

# Social Responsibility and SMEs in Romania

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## Abstract

*This paper started from the fact that social responsibility is evolving rapidly and, furthermore, the companies' expectations are growing, too. Thus, the present paper aims to offer an image of the social responsibility activities in the Romanian business environment, focusing on the social involvement of the SMEs. Social Responsibility began to gain shape in the business strategies of the Romanian companies, with the budget ranging from a few thousand Euros for SMEs, up to millions for large companies. But the financial crisis and the current economic context bring into question the success of CSR programs, given the fact that more and more companies tend to drastically reduce spending. On the other hand, the current Romanian legislation represents an obstacle for the Development of the Social Responsibility strategies in the Romanian companies.*

**Key words:** *corporate social responsibility, Small and Medium Enterprises, social involvement*

**JEL Classification:** *M14*

## Introduction

The Social Responsibility (SR) programs are particularly important for organizations, as the social involvement campaign based on them, can lead to a better dialogue with the community, to the extent they contribute to an increased degree of knowledge of the community needs starting from the impact of company activities.

Both Arlo Brady, CSR (Corporate Social Responsibility) consultant and researcher at Cambridge University and Thomas Achelis, President of The Forum for International Communications, assert that social involvement should be considered not only at level of large companies<sup>1</sup>. The community is more responsive to social involvement activities of small firms because they are more dynamic, so they can make decisions easier and faster, being more flexible. Thus, they can provide a faster feedback due to the higher available flexibility.<sup>2</sup> In addition, they are much closer to the community regarding the problems they face.

Any company can create social responsibility campaigns. For their success, the financial resources or the long-term investments are not essentially important, but a responsive to

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<sup>1</sup> Chamber of Commerce and Industry of Romania, *CSR and Competitiveness, European SMEs' Good Practice*, National Report Romania, Bucharest, 2007, pp. 5, available on [www.csr-weltweit.de/uploads/tx.../KMU\\_Forschung\\_Report\\_Romania.pdf](http://www.csr-weltweit.de/uploads/tx.../KMU_Forschung_Report_Romania.pdf) [retrieved on 26th May 2010].

<sup>2</sup> Brady, A., What is driving corporate responsibility?, *Corporate Environmental Strategy: International Journal for Sustainable Business*, Vol. 10, No. 8/2003, pp.43-49.

community needs and proactive management system is requested. SMEs' concerns regarding community needs are separately included in their long-term objectives. These concerns, in time, turned into moral obligations. SMEs' management streamlined and quickly assimilated the moral obligation to do well, socially. Planned CSR activities involve identifying community needs and designing targeted campaigns in order to solve them.

## Corporate Social Responsibility Frame

Business-Society paradigm is becoming increasingly important. It represented an important theme of discussions at the World Economic Forum in Davos, Switzerland, in January 2004, having corporate responsibility and citizenship on the agenda.

Traditionally, a business 'need meet the expectations of a company's theoretical owners: the shareholders'<sup>3</sup>, the main objective of business being to make profit.' The success criterion is shareholder value, which is measured by the share price.

The social objective is increasingly associated with modern business. The social objective of a company is determined by the fact that the business activity takes place in a given social context and, consequently, it must respect the interests of employees and customers, too. From this perspective, a company should find adequate levers and methods to involve not only technical and organizational factors, but also human and environmental factors, consumer protection and energy crisis. Lately, tendency to reject the capitalism and the traditional idea that a company is structured to make a profit is becoming more obvious.

The stakeholders use tools of CSR in order to promote their interests on social and environmental behaviour of companies, thus promoting social objectives such as sustainability. Consequently, CSR activities affect both the internal processes of an enterprise, and social models restructuring. Societal objectives are a matter of negotiation between social actors and thus of self-governing society.<sup>4</sup>

The European Union offers a very well established frame in the SR field, which has not been implemented in Romania yet. In this respect, Günter Verheugen states that the entrepreneurs should redefine their business objectives, because since 2001, the European Commission has an explicit policy on CSR, which is based on the fact that SMEs contribute to sustainable development promotion and create more jobs, as SMEs know the needs of the local communities to which they belong<sup>5</sup>.

## Social Responsibility and SMEs

Nowadays, Social Responsibility is not anymore specific to large organizations. More companies, even the category of SMEs, have begun to adopt its specific management practices. In this respect, Social Responsibility takes shape of Corporate Citizenship and it is not necessarily perceived as a sign of economic strength, becoming a friendly way to create a stable and profitable business relationship for all parts involved, a friendly way of communicating with the society. As such, CSR is a modern, open and flexible form of management. Practices and programs of Social Responsibility are thus more accessible and interesting for small businesses.

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<sup>3</sup> Handy, C., What's a Business for?, *Harvard Business Review*, Vol. 80, No.12/2002, pp.49-55.

<sup>4</sup> Mayntz, R., *New Challenges to Governance Theory*, European University Institute, The Robert Schuman Centre. Jean Monnet Chair Papers 50: Florence, 1998

<sup>5</sup> Verheugen, G., *Günter Verheugen's speech at CSR Europe's 'Equipped for CSR' event*, 4 December 2008 [retrieved on 12th April 2010 from [http://www.csreurope.org/news.php?type=&action=show\\_news&news\\_id=1944](http://www.csreurope.org/news.php?type=&action=show_news&news_id=1944)].

In a study<sup>6</sup> about the business practices of western small businesses, there are highlighted some *common features* of SMEs:

- there is no clear distinction between management and ownership, employees having multiple roles;
- the main activities are concerned with solving the current problems;
- in small companies informal relationships and communication are predominant. Moreover, interpersonal relationships play an important role here;
- links with the community are much closer than in the case of large companies;
- companies often engage in community life by charity;
- small businesses are vulnerable on the market, being often under pressure, caused by the large companies for which they provide products and services.

Under these circumstances, the adoption of the SR practices by SMEs is increasingly encouraged in the West European countries. In this sense they are aiming, especially, at its personal dimension, by engaging in personal relationships at the level of their own employees, but also at the level of their business partners and last but not least at the community level. In this way, they seek to contribute to an improved reputation of the organization and of the shareholders and managers, in community, and to an increased trust capital of the company, increasing, thus, loyalty.

On the other hand, issues that discourage RS practices in SMEs have been obvious:

- lack of managerial culture of ownership and owner;
- aggressive conception about market and competition of SME managers;
- paternalistic and authoritarian management style;
- declining innovation in business practices<sup>7</sup>.

The proper implementation of the concept of social responsibility in business strategy can generate *competitive advantages* for the company:

- improvement of the organization's reputation and better relationships with institutions, business community;
- improvement of the access to capital and markets;
- increasing sales and profits;
- operational cost savings;
- increased competitiveness and hence increasing turnover and profit;
- products and services that generate greater customer satisfaction and hence higher profit;
- improved productivity and quality;
- an efficient human resource base, motivated and loyal employees, with improved results and increased efficiency;
- greater customer loyalty.

In the context of the positive implications outlined above, it is important that social responsibility (SR) should not be considered a source of additional costs, but a way of

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<sup>6</sup> Murillo, D., Lozano, J. M., *SMEs and CSR: An Approach to CSR in their Own Words*, *Journal of Business Ethics*, Vol. 67, No3/2006, pp. 227-232.

<sup>7</sup> Ibidem, pp. 233-240.

improving competitiveness, an opportunity for entrepreneurs, for stakeholders and for the community.

## On Social Responsibility in the Romanian Business Environment

After the multinational companies have brought social programs on Romanian market, in the last ten years, CSR has become a fashionable concept. It became manifest as a long-term trend, determining specific practices. Their implementation determines an increasing transparency, offering credibility.

Arlo Brady affirmed that 'CSR can not be separated from the public image of companies'<sup>8</sup>. In his opinion, CSR has a communicating function.

While many years SR has been a non-important topic for most Romanian companies, it has recently begun to make its mark in business for more companies, particularly the large ones. But, the SMEs have also designated persons or organized special department just for this task.

Small businesses in Romania generally do not have a management that can be called strategic, lacking, in most cases, long-term planning. Small businesses are often devoid of scale and perspective, entrepreneurs rarely seeking to determine development or innovation of their field, but, primarily, to survive. More so, in the present context, SMEs are more vulnerable to the legislative changes and to the market developments.

Management of the small businesses in Romania can be characterized as being, generally, a passive one, nor even a proactive one or even a sensitive management to changing external environment, being primarily aimed at indoor and seeking short-term objectives emerged from the owners' causes. Moreover, management is no transparent, and communication - both in relationships with owners and in relations with consumers and the community - is often absent or very pale. Administration is often mistaken for the owner, resulting an unprofessional management, not valuating experts, personal development, knowledge, professional values, innovation, conservative management, uninterested in reforming the organizational culture and wry in front of change. Under these circumstances, a strong association between lack of ethical and successful is highlighted. This does not need financial strength, extensive long-term investment, power of communication, but requires creative and sensitive management to community issues and, also, planning. It is important for SMEs to begin to define their long term goals, including targets and concern for community needs.

Until now, SMEs in Romania have not had significant movements in terms of CSR, although they should be interested in this field. Case studies about activities involving SMEs are missing or rare. They should be exposed especially during events dedicated to CSR's through participation in these or other *types of events*. From this perspective it is estimated that, in essence, the issue of CSR has the following *coordinates*:

- An interesting category of CSR programs is represented by the activities involving employees of the companies. Romanian companies are becoming more attracted to this form of social responsibility.
- Employees are the main resource of a company, so these programs can represent a strong argument for the idea that not only the large companies, but, also, the small businesses have something to say about SR. There are different forms of employee involvement, methods used by small firms on the Romanian market. NGOs receive the expertise and services of such small companies. For example, in the case of some small IT business, the staff can offer assistance for specific courses dedicated to the youth.

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<sup>8</sup> Brady, A., How to generate sustainable brand value from responsibility, *Journal of Brand Management*, Vol. 10, No. 4/2003, pp. 270-289

- Addressing issues on safety and occupational health, which may reduce the risks of accidents, loss of output, negative image in mass-media and, also, the monitoring and reporting risks.
- Many SR initiatives do not require specially dedicated funds because they have to do with volunteering or internal activities of the organization.

Implemented on the local market, in a first phase by multinationals, CSR has begun to be outlined in Romanian strategies, too, the budget ranging from several thousand Euros, for SMEs, up to millions, for large companies. However, the financial crisis and the current economic context made difficult the implementation of CSR programs in 2010, given the fact that more and more companies tend to drastically reduce spending. The economic crisis seems to discourage to a certain extent those interested in social responsibility. And this may be the reason why SMEs are still a scarce presence on the CSR market. In 2009, companies which were interested in SR programmes reduced by at least 30% social responsibility budgets.

Overall, it appears that in recent years in Romania, CSR is represented by a growing number of initiatives, new foundations were established, new corporate programs, specific marketing campaigns, philanthropic programs and social campaigns supported by the company itself were developed. Likewise an increasing number of seminars, conferences, debates on CSR were organized. Some SMEs have already implemented SR practice without being familiar with this concept or without dissemination of these initiatives and activities. In what follows, we present a summary of these practices.

Thus, in terms of *decision making*, very few Romanian companies (around 5%) have developed clear and transparent systems of decision making when they are engaged in philanthropic activities or programs. Mostly, a business decision to engage in such activities seems to be taken ad hoc, based on an emotional impulse.

As regards the *relationships with the community*, it can be observed that the links of the Romanian companies with community are weak and close relationships between organizations and a community do not necessarily represent strong motivational factors.

*Planning of RS is sometimes poor*, as results from a research on CSR practices in Romania, made by American Chamber of Commerce in Romania (AmCham)<sup>9</sup>. It is shown that only 5% of companies have an annual fixed budget of donations and 25% of them try to establish regulated systems for charity. There are good examples of small indigenous companies, trying to organize these aspects and to identify reliable partners in the nonprofit sector.

If we consider *feed-back from users*, in the same study we mentioned above, it is shown that about one third of the companies that have made donations, received reports describing what happened to the funds, and another third of them would wish to receive these reports, even if this has not happened yet.

## **Corporate Social Responsibility, a Strategic Management Tool in the Current Economic Context**

In Romania there is still some confusion regarding the concept of CSR.

First, CSR is often mistaken for corporate philanthropy or charity. Philanthropy is the oldest form of social involvement of private business.

Secondly in Romania, CSR is often reduced to PR. CSR is directed to improve company's image and to increase notoriety and not to the rights or expectations of key stakeholders. Stakeholders include investors, customers, employees, business partners, local communities,

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<sup>9</sup> Chamber of Commerce and Industry of Romania, op. cit., pp.12-13.

environment and society. CSR activities are measured in terms of performance indicators in PR or only superficially assessed or even without to show their real impact to the interested public.

One major impact of the current recession was that there was a wholesale loss of trust in large business, especially in the financial sector. Regaining trust and pushing companies reputation to the forefront is going to be a key challenge in order to maintain ability to operate successfully in most markets.

On the other hand, the current Romanian legislation represents an obstacle for the Development of the Social Responsibility strategies in the Romanian companies.

Businesses must prioritise activities in front of recession, but CSR and sustainability should not be swept aside. In many companies, CSR is still fragile – only on the agenda when things are comfortable. CSR spending is often lumped in with marketing budgets, HR and training programmes, innovation budgets, research activities and other ‘non-core’ activities; these areas are most susceptible to potential cuts and. But companies where management has fully integrated sustainability may be among the few to understand management by RSC strategies and principles.

The theories and practices regarding the analyzed field consider that the extension of CSR is closely linked to focusing efforts on attaining the following *objectives*:

- Strategy became more obvious;
- Brand building through total value creation;
- Developing environmental projects focused on economic exclusion;
- Focusing on responsible governance and accountability<sup>10</sup>.

CSR programmes do not strive for research, professional development, consumers' expectations, business partners or communities' expectations, or environment protection. CSR programmes are often reduced to philanthropic actions having a poor social impact on short term, being attractive for media actions. Frequently, investments in promotion of these so-called CSR activities exceed investments in programmes. In conception of these programmes no social impact is aimed, but media effect. Instead of programmes having long term impact, well mediated PR events are preferred.

Romanian business environment does not assign a strategic dimension to the CSR programmes. The link between CSR and those elements that ensure long-term development of the companies – research and new products development, sustainability, human resources strategies, innovation and education investments, good relationships with communities - is not awareness.

The key to social corporate responsibility management is the development of strategic capabilities that will deliver optimised financial social and environmental performance.

The motivations of companies to address corporate responsibility varies widely from instrumental approaches using responsible practices as a means of maximising profits to intrinsic approaches committing the company to upholding its values and principles irrespective of the impact on financial performance.

Aligning responsibility strategy to corporate strategy must focus on following *objectives*:

- Rationalising and harmonising the economic, compliance, ethical, and sustainability dimensions of corporate responsibility in the context of stakeholder requirements;

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<sup>10</sup> Radcliffe, T., *Corporate social responsibility and the recession*, February 2009 [retrieved on 6th March 2009 from <http://www.article13.com/csr/viewfromthefield.asp>]

- Managing non-financial risk, particularly those aiming to brand, reputation, local licence to operate and to performance instability, as an integral part of corporate sustainability management;
- Integrating eco-design and other sustainability requirements into product and service offerings.

The above mentioned three related dimensions of CSR, approaching CSR as a strategic management tool *means*:

- CSR Economics Dimension:
  - strategic planning;
  - strategic assessment;
- CSR Social Dimension:
  - sponsorship;
  - community investment policies;
- CSR Environment Dimension:
  - environmental policies.

## Conclusion

Analysing the RS practices in Romanian SMEs, literature and practice have established the following *positive aspects*:

- The governmental organizations and agencies give an increasing importance to these issues; new specific regulations are in progress and special departments are created;
- Programs aiming at the implementation of the RS strategies in the SMEs management systems have begun to be organised. They are supported both by the government and civil society;
- Programs funded by the EU appeared, aiming to increase awareness and to support the implementation of the SR strategies by the SME sector;
- An increased number of specialised articles and websites dedicated to events such as seminars, conferences, workshops, aim to popularise the concept of CSR practices and the specific benefits that their implementation can bring to a company;
- All stakeholders, companies, customers, suppliers, local authorities, the media have begun to understand the importance of RS and they increasingly show preference for those businesses that have introduced RS strategy into their management plans.

Building and developing social responsibility in SMEs in Romania requires that the management should focus its efforts on the following *objectives*:

- Adaptation of the legislation to the European realities and practices. For example, the sponsorship law enforcement still has problems connecting to the Tax Code. The new Tax Code, in turn, removed some incentives for charitable activities. Multiplication and diversification of funding for introduction of RS in their strategies, because they expect involvement of big companies.
- Increasing the number of specialists in the CSR field; this is a very difficult problem because most of the SMEs have a small number of employees, their owners considering that they do not afford to have special staff for this activity, especially in the current economic crisis context.

- Raising awareness on the fact that adoption of a RS strategy does not give immediate positive results. (Many entrepreneurs appreciate that they do not have enough time to wait, seeking for short-term objectives, as we showed above. Due to the difficult business conditions, many SMEs frequently change the domain of activity, this leading also to a more difficult application of the SR strategies.) Consequently, SME owners must balance the short-term objectives and the long-term strategy.

We believe that, in a first stage, SMEs wishing a more important involvement in RS activities can make partnerships with various non-governmental associations and foundations, aiming to use of 20% income tax – this was stated since 2004, in Tax Code, Title 2, Chapter II, Article 21, paragraph 4.p.

The current economic crisis should prioritize social responsibility, as a statement confirmed by the fact that ‘a series of studies, reports and initiatives launched during 2010 have a chance next year to impose a set of priorities social responsibility and sustainability more consistent than ever: the need for concrete actions improving social and environmental performance of companies and the need to recover public confidence to major corporations through transparency and reporting of social performance.’<sup>11</sup>.

Sustainable development can be financed both from the social responsibility budgets of companies, and from acts of philanthropy, which in developed countries involve huge amounts (US-173 billion in 2009, England - 12 billion in 2009 or Germany - 5 billion euro in 2008). In Romania, although there are philanthropic acts, they are few and involve small amounts, because the act of donation has not become a natural act for the rich people and it is mainly practiced by the rest of the citizens only on special occasions.

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## Responsabilitatea socială și IMM-urile în România

### Rezumat

*Acest articol a pornit de la faptul că responsabilitatea socială evoluează rapid și, în plus, așteptările companiilor de la aceasta sunt, de asemenea, din ce în ce mai ridicate. Articolul de față are ca scop să ofere o imagine a activităților de responsabilitate socială în mediul de afaceri românesc, cu accent pe*

<sup>11</sup> Diaconu, B., Revista 22, nr. 52+1, 21 dec. 2010 – 3 ian.2011

*implicarea socială a IMM-urilor. RSC a început să devină din ce în ce mai evidentă în strategiile de afaceri ale companiilor românești, bugetul alocat variind de la câteva mii de euro, în cazul IMM-urilor, până la milioane de euro, pentru companiile mari. Dar criza financiară și contextul economic actual dificil pun sub semnul întrebării succesul programelor de RS, dat fiind faptul că tot mai multe companii adoptă o atitudine de scădere drastică a cheltuielilor. Pe de altă parte, legislația actuală românească reprezintă un obstacol pentru dezvoltarea strategiilor de responsabilitate socială în companiile românești.*