THE CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN ROMANIA IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT PRINCIPLES

Mariana Vuță[1], Ion Verboncu[2], Ioana Duca[3], Aurelia Ştefănescu[4], Rodica Gherghina[5], Monica Dudian[6], Doinița Ciocîrlan[7], Cosmin Dobrin[8], Mihaela Hrisanta Dobre[9]

1. PhD Senior Lecturer, Academy of Economic Studies, Romania, mariavuta@yahoo.fr
2. Phd Professor, Academy of Economic Studies, Romania, iverboncu@yahoo.com
3. Doctoral Student, Lecturer, Titu Maiorescu University, Romania, ducaioana@yahoo.com
4. PhD Lecturer, Academy of Economic Studies, Romania, aura_ase@yahoo.com
5. Doctoral Student, Lecturer, Titu Maiorescu University, Romania, rodicagherghina@yahoo.com
6. PhD Senior Lecturer, Academy of Economic Studies, Romania, monica.dudian@gmail.com
7. PhD Senior Lecturer, Romanian-American University, Romania, doinita_ciocirlan@yahoo.com
8. PhD Senior Lecturer, Academy of Economic Studies, Romania, cdobrin@yahoo.com
9. Doctoral Student, Assistant Lecturer, Academy of Economic Studies, Romania, mihaelah.dobre@gmail.com

Abstract

This study aims at analyzing the corporate social responsibility (CSR) issue and the means to integrate it into long-term strategies of Romanian companies.

The corporate social responsibility concept (CSR) developed due to the change in the business view, from a limited model, mainly oriented towards profit through the maximum use of resources, to an open one, largely concerned with the quality of life, preservation of resources and meeting the general interests of society. In other words, a view included in the ***sustainable development*** *principles. The sustainable development is commonly understood as* ***the ability of the current generation to meet its needs without compromising the ability of future generations to meet theirs.***

But what does corporate social responsibility concept actually represent? The World Business Council for Sustainable Development use the following definition: ***Corporate Social***

Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"
CSR practices still remain quite controversial and opened to debate at international level, in terms of requirements, opportunities and benefits generated to companies, although the reality indicates that they are not a temporary trend, but tend to become permanent, as a legitimate component of the business environment. Viscount Etienne Davignon once said that ***'social responsibility means neither charity nor PR exercises, but an intelligent investment which brings benefits both to the company and to the whole community.'***
The companies' social commitment has become a significant competitive edge in the new economy, and Romania follows this international trend, CSR actions becoming more and more visible and numerous, both in the business environments and at governmental level. The local organizational culture being only at the beginning, the CSR concept was initially used by national companies more as a marketing and media coverage instrument, rather than for its ethical values. As time went by, it became clear that ***the business environment is a key element in finding solutions to community issues****. To be socially responsible does not mean sporadic philanthropic actions or an intense public relations activity, but* ***a business philosophy accepted by companies voluntarily, manifest in a continuous behaviour.***

Key words: *corporate social responsibility, business environment, sustainable development, Romania, corporate citizenship*

JEL classifications**:** M14, Q01

I. Introduction

Corporate social responsibility (CSR), concept that has entered the vocabulary of researchers and businessmen, starting with 1950, covers a complex area of firms' actions related to social responsible management of business and investments which last outcome is according to Lisbon strategy *'an essential contribution to sustainable development'*.

Sustainable development to a wide extent is that type of development that provides complying with the values of organizational culture and business principles, the needs of the organization, managing (ecologic, economic and social) risks, under the conditions of protecting human capital and natural and financial resources. It is based on the principle of equal opportunities between present generations and future ones, without compromising social progress.

In the last 250 years, the age that the short history of economic science is, the outlook on the nature of the firm evolved from a simple productive agent concerned only with maximizing profit (in the 30's Keynes argued that it is the cost and the profit that matter for a firm) to an economic entity with a great social role, potential promoter of sustainable development. The change in outlook is natural considering the innovations in firms' structure and way of organizing and changing from 'U' type firm to a mono-divisionary one (Chandler, 1992) to a web type one distinguished by a system of formal and informal, economic and social interactions between stakeholders.

Corporate citizenship is the contribution a company makes to society and the environment through its core business activities, its social investment and philanthropy programs, and its engagement in public policy[1].

In emerging economies, including Romania's, CSR, sustainable development and public-private partnership in solving social problems are at an incipient stage, the dominant opinion is that CSR initiatives represent only an indicator of excellence in management and that only highly profitable companies have the available resources to become socially involved.

II. The nature of the firm and CSR

Traditional economic theory – the classic one- is the theory that establishes the paradigm of liberalism, dominant until the raise of keynesism and reconfirmed by the apparition and expansion of monetarism. In the middle of the classic or neo-classic view there is market resource allocation, he famous Adam Smith's '*invisible hand*'. According to the latter in order to achieve bigger profits firms produce those goods that consumers need most which makes their actions to be optimal from the point of view of the society. Besides, competition compels firms to sell the smallest prices and to produce with the smallest costs otherwise they would be expelled from the market. As a result the interactions between

[1] http://www.weforum.org/en/initiatives/corporatecitizenship/index.htm

economic divisions take place exclusively by the mechanism of prices considered exogenous variables.

As a continuation of this stream of thought, the neo-classic theory approaches the firm as a unit entity with decisions centred on the goal of maximizing profit. Starting from the hypothesis of maximizing profit and adding the one of maximizing consumers' satisfaction Leon Walras built a complete mathematic model of a system of interdependent markets and ascertained the values of prices and wages for which supply equals demand in all markets: the model of general economic equilibrium. Within it the economic agents are perfectly rational, perfectly informed and the coordination of the economic activity is perfect through the mechanism of interdependent markets. Uncertainty introduced in the system can be risk reduced and equally shred between participants any asymmetry being excluded.

In his turn J. M. Keynes designs the firm similar to the classic view arguing that '*as a producer that decides weather to use the equipment the concepts that matter for him are primary cost and gross profit'* (J. M. Keynes, 1934). Although Keynes approaches the producer from a macroeconomic perspective introducing new features of the latter's behaviour such as the idea of interdependence, mimetic behaviour or the idea that anticipations set output and cyclic fluctuations yet output is the outcome of the decision of one decision-maker: the maximizing profit firm.

To sum up from the point of view of traditional microeconomic theory the firm is a basic economic unit that produces in order to maximize profit. Against such a background there isn't room in economics to study the interactions between firm, environment and social partners.

In 1937 Ronald Coase asked himself a question that would change radically the science of Economics and after many years bring him Nobel Prize: *why do firms exist*? If the market allocates so well the resources through the mechanism of prices and competition why there are '*planning islands'* like firms characterized by 'a system of relations that arise when resource organization is decided by an entrepreneur?'. (R. Coase, 1937)[2].

[2] Coase, R.H., *The Firm, The market and The Law*, The University of Chicago Press, Ltd., London, 1988, p. 41 – 42.

It can be said that R. Coase was the one to start in the science of Economics the debate on the nature of the firm the latter's place in the architecture of the economic-social system. According to Coase the firm is a reply to transaction costs that the first understands as costs determined by using market mechanism that can be diminished or excluded by the firm internalizing transactions. Transaction Costs Economics is „*an approach to the study of economic systems and organizations, the comparative merits of alternative forms of economic organization [...] with its focus on micro analytic and behavioural assumptions governing the statics or dynamics of economic agents and institutions, and based on an integrated perspective of institutions, the law and economics*"[3]. Oliver Williamson develops Coases's theory starting from the main reasons for transaction costs, uncertainty, limited rationality and information asymmetry. Transactions are different one from another by the specificity of assets, behavioural uncertainty and frequency. High specificity of assets combined with frequent reiteration of transactions under high uncertainty explains the development of some firm-like governance structures.

Another theoretic perspective of studying the firm is provided by the theory of incomplete contracts often overlays with the theory of transactions costs. According to this theory the firm is a 'nexus' of contracts, a complex joint of bilateral relations managed by incomplete contracts.

Under the conditions that contractual relationships are free consented, the distribution of property rights on assets influence economic efficiency. In modern theory of property rights, the owner of a good has 'residual rights of control'. These residual rights refer to those rights of control that haven't been explicitly conceded to the others by contract, aren't forbidden by law and can not be formally mentioned in advance. For Hansmann the firm represents a set of contracts concluded with third persons, owners, managers or other resource suppliers. The allocation of property rights has in view maximizing the difference between sales gains, transaction costs and the cost of owning property. The last two refer to uninsurable risk and the cost of exercising residual rights of control mainly the costs of monitoring managers and partners, eventually (Rickets, 2002).

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[3] Rao, P.K., *The Economics of Transaction Costs*, Palgrave MacMillan, 2003, p. 6.

From the point of view of Grossman and Hart, property rights are important since they influence the 'power' negotiators have in post-contractual negotiations under asymmetric information. The firm is the owner of a set of assets that acts as a stimulus for investments and generates trust between contracting parties.

Complementary to the previous approaches, the agency theory puts forward for consideration in its positive approach providing a general framework for explaining different forms of organization. The theory proposes identifying that type of contractual structure that would allow minimizing agency costs. Agency costs include: costs of creating and elaborating contracts between principal and agent, expenditures with monitoring the principal, expenditures of the agent with guaranteeing (consolidation), residual losses (inherent losses of opportunities since contracts are incomplete even though are optimal). Optimal means that it is being negotiated until the supplementary cost of an additional stipulation equals the losses generated by not complying with the contract[4].

As a consequence agency costs include all the costs referring to: contracting costs, transaction costs, costs due to moral hazard and informational costs.

A perspective on the firm different from those exposed previously is offered by the evolutionary theory. The firm is defined as an integrated set of knowledge and technologies that is reached through an evolution-like process, by learning and forming and accumulating organizational routines. 'Organizational routines represent a complex of socially organized individual routines or habits that are co-stabilized and co-retained'[5], and most of them are specific and can not be transferred. They distinguish firms, provide competitive advantages, lead to a certain technologic pathway and endogenous evolution.

The reason we looked over the new theoretical developments in microeconomics is to highlight their openness towards what means corporate social responsibility (CSR). Moreover the conceptual classification of the notion of firm allows understanding the ways the latter would be stimulated to organize CSR actions. Howard Bower, nicknamed 'the father' of the social responsibility of the company in 1953 defined CSR as: '*the obligations*

[4] Coriat, Benjamin, Weinstein, Olivier *Les nouvelles theories de l'entreprise*, Librairie Generale Francaise, 1995, p. 95

[5] Dopfer, Kurt, *The Evolutionary Foundations of Economics*, Cambridge University Press, 2005, p. 37

of businessmen to pursue those policies, to make those decisions or to follow those directions that are agreed in term of values and goals by our society'[6].

The World Business Council for Sustainable Development use the following definition: '*Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*'[7].

In the Green Paper drafted by the European Commission in 2001, *Promoting an European Framework for Corporate Social Responsibility,* CSR is defined *as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' as they are increasingly aware that responsible behaviour leads to sustainable business success*[8].

From the previous definitions results that CSR is a concept that reflects the interdependence between firms and their natural, economic and social environment being integrated into the research ward complexity initiated by Coase. Firms' actions in CSR area are able to reduce transaction costs under many aspects. Thus, these actions are a signal for good reputation, reduce uncertainty and improve the quality in information about partners in transactions. As a consequence, are reduced the costs of identifying right partners, those of negotiation and dispute resolution. Besides, the image created through CSR actions becomes a specific asset, valuable for its owner, reflected in the firm's market value. The corporation communicates better with its environment and its power while negotiating increases. Since transaction costs are part of agency costs it means the latter decrease, too. The costs of monitoring employees by managers fall if CSR actions are disguised in incentive mechanisms for the employees, aiming at improving the quality of life of the latter.

Also CSR actions may be a solution to situations of market failure due to externalities although property rights are not defined clearly, an example to illustrate this being material public goods (air, water) or immaterial ones (education services, social assistance and so on).

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[6] Bowen, Howard, *Toward Social Responsibilities of the Businessman*, New York: Harper and Row, 1953

[7] www.wbcsd.org

[8] Commission Green Paper 2001 *Promoting a European Framework for Corporate Social Responsibility*, COM (2001)366 Final

From evolutionary perspective firms are a result of repeated interactions with the environment within they carry on their activity. CSR actions improve environment quality, promote the process of learning and accumulating organizational routines so that they increase the viability of those they are being promoted by.

Generally CSR activities favour cooperation between economic entities no matter their shape- firms, banks, individuals, administrations- and the new microeconomics asserts that cooperation is a way to raise efficiency while allocating resources.

Thus the theory justifies the statement from a 2004 EU report: *'Sustainable development and corporate social responsibility (CSR) are high on the public policy agenda at both EU and national levels. CSR is an element of progress and innovation combining the social, environmental and economic dimension in an integrated approach based on dialogue between key stakeholders. It plays a role in developing better social and economic governance and improving living and working conditions as well as enhancing companies' competitiveness'*[9].

In practice CSR concept covers various instruments grouped in EU document 'ABC of the main instruments of CSR' thus: socially responsible management (code of conduct, management standards, sustainability reports), socially responsible consumption (related the product promotion and the standards they comply), socially responsible investment (social, environmental, ethic investments, pension funds and so on).

Social responsibility represents a long term partnership with the community aiming at supporting the latter in solving its social issues. The benefits gained by the campaigns are represented firstly by the three R's: recognition, reputation, reconnaissance these meaning:

- Improving relations with community (clients, suppliers, authorities);
- Influencing the target public, opinion leaders, media;
- Obtaining a better image and greater feasibility for the company;
- Motivating employees.

According to the model developed by European Foundation for Quality Management for assessing quality performances, corporate social responsibility has a weight of 6% of the

[9] CSR, National public policies in the European Union, p. 7, www.europa.eu.int

factors that cause a company's business excellence, while financial outcomes represent 15% and the policy and strategies 8%.

Starting from the definition according to which sustainable development is commonly understood as *the ability of the current generation to meet its needs without compromising the ability of future generations to meet theirs,* emphasizing ethics and environment protection, CSR activities boost setting a country on the pathway of such development.

III. CSR and sustainable development in Romania

In Romania, CSR depicts a concept almost new, imported through international companies that operate locally. The followed strategies are those developed by multinational companies globally sometimes adjusted to local specificity. Sustainable development is rather a concept promoted by elites and a few non-governmental organizations with a weak echo among the great majority of population whose goal is still to reach that income level that would allow a more decent way of living.

Despite all of these, the little information made available by companies show an increasing concern of the latter for improving corporate governance and their participation in social programs. A proof for this is the organization in Romania of the first CSR conference in East Europe in 2006. The conference debated and made popular the initiative of the International Organization for Standardization of implementing on the basis of volunteering the international standard for social responsibility, ISO 26000/2008. From the papers presented at the conference turned out that in Romania CSR is promoted since it leads to reputation improvement, raising clients' and employees' fidelity, raising visibility and market differentiation. Thus the last goal it is not what we call corporate citizenship, but raising sales and profit.

The firms' total investments in corporate social responsibility activities in 2006 were over 10 million Euros show the estimations of Saga Business&Community, each company investing on average between 1000 and 1,5 million Euros. According to this the market in Romania most of the times resumes social responsibility to: donations, programs of social assistance, contributions, support provided to relief agencies, corporate events, financing some scientific or research projects, educational programs, support provided to disfavoured persons, programs for protecting the environment. In 2006 only 23 firms made public their CSR programs, but not necessarily the budgets. That is way it is impossible modelling this behaviour on the example of Romania.

The available information for a few companies with reference to 2005 and 2006 show a significant growth of CSR expenditures in the pharmaceutical and IT sectors, as the following table shows:

Table 1. CSR expenditures in Romania 2005/2006

Firms	Allocated amounts in 2005	Allocated amounts in 2006	Areas
Ozone Laboratories BUC	50000 Euro	200.000 Euro	Education, social
Siveco Romania	100.000 Euro	245.000 Euro	Education, Culture, Sports
Teraplast	174634 RON	300797 RON	Education, Culture, Sports, Social
Tuborg Romania	> 1 bln ROL	> 1 bln ROL	Education, Culture, Sports, Social
Unicredit Romania	145.000	125.000	Education, Environment, Social
Zentiva	80.000 Euro	150.000 Euro	Education, Culture, Sports, Social
A&Pharma	400.000 Euro (04')	500.000 Euro (05')	Education, Social, Human Rights
Transilvania Bank	400.000 Euro	420.000 Euro	Education, Culture, Sports, Environment
BGS	100.000 Euro	100.000 Euro	Education, Social
Carpatcement	300.000 ('04) Euro	300.000 ('05) Euro	Education, Social, Environment
Coca-Cola Romania	300.000 Euro	300.000 Euro	Education, Culture, Environment
Impact	100.000 Euro	50.000 Euro	Education, Culture, Social

Source: www.responsabilitatesociala.ro

As a conclusion how could be stimulated firms in Romania especially those from SMEs sector in order to involve more and more responsible in the life of community?

The importance of CSR is growing progressively in Romania without any intervention since joining EU together with legislative stability determine emphasizing the competing feature of the inner business environment and consequently raising firms' interest in differentiation and image. Besides the greater index of Romania's openness towards EU and the rest of the world, reflected by international trade, flows of capital and workforce, leads to imitation effect, both for enterprises and population. Romanian firms have started to learn by imitation from outer partners and Romania's citizens have started to learn appreciating consumption quality through socially responsible consumption.

State's involvement is necessary firstly because law stabilization and enforcement to environment, social protection and corporate governance might be in the view of evolutionary theory a tight selection environment that would direct the firms towards a path of healthy development. The state has also the role of main evaluator of the needs of Romanian society so that CSR programs may be well directed sized and applied. A similar role could have the associations of promoting CSR, rather founded on regional criteria. Facilities and national or communitarian complementary funds granted to the firms that have CSR programs are an interesting instrument, too.

Joining EU also brings the implementation of Basel II agreement to credit activity, the rating becoming an important criterion for having access to financing. The rating extension that would include CSR indicators could facilitate the development of these activities especially at SMEs level.

One of the main problems Romanian companies raise is related to cost-benefit analysis. The costs of a CSR campaign should be considered only in the short run while profit should be considered in the long run. The profit doesn't resume to figures, it refers also to the intangible gain (image capital) achieved by a firm that has a CSR budget. In the future corporate social responsibility could be an important element when consumers choose, statistics from developed countries, especially from USA, proving this.

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