themselves back in the regulatory straitjacket of the post-war years. So while commitments on issues such as bonuses, governance, capital ratios and more lending to small businesses may be the stuff of platitudes for now, banks could soon agree to reversing the pattern of recent years and taking on private costs to deliver social benefits. It may not be likely, but it is certainly possible, and financial firms may find that, in the present climate, a little social investment may end up proving the most lucrative of all.” *Ethical Corporation, September 2009*

One alternative form of the political economy includes the case of a totally deregulated monetary system. Here, the financial crisis is attributed to a risk-maximising banking sector which exploited the excessive governmental roles (e.g. central banks which dictate interest rates and issuing and circulation of notes). It argues that in a world of a totally deregulated monetary system bubbles are unlikely to form and a laissez-faire or free banking system would be accordingly more responsible (see Figure 9).

One contribution cites Scottish experience from the mid 1700s to the mid 1800s of an almost free banking system was established and built around a market-orientated clearing system that created trust and stability and made monetary policy or power on the part of bankers irrelevant:

“The near-complete taxpayer-funded insurance against insolvency (in the direct form of lender-of-last-resort activities by the central bank, and the indirect form of state-backed deposit insurance) would not be present or even considered necessary in a laissez-faire system. And in a system in which bankers have unlimited liability, it is unlikely that any

of today’s Scottish bankers would walk away from their insolvent companies with their multimillion-pound pension packages intact. Most significantly, though, in a world of free banking, no bank or government could print money at will regardless of the state of the economy. It is a world in which, according to those who have studied it, bubbles like the one we have just experienced would be starved of air.”



**Figure 9** ‘Should governments set banking free?’, Ethical Corporation (June 2009)

Ethical Corporation, ...



The laissez-faire sub-element of this discourse offers little hope that the current system will change dramatically. A major reason for this is that the economic strengths of free banking are also seen to be its political weaknesses, i.e. there is, for example, great concern that a market-driven banking system would limit its leverage function to foster social justice through issuing credits to the poor. Nevertheless, it is stressed that laissez-faire banking provides some thoughtful ideas for a more stable banking system:

“For while interest rates and levels of credit determined entirely by market forces would produce stability, they would rule out any form of, say, government monetary policy to support employment through low interest rates or social policy to make loans available to the financially insecure. Even after the subprime fiasco, these are still issues that would impede the acceptance of a monetary system not controlled by the government. [...] Yet even with all this in mind, it is clear that the Scottish example and the work of the contemporary proponents of laissez-faire banking systems inspired by it could be of immense value to those wishing to plan or realise a more stable banking system, or at least get to grips with what might be the weaknesses of the present one.”  
Ethical Corporation, ...

As with the former discourse of *Moralisation and Ethical Leadership* the discourse of *Political Economy Restructuring* reveals a change in perception of fairness due to the irresponsible behaviour of the financial sector. It differs however in that it calls for an institutional response to overcome the irresponsibility of the financial sector. Structural change to the political economy can either be achieved through reforming the governance of the sector and its relationship with society or through revolutionising the existing system whether through much more or much less regulation.

## DISCUSSION AND CONCLUSION

In the context of our understandings of CSR in general terms, CSR in the financial sector and the relationship of CSR to previous recessions, this paper has provided an analysis of informed debate about CSR, the financial sector and the recession.

It has enabled us to identify and distinguish four distinct discourses on these relationships each with its own theoretical or normative underpinnings, integrating themes, empirical reference points and policy or practical implications. Of course, this process inevitably involves a certain amount of rationalisation by the analysts of what are otherwise relatively disparate contributions. However, we have grounded our analysis in a comprehensive and systematic inquiry into the meaning of the data and our presentation of these discourses in often extensive quotations.

Although the discourses are not entirely mutually exclusive they do represent clear alternative bases for diagnosis and prescription. We have found that each discourse betrays different understandings not only of why the financial crisis took place and the place of CSR whether is the problem or its resolution, but also of wider issues about the capacity of the current model of capitalism, the place of individual responsibility and leadership, the adequacy and professionalisation of CSR, and the necessity of more fundamental regulatory change – be it more or less.

The *Market Rationalisation* discourse basically goes that in the light of the problems leading to crisis and recession, organisations in the financial sector can and should better align CSR with their market contexts in order to ensure more responsible and productive future performance. This is not a matter of ethical review, conceptual re-think or regulatory reform or revolution but rather a better utilisation of CSR for market success.

The *Moralisation and Ethical Leadership* discourse, in contrast sees the problem as not about rationalisation at all – if anything calculation about financial performance has been part of the problem. Instead, this discourse stresses moral and ethical shortcomings of the sector, especially among its leaders.

The *Reconceptualisation and Professionalisation* discourse sits rather between the first two discourses in that it endorses taking social responsibility very seriously and doing so in such a way that it is more thoroughly applied to market operations in the financial sector. It encourages a more thorough going re-think about the scope and capacity of CSR and the preparation of its practitioners to ensure responsible market operations.

The fourth discourse, *Political Economy Restructuring*, whilst sharing some of the indignation of the *Moralisation and Ethical Leadership* and *Reconceptualisation and Professionalisation* discourses, contrasts with these in that it does not see moral re-armament or re-conceptualisation and professionalism as adequate for the task of ensuring more responsible market operations. Rather, regulatory change is required, be it reformist or radical, re-regulation or de-regulation. Most obviously, therefore it contrasts with the *Market Rationalisation* discourse.

There is a clear tension in the discourses concerning the ability of the sector to 'heal itself'. The first three seeing this as possible, predicated respectively on hard-nosed market thinking, prioritising the ethical, or taking the entailments of social responsibility in the broad more seriously. However, there is little clarity about the source of these palliatives. The fourth, in contrast, deems change from the outside of the sector as the pre-eminent recipe for a responsible financial sector and the particular source of this recipe is the regulators.

There are also some themes which emerge across the four discourses. First, the function of reporting and accountability emerges as a common reference point for further responsibility. In the *Market Rationalisation* it is recognised that reporting had been too easily used as a PR initiative and this needs to be better used as part of a trust building strategy. The *Moralisation and Ethical Leadership* discourse also supports such a use of reporting and includes reference to outstanding reporting and discusses possible collaborative and even mandatory mechanisms to improve practice here. Still, the idea that industry-wide reporting frameworks could offer a device to embed responsibility in the financial sector and avoid future crises is strongest in the *Political Economy Restructuring* discourse.

A key theme running across the four discourses is the question of the capacity that comes with the CSR concept to enable it to be a reliable feature of responsible business. The *Market Rationalisation* discourse advances the view that CSR should be better integrated into market realities so that responsibility and productivity are properly aligned. The *Moralisation and Ethical Leadership* and *Political Economy Restructuring* discourses both doubt the achievements of CSR to date and its future capacity, at least alone, to avert further business irresponsibility. By definition, the *Reconceptualisation and Professionalisation* discourse, whilst recognising CSR shortcomings to date, contends that companies are capable of developing their management capacities and their strategies to enable CSR to act as a force for more responsible business. CSR professionals and the SRI industry, in particular, are regarded as key actors both to be agents of change as well as part of that change. Interestingly, perhaps, the theme of more fundamental cognitive change which might

be brought about by re-thinking business education is only seldom alluded to, with the exception of some passing references to the United Nations Principles for Responsible Management Education.

Overall, the discourses share a view that there is a need for change and even that there has been some attitudinal change but differ in their views on the nature and extent of the change required to ensure a more responsible financial sector. Our analysis gives no grounds for identifying any one of the discourses as somehow superior or more likely to eventuate. Indeed there is every reason to assume that elements of the different discourses will emerge in time.

In this context, it is worth briefly reflecting on the nature of the discourses around the CSR concept more broadly since the UK recession of the early 1980s. Certainly, there was a large appeal to *Moralisation and Ethical Leadership* in the early phases. There was also some reference to *Market Rationalisation* at least in the shape of the 'social license to operate' though in subsequent decades this has featured more centrally in justifications for CSR both in managerial and academic circles. Likewise, there was little of the *Reconceptualisation and Professionalisation* discourse in the early phases - the concept and capabilities were rather taken for granted – but in subsequent decades this has become more potent as evidenced in the growth of CSR professional organisations, networks and media, and of university and executive education and training programmes. Thirdly, whilst government powerfully endorsed CSR during and in the immediate aftermath of the 1980s recession, the *Political Economy Restructuring* discourse emerged rather later, as illustrated with debates about such initiatives as taxation incentives for corporate giving, Pensions and Companies Acts reporting requirements, and climate change regulations.

The main practical contribution of the presentation of the discourses is therefore that managers and policy-makers are able to gain clear insights into distinctive types of response to the crisis and recession. The assumptions and their implications of the different discourses are illustrated, along with points of overlap and differentiation. The sum of the analysis is that there is shared disquiet about the state of responsibility in the financial sector and that there is an array of possible responses which need to be weighed by leaders and professionals, companies and institutions. Questions of accountability and CSR capacity are prominent across the discourses but the nature and sources of these are subjects of continuing debate.

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