WHERE STAY SOCIAL RESPONSIBILITY IN ECONOMIC AND FINANCIAL ADJUSTMENTS IN EUROPE? SOME QUESTIONS AIMING FOR AN ANSWER.

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ABSTRACT

In 2010, Roubini and Mihm claimed:

“The recent crisis highlighted the ‘too big to fail’ problem. The collapse of Lehman Brothers and the resulting cardiac arrest of the global financial system revealed that many institutions had become so large, leveraged and interconnected that their collapse could have systemic and catastrophic effects.”

This global financial problem created a large impact in several economies, especially in European countries with a large external debt, unbalanced economies and a huge dependence from foreign funds. Two years after and regarding economic and financial pressures applied to countries such as Portugal, Ireland, Spain and Greece by European and other international financial authorities, we are living in a social environment generally held by the fear from future perspectives and a growing instability due to the huge reduction of the economies, employment and social benefits. The application of strict governmental austerity measures aiming to reestablish the national accounts, the reduction of public debts and the recovery of the financial system and banks has been consummated in a generalized increase of direct and indirect taxes, a gradual reduction of salaries and social benefits due to labor and a major restraint to social conditions of public assistance in areas such as education, health and unemployment. We are witnessing a drastic reduction in consumption of companies and individuals, incapacity of financing businesses and firms, an increasing vanish of business agents and a dramatic rise of unemployment throughout Europe, especially in the Iberian Peninsula. All these facts lead the authors to set, in a reflective perspective, some questions about the rationality and utility of the measures taken by some politicians, public rulers and business managers and the real impact they have on social and business environments and in populations, at present time and in the near future.

KEYWORDS

Social Responsibility, Economy, Austerity, Recession, Businesses.
1. INTRODUCTION

The environment in which organizations operate is a source of increasing threats, confronting operational management with innumerable business risks, whether financial, tax or operational (André, 2009).

The most developed societies live within a framework of values beyond the traditional material ones, getting managers to be aware that organizations are active social agents. For this they must take into account, in the course of its activity, the different factors and requirements that societies ask to them (Carrasco, 2007).

In this sense and according to Santos (2008), the frequent changes in the involving way of organizations oblige managers to assume a dynamic posture in a sustainable perspective, which requires constantly and increasingly a change in their positions and actions.

However, management dilemma lies in the necessity of leaders to assume two roles simultaneously: as managers to take care of the present company, the “day-by-day”, and as entrepreneur to create and develop the business on the future (Sá, 2002).

As reasons of proper strategic and operational nature, business organizations must define accurately three essential aspects for their management: Vision, Mission and Values.

The Vision reflects their understanding of the business and how they intend to structure their activity and achieve their purposes and the Mission summarizes the objectives of the organization and what they do.

The Values embodied the professional and business ethical principles in which organizations govern their actions with respect to all stakeholders involved and interested in organizational activities.

This last aspect should represent, as a whole, the living and functional corporate culture of organizations which should incorporate principles of social responsibility ample to all stakeholders, from employees, shareholders, customers and suppliers to business associations, government institutions, environmental groups and other non-governmental organizations.

As mentioned by Ken Blanchard1 (1994), these set of principles for a proper management and a sustainable development are not an important subject only for business managers.

They should be also considered and implemented in countries governments and public entities, combining the resolution of the present time problems with the capacity to develop future sustainable ways of growth and prosperity, looking to past mistakes in a learning mode.

2. LITERATURE REVIEW

2.1. THE AUSTERITY AND FINANCIAL ADJUSTMENTS IN EUROPEAN ECONOMIES

A significant fringe of economists and observers on economic issues has the opinion that austerity over recession only intensifies recession.

As a consequence of European austerity policies, we see across Europe and especially in Portugal and other South and Mediterranean countries, among others, the investments, public and private

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1 Management expert, author of management books and President of “The Ken Blanchard Companies” international management training and consulting firm, in an interview to TV program “Tostões & Milhões” conducted by the economist António Peres Metelo (SIC, Portugal - 24th January, 1994).
consumption, taxes revenues, fuel consumption, the sale of households, cars and other consumer goods moving dangerously to lower levels.

According to this sense, the economy teacher João Reis (2012) considers European Union as a much more liberal place today than the International Monetary Fund when they claim for a growing reduction of salaries as a way to increase competitiveness.

It seems, as Krugman (2012) refers, that it’s a failure of the austerity doctrine that has dominated elite policy discussion both in Europe and in the United States for the past two years, with the policy elite deciding to throw that hard-won knowledge out the window, and rely on ideologically convenient wishful thinking instead.

As claimed by David Cameron:

“Those who argue that dealing with our deficit and promoting growth are somehow alternatives are wrong, [...] you cannot put off the first in order to promote the second.”

But other economic experts such as Jean-Claude Trichet, a strong advocate of the so-called “expansionary austerity” doctrine have another point of view about austerity policies and economic recover:

“In the current circumstances confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today.”

However, researchers from International Monetary Fund (IMF) and others from several parts of the world quickly demystified the supposed evidence that spending cuts create jobs, going along with the idea of the 1970’s Nobel laureate Paul Samuelson exposed in his book “Economics” (2006) that austerity in the face of depression is a very bad idea.

As mentioned by Krugman (2012), seems that many economists in Europe decided largely for political reasons, forgetting what they used to know and following the referred doctrine of expansionary austerity and for this reason millions of citizens are paying the price for their deliberate forgetfulness.

This is the case of Portugal where government policies applied to balance national accounts and public debt, overlapping de austerity deadlines and actions imposed by external funding entities, are promoting a permanent, sudden and brutal contraction of the economy through a contraction without limits of salaries and an increasing of taxes (Lains, 2012).

All this made, according to politicians and governmental rulers, to grant the confidence of international financial markets and open a new phase of growth of the Portuguese economy.

But the Nobel Prize of Economy Paul Krugman refuses this idea, saying that the "fairy of faith" didn't show up and none of the countries that cut spending saw the planned recovery from private sector. On the contrary, the depressive effects of fiscal austerity were reinforced by the lack of private expenditure (Albuquerque, 2012).

According to Krugman (2009), it’s necessary to carry out a reform of the weaknesses that allowed current crisis and for this policymakers need to do two things: get credit flowing again and support expenditure.

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3 Britain’s Prime Minister, cit in “The Austerity Debacle” (Krugman, 2012).
4 Former President of the European Central Bank, cit in “The Austerity Debacle” (Krugman, 2012).
These go on with Roubini’s ideas (2012) when he stated that without a much easier monetary policy and a less front-loaded mode of fiscal austerity, the Euro will not weaken, external competitiveness will not be restored and the recession will deepen.

For this economist, one of the few to predict the recent global financial crisis, without resumption of growth the stock and flow imbalances will become even more unsustainable, more Eurozone countries will be forced to restructure their debts and eventually some will decide to exit the monetary union.

2.2. SOME ASPECTS OF SOCIAL RESPONSIBILITY IN PORTUGAL

According to the European Commission's Green Paper "Promoting an European Framework for Corporate Social Responsibility" (2001), corporate social responsibility must voluntarily integrate social and environmental concerns in business and transactions development, going beyond simple compliance and fulfillment of legal obligations and increasingly investing in human capital, the environment and the relations with stakeholders.

Among other actual facts, highlights the role of women in the scenario of enterprises development and the needed framework between professional activity and the responsibilities with family needs and children, together with flexibility and limitation of working hours in view of the outside tasks and responsibilities of employees, getting a healthy balance between work and private life.

However, considering the current recessive economic context both in Portugal and throughout Europe which affects the markets and businesses, we are currently seeing more and more importance given to economic and financial issues with loss of a wide range of corporate social responsibilities.

In fact, the humanist and social vision of businesses and society is being increasingly replaced by the domain of financial and economic aspects, understood as the only survival factors for population and enterprises in the present situation.

One of the thoughts that many employers and their representatives in Portugal continue to defend, with the support of government agents and a strong opposition from trade unions, is the need to review labor legal environment as a critical factor to recover competitiveness lost by companies, especially for the ones that compete in international markets.

Among others, this approach seeks the simplification of labor contracts and more agility in individual and collective dismissal rules, trying to reduce compensation amounts for firing and the level of salaries and other working benefits usually received and settled.

According to the reports of the Portuguese official bureau for employment and professional training (IEFP, 2012a), a visible milestone of this politics and loss of social responsibilities is the sharp rise of unemployment in Portugal since 2011, corresponding to more than 661,000 individuals unemployed in March 2012, with a strong focus on people with less than 34 years unemployed (35,8%) or looking for first job opportunity (7,5%).

For this unemployment figures also contributes the group of middle-aged citizens (between 34 and 54 years old) with large experience in the working market that have been "pushed" to involuntary unemployment by a variety of reasons and justifications, some of them difficult to explain and understand, not only non-qualified persons but also people with higher skills and superior academic training, corresponding to almost 47% of total unemployment (IEFP, 2012a).

We are also seeing a dramatically rise of unemployment in both male and female adult members of families, with more than 7,500 couples unemployed in February 2012, an increase of 61,4% when compared with the figures from the same month last year (IEFP, 2012b).
These huge figures may explain, among other reasons, the increasing demand of financial and living support from families near non-profitable social helping organizations, the growth of unpaid mortgages to banks, the option for public schools instead private colleges and the rise on demand for public hospitals and health centers for healthiness services.

No less important is the effect and relation, profoundly referred by economic specialists, between salaries and unemployment rates with internal economic development and consumption.

Has mentioned by Jesus (2012), in Portugal actually remains the belief near some economists and governmental leaders that a faster economic recovery will be achieved mainly with a fast growth in exports. However, maintaining this belief can be dangerous and elusive given the structure of the Portuguese businesses.

According to the study “Exporter Profile of Small and Medium Enterprises in Portugal 2007 - 2009” made in 2011 by the National Statistical Institute (INE), small and medium enterprises (SME) represented 99.7% of the total number of non-financial national companies in 2009.

This SME’s were responsible for almost 59% of the national added value and for the employment of two million people, approximately 40% of total employment in the country. But the main problem lies in the fact that only 10% of Portuguese companies are exporters, representing a total volume of exports near 30% of national gross domestic product (INE, 2011).

For this economist and in view of this Portuguese business structure, it’s necessary to bet not only in rapid growth of exports to get economic recovery. There is the need to “play” in other areas such as the development of new loan lines suitable to SMEs, the short-term resolution of national payments system delays, mostly due to central and local public entities, the harmonization between VAT payments and reimbursement of this tax by the State and the practice of VAT payment by suppliers only after effective receipts.

2.3. THE ROLE OF SOCIAL RESPONSIBILITY IN BUSINESSES SUSTAINABILITY

Strong and marked enterprise cultures moved by concrete ethical and moral principles and with business practices filled with real social and environmental concerns, strengths the internal relations between the staff and build a team spirit essential to the pretended success.

According to several authors (Oliveira, 2007; Almeida, 2007; Donaire, 2006; Santoro, 2003; Elkington, 2001), firms and managers will have to abandon the traditional strategic view, focused essentially in profits and financial performance, and present an alternative vision that pays attention to the interaction with diverse stakeholders, to their interests and to the environmental impact of their activities.

The existence of these principles is an important step towards strengthening the organization’s interaction with the surrounding community. Allow to obtain from them the respect and recognition for its actions which should be guided by solidarity and generosity principles, allowing gains of good reputation and the strength of its institutional image, brands, products and services.

As mentioned by several experts (Mehra, 2010; CERES, 2008) the global economy can no longer afford “business as usual”, focusing mainly on short-term gains and ignoring long-term risks.

It has never been more urgent than actually to realign business and investment practices to value long-term prosperity and see sustainability has as a process that continually disrupts the status quo and harnesses turbulence to achieve long term goals of the organizations trough constant innovation, transparency, commitment, accountability and responsibility.
Companies can (and should) get involved actively in society through the development of the most varied actions. Providing financial support to the neediest and cultural patronage, sponsoring from charity to cultural, recreational and sports activities, promoting training and consciousness actions on environmental issues, making investments in means and technologies intended to reduce the ecological impact of their own activities.

In the internal context of organizations and considering the reality of modern societies, businesses and their managers should look (and have to) at the social conditions they give to employees in a dual perspective, from the respect for social values to the impact of the taken measures in individual and collective productivity.

Important for a positive impact in employee’s performance and happiness during the exercise of professional activities is the availability of additional working conditions such as lunchrooms, means of transport, medical insurance programs, incentives for staff and family educational development and training and the existence of good physical conditions (facilities) in environmental, ergonomic, safety and hygiene levels.

In Portugal there are several case studies of companies that implement some of the principles set before, some of them widely spread. This reality is not conditioned to companies scale as we see these principles implemented not only within large companies but also among SME and family firms.

In recent past, some Portuguese companies invested in strategies supported in a strong social dimension trying to achieve a greater motivation, recognition and productivity of their employees.

Santos (2012) made an analysis of corporate sustainability in one of the major contractors of the Portuguese building sector, regarding the financial, social and environmental results achieved and their relation with the followed strategies, the implemented operational structure and the human resources management policies among other aspects.

This study revealed that the success of this company, with operations taken in Portugal and especially in foreign countries, was granted mainly as a result of the importance given by management to their human resources structure, with a permanent effort and commitment to improve their knowledge and skills, joining these aspects with organizational and personal know-how aiming to achieve the flexibility and capability needed to guarantee organizations continuity in an economic and social environment each times more complex and turbulent.

As a result of this posture and behavior, this company achieved in 2011 financial results higher in more than 20% when compared with the year before, with an increase of their human resources structure in number and especially in high qualification, specialized and management levels as a result of the defined strategies followed since some years ago.

According to Honório5 (2011) this good examples from Portuguese companies are the result of a good management, with a well-defined strategic leadership and a proven resilience to relevant business environment changes.

These companies follow a set of principles of action in addition to the creation of value, including environmental preservation issues, compliance with ethical standards in the conduct of business, an open and clear relationship with different stakeholders, the promotion and development of individual capabilities, the recognition of excellence and the support of social and cultural initiatives based on transparent criteria for evaluation of relevance to the community.

All these aspects were recently discussed by some authors (Gisbert López et al., 2011; 2010; Svirina, 2009) regarding the high level of efficiency and sustainability revealed by some organizations and

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5 José Honório, President of BCSD Portugal (Business Council for Sustainable Development).
the real efforts made by management structures to establish proper strategies in view of these purposes.

Gisbert López et al. (2011, 2010) defend that for a proper and long term corporate sustainability managers and management have to develop in organizations abilities in five pillars that seem to be crucial: Direction, regarding the economic sense that must be given to organizations; Posture, with management conducted by ethical and social responsibility values; Organization, with an alignment between strategies and the several organizational dimensions; Behavior, with quality as a rule of organizations; Evaluation, analyzing the organizational performance according to the defined strategic options and objectives.

However, some organizations and managers are changing their business purposes, replacing the long-term investment in human capital by the immediate view of short-term earnings and problems resolution, removing a set of conditions created in terms of an entrepreneurial and innovative spirit, future vision and human dimension without any reliable justification unless the necessity of reducing costs.

From macroeconomic theories we know that greater competitiveness of businesses is achieved with the reduction of production factors costs. But firm’s production costs are not only salaries and other working expenditures. There are also production costs with other supplies, energy, tools, equipment, transportation, funding and facilities in addition with official permits, insurances, taxes and other fees.

This point of view was mentioned by the economist João Reis⁶ (2012) which defends that salary depreciation is the path for the Portuguese collapse and there are no competitive enterprises with low salaries.

Reinforcing this idea he argues that companies using this employment politics don’t have value or success in the future, even if they reduce their salaries to few hundred Euros per employee.

In accordance with this features, enterprises and their representatives should seek a greater competitiveness within a framework of better incentives such has political and fiscal conditions for investment and exports, the improvement and stability of tax rules and the reduction of context charges (administrative and bureaucratic), instead of an idea focused on salaries reduction.

As mentioned by Lopes⁷ (2011, 7):

“Articulate reflection with action is a requirement for accuracy and realism, but it is a qualified requirement in times of great modifications, when the fields of possibilities change and there is the need to recognize the impracticability of return to past standards. Is when we must take the novelty of the future that seeking to articulate the past with the future identifies the main challenge that present time place to everyone.”

3. SOME QUESTIONS AIMING FOR AN ANSWER

All these matters lead the authors to set several questions, some of them maybe considered "politically incorrect", concerning the real basis that guided previous options and decisions taken by politicians and rulers and the use made by business managers on issues of corporate social responsibility and their changes in the recent past and present time.

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⁷ Hernâni Lopes (1942-2010), economist and diplomat, head of the Portuguese mission responsible for Portugal’s accession negotiations with the European Economic Community and Minister of Finance and Planning at the 9th Constitutional Government of Portugal, between 1983 and 1985.
Some of these questions are:

- With all the problems and challenges we face, the only way to increase competitiveness and economic growth is through a strong reduction of salaries and other social benefits by enterprises and public institutions, the rise of taxes made by governments and the reduction of workforce?
- Can this whole package of austerity measures and decisions taken by political and governmental levels, also replicated in the thoughts of some businesses representative corporations and several business managers, be the single result of a personal and collective posture supported essentially in decisions mainly taken in a reactive and highly intuitive way?
- As questioned by Rogoff\(^8\) (2012), with youth unemployment touching 50% in Eurozone countries such as Spain, Greece and Portugal, is a generation being sacrificed for the sake of a single currency (Euro) that encompasses too diverse a group of countries to be sustainable?
- Present economic and social circumstances can be avoided if it’s commonly adopted by governmental leaders, politicians, businessmen and citizens a behavior and decision spirit guided by a proactive and forward-thinking nature, based on ethical values and social and sustainable principles, taking into account the signs that permanently arise in society and markets?
- Are management of businesses and enterprises and all the risks associated with them developed, in many cases, essentially in an empirical manner, largely overlapping the know-how instead of a development and application of methodologies and management practices that could minimize the uncertainty of future developments and scenarios?
- Are successful businesses, mainly, the result of good management practices supported in knowledge, well-defined strategic plans, permanent observation of business environment changes and good perception about the real importance of human resources and its motivation?
- Do not often occur with some company’s certifications regarding quality, environment and safety that they are a result from the simple fulfillment of a legal procedure or are mainly motivated by a strong marketing component?
- It’s possible that social responsibility policies disclosed by many enterprises are nothing more than a simple convenient action without any real sense, targeted simply to grant the external recognition of the organizations and to produce a positive image among stakeholders?
- In many cases, the previous internal creation of more advantageous conditions among employees is not more than a simple reaction to pressures exercised by several recognized entities that officially represent employees (trade unions, professional associations, guilds) and the simple satisfaction of their claims and interests?
- Are external actions in care of the surrounding community sometimes motivated simply by the need of reducing incomes and profits generated with activities, every so often as sponsorship seeking to combine an image of solidarity and community concern with the ability to induce "costs" deductible on financial results and tax payments?
- Many times, the sharp reduction of workforce with the increasing practices of ending work contracts and sometimes collective unemployment is not the result of an insufficient management capacity for projecting future alternative growth scenarios and establish long-term sustainable corporate strategies, emerging these limitations and weaknesses in the framework of a strong recession in the markets?

\(^8\) Kenneth Rogoff, Professor of Economics at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, former chief economist at the International Monetary Fund from 2001 to 2003 in “A Centerless Euro Cannot Hold” (http://www.project-syndicate.org/).
4. CONCLUSIONS

There are no exact answers to the questions previously raised.

If there were obvious answers and quick solutions, these economic, financial and social problems currently experienced throughout the world and particularly in Europe would be already solved or would never have existed.

Portugal, as other European countries, live a hard and socially precarious time and the only way to leave from this status is with the increase of productivity and competitiveness.

For this is needed money to invest and grow, funding the economy and creating employments. As the Portuguese investors and financial institutions do not appear or do not show ability to comply with these investments, the only option is the action of external investors. But these ones don't seem to have, generally, real confidence in Portugal, in their leaders and particularly in the constantly changing of rules and legislation.

Portuguese society in general and business sectors in particular reveal a common feeling of inability to handle with present economic, financial and social difficulties, as well as some incredibility on decisions and actions taken by governments and a generalized disbelief in the future.

Some recognized international experts in economics, with proven experience and knowledge in these subjects, claim that a forced “expansionary austerity” supported in low salaries and work force reduction is not the path to turnaround economies and achieve future prosperity of societies and countries.

As they argue, these deep problems should be resolved in other forms. If it’s needed to readapt productive structures according to new economic contexts or markets demands to improve the lack of competitiveness on businesses, this don’t have necessarily (and directly) to be done with a general reduction of salaries and an increasing of job loss.

Lower salaries can result in lower motivation from employees and, consequently, in less commitment, effort, interest and professionalism from them and also in lower economical capacity from individuals to purchase products and services.

These economic experts also defend that a general increasing of taxes without a strong and real reduction of public expense only generate less consumption of economic agents and citizens and, as consequence, less investment from entrepreneurs and investors.

Nevertheless, we can find in the business world and also in Portugal examples that show both management tendencies here presented, the ones that chose human capital investment as the way to face present difficulties and others who chose to reduce labor costs with the goal of recover financial results and the loss of profits.

However, it’s important that the effort, commitment and dedication to social responsibility matters remains present in all business and governmental decisions. This should not be only a phenomenon of media projection or reinforcement of institutional image but the true “engine” for a peaceful and prosperous development of future societies.

Going far beyond and regarding the actual turbulence in markets and society, business managers, politicians and other influent persons and decision makers must understand that social responsibility is an important part of businesses and citizenship ethics and an essential condition for a sustainable growth of the society: compliance with standards and laws, seriousness in taken actions and decisions, humanism in relationships inside organizations and in society, investment in human capital as the sole and true “engine” of economies and prosperity.
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