

Social Responsibility in the Context of Company Performance

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Abstract

The article objective is to present a comprehensive image of the social responsible companies in Romania. The article is highlighting the evolution of the interest in Corporate Social Responsibility (CSR) of the companies on Romanian market. Considering the Romanian customer has more sophisticated needs and given the perception that each customer has regarding the image of a company, it appears that it is desirable and important the involvement of firms into social responsibility. The objective of social responsibility is the development of Romanian economy in which companies create prosperity, while contributing to sustainable development of society and the communities in which it operates. The results for Romanian market are surprising. The trend shows that more and more companies are involved and allocate resources for social responsibility programs regardless. The hypothesis for Romanian market is that investment in CSR does not pay-off, because the investments allocated in social responsible programs represent an additional expense on company profit and loss. The results of the analytical tests are surprising because they do not confirm the hypothesis. It seems that there is sufficient awareness of the importance of the topic on Romanian market. I also appreciate the ethical aspect of social responsibility programs.

Keywords: *Corporate social responsibility, corporate performance, statistics.*

JEL classification: O44, D22.

Introduction

In recent years, customers, employees, suppliers, community, government encouraged companies to invest in social responsibility. Some companies have responded to this requirement and allocated resources for social responsibility. Other managers have not made these investments arguing that contravene with their efforts to maximize profits.

This controversy has led researchers to examine the relationship between social responsibility and firm financial performance.

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1. How we define Social Responsibility

There were various studies on this topic. Among them, there were also various ways of defining Corporate Social Responsibility (CSR). Despite numerous efforts to bring a clear and unbiased definition of CSR, there is still some confusion as to how CSR should be defined.

The term "corporate social responsibility" came in to common use in the late 1960s and early 1970s, after many multinational corporations formed. The term stakeholder, meaning those on whom an organization's activities have an impact, was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman, *Strategic management: a stakeholder approach* in 1984. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making, which is the core business of the company or firm, and the honoring of a triple bottom line: people, planet, profit.

Please find below, some of the most known definitions of CSR:

1. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis – Commission of the European Communities, 2001;
2. The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life – World Business Council for Sustainable Development, 1999;
3. Corporate social responsibility is the continuing commitment by business behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large – World Business Council for Sustainable Development, 2000.

2. CSR in Romania

Considering the importance of the topic, the purpose of this study is to present centralized and to quantify the involvement of companies into social responsibility actions.

In order to capture information from an independent source, the information was extracted totally from the Romanian site *responsabilitatesociala.ro*. I have captured both the number of articles written on this subject, as well as the number of companies that were involved into social corporate activities.

Method:

- Extract data from *responsabilitatesociala.ro* site;
- Data presented from 2006 to October 2012;
- Quantified the number of articles presented every year;
- Quantified the number of companies involved;

The summary is presented on the table below:

Table 1. Quantitative evolution of CSR programs & companies involved

Year	2006	2007	2008	2009	2010	2011	2012	Total
No of articles/ programs	75	242	327	264	213	246	331	1,698
No of commercial companies	134	194	296	242	176	229	400	1,671
No of banks/ financial institutions	20	25	55	52	51	70	84	357
Total	154	219	351	294	227	299	484	2,028

Notes:

The number of articles/ programs represent the number of counted articles found on the site. Almost each of the articles presents a corporate social program.

The number of companies represents the companies involved in the corporate responsibility programs and they were mentioned on the above counted articles. More than 1 company is involved into one social responsibility program.

The articles are counted in totality, while the companies exclude Non for Profit Organizations (ONG) that were also involved in corporate responsibility actions.

For better illustration of the numbers, the graph 1 presents also the evolution.

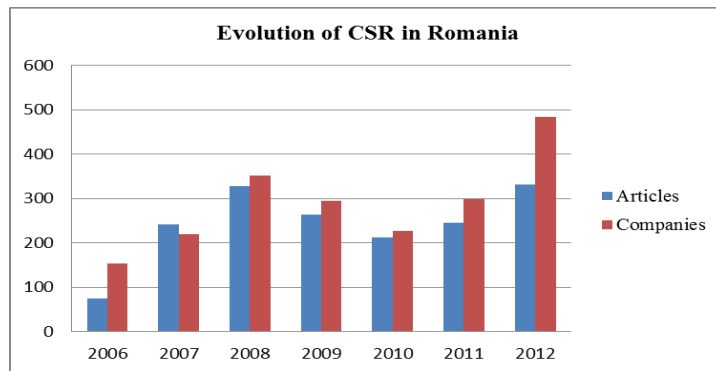


Figure 1. Quantitative evolution of CSR articles & companies involved

The analysis of the data can be interpreted as follows:

- 2006 was the start year of the site (started in February 2006) and the first article is posted in May 2006; this may be one of the explanation for the low figures, as well as the interest of the companies in social responsible actions;
- 2007 shows a clear increasing trend for both CSR activities, as well as the companies involved. 2007 was a year of economic growth. The explanation stays in the fact that good companies allocate their investments not only for internal purposes, but also for external ethical activities. During economic growth, the performance of the companies is good and with increasing trends, so they think also to invest into social, educational, cultural, environmental, sport, human rights, etc. activities.
- 2008 is keeping the ascending trend. Please bear in mind that 2008 was the last year of economic growth in Romania (having 3 quarter of growths and only one quarter of economic downturn). By the end of 2008, the economic crisis was felt in Romania.
- 2009 and 2010 are year characterized by economic downturn (economic crisis). It appears that ,crisis' hit also the CSR programs as well as the number of companies. Regardless of the trend of their performance, some companies continued to invest in CSR programs.
- 2011 and 2012 show very interesting trend for the analysis. Even if the economy is still struggling with the financial crisis, the companies start to focus more on CSR activities and more and more companies started to get involved. The year 2012 is not yet ended, the figures present data from Jan to 12 Oct 2012.

3. The benefits out of CSR programs

Besides compliance with existing norms, some of the managers aim to gain more customers and to retain the existing ones by doing CSR programs. Other benefits would be maximizing the profit and increasing shareholders portfolio.

Investing in CSR programs may lead to profit increase by:

- Reducing the production costs;
- Finding new distribution markets;
- Higher reputation score

Other managers believe that the benefits from sustained development are lower than the investments allocated in those programs.

Also studies have revealed different opinions with regard of the impact of CSR on company performance.

Studies on this subject have been made by Lichtenberg and Sigel (1991, for a panel of 2,000 firms) and they found a strong positive correlation between research and productivity (increased firm performance). Similar results were reported by Clark and Griliches (1984). Ben-Zion (1984), Guerard, Bean, and Andrews (1987), Guerard, Stone, and Andrews (1988) and Hall (1999) reported positive results from related research, accounting profits and long-term shareholder wealth (and other performance indicators of long-term financial).

The results of the studies have been mixed. For example, Wright and Ferris found a negative relationship; Posnikoff reported a positive relationship; and Teoh et al. found no relationship between CSR and financial performance, when examining divestitures from South Africa during the Apartheid controversy (see McWilliams, Siegel and Teoh, 1999, for a discussion of these studies). Other studies are similarly inconsistent on the relationship between CSR and short run financial returns (McWilliams and Siegel, 1997).

In summary, the relationship between social responsibility and financial performance can be negative, positive or neutral.

Hypothesis 1: Negative correlations between factors confirm the thinking of Friedman (1970) and other neoclassical economists. According to their opinion, socially responsible companies have a competitive disadvantage (Aupperle and others, 1985), because it reduces the operating profit as result of costs they realized, while they may have avoided these costs, which may be incurred by individuals or government.

Hypothesis 2: Other empirical tests have shown that there is no relationship between social responsibility and financial performance. According to this hypothesis (e.g. Ullman, 1985), there are so many variables influencing the two factors that there is not expected to find a relationship between the two factors.

Hypothesis 3: There is a positive correlation because current costs are covered by the benefits of social responsibility. A company that wants to decrease their costs as result of irresponsible social behavior (e.g. neglecting to take action against pollution) will come to realize higher direct costs in the end. Socially responsible firms have lower risks of unpleasant events. It is less likely for these large companies to pay the excessive fines for pollution, to pay the court costs or face negative social events that affect their reputation. Theoretically, if there are two identical firms, one of which is responsible social and the other is not, it is expected that the first to face less risk and fewer adverse events that negatively affect its profits.

4. Best performing companies in CSR in Romania

Based on historical analysis performed on European Countries, it appears that the pre-requisite condition for involvement in CSR activities is the financial performance. Companies that are best performers on the market or in the industry are more and more interested in CSR activities.

It seems to be a circle relationship between company performance and CSR. If the company is performing well, it is expected that the company is involved in CSR activities, because of the third hypothesis, that of positive impact back on company performance.

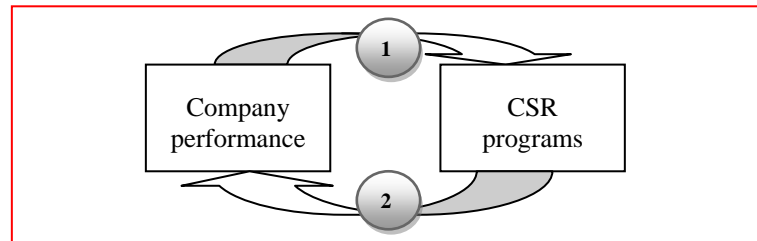


Figure 2. The circle relationship between company performance and CSR

For Romania cases, I can confirm the first half of the circle (1), the fact that the largest and best performing companies in Romanian market are interested, involved, committed to CSR activities. Please refer to Table 2, for the list of Top companies involved in CSR activities in Romania. The list contains the list of companies found more than 30 times mentioned to be involved in CSR activities during the period 2006-2012. The analysis reveals that all the listed companies below were involved each and every year in more than one CSR activity. They are committed to CSR activities which they continue, improve and develop every year.

Table 2. Top companies involved in CSR in Romania between 2006-2012

No	Company name	type	# counts
1	Petrom	company	94
2	Vodafone Romania	company	80
3	BRD - Groupe Société Générale	bank	63
4	Orange Romania	company	62
5	BCR	bank	48
6	Rompetrol	company	48
7	UnicreditTiriac Bank	bank	48
8	Raiffeisen Bank	bank	46
9	Coca-Cola HBC Romania	company	39
10	Cosmote	company	32
11	GlaxoSmithKline Romania	company	32
12	Mol Romania	company	31

The analysis from industry perspective shows the following: 3 companies from gas/ petrol industry (Petrom, Rompetrol, Mol), 3 companies from telecom industry (Vodafone, Orange, Cosmote), 4 banks (BRD, BCR, UnicreditTiriac Bank and Raiffeisen) and one in MGCG food (Coca-Cola).

The analysis in telecom industry reveals that Vodafone is more involved in CSR than Orange and Cosmote. In terms of financial performance, Orange is leading the market in terms of revenues, customers and market share, Vodafone follows on second place and Cosmote on third. Even if Vodafone is more active on CSR activities it appears that there are other factors that influence customer's perception and implicit revenue, as long as Orange is leading the market.

The second half of the round circle (2) seems not to be entirely proved on Romanian market, based on the example of the telecom market.

5. Correlation between CSR and Performance Indicators

The initial hypothesis is that investment in CSR does not pay-off in Romania. The reasoning is that involvement in corporate responsibility programs represents an additional expense for companies and the results are not visible. Moreover, there are so many factors influencing the company results that CSR seem to be a non-important one.

In order to test this hypothesis, I have extracted a panel of 2,353 companies on Romanian market since 2005 – 2009. The source of data is the site www.firme.info.

I have computed the following KPIs for company performance: ROA (Return on Assets), ROE (Return on Equity), ROS (Return on Sales). Companies that were involved into CSR activities received a dummy variable of 1 (based on the quantification mentioned above on www.responsabilitatesociala.ro site), while the others received dummy variable of 0.

The correlation between the variables is presented on the table 3.

Table 3. Correlation between CSR and ROA – ROE – ROS for cumulated years 2005-2009

		ROA (Return on Assets)	ROE (Return on Equity)	ROS (return on Sales)
CSR	Pearson Correlation	.038**	.002	.014
	Sig. (2-tailed)	.000	.862	.134
	N	11,770	11,770	11,770

** . Correlation is significant at the 0.01 level (2-tailed)

The results are surprising. There is a positive correlation between CSR and all the performance KPIs. The % of correlations is small and weak. It is surprising the sign of the coefficient, the positive one.

The test was also done for each year from 2005 to 2009 and the results are presented in the table below.

**Table 4. Correlation between CSR and ROA – ROE – ROS
for each year 2005-2009**

		ROA (Return on Assets)	ROE (Return on Equity)	ROS (Return on Sales)
CSR 2005	Pearson Correlation	.068**	-.017	.033
	Sig. (2-tailed)	.001	.415	.105
CSR 2006	Pearson Correlation	.043*	.002	.011
	Sig. (2-tailed)	.038	.905	.609
CSR 2007	Pearson Correlation	.088**	.018	.026
	Sig. (2-tailed)	.000	.396	.215
CSR 2008	Pearson Correlation	.028	.022	.007
	Sig. (2-tailed)	.178	.280	.742
CSR 2009	Pearson Correlation	.016	-.019	.014
	Sig. (2-tailed)	.428	.363	.498
N		2354	2354	2354

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Except the two years (2005 and 2009) with negative correlations on ROE, all the other correlations are positive. This mean that each individual year investment in CSR seem to pay-off. You do not need to wait for several years for the effects of CSR to company performance.

Conclusions

There are multiple views on the legitimacy and value of social responsibility. I am arguing that social responsibility is only an additional cost for companies and they do not see its benefits. More careful analysts have found many benefits of social responsibility. For Romania, social responsibility is an important element to consider in the development strategy of firms in the larger context of the overall development of the national economy.

There are different opinions on the role of companies in society and the objective of maximizing the wealth as the only objective of business. Modern theories support single channel efforts, whereas companies have a clear and well identified direction. Obviously, it concluded that this objective is very clearly integrated into the strategy and vision, so that the company tactical and operational targets are divided in several directions. Many people have already found clear benefits of social responsibility, but most benefits are still difficult to quantify and measure.

This study aims to quantify the evolution of CSR programs on Romanian market and firm's interest for the topic. We observe a clear increasing trend in CSR activities in Romania, despite the economic and financial crisis. We also observed

that large companies with good financial results are constantly involved and committed to social responsibility activities. There is still under evaluation the feed-back loop from CSR to company performance.

Personally, I believe that companies involved in socially responsible activities do an ethical act to society. Firms focus on social responsibility will be triggered by business benefits offered by socially responsible actions. Social responsibility should be the objective of all firms, whereas the benefits of company actions should address a wider audience, not just shareholders.

Acknowledgement

This article was prepared as part of the POSDRU/88/1.5./S/55287 "**PhD in Economics from European standards of knowledge (DOESEC)**" project co-financed by European Social Fund Operational Programme Human Resources Development 2007-2013 and coordinated by the Academy of Economic Studies in partnership with Western University of Timisoara.

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