

# CORRELATION BETWEEN AN ENTERPRISE'S FINANCIAL PERFORMANCE AND ITS POLITICS OF SOCIAL RESPONSIBILITY

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## **Abstract:**

*Social corporate responsibility is considered as being the assumed obligation of a company, beyond legal obligations or those imposed by economic restrictions, of following the objectives on a long term that are nevertheless for the society's advantage; as a consequence to this, the company is being considered responsible not only in front of the shareholders (owners) but in front of all the participants of the enterprise (stakeholders): customers, suppliers, employees, creditors, governmental organizations, local communities, public opinion, groups of interests.*

**Key words:** *social responsibility of enterprise, financial performance, ethics in business, environment protection*

**JEL classification:** *G2, M14*

## **1. Introduction**

Economy and business organization registers nowadays characteristics radically different from those of the last years in the past century. The globalization of business environment, the more increased economic liberalization, the proliferation of international agreement, competition acceleration, as well as rapid changes from technological and informational system, the transition from an industrial economy to an economy based upon knowledge and information, the demographical changes, the ecological challenges caused by pollution and resources exhaustion, the changes that occurred within the systems of values of all the categories of stakeholders stand for specific elements of the new global economy.

Together with the transition to a new type of economy there started to change and to gradate not only the structural requests of business organizations but their social responsibilities towards society and economy on the whole.

The entire range of leaders in a business organization became interested in the way in which the activity carried on by the respective company can influence it economically or socially.

The companies that interact globally must adopt a certain position concerning the social or ethical problems. The company that is connected to a global system of interdependences, its decisions have a direct or indirect impact upon the entire society and are felt implicitly or immediately at the level of all the participants within global changes. Thus, the company's performances cannot be judged in strict terms of price-advantage analysis but depend more and more on its global image, on the degree in which it fulfills the new requests of geo-economical and social development that include the moral dimension as well. Thus, globally speaking, the world's companies have not only interests but responsibilities as well that differ systematically on geographical areas.

In order to answer to the requests of a more and more competitive business environment, the companies were obliged to accept a new category of obligations, known as *social corporate responsibility* – a modern and pragmatic form of the ethics manifestation in business.

The social corporative manifestation, as a subject of scientific interest, requests an interdisciplinary approach, in which the aspects related to business and their profits maximization are imbedded with the aspects with a certain accent upon social responsibilities. The variety of perspectives of social corporative responsibilities from the specialty literature is based upon the combination, in different proportions, of the economical elements with the moral ones, of the pragmatic reasoning with the deontological one.

## **2. The development of the concept of social corporative responsibility**

The concept of social responsibility of a business organization appeared due to the transition from the *economic pattern*, in which the dominant element was business (gaining profit), to a greater pattern of business that includes in partnership the social problems, namely the *socio-economic pattern*. The economic pattern laid the accent mainly upon production, resources exploitation, individual interests, a minor attention paid to the government and a general vision of the business perceived as a closed system (a right-wing approach of the market at the microeconomic level). In contrast with this, the socioeconomic pattern stresses the general quality of life, the conservation of resources, the interests of the society and offers a vision upon the business as an open system (a left approach of the market, macro-economically speaking), beginning with the exploitation of all the knowledge of stakeholders' categories.

Specialty literature and international forums consider that at present, the business organizations have a triple responsibility, necessary for any strategy of durable development that is:

- Economic responsibility,
- Ecological responsibility,
- Social responsibility

The level of involvement of a company in the social problems was greatly debated; thus, a company that frames only in the limits defined by law and imposed by market carries out its *social obligation* in a strict way; a company that tries to adapt to the transition conditions of the society (norms, requests) is characterized by social answer; only in the case in which the company seeks to evaluate what is good or bad for the society on a long term and acts as a consequence can say that it adopts a conduct of *social responsibility*.

*Social corporative responsibility* is considered as being the assumed obligation of a company, beyond legal obligations or those imposed by economic restrictions, of following the objectives on a long term that are nevertheless for the society's advantage; as a consequence to this, the company is being considered responsible not only in front of the shareholders (owners) but in front of all the participants of the enterprise (stakeholders): customers, suppliers, employees, creditors, governmental organizations, local communities, public opinion, groups if interests.

The European Commission defines social responsibility as a concept by which companies voluntarily integrates the social and ecological aspects in their business operations and in the interactions with their stakeholders [CSR EMS Forum Final Report].

Social corporative responsibility is complementary to the specific approaches for granting some increased social and ecological performances and shouldn't be understood as a legislative substitute or as a duty of the companies with responsibilities of public order, that remain from now on mainly under govern care.

In the past years, social corporative responsibility became known as a form of government in business; thus, it is known in the global context profiting by international standards established by the United Nations, lines of conduct elaborated by the

Organization for Cooperation and Economic Development (OECD) and conventions of the Labor International Organization (ILO).

At the level of each company, no matter of its dimension or area of activity, it is necessary a politics of social responsibility, raised from the necessity of adaptation, continuous, transparent innovation of the measures undertaken and the dimension of the impact of social initiatives upon the company's profitability.

Social corporative responsibility especially from the perspective of the great multinationals of the world, acquires a great importance in the light of the lacks of economic and social balance that are requested to the process of globalization and that can threat the general frame in which companies built their international commercial and financial systems. For the less developed countries, where public authorities are often inefficient and the governmental resources insufficient for an efficient settlement, a greater social corporative responsibility offers a substantial support to economic globalization.

Social corporative responsibility is perceived as a new form of cooperation between governs, business and civil society; the promotion of social objectives by companies has implications economically speaking (for the business environment, which increases the power within the community), politically (for governs, that intensify the control upon the companies, though not all the time directly) and socially (for different groups of stakeholders, that have only to gain from the private settlement of the companies comparatively to the public one of the governs). The system of interdependence that is being created between business and society on the whole, the legitimacy of the aspects of social corporative responsibility and especially the effects of such a politics at the level of the company responsible are only some of the aspects that are still seeking for an answer.

### **3. The politics domains of social responsibility**

The new tendencies of economic development, the usage of informational technologies and the globalization of the entire world offer new challenges for the economic world. The business environment is directly and indirectly influenced by the activity socially responsible of the enterprises, an essential condition for the success in business.

Taking into consideration these conditions the purpose of an enterprise is the improvement of the program of social responsibility and the encouragement of the business partners to carry on responsible activities.

The social responsibility politics of an enterprise includes the following domains:

- The business ethics. An enterprise is obliged to assure the standards of ethics, the laws and professionalism that should be applied in all the domains
- The human's rights. Any enterprise should respect the International Declaration of Human's Rights and follow its principles in the activities carried out
- The customers. Any enterprise should strive to deliver to its customers qualitative and equitable services
- Health and security. Any enterprise is obliged to assure a secure and adequate environment for work
- The employees. The enterprise strives to be an employer that is preferred by the employees
- The suppliers. An enterprise collaborates with its suppliers, with the partners that help at the implementation of the social responsibility politics by delivering goods and services

- Community. An enterprise collaborates with the community where it carries out its activity
- The environment protection. An enterprise strives to administrate rationally and to optimize the resources' consumption.

#### **4. The influence of social responsibility upon an enterprise's financial performance**

Although the companies' social responsibility can be viewed from a deontological or pragmatic perspective, for the business environment the most frequent is the pragmatic approach of social responsibility: companies initiate a politics of social responsibility that have as an objective the maximization of the opportunities globally speaking, the improvement of the relations with stakeholders, the increase in value of the commercialized goods, the consolidation of the business on a long period of time and the minimization of the associated risks, starting from the essential premise according to which the consumer is disposed to pay for the social responsibility of a company and the society protects the social responsible companies. Another motivational factor of the companies involved into social activities (besides the one that views strictly the economic performances and obtaining future gains from publicity determined by philanthropist deeds) is the promotion of the so called the management based upon values; in this case, the managers act for promoting the values in organization, including the moral ones, mainly following two effects: improving the company's image on a long period of time, associating the idea of honorability to the performance one and creating and strengthening the team spirit within the company.

The basic idea of the whole analytical step is represented by the fact that social responsibility is not just a philosophic subject, with absolutely no consistence or practical applicability, but an efficient method of sustaining the financial interests of the company on a medium and long period of time. Empirical studies show that **there is a positive correlation between the level of social implication of a company and its financial performance** and social implication brings a series of benefits that cover and excels the costs induced by this. On the other hand, **an exact evaluation of the positive impact that a social responsibility politics has upon the financial results of a business organization is difficult and could not be achieved yet at academic generally acceptable standards.**

One can appreciate that between a company's rate of profitability and its social responsibility is a direct and reciprocal relation: a good company, socially responsible, that promotes moral values and is guided taking into consideration ethical norms of conduct will be well perceived by the public and will register substantial profits; similarly, a solid company financially speaking allows to promote and invest in a social responsible conduct, fact that will attract in the future a greater prosperity.

The adoption of a social corporative responsibility politics has mainly two positive effects at the level of the organization: on one hand, it allows the existence of the company according to the new requests of the society and on the other hand, judiciously exploited, it determines the attraction of those knowledge that is very difficult or almost impossible to find without implication and cooperation of all the stakeholders. The politics of social responsibility led in a proper way offers the initiating company an advantage comparatively indisputable.

At present, financial institutions make appeal more and more frequent to the social and ecologic indicators in order to evaluate the risks of certain loans or the profitability of the investment in certain companies. Similarly, a social responsible company will take advantage from a better rating after being listed at the stock exchange, fact that will determine obvious financial advantages. A research in domain

has stressed the fact that around half of the performances over medium registered by the companies that are socially responsible can be attributed to their politics of social corporative responsibility, whereas the other half can be justified through its high performances in the respective sector of activity.

Generally speaking, there is supposed that business organizations responsible from the social point of view will register financial results over medium, because the capacity of a company in administrating successfully the social and ecological aspects is a credible proof of a qualitative management and it contributes to minimizing the risks through anticipating and preventing the crises that can affect the company's reputation and cause dramatic collapses of the shares' price.

In the past two decades, within high developed society, more and more corporations became interested and deeply involved in the problems of social responsibility, whereas the arguments pleading for this approach increased in weight. The main challenge for the companies in Romania, together with the adhesion to the European Union, is represented by the becoming aware of the fact that social responsibility is not only an instrument of maximizing the value through image construction, but an essential element of the success for a long period of time, which is directly connected to the social and environmental performances of the community on the whole.

The last years marked the record of some substantial progress within social responsibility plan, especially as far as reporting and auditing of these politics are concerned within the great corporations, so that the results should be comparable at the global level. There should be also mentioned the fact that independent auditors appeared as well as specialized companies in checking, monitoring and auditing the process of social corporative responsibility, in order to eliminate any shade of subjectivity from the companies that elaborated their own reports; researches undertaken in the domain led to the identification of the most useful social indicators for measuring social performances.

Specialty literature abounds in examples and justifications that incline the balance in the advantage of adopting a social corporative responsibility politics, though a casual relation between social corporative responsibility and financial performance is hard to emphasize and quantify. Thus, empiric researches undertaken up to this moment show that the greatest benefits of the implementation of social responsibility politics are felt in areas such like corporative reputation, the consumers' fidelity, the employees' loyalty and the ecologic management (Cowe, 2004). At the opposite pole, easier to emphasize is the negative financial impact that the lack of social responsibility politics can have, that can lead, automatically, to direct losses or reductions of the prices of shares quoted at the stock exchange. At the same time from international theory and practice there are missing the means and methods by which business organizations can measure the level in which their social investment were profitable taking into account the company's finances or, in the conditions in which there were determined to make appeal to more forms or instruments of social responsibility that were more efficient.

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