CORPORATE SOCIAL RESPONSIBILITY AND ECONOMIC AND FINANCIAL PERFORMANCE OF AN ENTERPRISE

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Abstract
Corporate social responsibility (CSR) has become, in recent years, a central topic more often to the attention of authorities, private sector and society. After joining the European Union, the implementation of responsible business practices in Romania began to grow. Multinational companies were the main engine, companies that have transferred their organizational practices and culture at local level. After joining the European Union, in Romania and in other EU member states, has developed “responsible industries", namely companies that have developed a business objective in activities that are in benefit to the environment and / or communities and their “responsibility" has an indirect result from their goods and services they provide. Although in Romania the development of the CSR field is still in early stage, many of the leading companies in this field are understanding the value of a robust strategy of CSR, aligned and integrated with the values and key operations of the business, strategy that translates into tangible action programs and sustainable success. The purpose of this article is to find a clear definition of CSR and to analyze if the CSR activity can ensure the performance stability of an enterprise, in case there are changes of ownership.

Keywords: CSR, economic, environment, shareholders, competition, safety, integrity

JEL Classification: M14

Introduction

Responsibility (CSR) is an influential factor in the activity of companies, as it will bring a contribution for increasing the confidence in the market of the company.
CSR occurs within corporations through three major categories of actions: actions on Health and Safety - which are institutional actions, actions on Competition and actions on the Integrity. The implementation of these policies in the company will lead to its listing as a responsible company by the social point of view.
In the first part of the article we have tried to identify a definition of CSR. After many efforts to find an impartial definition and to provide greater accuracy we found that, there is still confusion regarding the definition of CSR. The analysis would reveal the existence of

five dimensions on corporate social responsibility and it will show shows that existing definitions are largely congruent and the confusion is not about how CSR is defined, but how CSR is built in a social context. In the second part of the paper we made a comparison between two companies that, in a certain period of time, suffered changes of shareholding. In our analysis we aimed to identify the impact of these changes on their performance, respectively on the manner how the CSR activity can provide stability, to a certain proportion, of these returns.

1. Literature review - definitions and theories on CSR

Both in companies and in the academic world exists uncertainty regarding the definition of CSR. Some say "I searched for a definition and there is none" (Jackson and Hawker, 2001). This is not exactly true. The problem is that there are an abundance of definitions which are, according to Van Marrewijk (2003), biased to some specific interests and this prevents the development and implementation of the concept.

Unfortunately, any attempt to develop an impartial definition is a challenging work, because there was no way to verify its impartiality. Even if an impartial definition would be developed, it would still need people engaged in corporate social responsibility for it to be applied and the confusion to be solved. However, is it possible to study the similarities and differences between the offered definitions. They are divided into five dimensions and it would be able to study how CSR is understood, because of the given definitions.

The method applied for the CSR understanding consists in 3 steps and in the article „How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions", Alexander Dahlsrud explained the steps in detail. The first step was to gather all the definitions through an analysis of the literature of specialty. In the second step, five dimensions of CSR were identified through a content analysis of definitions. Based on this, a coded scheme has been developed and applied to get an overview on the relation between definitions and dimensions. In the third step, calculating the frequency of Google of all definitions relating to a specific dimension has been used to calculate the relative use of each dimension.

For illustration, there were found and analyzed 37 definitions of CSR. They were extracted from 27 authors and cover the period between 1980 and 2003 although most definitions have been published since 1998. Most definitions have their origins in Europe and America, but were found also definitions from India and Canada.

Analyzing definitions, it became apparent that it concerned the same dimensions of CSR. Thus, sentences which related to the same dimension were grouped together. This process identified five dimensions that were named to reflect the content phrases. The table no. 1 shows the coded scheme, the five dimensions and examples of phrases that refer to the same dimension.

Table no. 1: The five dimensions of CSR

DIMENSIONS	THE DEFINITION IS CODED TO THE DIMENSUIN IF IT REFERS TO:	EXAMPLE OF PHRASES
The dimension regarding the environment	The natural environment	"cleaner environment"; "administrator regarding the environment"; 'environmental concerns into business operations"
The social dimension	The relationship between business and society	“integrating social concerns into business operations"; " considering the main purpose of their impact on the community"
The economic dimension	Socio-economic and financial issues, including the description of CSR in terms of business operations	”"the contribution to economic development"; "the conservation of profitability"; "Business operations"
Dimension regarding interested parties (stakeholders)	Stakeholders or stakeholder groups	”the interaction with their stakeholders"; "as organizations interact with their employees, suppliers, customers and communities"; "treating the stakeholders of the company"
Dimension regarding volunteering	Shares unprescribed by law	"based on ethical values"; "more than legal obligations"; "volunteering"

Source: article „How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions”, Alexander Dahlsrud

The frequencies were obtained by searching every definition on Google. A dimension score was calculated by adding the frequency of every dimension specific definitions. The results were: the highest 4 score dimensions have the dimension rate more than 80% (the dimension regarding stakeholders, the social dimension, the economic dimension, dimension regarding volunteering), although it is worth mentioning the fact that the environmental dimension has low levels, of 59%. However, the all dimensions reach rates dimensions of over 50%, which indicates that they are more likely not be included in a random definition.

Further, the consistency of the definitions was studied by analyzing each different dimension in how many definitions has been used. Again, this was analyzed by using the frequency calculation with Google. From the study resulted that 8 definitions, representing 40% of total frequencies include all 5 dimensions. Even more interesting is the fact that for 3 or more dimensions these numbers increase by 31 definitions and 97% of all frequencies.

2. The relationship between CSR and the size of the capital appreciation of shareholders

In a perfect market, characterized by fulfilling the assumptions of CAPM model (Markowitz 1952; Sharpe 1964), the managers who have as main objective to maximize the profit do not invest in the risk management, because the extra costs towards the losses already expected by the company, to reduce the idiosyncratic risks, lead to the reduction of the expected returns (firm value), while they do not lead to the risk reduction, reduction made by other investors simply by having a diversified portfolio of securities.

However, on the real market, businesses are investing in risk management (e.g. fire insurance), even if these investments come at a price exceeding the expected loss, because reducing the risk leads to the increase of the shareholder's capital appreciation. An example would be that the coverage against risks protect the shareholders against unproductive financial costs in a way that investors cannot achieve it on the market. If managers can reduce the company exposure to specific risks, risks against which the investors can not cover by diversifying the portfolio, then is brought an added value through risk management.

The corporate social responsibility is just one of many signals that shareholders use in determining the orientation of the company. Even if, from a macroeconomic perspective, the company's goal, on a capitalist market, is the profit maximization, its fulfillment requires a high degree of exigency in the firm behavior. These aspects belie the opinion according to that CSR can give birth to the signal that the enterprise is fully or substantially altruistic in its guidelines, such as lack of the profit motivation. CSR, at most, can give a signal that managers can, do or take into consideration also other social issues in the decision making. It can be called moral capital.

There are two aspects of social responsibility activity that may cause such signals. First, the company's work must be published, by internal or external reports on its situation. Secondly, CSR activity must be credible and reasonable, capturing media attention or other external assessors.

Companies, with no activity of CSR, lack of this form of goodwill amortization, being exposed to potential effects with greater impact. In this case, the activity of CSR serves as a signal to the investors about the likely reactions of other key stakeholders. The types of events that may have a negative impact on the company's activity can be classified according to the table no. 2.

Table no. 2: Types of events that may negatively impact the company's activity

Category	**The type of event**
Competition	Competitive conspiracy; Antitrust charges; The counterfeiting or the infringement of a patent or license; Allegations relating to price fixing methods
Actions related to safety / health	Charges related to damage/health problems to consumers; Product safety problems; Problems in quality control; Events related to environmental protection/pollution
Actions based on integrity	Allegations of discrimination; Allegations of fraud; False charges/distrust; Allegations of bribery

Source: article „How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions", Alexander Dahlsrud

For our analysis, we chose two companies, which at one moment in time, both have undergone major changes in terms of shareholding.

The first company is an important unit in the petrochemical industry in Romania, which has grown significantly since 1990, whose shares are traded on the Bucharest Stock Exchange, I trading category. The company complies with the rules of transparency set by the Capital Market Law no. 297/2004. The company has a share capital of 34.321.138,30 lei and a total number of 343.211.383 shares at a nominal value equal to 0.1 lei.

Short description of the company with regard to products, sales and foreign markets:

- The only producer of PVC, polyether polyols, plasticisers (dioctyl);
- About 37% is the share of PVC in total sales;

- 80 is, at present, the number of countries where the company's products are marketed;
- 300 global partners guarantee the professionalism;
- 78% of total sales represent deliveries on foreign markets;
- 23.0% of export is heading to the Middle East (including Turkey);
- 39.6% is the share of Central and Eastern Europe in the total exports;
- 33.8% represents exports to Western Europe;

The second company is one of the few multinationals in Italy in terms of food industry and a global player in the production and distribution of essential life food for every day: milk, dairy products (yogurt, sauces based on cream, desserts and cheese) and fruit juices, which generated revenue of nearly 5,6 billion Euro in 2014. This multinational has over 16,000 employees in Europe, America, Africa and Australia. The company is present in 17 countries with 73 factories, in 9 countries with license agreements and is listed on the Italian Stock Exchange since October 6, 2005.

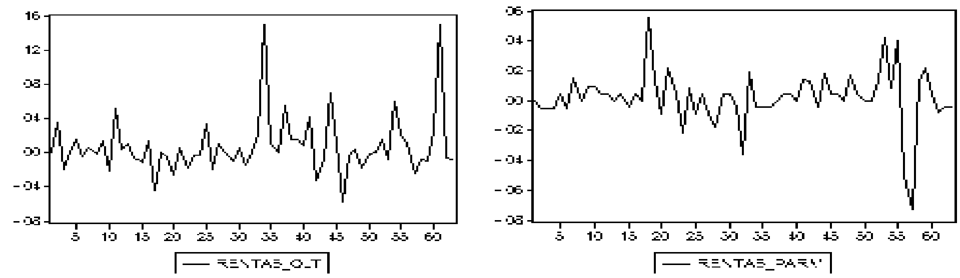
In our analysis, we have taken into account the change of shareholder's firm value, represented by the shares return of the two companies, over a period of three months, during which both companies suffered shareholding changes.

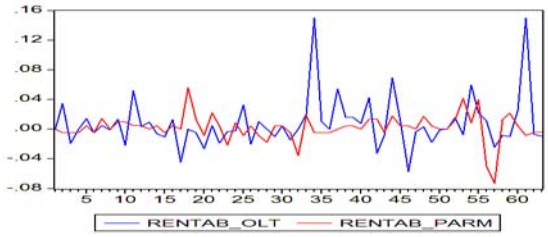
A share of the first company, at the beginning of the reviewed period, was traded on the market with 0,2 lei, at the end of the period the quotation reaching 0,338 lei and in the market, were made transfers worth 43.000 euros. The increases were fueled on the stock exchange by speculation on commencement of the privatization of the company by the state and, in this sense, at the midterm review period, the first company issued a series of 187.523 new shares.

Regarding the second company, on the midterm review period, another group announced a stake taking over of approximately 15,3% of the company's share capital, at a price per share of 2,80 euro. Following this, the direct and potential stake of the group over the company is around 29% of the total capital of the Italian company.

These events are reflected in the evolution of the price returns of the companies in the market (rentab_olt – the first company and rentab_parm - the second largest), as shown in the graphic no. 1.

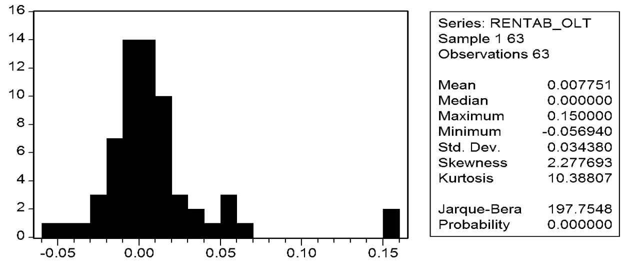
Graphic no. 1: The evolution of the two companies returns





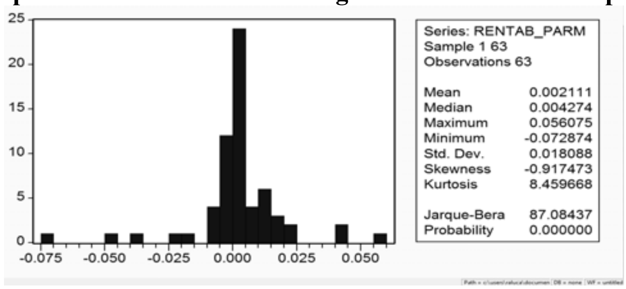
By analyzing the shares return histogram of the first company, shown in the graphic no. 2, in the analyzed period, we see that the average is 0,007751, with a standard deviation of 0,034380. Also, the asymmetry coefficient is 2,277693, significantly different from 0 and the flattening coefficient of 10,38807 is significantly different from 3. All these indicators reflect the fact that lately the shares return was not normal distributed, with the possibility of unexpected returns.

Graphic no. 2: The returns histogram of the first company



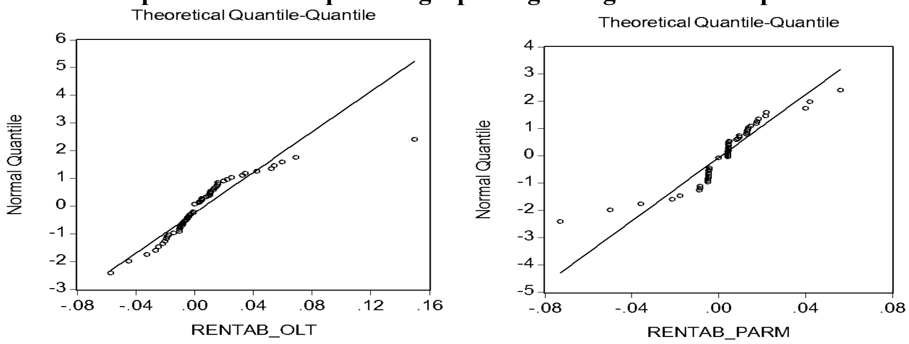
By analyzing the shares return histogram of the second company, shown in the graphic no. 3, in the analyzed period, we see that the average is 0,002111, with a standard deviation of 0,018088. Also, the asymmetry coefficient is 0,917473, significantly different from 0 and the flattening coefficient of 8,459668 is significantly different from 3. Also in this case, the indicators reflect the possibility of unexpected returns, because the returns are not normally distributed.

Graphic no. 3: The returns histogram of the second company



But unlike the first company, in the case of the second company, the unexpected gains are not so high because the average is closer to zero. The same can be observed in the quantile graphs (graph no. 4). The returns of the no. 2 company (rentab_parm) are closer to the median compared to the returns of the company no. 1 (rentab_olt).

Graphic no. 4: The quantile graphs regarding the two companies



The change in the shareholder's value firm, represented by shares returns courses, is the unexpected component in the evolution of the company activity. The rates are fluctuating daily, due both to market conditions and to various events within the firm.

The first columns of the table no. 3 are measuring the correlations between discreet variables and CSR. The results show that multicolinearity between variables does not have a significant influence on return. Also, we note that there are also positive correlation between CSR activities (Competition, Health / Safety, Integrity) and the unexpected return, but is no correlation between CSR and Market-to-book ratio. CSR activities help both companies with a high level of Market-to-book ratio and the companies with low levels of it. For large firms, the conduct of social responsibility activities proves to be beneficial, while for small firms only the institutional activities type (Health / Safety) can have such an effect.

Table no. 3: The static information regarding the two shares

	The average of returns	Standard deviation	Return rate	Market–to-book ratio	The average return (CSR)		
					Competi tion	Health / Safety	Integri ty
First company shares	0.007751	0.034380	-16.68	2.375444	0.3146	0.2977	0.3876
Second company shares	0.002111	0.018088	20.00	22.40794			

Some studies in the social responsibility field invoke also the quality of management as a decisive factor in the application of CSR policies. However, the quality of management, in its most powerful form, contradicts the usefulness of CSR. The apparent value it comes as a result of the fact that the investors interpret the company's social responsibility policies as a signal of the quality management existing in the company.

Conclusions

The dimension regarding the environment, in the definition of corporate social responsibility (CSR), received a very low rate compared to other dimensions. One explanation could be that the environmental dimension was not included in the older definitions and this may have influenced the current definitions not to be processed neither by those. Another aspect is that the environmental dimension is not explicitly included in the definition, although it is considered a part of CSR. This is revealed by the World Business Council for Sustainable Development (WBCSD), which differentiates "corporate social responsibility" of "corporate environmental responsibility." If the frequencies offered by WBCSD definitions were integrated into the environmental dimension then the dimension ratio would have increased from 59% to 85% and in this case, could be compared to other dimensions.

Based on the dimension rates, are more than 50% chance that any of the dimensions to be included in a random definition. Thus, all dimensions are necessary to understand how CSR is defined. The analysis shows that there is a 97% probability that at least three of the dimensions to be used in random definitions.

The definitions provide no description of optimal performance or how it should be balanced these impacts in the decision making. However, they describe the process by which optimal performance can be established. The dimension on volunteering implies that business should be conducted over the usual requirements, which will provide a minimum level of acceptable performance. But which is the performance optimum over the usual requirements or when there is no demand? The definitions answer to this question pointing to the stakeholders. The balance between the often conflicting concerns of the stakeholders is a hard task and the definitions provides vague phrases describing how such of these concerns have to be resolved. Thus, the only conclusion that can be drawn from the definition is that the performance optimum depends on the business stakeholders.

It is interesting to note that the definitions do not really express social responsibility of the business, but describe CSR as a phenomenon. This could be the cause of the definition confusion: it is not a confusion how the CSR should be defined, but rather what is the social responsibility of a business.

The definitions show that CSR is nothing new at the conceptual level. Business always had social, economic and environmental impact, and were concerned with the stakeholders and shareholders with the rules. However, at the operational level, things are significantly different. Due to the globalization, the context in which business operates is changing in an alert rhythm. The new stakeholders and different national legislations have new expectations regarding businesses and are changing the way the social, economic and environmental impacts should be optimally balanced over the decision making. Thus, in this context, the CSR management tools are needed, in addition to the established models, to develop and implement a successful business strategy.

In short, the social responsibility policies implemented by some companies do not provide a degree of protection to all the companies on the market. This protection depends on certain constraints, such as company size, company stakeholders informing transparency and the management quality. However, the most important may be considered the fact that this protection is a institutional type and, therefore, it addresses more to the secondary stakeholders, while social responsibility activities of technical type is orienting their results to the main partners of the firm. Therefore, the implementation of CSR activities of technical type will bring benefits only to large companies, while institutional social responsibility type will bring benefits to all companies, regardless of size.

Perhaps, the most important result of the study is that we have demonstrated that the market in Romania is more unstable than in other states, reacting with a much higher intensity to the changes of shareholding or to corporate capital. If in Italy, buying 15% of the share capital of a company had lowered the price of a stock, in Romania, a supposed privatization of a state company leads to the increase of the prices by over 70%. Our research has some limitations, because we have analyzed only 2 companies in 2 different countries, but a more exact research should be done with information from at least 2 companies each country, which at one moment in time, had undergone major changes in terms of shareholding.

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