

# Corporate Social Responsibility Programs of the Bucharest Stock Exchange

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## Abstract

*A company's adherence to the principles of corporate social responsibility has become one of the main factors that influence its success on the capital market. Both private and institutional investors have begun to opt for financial instruments issued by companies with sustainable business models to the detriment of those who ignore the impact of their activities on the environment and society. This paper aims at analyzing the impact that the corporate social responsibility programs of the Bucharest Stock Exchange, as the main capital market operator in Romania, have on the business environment as well as on the general public. Emphasis is placed on the use of digital technology and the Internet as means of informing and educating the public in matters of personal finance and the basics of stock market investing.*

**Keywords:** *Bucharest Stock Exchange, corporate social responsibility, financial education.*

**JEL Classification:** *O16; M14*

## Introduction

New challenges imposed by economic globalization and environmental degradation have led to the emergence of a new concept - Corporate Social Responsibility (CSR). As part of an increasingly complex socio-economic environment, Corporate Social Responsibility should not be regarded as a static and immobile strategy, universally applicable to all companies and business models, but rather as a set of principles, values and actions that each company must adapt to its own business model, line of business, micro and macroeconomic and social environment (Volosevici, 2013; Panait & Petrescu, 2015; Ciutacu et al., 2015; Brezoi, 2018). Furthermore, the success of Global Compact's Principles drafted by the United Nations in regard to CSR has led to implementation by other entities such as portfolio investors, universities and municipalities (Matei, 2013; Markota Vukić et al., 2019). It should come as no surprise then that an increasing number of entities – businesses, NGOs, schools and universities, municipalities, etc. guide their activities according to these principles in an attempt to have a positive impact on local communities and the environment while at the same time trying to discourage practices such as corruption.

The main role of social responsibility strategies is to anticipate and prevent, in a proactive manner the negative effects of certain events that can impact communities, the environment and the economy (Piciocchi, et al., 2009; Sima & Gheorghe, 2011; Raimi, 2015; Palazzo et al.,

2019). Business leaders have understood the fact that a good CSR strategy can quickly become the most effective marketing strategy as long as its foundation lies on solid values and is motivated by an honest desire to do well. But, the opposite can also be true. In the modern era of fast moving information, analytical thinking and distrust in corporate decisions taken behind closed doors as well as questionable business practices often employed by some companies, misleading CSR strategies can generate a hostile response from consumers, employees and other stakeholders (Palazzo,2019).

Green-washing practices do not often go unsanctioned in developed countries and companies that choose to use them in poorer, less developed nations in the hope that they will go unnoticed can often find themselves in the middle of cross border scandals (Vollero et al., 2011; Palazzo et al., 2016).

The elaboration of the programs to be implemented, financed or supported by a company must take into account real social needs and not just represent a well-intentioned marketing strategy. Assuming a set of ethical principles that provide clear directions for action now, but also in the future represents the key to a well-structured and fluent, long term CSR strategy. (Sima&Gheorghe, 2011; Volosevici, 2013; Brezoi, 2018). The results of CSR policies and actions must be presented to stakeholders, either in a dedicated section on the company's website, the annual report, or in a dedicated CSR and sustainability report.

The article is structured in three sections. In the first section, the author presents the results of relevant articles in the literature aimed at reshaping the behavior of portfolio investors under the rule of sustainable development principles. In the second section, the activity of the BSE is analyzed in order to demonstrate the involvement of this institution in promoting the principles of CSR in the Romanian economy. The third section is dedicated to the financial education programs developed by the BSE.

## Literature Review

The financial risks that investors take on capital markets and their desire to protect their money against preventable losses require companies to adhere to the highest principles of Corporate Social Responsibility and Corporate Governance. Financial innovation, promoted by investment firms, banks and stock markets alike has made the investment process much more complex and more sophisticated, but tools have also been created to facilitate the financial inclusion of vulnerable consumers (Matei et al., 2008; Rjoub, 2012; Matei&Voica, 2013; Manta, 2018; Yue et al., 2019). It should therefore come as no surprise that companies which choose to follow the highest CSR and Corporate Governance standards are more attractive to investors, employees, credit institutions and clients (Siano et al., 2011; Feng et al., 2017; Andrei et al., 2018; Starešinić et al., 2019).

A steady increase in the standard of living and life expectancy has driven many individuals to take an interest in long term stock market investment as well as retirement investment based plans. Recent growth in the private pensions sector, in Romania as well as across the world has led to capital migration towards sustainable companies and industries which are viewed as safer medium and long term investment (Ene&Panait, 2017; Voica, 2017).

Adopting and integrating CSR principles into a company's business plan has a positive effect on investor trust by reassuring them that the business is able to adhere to a sustainable model and minimize the risks associated with dishonest business practices which often have a negative impact on stock prices and investor capital. For example, Following the Green-washing campaign carried out by Gabriel Resources, which tried to promote the Roșia Montană gold mining project as a catalyst for local economy, while hiding the negative impact on the environment, the company's shares which trade on the Toronto Stock Exchange, fell from around 2.4 Canadian Dollars to a low of 0.14 Canadian Dollars. In fact, consumers and the

public have become increasingly aware of the behavior of companies that sometimes use CSR programs only as a tool to improve the company's image, without the entity mastering the principles of sustainable development. These green-washing techniques are sanctioned by the stakeholders of the companies, who are more attentive to the general long-term behavior and not only to the punctual actions of the companies that do not always have an ethical behavior (Vollero et al., 2011; Siano et al, 2015) .

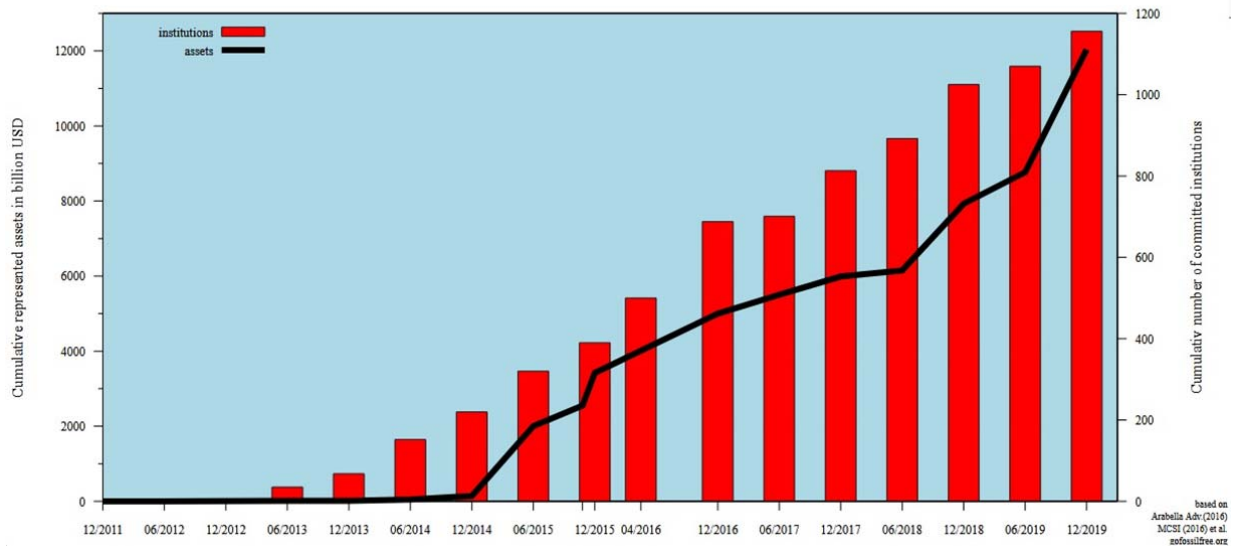
The concept of socially responsible investments is not new and can be traced back to 1758, when, during a meeting in Philadelphia, the members of the Quaker movement have been forbidden to take part in slave trade. John Wesley, a British cleric from the same period, preached in his sermon, "The use of money" that others should not be harmed as a result of the business one conducts, thus laying the foundation of responsible investments (Donovan 2019). Some of the first socially responsible investment strategies had religious motivation with investors avoiding companies deemed as being "sinful" such as those involved in the manufacture and distribution of firearms, alcohol or tobacco. The terminology survives to this day, with terms such as "sin investment" and "sin company" being used to refer to business practices that have a particular negative social impact.

In the modern era, investor and consumer perception on the business practices of companies has played a major role in their success. A good example comes from the United States where, during the Vietnam War, Dow Chemical, which manufactured the napalm used in American munitions fell from grace once it was revealed that the substance had devastating effects on the civilian. The national wave of protests that followed targeted multiple American companies which were profiting financially from the Vietnam war (Chartier, 2015).

Since the late 1990s, investment in the shares of companies with coherent corporate social responsibility policies and sustainable business practices has been a driver of change in capital markets around the world. In addition to portfolio investors, an important role is also played by stock exchanges, which directly and indirectly, shape the behavior of listed companies. Thus, many stock exchanges have adopted and integrated CSR practices into their own sets of values. In addition, they have launched sustainability indices or specific financial products. The creation of sustainable indices also represented a response to increasing pressure from investors. Examples of sustainable stock indexes created by exchanges and financial analysis companies around the world are: SGX Sustainability Index - Singapore Stock Exchange Sustainable Index, SGX Sustainability Leaders - Singapore Stock Exchange Sustainable Index, S&P 500 ESG - Sustainability Index financial analysis Standard and Poor's, BIST Sustainability Index - sustainable stock exchange index from Istanbul (Matei. 2013; Panait et al., 2014.)

portfolio investors support socially responsible companies and purchase specific financial products but they have appropriately sanctioned unsustainable businesses. Thus the divestment phenomenon took shape, which consists in reducing the capital invested in a certain financial asset for financial, ethical or political reasons. The divestment process is the opposite of investing, a practice well known by companies with a long-term unsustainable business model that have witnessed, in recent years, the migration of investor capital to more sustainable businesses, with smaller negative impact on society and the environment. Probably the most eloquent example of divestment is represented by the migration of capital away from fossil fuels. Divesment in the sector started in 2010 and has resulted in withdrawals of assets worth 8 trillion dollars globally.(Fortuna 2018; Trinks et al., 2018)

### Growth of Fossil-Fuel Divestment



**Fig.1.** Fossil Fuel Divestment

Source : *Divestment Commitments*.Gofossilfree.org. Retrieved 11 April 2020.

The graph above eloquently represents the rapid and dramatic changes in the attitude of investors in global capital markets and brings to the fore the importance they attach to the sustainability and social responsibility demonstrated by companies.. The divestment process which the fossil fuel sector has reflected the increasing concerns of investors regarding the impact of certain activities on the environment, life and health of individuals.

### **Involvement of the Bucharest Stock Exchange in Promoting CSR in the Romanian Economy**

The Bucharest Stock Exchange (BSE) is currently the representative institution of the Romanian capital market, after the merger with the Sibiu Stock Exchange in 2018. It is a small market, characterized by a modest offer of assets available for trading, especially shares and bonds.

Social responsibility is a basic pillar of the policies of the Bucharest Stock Exchange, with the aspect being clearly specified in the Code of Ethics of the Bucharest Stock Exchange.. BSE is committed to becoming involved in solving community problems and acting responsibly towards society. The Bucharest Stock Exchange acts on the social responsibility plan on two fronts, both as a self-governing economic entity and as a capital market operator. In its actions, the Bucharest Stock Exchange is guided by its own Code of Ethics, a document that reflects the high standards that BSE commits itself to respect, both in the internal relations, between the employees of the company, as well as in the relations with partners from outside the company.

The ten principles listed in the Code of Ethics of the Bucharest Stock Exchange are:

1. Follow the laws and regulations in force.
2. Act with integrity, honesty and respect.
3. Demonstrate professional behavior.
4. Build trust in business partnerships.

5. Focus on social responsibility.
6. Fit into the work environment.
7. Avoid conflict of interests.
8. Ensures the confidentiality of information.
9. Exclude illicit behavior.
10. Report violations of the Code of Ethics.(Code of ethics – Bucharest Stock Exchange 2016).

The fifth principle mentioned in the Code of Ethics makes direct reference to social responsibility, thus underlining the importance it plays in the policies after which the BSE is guided.

Evidence of BSE's proactive attitude towards everything that stands for social responsibility lies in its many programs, the enforcement of Corporate Governance requirements for companies wishing to be listed on the Stock Exchange it operates, as well as the international cooperation activities in the area of Social Responsibility and Corporate Governance.

The Bucharest Stock Exchange carries out a series of programs whose main goals are financial education, promoting ethics in the business environment. Financial education has acquired new values in the context of the international financial crisis which has demonstrated the fragility of financial consumers in the face of the evaluation and trading of increasingly complex financial instruments, generated by the involvement of scholarships in the financial innovation process. Financial education became even more important (Klapper et al., 2015) in the case of the former communist countries, where the lack of economic culture specific to the market economy generated regional financial crises, such as the Swiss franc crisis. For these reasons, financial education programs run by stock exchanges become important for familiarizing investors - individuals with capital market-specific instruments.

BSE acts on two levels in the field of CSR programs:

Financial education programs:

- the “Fluent in Finance” educational platform;
- 7/24 capital - the online video production program of the Bucharest Stock Exchange, which aims to promote the capital market in a way that is both easy to understand and attractive to the general public. The videos can be watched on BSE's YouTube channel.
- monthly seminars that BSE organizes in cooperation with other business partners;
- the Individual Investors Forum, a workshop dedicated to private investors who activate or want to activate on the Romanian capital market and offer them the opportunity to meet face to face with representatives of the Bucharest Stock Exchange and financial intermediation companies.

Programs dedicated to the business environment:

- the Entrepreneurs Forum is a workshop for entrepreneurs. As part of this event, the entrepreneurial community meets to share their experiences and find solutions to the problems and challenges the Romanian business environment faces.
- Made in Romania: BSE League, program whose purpose is to contribute to the growth of the Romanian economy by identifying and promoting companies that exhibit the potential to become the future drivers of the Romanian economy.

## Financial Education Programs of the Bucharest Stock Exchange

Financial education is one of the basic pillars of a healthy economic and social environment (Ene, 2017). From a Corporate Responsibility perspective, offering voluntary and free financial education programs plays a key role in developing a healthy society, whose members are less exposed to economic risks and to financial shock waves that regularly sweep across international markets, often with a major impact on national economies (Ene & Panait, 2017; Andrei et al., 2018, Iacovoiu, 2019). Carried out on the capital market or on the banking market, financial education programs have long-term effects as they improve the behavior of financial consumers who make better decisions in the short-term but also in the long-term (buying a house by mortgage or establishing a retirement investment plan), their ability to cope with financial crises, to sanction the abusive behavior of financial institutions that sometimes try to take advantage of poor financial knowledge specific to former communist countries (Ene, 2017; Iacovoiu & Stancu, 2017).

The involvement of the Bucharest Stock Exchange in financial education programs is a laudable and important step for Romanian society, considering the fact that a study by two American researchers places Romania in the last place in 12 states analyzed in terms of the level of financial education. (Lusardi & Mitchell, 2014). In the “*Financial Literacy Around the World: Insights from The Standard & Poor’s Ratings Services Global Financial Literacy Survey*” study by the World Bank and Standard & Poor’s Rating Agency, Romania has ranked last in the European Union in terms of financial literacy with only 22% of adults considered to be financially literate (Klapper et al., 2015)

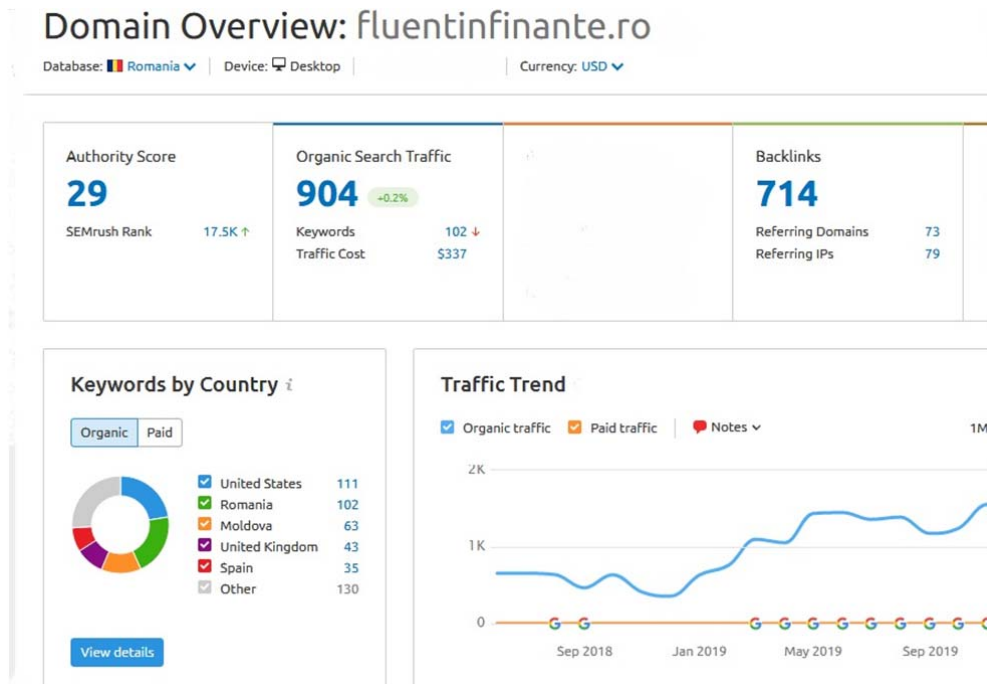
Taking into account this troubling data, the Bucharest Stock Exchange has assumed the role of educator in the field of personal finance and investments through its own programs which will be analyzed in detail in the following.

### The “Fluent in Finance” Platform

The “Fluent in Finance” platform, which can be accessed at [www.fluentinfinante.ro](http://www.fluentinfinante.ro), is a valuable resource of quality information with comprehensive content developed by economic experts, made available to the general public free of charge. The platform was created with the support and involvement of several BSE partners in the business environment: Banca Transilvania Financial Group, BCR Pensii, Central Depository (part of BSE group), OTP Asset Management, TradeVille.

Probably, the most important section of the platform is represented by the online courses, comprehensive and well structured, they follow a logical evolution of the individual from an economic point of view. The online courses section of the Fluent in Finance platform answers a wide range of questions that an investor or potential investor might pose in regard to capital markets. The "Pension funds" section shines a light into a field of finance that represents a novelty for most Romanian tax payers.

In order to analyze the impact of the “Fluent in Finance” platform, SEMRUSH web pages analysis tool was used for the period June 2018- November 2019. Following the analysis of the site [www.fluentinfinante.ro](http://www.fluentinfinante.ro) the following data resulted:



**Fig.2.** Traffic analysis for www.fluentinfinante.ro June 2018 – November 2019

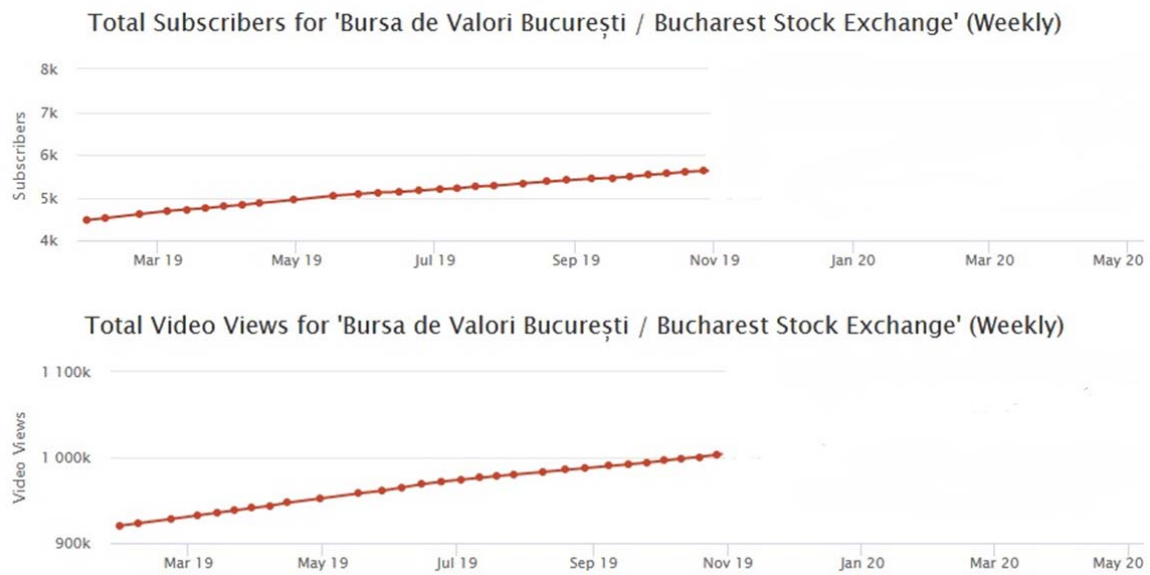
Source: <https://www.semrush.com/ro/info/fluentinfinante.ro>

The data in the graph above shows a constant increase of traffic values on the “Fluent in Finance” platform from June 2018 to November 2019, with a 12.76% increase in the number of visitors in the past 30 days alone, with the website currently receiving over 5000 visitors per day. The main keywords that guide visitors to the site are: "corporate governance", "bonds", "shareholder certificate". It can be concluded that the online platform “Fluent in Finance” plays the role of a financial education tool, representing an increasingly accessible source of information for those who seek to enrich their knowledge in financial investment, capital market, pension funds and financial investments.

## 7/24 CAPITAL – Bucharest Stock Exchange’s YouTube Channel

The YouTube video streaming platform is one of the most visited sites globally as well as in Romania. The Bucharest Stock Exchange seeks to offer quality information via this modern platform, information which can aid individuals in making the best personal finance decisions. BSE attaches great importance to the production of video material for its YouTube channel, which currently hosts 405 videos totaling almost one million views. The importance of BSE's presence on Youtube is even greater as the platform represents an information and self-education environment preferred by the young generation.

In order to analyze the impact of BSE’s YouTube channel and the 7/24 Capital online podcast, we used the statistical analysis tool Socialblade. The obtained the following data:



**Fig.3.** Traffic analysis for the BSE's YouTube channel from January 2019 to November 2019

Source: [https://socialblade.com/youtube/channel/UC51OrBw6\\_8mww15TYXpT2ug/monthly](https://socialblade.com/youtube/channel/UC51OrBw6_8mww15TYXpT2ug/monthly)

The two graphs represent the evolution of the number of subscribers and the number of views on the BSE's YouTube channel. As it can be observed, the trend has been constantly rising, with the popularity and social impact of the channel constantly increasing. It can be therefore concluded that BSE's decision to produce educational videos, as part of its efforts to increase citizens' financial education, was an inspired one, the YouTube channel that BSE manages representing a source of quality information, from trustworthy sources, in an exceptional graphic presentation.

## Conclusions

The Bucharest Stock Exchange plays a key role in the national economy as a capital market operator. The responsibilities that derive from this hypostasis are particularly great in relation to the economic, social and environmental domains. For this reason, the BSE attaches great importance to the implementation of corporate social responsibility policies and their embrace by all companies listed or intending to be listed on the capital market. As a result of the constant efforts made by the Bucharest Stock Exchange in the field, the global supplier of MSCI indices has upgraded Romania's accessibility criteria on 3 aspects: market regulations, information flow and trading. Also, a testimony of the dedication of the BSE, for the taking over and implementation of the social responsibility policies, is the accession in 2015 to the United Nations initiative "Sustainable Stock Exchanges".

The Sustainable Stock Exchanges initiative is a partnership between the United Nations Conference on Trade and Development, the United Nations Global Compact initiative, the United Nations Initiative for Financing Environmental Programs and the international network supported by the United Nations Principles for Responsible Investments. The aim of the initiative is to increase the capacity of capital market operators and regulatory bodies in the field to promote responsible and sustainable investment from the point of view of the environment, human society and corporate governance.



The Bucharest Stock Exchange was the 19th in the world to join the initiative and the 4th in the European Union along with Deutsche Borse, London Stock Exchange and Warsaw Stock Exchange. As a partner of the “Sustainable Stock Exchanges” initiative, the Bucharest Stock Exchange is committed to meeting the following objectives:

- To impose the Corporate Governance Code;
- To implement a sustainable / socially responsible index;
- To get involved in the actions carried out by the “Sustainable Stock Exchanges” initiative together with the other partner exchanges.

The global economic climate has become increasingly complex in recent years, more subject to systemic risks and it has an evolution that is increasingly difficult to predict. A young market economy such as Romania presents specific risks and the adverse effects of shock waves on international markets may have long-term repercussions here. These adverse effects can only be reduced by concrete actions of all the decision-makers and the business community. The Bucharest Stock Exchange is in a privileged position, as it has the means by which it can contribute to increasing the resilience of the Romanian economy as well as proactively help increase the financial literacy of Romania’s citizens.

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