Study on the Impact on Promoting Social Responsibility in Business Performance for SMEs

Ionela Carmen PIRNEA, Marieta OLARU, Tîța ANGHELUȚĂ
Academy of Economic Studies, Bucharest, Romania
pirnea.carmen@gmail.com
olaru.marieta@gmail.com
tita.angheluta@gmail.com

Abstract: Corporate social responsibility is an important element in the business world and no doubt a challenge for the future. CSR can be considered a tool to stimulate development due to the positive relationship between business strategy and social performance. In addition, corporate social responsibility can be a strategic means to create value not only for stakeholders but also for other companies and stakeholders. It is estimated that a company is really interested in social responsibility when it takes over the responsibilities of all its three key areas: economy, society and environment. The paper’s aim is to clarify the definition of corporate social responsibility and the relationship between corporate social responsibility and SMEs performance. The article highlights the results of a comparative analysis conducted by the authors on the importance of integrating CSR in Romanian SMEs compared with SMEs in Italy and its impact on enterprise performance. This article is a result of the project POSDRU/88/1.5./S/55287 „Doctoral Programme in Economics at European Knowledge Standards (DOESEC)”. This project is co-funded by the European Social Fund through The Sectoral Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies in partnership with West University of Timisoara.

Keywords: corporate social responsibility, performance, SME, stakeholders

Introduction

Corporate social responsibility is a hot item in the business world and undoubtedly one of the challenges for the future. Yet for many SMEs it is still a relatively unknown subject. “Corporate social responsibility is the application of a strategy which systematically integrates the economic, environmental and social impact of a business into the management of that business.” Communicating this strategy and reviewing it with all those interested parties in the company (shareholders, clients, suppliers, personnel, government) is an essential part of social responsibility.

Corporate social responsibility also means: daring to question one’s own activities and look at them from a different perspective. A company is only truly concerned with corporate social responsibility if it takes up its responsibilities in the three core areas – economy, society and environment – analyses the impact of its activities within the same core areas and begins a process of reflection.

1. CSR in Small and Medium-sized Enterprises

By managing CSR in a more strategic and conscious manner, enterprises can better reap these advantages. CSR is about continuous improvement and should be seen as part of the modern model of business excellence.

A British website provides advice to SMEs on how to better integrate CSR into their work, but avoids using the term “CSR” or “corporate social responsibility” altogether. Instead it talks about how “to achieve more value by behaving responsibly” [17].

A paper commissioned by the Spanish government on CSR and SMEs suggests using the term “competitividad responsable” or “responsible competitiveness”, as a way of describing how SMEs try to “square a pragmatic goal – to gain competitiveness – with an eminently social one.”
The European Commission often uses the term “responsible entrepreneurship” when referring to CSR in SMEs.

Nevertheless, it is important that those SMEs that seek to formalize their commitment to CSR should have access to the necessary tools if they want them, such as management systems or certifications schemes. Generally speaking, the kinds of SMEs most likely to be interested in these more ambitious tools are:

- larger SMEs (medium-sized enterprises as opposed to small and micro-enterprises);
- SMEs that already use quality management or other formal and verifiable management systems;
- Growth oriented SMEs that actively seek improvements in processes and more cost-efficient resource allocation;
- SMEs in a supply-chain that receive CSR-related requirements from buyers.

The success of CSR management systems for SMEs will be influenced in particular by:

- **Cost.** Management systems that are expensive to buy or to implement are likely to see a lower uptake. Medium-sized enterprises are more likely than small and micro-enterprises to pay for a CSR management systems, but even for medium-sized enterprises this will be rare and, in reality, the question of public subsidies for participating enterprises may arise.
- **Simplicity.** The best CSR management systems for SMEs will be those that are simple and not excessively time-consuming to operate.
- **Degree of integration into other existing systems.** Ideally a CSR management system for SMEs should be linked to or even integrated into other existing management systems, for example for quality or environmental management.

SMEs benefit from responsible behavior in different ways. The European Commission has produced a collection of case studies of CSR in SMEs, taken from across Europe. Each case study includes a section entitled “business benefit”.

Regarding to an SME from the fishing sector in Norway: “Improved recruitment and less staff turnover; improved cooperation within industry on issues the companies lacked resources to solve on their own; improved training and worker development locally” [18].

Recent research from Denmark suggests that, taking into account the financial costs, two areas of CSR are more likely than others to bring measurable competitive gains in the short-term: *environment* (reduce costs for energy or waste disposal) and *innovation* (deriving business from socially beneficial innovations). The study also suggests that the competitiveness benefits of CSR actions related to workforce development were partially measurable and would emerge in the longer-term, and that voluntary social investments to shape the competitive context of an SME (for example by investing in public goods such as education) could bring competitive gains in the longer term, especially if such investments were made jointly with other enterprises on a sector basis. By contrast, CSR activities related to the supply chain, market place and stakeholder engagement seemed to provide no obvious measurable competitiveness benefit for individual SMEs.

2. **Relationship between Corporate Social Responsibility and SMES Performance**

Studies are less common that go into small businesses CSR performance and the resulting positive impacts on society and the environment. One general caveat made by the Multi-stakeholder Forum (2004) was that many SMEs may not be (fully) aware of their environmental and social impacts. Especially micro-businesses frequently do not measure and record their performance.

In accordance with this, empirical data is scarce on how CSR commitment results in social and environmental improvement. Studies are more frequent concerned with environmental performance. For example, Friedman/Miles (2002) show that within a British environmental initiative aimed at SMEs, individual businesses made significant environmental improvements [6, 8-11], and Ammenberg/Hjelm (2003) register environmental improvements following the establishment of a joint environmental management system among 26 small and medium-sized enterprises in a Swedish industry district [1, 163-174]. The study of Medina-Munoz/ Medina-Munoz (2000) explores
economic, socio-cultural and environmental contributions of SMEs to communities on the Canary Islands [9, 114-124]. The UNIDO (2004) study on SMEs’ compliance with the Global Compact principles is broader as regards issue coverage and scope (78 survey respondents). The priority given to compliance is highest with regard to the protection of internationally proclaimed human rights (high priority for 79% of respondents), to labour principles (over 78%), and decreases with regard to the GC’s environmental principles (ca. 68%) and freedom of association and collective bargaining (55%) [3, 200-209].

The increasing attention to CSR is firstly based on its capability to influence firm performance. The researches in this field examine how CSR can provide firms with an incremental gain. For example, researchers have considered purchase intentions, increased sales, enhanced image, and improved employees morale as benefits of CSR.

In particular, regarding to this aspect, the literature consists of three principal strands:
- the existence of a positive correlation between CSR and financial results;
- the lack of correlation between CSR and financial results;
- the existence of a negative correlation between CSR and financial results.

Some theorists of the first group find that investments in CSR have a big return in terms of image and overall, financial results: the related benefits, in fact, are bigger than the related costs [4]. In particular, some author, underline that a good CSR simplifies the relationship with stakeholders. Finally, Ruf and al. (2001) define the period of years (3) positively affected by changes in CSR (studying the growth in sales and, obviously, the index ROS) [13, 143-156].

Instead, the idea of the second group of theorists is that a relationship between CSR and firms performance doesn’t exist. In this perspective it is possible to analyze Mc Williams and Siegel (2001), Anderson and Frankle (1980), Aupperle et al. (1985) and Freedman and Jaggi (1986) [4].

Finally, the negative relationship between CSR and performance, indeed, is focused on empirical studies and contributions that refer to managerial opportunism hypotheses. Preston and O’Bannon (1997) point out that manager can reduce investments in CSR in order to increase short term profitability (and, in this way, their personal compensation) [4].

This point seems to be really interesting, due to the fact that other authors suggest the existence of an opposite trend linked to the same phenomena (managerial opportunism) [2].

In this sense, in fact, managers appear to have an incentive to increase investments in CSR because a favorable CSR rating can enhance their reputation; in this case it is possible to have agency costs deriving from conflicts between managers and shareholders (Jensen and Meckling, 1976) [4].

Trying to summarize, the argument against corporate social responsibility and firms performance is that engaging CSR is costly and in this way firms can obtain advantages not really sure and, overall, the potential financial benefits are in the distant future.

In particular, a lot of skeptics, first of all Friedman, underline that also in the hypothesis of the relevance of CSR, it is difficult for managers to determine what the social responsibility of their company is. So, if the costs related to CSR are likely to outweigh the correlated financial benefits, CSR seems to appear inconsistent with the principle of shareholders value maximization. A big part of literature, instead, underlines the existence of many positive externalities linked to CSR.

In this perspective, in fact, the responsibilities of firms are broader than the value maximization to shareholders and in this sense CSR represents a way of responding to stakeholders requirements.

The firm, as social agent, has multiple stakeholders and the role of management is to create a balance between them: shareholders, employees, suppliers, community, environment and so on. Satisfying their interests and being accountable to them may actually have a positive impact on all firm dimensions, including financial performance.
First of all, CSR is nowadays a critical aspect in firm strategy, primarily because of the financial scandals and the drop of investor confidence. CSR, in fact, is strictly connected to the idea of firm reputation. Positive reputations have often been linked to positive financial returns. However, their value is tied to the inability for competitors to imitate the reputation. The value of a positive reputation is “precisely because the development of a good reputation takes considerable time, and depends on a firm making stable and consistent investments over time” [12].

Reputation is therefore perhaps the most valuable asset of any firm. Klein and Dawar (2004) proposed that CSR has value for the firm as a form of insurance policy against negative events. Specifically, they found that consumer’s perceptions of a firm’s CSR moderated their attributions of blame for a product failure, and argued that CSR may have value to the firm even if it does not immediately increase profitability because it can help to mitigate the effects of a damaging event.

Their study demonstrates that consumers are more willing to punish the bad behavior of firms than to reward their good behavior.

The idea of CSR as an element of firm strategic advantage isn’t new. According to the strategic stakeholders approach firms may engage in CSR activities in order to develop and maintain good relationships with various stakeholders. In order to assess the social impact of firm’s behaviors and strategies, it is crucial to identify the involved interests. According to Venanzi and Fidanza (2006), a firm is sustainable as it sets not only financial goals but also social and environmental goals and it aims to create value for its shareholders, in order to improve the quality of life and to use efficiently the invested resources. Moreover, the creation of a sustainable firm image can generate (indirectly) economic advantages as:

- expansion to new market segments where consumers are interested not only in quality and price but also in the adopted ethical codes (this phenomenon can increase sales);
- increased fidelity of customers and suppliers;
- capacity to retain talented people (reputational benefits for managers, i.e.);
- lower interest rate;
- creation of alliances and strategic partnerships.

Moreover firms with a higher corporate social performance have a better quality or quantity of disclosure. Also, in these terms CSR disclosure can have an impact on firm’s performance.

3. Importance of Integrating CSR in Romanian SMES Compared with SMES in Italy and Its Impact on Enterprise Performance

The implementation and certification of a social responsibility management system (SMRS) in accordance with the requirements of the international standard SA8000:2008 is a beneficial action, because [16]:

- It offers confidence to the general public and to all stakeholders for the adoption of an ethical behavior in the production and also in the marketing of the purchased products. It is also a warranty that the products are obtained by implementing appropriate work practices;
- It can be adopted by different organizations around the world, regardless of their size or activity area.
- The numerous codes of conduct and rules the companies have to follow are difficult to manage;
- In addition to the social responsibility management system requirements, the standard SA 8000 includes also performance constraints (such as those relating to discrimination, working hours, wages, disciplinary action, the right to free association and collective negotiation, occupational health and safety, etc.) that can be easily quantified and verified by auditors.
The advantage of the standard SA 8000 standard is that it establishes a coherent framework for codes of conduct, and defines requirements that can be objectively verified by the certification audit of SMRS. Designing and implementing a SMRS is much easier for organizations that already have implemented a management system (preferably in health and safety, quality or environment areas) based on the existence of a managerial framework and on the possibility to integrate SMRS elements with existing management systems.

<table>
<thead>
<tr>
<th>No. crt.</th>
<th>Benefits for company</th>
<th>Benefits for employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>- gaining reliable partners</td>
<td>- better working conditions</td>
</tr>
<tr>
<td>2.</td>
<td>- improving the company’s image</td>
<td>- decreasing risk of workplace accidents</td>
</tr>
<tr>
<td>3.</td>
<td>- increasing competitiveness</td>
<td>- a better knowledge of employees rights</td>
</tr>
<tr>
<td>4.</td>
<td>- lowering staff turnover</td>
<td>- better communication with management</td>
</tr>
<tr>
<td>5.</td>
<td>- participation at tenders</td>
<td>- a better remuneration-work correspondence level</td>
</tr>
</tbody>
</table>

Source: table created by authors after http://www.valmanprest.ro/responsabilitate.php

In order to support the companies to implement a social responsibility management system, the International Standards Organization (ISO) has decided to develop an international standard, ISO 26000 that represents a best practice guide. The guide can be adopted by the companies developing social responsibility programs (Figure 1).

Therefore, this international standard was not designed for certification use, audit, or accountability of the social responsibility management system.

International Standard ISO 26000 has to:

- provide practical guidance for the implementation of the social responsibility, by identifying and engaging the stakeholders and increasing the credibility of the reports and the evidence regarding the social responsibility;
- highlight the results of improved performance in this area;
- help the companies willing to assume social responsibilities to respect the cultural, environmental, social, legal and economic development conditions;
- promote a common terminology and a broader awareness in social responsibility;
- increase the customers confidence and satisfaction and the interest of other stakeholders about the company.

The International Standard ISO 26000 will be used by any company, in both public and private sectors, and will provide business support in their efforts to responsibly operate.

Worldwide, the number of businesses supporting social causes is growing. Several companies such as American Express, Avon, The Body Shop, Ben & Jerry's are distinguished by the commitment to
develop programs relating to the social responsibility. These companies believe that the social programs are actually a test-out market and their actions are appreciated by the consumers, as long as there are no major differences in terms of product/service between them and the competitors. According to some authors [8, 185-186], the champions with demonstrated commitment about the social responsibility are shown in table 2.

<table>
<thead>
<tr>
<th>No.crt.</th>
<th>Company</th>
<th>Social causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Aleve</td>
<td>Arteritis</td>
</tr>
<tr>
<td>2.</td>
<td>Avon</td>
<td>Breast Cancer</td>
</tr>
<tr>
<td>3.</td>
<td>Best Buy</td>
<td>Electronics waste recycling</td>
</tr>
<tr>
<td>4.</td>
<td>British Airways</td>
<td>Helpless Children</td>
</tr>
<tr>
<td>5.</td>
<td>General Mills</td>
<td>Healthy Nutrition</td>
</tr>
<tr>
<td>6.</td>
<td>General Motors</td>
<td>Traffic Safety</td>
</tr>
<tr>
<td>7.</td>
<td>Home Depot</td>
<td>Habitat for people</td>
</tr>
<tr>
<td>8.</td>
<td>Kraft Foods</td>
<td>Reducing obesity</td>
</tr>
<tr>
<td>9.</td>
<td>Levi Strauss</td>
<td>AIDS Prevention</td>
</tr>
<tr>
<td>10.</td>
<td>Motorola</td>
<td>Reducing waste</td>
</tr>
<tr>
<td>11.</td>
<td>Pepsi-Cola</td>
<td>Keeping Activ</td>
</tr>
<tr>
<td>12.</td>
<td>Shell</td>
<td>Coast Cleaning</td>
</tr>
<tr>
<td>13.</td>
<td>Starbucks</td>
<td>Tropical Forests Protection</td>
</tr>
</tbody>
</table>


The purpose of our analysis is to study the impact of CSR on Romanian companies compared with the Italian’s one. The survey conducted by the authors focus on a comparative analysis on the importance of integrating CSR in Romanian SMEs compared with SMEs in Italy and its impact on enterprise performance.

Specific models of management systems are defined at the international level, a number of companies prefer to implement a social responsibility management system in accordance with the international standard SA 8000 and its integration with quality management systems, the environment and occupational health and safety as defined by international standards ISO 9001, ISO 14001 and OHSAS 18001 [10, 10-16; 14, 322-327].

4. Integrating CSR in Romanian SMES

In Romania, the increased interest regarding CSR in all fields is proved by the results of a survey conducted during July-October 2009 period. This survey also highlights the financial resources allocated for social projects.

During the fourth edition of the "Top Romanian Donors" competition, in 2009, were designated the Top Ten large companies that have allocated financial resources to support social causes (Figure 2).

![Figure 2. Top 10 large companies in Romania and the level of their financial allocations for social projects](image-url)
As expected, the allocated amounts for social projects are considerably smaller for SME than for large companies (Figure 3).

![Bar chart showing financial resources allocated to social projects by Top 10 Romanian SMEs.]

Figure 3. Top 10 Romanian SMEs and the financial resources allocated by each to social projects

Source: processing by http://www.forumuldonatorilor.ro/proiecte/TOP-Donatori


According to the data provided by the Romanian Society for Quality Assurance (SRAC), 69 companies in various fields in Romania have obtained by September 31, 2010 a certificate of compliance with the international standard SA 8000 for their social responsibility management system.

It is notable that the largest number of certificates of compliance with the international standard SA 8000 have been granted in the Construction field (44 certificates), followed by: Engineering / Development (5 certificates), Consulting (4 certificates), Textiles (2 certificates), Business Services (2 certificates), Logistics (2 certificates), Leather (2 certificates), Cement (1 certificate), Building Materials (1 certificate), Information Technology (1 certificate), Plastics (1 certificate), Waste Management (1 certificate), Footwear (1 certificate), Electrical Equipment (1 certificate), Electrical Appliances (1 certificate) (Figure 4).

![Bar chart showing number of certified SA 8000 companies in Romania as of September 31, 2010.]

Figure 4. Number of enterprises in Romania, who have been certified under the international standard SA 8000, depending on the activity until September 31, 2010

Source: Olaru Marieta, Carmen Rizea (Pirnea), Sava Tița (2011). Promoting the concept of social responsibility by SME’S in Romania, in the context of concerns the implementation of integrated management systems, Proceedings of the 7th International Conference Management of Technological Changes, Book 1, pp.53-56.

The results of the research undertaken showed the following statement on the integration of SMEs in Romania of their social responsibility management system with other management systems (Figure 5):

- 30 enterprises have integrated this system with a quality management system certified according to ISO 9001;
- 26 companies have integrated this system with a system of occupational health and safety management, achieving OHSAS 18001 certified;
- 27 companies have integrated this system with an environmental management system and obtained ISO 14001 certificate;
- 4 companies have integrated this system with an information security management system, obtaining an ISO 27001 certified;
- one company has obtained a certificate of conformity with SR EN 16001 which defines requirements for energy management system;
- one company has obtained a certificate of compliance with ISO 13485 which defines requirements for quality management system for suppliers of medical devices and services.

5. Integrating CSR in Italian SMES

Developing a specific branch of research focused on these specific economics units is necessary because of the important role they have into countries development process.

Focusing on European economic system, and particularly on Italian business environment, this is characterized by the widespread diffusion of small and medium enterprises, which employ more than 65% of total employees and generate more than 50% of national value added [8, 185-186].

In recent years, in Italy, there has been a remarkable increase in management systems, like, in ISO 14001 certifications, OSHAS 18001 certifications, EMAS registrations, quality certifications and environmental certifications – Eco-Label, biological certifications, social labels, and other environmental labels; the number of companies with a Social Accountability 8000 certification has also increased steadily [5].

A recent study illustrates the specifically Italian formulation of CSR development. The study was carried out by Bocconi University with Confindustria for the Italian Ministry of Labour and Social Affairs. It was conducted on a sample of almost 400 companies and showed the CSR-relevant initiatives most frequently undertaken in Italy. These included training activities (89%), safeguarding employees’ health (82%), initiatives to benefit the local community (72%), support of cultural activities (70%) and control of product safety and environmental impact (62%).
Training activities

Control of product and environmental impact

Support of cultural activities

Initiatives to benefit the local community

Safeguarding employees’ health

% 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100

Figure 6. The CSR-relevant initiatives most frequently undertaken in Italy

Source: authors processing the data supplied by Bocconi University with Confindustria for the Italian Ministry of Labour and Social Affairs.

On the other hand, these companies are not heavily engaged in the following activities: on-site child care facilities (2%), participation in fair trade (4%), equal-opportunity policies (13%), programs for protected categories (15%) and disadvantaged persons (27%) and control of the ethical and social implications of manufacturing and distributing their products (17%).

On-site child care facilities  Participation in fair trade  Equal-opportunity policies  Programs for protected categories  Disadvantaged persons  control of the ethical and social implications 0% 5% 10% 15% 20% 25% 30%

Figure 7. Companies that are not heavily engaged in some activities

Source: authors processing the data supplied by Bocconi University with Confindustria for the Italian Ministry of Labour and Social Affairs.

With regard to the nuts and bolts of CSR promotion, respondents are involved in either internal or external programs. Programs to benefit employees (83%) and regular sponsorship activities (75%) are the instruments used by the majority of the firms involved in the study.

Conclusions

The above results give first empirical evidence that in Italy firms stock prices are not affected by CSR reports even if firms show a greater attention to these issues. Also, the results of the research undertaken showed that implementing a social responsibility management system by SMEs in Romania is in its infancy, the number of enterprises that have obtained a certificate of compliance with the international standard SA 8000 is relatively low. For more than half of the companies with such systems it works in construction.

In Italy, the quality of disclosure for CSR is not easily measurable; there is a lack of general accepted principles and most firms use CSR disclosure as an additional instrument of advertising, avoiding to give relevant information.

Also be noted that both Romanian and Italian SMEs are concerned with the integration of social responsibility management system with other management systems, particularly those promoted by international standards of quality, environmental, occupational health and safety. Thus, the majority of enterprises have analyzed their integrated management system of social responsibility with a quality
management system ISO 9001 or with an integrated management system quality - environmental, ISO 9001 and ISO 14001.

These results may provide a starting point for future research to improve the promotion of social actions that SMEs in Romania had already integrated in their current activities in relation to their concerns by implementing a social accountability management system, according to international standards.

References
[17] smallbusinessjourney.com