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Corporate crises in the age of corporate social responsibility

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Abstract Many companies today believe that corporate social responsibility (CSR) acts as a reservoir of goodwill, insulating the firm from the negative impacts of a crisis. Yet, the impact of CSR on public reaction to corporate crises is more complex. Drawing on research on stakeholder reactions to CSR and—more specifically—corporate crises, we present a contingent framework for understanding the roles of CSR in corporate crises and how to manage it. This framework posits that CSR plays four important roles: it (1) increases stakeholders' attention to crises, (2) affects blame attributions, (3) raises expectations, and (4) changes stakeholders' evaluations of crisis situations. Several factors underlying these roles are also discussed. Overall, this article underscores that while CSR may insulate companies and mitigate stakeholders' negative responses in some cases, in others it may actually lead to the opposite effect, amplifying the negative impact of a crisis. The article ends with a brief discussion of the implications of our framework for effective crisis management strategies in the age of CSR.

1. CSR and corporate crises: A revisit

Corporate social responsibility (CSR), defined broadly as a company's status and activities with regard to its perceived obligations toward society (Brown & Dacin, 1997; Sen & Bhattacharya, 2001), occupies a prominent place today on the global corporate agenda. From disaster relief to the development of socially sensitive business practices, companies around the world devote unprecedented efforts and resources to CSR initiatives in the hope of creating shared value for themselves and the environment and society. A key consequence of CSR engagement is reputation

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enhancement.[1] Not surprisingly, then, many companies believe that their CSR activities may act as a reservoir of goodwill, insulating them from the negative impacts of crises. Academic research (Godfrey, Merrill, & Hansen, 2009; Klein & Dawar, 2004) supports this idea; for example, an analysis by Minor and Morgan (2011) of CSR and product recall event data of all S&P 500 companies over the period 1991—2006 reveals that stock prices declined significantly less following a product recall for companies that engaged in CSR. This is welcome news to companies worldwide, as no firm is immune to crises. Johnson & Johnson's series of medicine recalls, Walmart's bribery of Mexican officials to hasten expansion of the retail giant in that country, General Motors' recall of vehicles with faulty ignition switches that led to multiple deaths, and well-known companies' removal of products from shelves in the midst of the European horse meat scandal: all are relatively recent examples of crises that have notably made headlines.

The role played by CSR in times of crisis may, however, be more complex than research suggests. Consider the case of British Petroleum. BP invested substantially for years in its Beyond Petroleum campaign to portray itself as a socially and environmentally conscious company, yet suffered important market losses following the 2010 Deepwater Horizon disaster (Hargreaves, 2010). BP received heavy public criticism not only for the crisis itself, but also for the way in which it handled the matter. Many observers argue that one of the main reasons for the criticism was the positive CSR image BP had worked to create in years leading up to the spill (Holmes & Sudhaman, 2011). As this example shows, the role of CSR in times of crisis can be multi-faceted and might not always be the insurance policy against crises it is expected or hoped.

Given the unprecedented levels of CSR engagement today, it is essential that companies understand the role CSR plays in the public's reaction to a corporate crisis. More than ever, managers need to be cognizant of how the company CSR record is likely to affect stakeholder responses to crises. This article represents a step in that direction. Drawing on the bodies of research investigating stakeholder reactions to CSR (Bhattacharya, Sen, & Korschun, 2011) and—more specifically—corporate crises, this article provides a comprehensive sense of the ways in which a company's CSR engagement may impact public reaction to a corporate crisis. Based on this, the article also provides guidance regarding how crisis managers can integrate CSR considerations in the design of effective crisis management strategies.

[1] See the Reputation Institute's CSR RepTrack study; Smith (2013).

2. What is CSR?

CSR reflects a company's strategic efforts to create shared value, or the creation of "economic value in a way that also creates value for society by addressing its needs and challenges" (Porter & Kramer, 2011, p. 64). Companies' CSR efforts can address a variety of issues (e.g., diversity, education, economic development, the environment, human rights) through initiatives ranging from cause promotion and cause-related marketing to employee volunteering programs and the development of socially responsible business practices (Kotler, Hessekiel, & Lee, 2012). For example, Microsoft's CSR commitment revolves around the company's core mission "to help people and businesses throughout the world realize their full potential" (Microsoft, 2014). In 2013, the company notably donated $795 million worth of software to more than 70,000 nonprofits to help them deliver their services, engage supporters, and raise money faster (Microsoft, 2013). Over the years, companies like Microsoft, Johnson & Johnson, Unilever, and Nestlé have also developed programs and policies to reduce their environmental footprints, establish good workplace environments, and foster responsible sourcing practices throughout their supply chains.

Marketplace polls unequivocally suggest that a wide range of stakeholders—including consumers, employees, and investors—expect such CSR commitment from companies (Cone Communications & Echo Research, 2013). Furthermore, academic research amply demonstrates the positive effects of CSR. For example, CSR has been shown to enhance consumers' company evaluations and purchase intentions (Sen & Bhattacharya, 2001); boost employees' productivity, recruitment, and retention (Greening & Turban, 2000); and increase people's intentions to invest in company stocks (Sen, Bhattacharya, & Korschun, 2006). Beyond generating positive business returns, CSR may also help companies build a strong, positive reputation in the long term (Brammer & Pavelin, 2006). It is on these more intangible assets that this article focuses, aiming to provide a comprehensive understanding of the roles companies' CSR efforts might play when a corporate crisis arises.

3. The roles of CSR in corporate crises

Although corporate crises vary widely, all crisis situations have at least three characteristics in