

CORPORATE AND SOCIAL RESPONSIBILITY - A FUNDAMENTAL PILLAR OF A SUSTAINABLE CORPORATE GOVERNANCE

OCTAVIAN FLORIN DONDERA

WEST UNIVERSITY OF TIMISOARA, FACULTY OF ECONOMICS AND BUSINESS
ADMINISTRATION
donderaocavian@yahoo.com

Abstract:

The global financial crisis has forced management to offer strategic directions well motivated and to engage points of view that go beyond short-term financial results, thus preparing their companies to a more direct approach to the apparent risk, by anticipating the adverse impact on the environment and workers, avoiding also in some measure the reputational risks that may occur.

On the background of policies implemented in the last period by the most developed countries of the world in the field of sustainable development, corporate governance is seen as a commitment to ethical behavior towards business strategy, operations developed and organizational culture, the ultimate goal aimed being corporate reputation.

Key-words: *corporate and social responsibility, corporate governance, ethics, risk, sustainability.*

JEL Classification: *G34, M14*

Introduction

Reporting sustainability at microeconomic level has evolved rapidly from an ambitious concept to a practice widely adopted. Nowadays, many companies recognize and monitor the three parallel aspects - economic, social and environmental - with the help of sustainability indicators, that provide information on how the company contributes to sustainable development.⁷⁵

The need to better evaluate the status of an entity and to align future objectives with a complex set of factors and external partners has increased the requirement to define sustainable corporate governance indicators widely accepted.

Epstein and Birchard investigated the current situation and best practices of how entities integrate into the management process and decision-making process the social and environmental impact to create reports for a wide area of financial and non-financial users, referred to as stakeholders.⁷⁶

However, in a globalized environment where we are today, the involved stakeholders, have come to recognize that social responsibility, towards the environment, and especially those related to governance of an entity, are an integral part of the performance and sustainability on medium and long term.

In a climate dominated by mistrust, companies find it difficult to prove their environmental and social performance. An entity needs to calibrate their efforts not only towards making profit or the creation of goods and services, providing jobs and paying taxes to the state, but by their followed practices should do also social well .

⁷⁵ Rametsteiner, E., Pulzl, H., Alkan-Olsson, J., Frederiksen, P. (2011), *Sustainability indicator development—Science or political negotiation?*, Ecological Indicators, Vol. 11, No. 1:61-70.

⁷⁶ Epstein, M.J., Birchard, B. (1999), *Counting What Counts: Turning Corporate Accountability Into Competitive Advantage*, Reading, MA Perseus Books.

As "good citizens" economic entities should be involved in community issues and should be sensitive to social needs. Corporate objectives are redefined, no longer purely economic, targeting individual profit, but also social, targeting public good.⁷⁷

"Today, these concerns help companies to increase performance, and in order to run successfully and have sustainable growth, the Board of Directors must include in the governance process the visions, processes and structures which will ensure long-term sustainability."⁷⁸

In reality, few companies understand that social responsibility is not only to do good, but also to know how to do well, not just to donate something to someone, but to pursue a social project to have an opening to a cause of the community. Without regard to this fact, campaigns and social involvement activities are only "corporate messages", populist rhetorics of branding or advertising.

Research Methodology

The conducted research aims to develop the concept of corporate and social responsibility and the adoption impact of social vision in achieving sustainable performance through an efficient corporate governance that will follow three essential pillars in the foundation of a successful business, namely the economic, social and environmental.

To achieve the proposed objective, we used a basic research methodology. To delimit the concept of corporate and social responsibility, it was used inductive and deductive research mechanisms.

What is corporate and social responsibility?

In recent years has emerged more strongly in our country a new vision of business, namely one in which are listed a set of base values that include human rights, environment protections, the relationship with company management or the responsibility towards the stock owners.

This new vision aims to promote the concept of corporate and social responsibility (CSR), and all that it involves: good practices in business, ethical standards that function as a reference in relations between companies and society, ethical responsibilities of managers and shareholders towards communities, consumers and the environment.

A socially responsible company finds the best solution to which it identifies and which is in conformity with the philosophy and strategies related to sustainable development. Social Responsibility does not prevent the society to track and achieve its economic and financial objectives, neither to reduce the philanthropy, sponsorship or PR exercise.

Carroll (1991) consider CSR as a sum of economic expectations, legal, ethical and social that society has towards business.

According to David Korten (1999), a truly responsible company would be one that produces and sells only products that are safe and beneficial, does not accept government grants or special tax exemptions, offers workplaces and does not make political contributions or other.

⁷⁷ Oancea Dana, Diaconu Bogdan - *Transparenta si credibilitate in practicile de responsabilitate sociala corporatista* - Revista 22, 2007, articol disponibil online la <http://www.revista22.ro/transparenta-si-credibilitate-in-practicile-de-responsabilitate-sociala-corporatista-3546.html>

⁷⁸ International Financial Corporation – organizație membră a Băncii Mondiale, care se ocupă de investițiile în sectorul privat- citat de Alexandru Panfilii in *Guvernanta corporativă – fundament al businessului sustenabil*- disponibil online la <http://www.actionamresponsabil.ro/guvernanta-corporativa---fundament-al-businessului-sustenabil/11107>

The European Commission defines Corporate Social Responsibility (CSR) as "a concept through which companies integrate social and environmental concerns in their business operations and interactions with stakeholders on a voluntary basis" (European Commission, 2001).

Kotler and Lee (2005), consider CSR "a corporate commitment to improve community well-being, through discretionary business practices and corporate resource allocation."⁷⁹ The two authors establish an intimate connection between CSR and corporate social initiatives, defined as the main activities undertaken by a corporation to support social causes and to fulfill commitments of corporate social responsibility assumed.

Rochlin, Witter, Monaghan and Murray (2005) found that "by building a business strategy that would align economic, social and environmental performances with the long-term business values, corporate responsibility becomes part of the business and helps to add value on long-term for both, company and society "(p. 8).⁸⁰

McWilliams and Siegel (2006), defines CSR as "actions that appear to be good in social terms, beyond the legal interests and obligations."⁸¹

Falck and Heblich (2007) state that "CSR is understood as a voluntary corporate commitment to overcome the explicit and implicit obligations imposed to a companies by societal expectations regarding the conventional corporate behavior."⁸²

Basu and Palazzo (2008) claim that CSR is "the process through managers from an organization think and discuss about the relations with the public interest (stakeholders) and also their roles in relation to the common good."⁸³

Brunk (2010) consider that the famous remark of Millton Friedman's such as the main and only responsibility of business is to increase profit, is today reconsidered by investors and shareholders, who realize that profitability is also based on Corporate social responsibility).⁸⁴

In our country, it is believed that corporate social responsibility has emerged with the explosion of large-scale investments, made by multinational companies to enter the market, by development of several local companies to a level that can sustain more easier and more often social campaigns. There are also some who say that CSR was the effect of a delayed maturation process of economic and social actors.

Regarded for a long time as a donation from companies with developed philanthropic feeling, corporate responsibility has earned a rightful place as part of the business plans of many companies in Romania, some becoming recurrent projects, with high complexity, involving more and more categories of public.

Corporate social responsibility differs significantly from the other forms of social involvement, as corporate philanthropy or sponsorship, by several specific elements:⁸⁵

⁷⁹ Kotler Ph., Lee N. – Corporate social responsibility: doing the most good for your company and your causes, New Jersey, 2005, pag. 3

⁸⁰ Rochlin, S., Witter, K., Monaghan, P., & Murray, V. - *Putting the corporate into corporate responsibility*. In P. Raymond (Ed.), *Accountability forum: Corporate responsibility and core business* London: Greenleaf Publishing, 2005, pag. 5

⁸¹ McWilliams A, Siegel DS, Wright PM (2006) Corporate Social responsibility: strategic implications. *J Manage Stud* 43(1):1–18. doi:10.1111/j.1467-6486.2006.00580.x editorial

⁸² Falk O., Heblich S., *Corporate Social Responsibility: Doing Well by Doing Good*, *Busines Horizons*, Vol. 50, Issue 3, Florida, 2007, pag. 247

⁸³ Basu, K., & Palazzo, G. (2008). *Corporate social responsibility: A process model of sensemaking*. *Academy of Management Review*, 33, pag. 122-136.

⁸⁴ Brunk, K. H. (2010), *Exploring origins of ethical company/brand perceptions — A consumer perspective of corporate ethics*, în *Journal of Business Research*, Vol.63, Nr.3, p.255-262

⁸⁵ Oancea Dana, Diaconu Bogdan - *Transparenta si credibilitate in practicile de responsabilitate sociala corporatista* - Revista 22, 2007, articol disponibil online la <http://www.revista22.ro/transparenta-si-credibilitate-in-practicile-de-responsabilitate-sociala-corporatista-3546.html>

- ✍ taking into account the interests of all the groups - stakeholders;
- ✍ developing a strategy of social involvement, strategy that will be integrated on medium and long-term in the strategy of the company and corporate communication strategy.

CSR is not a "product" to be marketed through advertising, it is one of the supporting pillars of an efficient corporate governance, a piece of the ethics and compliance puzzle.⁸⁶

In the context of sustainable development, the issue of corporate social responsibility of companies can be viewed from two angles, one targeting the content and refers in a simply way to a good deed, and on the other side management aimed refers to a construction image for the entity.⁸⁷ In this way you can outline two different images of the same object.

The first refers to public ambitions opposite to the company's management, and the second, as a reverse, would be the management's public response.

Ethics and compliance are two aspects of an organization, along with the economic and financial one, by wich an organization chooses to operate. Ethics looks to respect principles and moral values, whereas compliance refers to the compliance with the legal provisions and standards, national and international.

In short, corporate responsibility policies include:

- ✍ defining of a code of ethics, principles that guide the organization in its actions;
- ✍ establishing a set of ethical standards that set up the rights and obligations that the company must have towards the interested groups;
- ✍ publishing ethical code and promoting it among employees and business partners;
- ✍ elaboration of social periodic reports that will reflect the measure in which the company complies with its obligations which it has assumed;
- ✍ publication of reporting standards used and the auditor who prepared those reports;
- ✍ evaluating social investment programs and their impact on social groups concerned.

CSR essential for good corporate governance

In today's global economy, in a world of information technology that is developed in a geometric or exponential progression, the success gained or the crisis are at a click away.

Exaggerated or not the organization's reputation represents perhaps its most important asset, and among the factors that influence this reputation are found, social responsibility, product quality or business fundamentals.

The new concept of business shows that the Board of Directors has a legal and fiduciary obligation, to manage social, environmental and governance risks. Managers must be informed and trained to handle these references on long term, along with typical corporate directives.

Corporate governance is concerned with maintaining the balance between economic and social objectives, and also between individual and group purposes.⁸⁸

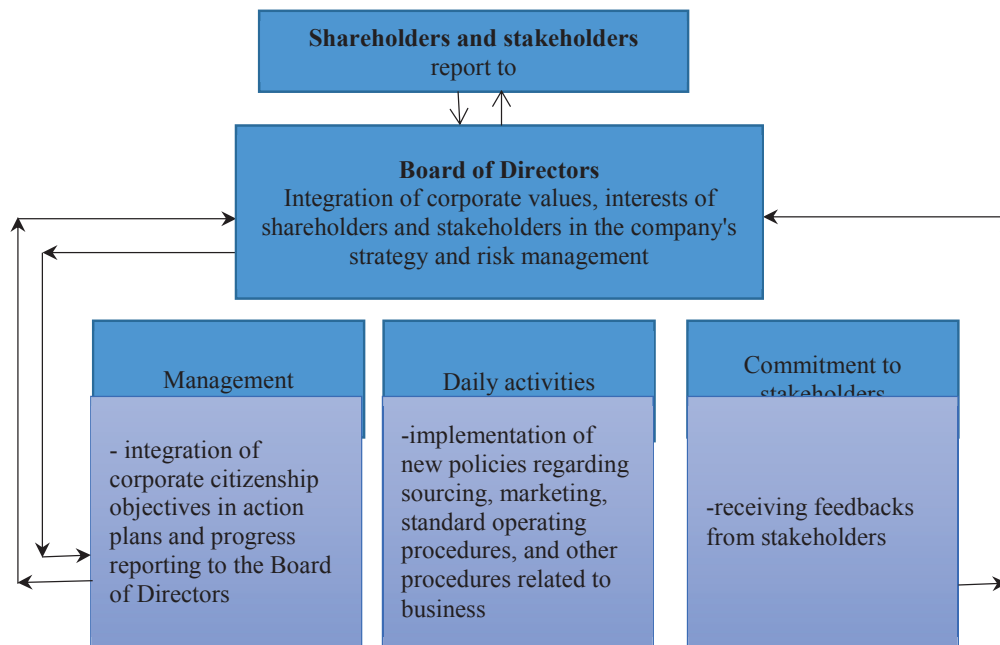
⁸⁶ Ducu Cristian- *Rolul Responsabilului de etică și conformitate și beneficiile pe care el le aduce*- articol publicat in CCEA disponibil online la <http://www.ccea.ro/home/publicatii/articole/rolul-responsabilului-de-etica>

⁸⁷ Abrudan, I., (2009), *Contradictii si ambiguitati în conceptul de responsabilitate sociala a întreprinderilor*, in: "Revista de Management si Inginerie Economica", vol. 8, nr. 3, pp. 5-14

⁸⁸ Cadbury Adrian - *Corporate Governance and Chairmanship: A Personal View*, Oxford University Press, 2002

A well-governed company, is targeting medium and long term actions, discover opportunities and allocates resources so that they satisfy all the links involved in achieving objectives.

In the figure below is presented the integration of business activities in a responsible and sustainable profits in the functions of Board of Directors.⁸⁹



(Source: Alexandru Panfilii - Guvernanța corporativă – fundament al businessului sustenabil retrieved from „Corporate Governance The Foundation For Corporate Citizenship and sustainable businesses” International Financial Corporation, World Bank Group.)

What is in fact a good corporate governance, which are the benchmarks used to assess it? Overall, a good corporate governance means rules and practices which govern the relationship between managers and shareholders of companies, as well as the stakeholders. When this trust is undermined, creditors and investors lose their appetite for risk.

The members of the Board of Directors which recognize the value of a holistic approach to stakeholder commitments, mainly in the social sphere or governance, are pleasantly surprised to see that capital owners are moving towards the same approach to these issues. This includes ongoing communication with stakeholders on material preoccupations as well as regular reporting on company performance, ideally related to periodic financial reporting.

Also high standards of integrity, transparency and information, may have a significant influence in restoring public and investor confidence in the private sector.

Research has shown that dealing responsibly with governance, social and environmental issues, creates an ethical business that is based on the integrity of a company within the company and together with the confidence provided by its shareholders.

⁸⁹ Alexandru Panfilii in *Guvernanța corporativă – fundament al businessului sustenabil*- disponibil online la <http://www.actionamresponsabil.ro/guvernanta-corporativa---fundament-al-businessului-sustenabil/11107>

Throw an effective approach these risks, the Board of Directors can manage affairs in such a way so that they can financially prosper, and provide long time functionality.

More and more companies are expanding their internal audit to detect ethics and integrity problems that may arise. Many managers examine the rigor and quality of audits to ensure that entities use healthy business practices.

The core role of each leadership group is to guide corporate strategy and to create shareholder value. Daily are developing new business opportunities, which must also focus on social responsibility, therefore to converge towards corporate governance business projected for the future must absolutely take into account of this.

The most effective strategies for sustainability must be provided by top management, incorporating a wide variety of ideas offered by stakeholders and which will be aligned with the priorities of the entity. This ensures a more efficient allocation of resources for these initiatives, which may in turn generate new business opportunities.

In Romania, the changes in the corporate governance landscape occurred not as a result of reform efforts specially designed in this direction, but rather as a product of wider reforms designed to transform economic and social system as a whole. Corporate governance has been imposed only recently as a distinct economic policy problem.

The efficiency test of a company's governance model is the degree in which the main objective is achieved, namely to maximize the value of the company from the perspective of shareholders, and also not to ignore the social side of business. Is all about how can managed to organize a closed ideal system: satisfying customers, employees, suppliers, distributors, the reward being, if there are good results, great value and durable.

Conclusions

A first conclusion regarding those mentioned would be that corporate social responsibility must overcome the philanthropy barrier and as a philanthropist and risk prevention strategy and creation of competitive advantage. For this corporate responsibility must go beyond the stage 'nice to have' and become a 'must have' and integrate more and more in the strategies of the business of more companies that realized that without this essential element are unable to create a top image.

It is important for entities to make public information about the practices and performance in the social responsibility area and sustainability. This requirement will become increasingly necessary in the struggle of companies in gaining credibility and creating a better image.

First of all companies need to evaluate their real image they have, taking into account the public opinion. Identifying and analyzing their problems, the organization must redefine the social responsibility strategies so that they are in agreement with the desired image. This must be done despite some short-term costs. Over time, as the social performance of the company is improving its image will benefit.

Therefore, companies must constantly ensure that there is an agreement between their actions and the desired image. This agreement is created through: defining a coherent social responsibility adequate specific the company, sending by the company leaders of social commitments assumed by the organization, development of criteria and benchmarks in relation to which can be appreciated CSR practices, reporting social performance and reports publication, consulting interested groups, involvement in social and environmental programs in accordance with the interests of the company.

The current economic crisis offers companies the opportunity to demonstrate its commitment to sustainable development and corporate social responsibility. Some have

passed the test, some have cut back everything they have not considered essential to the business, including marketing budgets and CSR. Each entity should understand that social responsibility is not a caprice but a way for sustainable development, a reality meant to last. An economic crisis, financial and without resources is a crucial point where leaders and experts should understand that significant changes must be made in the activities they carry out.

REFERENCES

1. Abrudan, I., *Contradictii si ambiguitati în conceptul de responsabilitate sociala a întreprinderilor*, in: "Revista de Management si Inginerie Economica", vol. 8, nr. 3, 2009
2. Basu, K., & Palazzo, G. - *Corporate social responsibility: A process model of sensemaking*. Academy of Management Review, 33, 2008
3. Brunk, K. H. (2010), *Exploring origins of ethical company/brand perceptions — A consumer perspective of corporate ethics*, în Journal of Business Research, Vol.63, Nr.3
4. Cadbury Adrian - *Corporate Governance and Chairmanship: A Personal View*, Oxford University Press, 2002
5. Ducu Cristian- *Rolul Responsabilului de etică și conformitate și beneficiile pe care el le aduce* - articol publicat in CCEA disponibil online la <http://www.ccea.ro/home/publicatii/articole/rolul-responsabilului-de-etica>
6. Epstein, M.J., Birchard, B. (1999), *Counting What Counts: Turning Corporate Accountability Into Competitive Advantage*, Reading, MA Perseus Books.
7. Falk O., Heblich S., *Corporate Social Responsibility: Doing Well by Doing Good*, Business Horizons, Vol. 50, Issue 3, Florida, 2007
8. Kotler Ph., Lee N. – *Corporate social responsibility: doing the most good for your company and your causes*, New Jersey, 2005
9. Morariu Ana, Suciuc G., Stoian Flavia, *Auditul intern și guvernanta corporativa*, Editura Universitara, Bucuresti, 2008
10. Moraru Maria – *Deontologie si responsabilitate sociala*, Editura Eikon, Cluj Napoca, 2012
11. Oancea Dana, Diaconu Bogdan - *Transparenta si credibilitate in practicile de responsabilitate sociala corporatista* - Revista 22, 2007, articol disponibil online la <http://www.revista22.ro/transparenta-si-credibilitate-in-practicile-de-responsabilitate-sociala-corporatista-3546.html>
12. Panfilii Alexandru - *Guvernanta corporativă – fundament al businessului sustenabil*- disponibil online la <http://www.actionamresponsabil.ro/guvernanta-corporativa-fundamental-businessului-sustenabil/11107>
13. Rametsteiner, E., Pulzl, H., Alkan-Olsson, J., Frederiksen, P. (2011), *Sustainability indicator development—Science or political negotiation?*, Ecological Indicators, Vol. 11, No. 1:61-70.
14. Rochlin, S., Witter, K., Monaghan, P., & Murray, V. - *Putting the corporate into corporate responsibility*. In P. Raymond (Ed.), *Accountability forum: Corporate responsibility and core business* London: Greenleaf Publishing, 2005, pag. 5
15. McWilliams A, Siegel DS, Wright PM - *Corporate Social responsibility: strategic implications*. J Manage Stud 43(1):1–18. doi:10.1111/j.1467-6486.2006.00580.x editorial, 2006

Acknowledgment

This work was partially supported by the strategic grant POSDRU/CPP107/DMI1.5/S/78421, Project ID 78421 (2010), co-financed by the European Social Fund – Investing in People, within the Sectoral Operational Programme Human Resources Development 2007 – 2013.”