LUISA GIALLONARDO
MARCELLA MULINO

UNIVERSITY OF L'AQUILA

Heterogeneous firms and Corporate Social Responsibility: an analysis in times of crisis

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We set out a model that considers the concept of strategic CSR, and focuses on the role of consumers' demand for CSR products, according to the so called "bottom up pressure", that is consumers' initiative in appreciating CSR. To the above approach we add the idea that CSR is a specific feature of goods improving their "quality". Thus, our model builds also on the strand of literature of heterogeneous firms in international trade pioneered by Mélitz (2003). In a closed economy with CSR option in production, we analyze the link between heterogeneity in productivity and CSR intensity, by letting the level of ethical standards to be endogenously determined by each firm.

We then add a financial constraint that may prevent firms to access external credit or limit its extent and we study the effects on the optimal level of surviving CSR firms.

The latter outcome is especially relevant for the study of the relation between CSR and economic crisis. We identify some negative effects: a decline in consumers' income has a negative impact on the demand of higher CSR intensity goods, whereas a tightening in external finance conditions leads to a decrease in the optimal level of CSR. On the other hand, external investors may attribute a positive value to CSR engagement of firms, as the latter may be seen as a positive reputational signal. We thus study the conditions which may make the latter effect to prevail.