

Non-Financial Information Reported by Companies Listed on Bucharest Stock Exchange

08 Giugno 2019

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Abstract

This paper analyses the relationship between the Corporate Social Responsibility (CSR) and the Corporate Financial Performance (CFP) for the companies listed on the BSE from a multidimensional perspective. The six types of Stakeholders (employees, clients, environment, local communities, education and health) are considered in this paper as being CSR determining factors. Understanding and developing these CSR key factors may result in increasing the company competitiveness and sustainable development in the society where the companies perform their activities. We therefore analyse herein which policies led by the companies as CSR actions influence the CFP.

JEL Classification: M14, L 25

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1. Introduction

In recent years, the **Corporate Social Responsibility** has become an increasingly debated topic in the academic community given the effects the activities performed in the business environment have on the employees, clients, authorities, society, business partners, investors, environment and local communities. In this respect, an increasingly high number of companies intend to include, through continued endeavours, the corporate social responsibility practices in their business strategies. The companies have voluntarily started adopting these practices.

The costs of the social responsibility practices are borne by the companies. The companies are increasingly aware that they must take responsibility for the impact their business activity has on all the Stakeholders and support the communities where they perform their economic activity, through voluntary actions (McWilliams and Siegel, 2001). The Corporate Social Responsibility (CSR) has been present in the business practices for a long time. Nevertheless, only some companies chose to play a more active role in promoting the corporate social responsibility policies. Such social responsibility practices are adopted either subject to pressure from the government and society, or thanks to the benefits of these practices on the companies. Thus, the social responsibility encourages the companies to balance their social and environment- related responsibilities and their profits. Therefore, the profit or market share maximisation continues to be the main objective for companies, but many more start to be joined to it, leading to synergies. These objectives must also consider the effects the business decisions have on the Stakeholders. The development of the relationship between the companies, the state and the society, in the past two decades, has led to an increased pressure on the business environment to make serious efforts to adopt and/or implement a wide range of socially-responsible activities (Edenkamp, 2002). This paper thus analyses the relationship between CSR and corporate performance, namely the CSR practices leading to an increased company performance.

The paper is structured as follows: Chapter 1 - presentation of the specialised literature, Chapter 2 - details concerning the research method, Chapter 3 - description of the research results, and it ends with a presentation of the paper conclusions.

2. Literature Review

The main objective companies have is to maximise the profits. In this respect, Friedman (1970) mentioned that the biggest responsibility the company has is to maximise the wealth of its Shareholders. Garriga and Melé, supported Friedman's argument and also highlighted in their studies, in 2004, the CSR benefits if the companies invest in the social requirements of the community, mentioning that "investing in philanthropic activities may be a way to improve the context of competitive advantage for a firm" (Garriga and Melé, 2004, p. 54). Moreover, considering the Stakeholder theory, the CSR can also be evaluated from the perspective where a company complies with the Stakeholders' multiple demands. In this sense, Ruf *et al.*, (2001) suggested that there may be different approaches to respond to the Stakeholders' demands, which vary from cutting or minimising the costs to maximising the social satisfaction. Or, in the case of strategic investments, following the "Stakeholders' demand, firms gain a competitive advantage by developing additional, complementary skills that competitors find nearly impossible to imitate" (Ruf *et al.*, 2001, p. 143).

Campbell (2007) underlines that organisations have **two reasons** for engaging in CSR activities. **Firstly**, the companies must knowingly **not do anything which might harm the Stakeholders**, especially the company Stakeholders: investors, employees, clients, suppliers or local communities where they operate. **Secondly**, if the company activity **harms the Stakeholders, they (the companies) must "revise their behaviour on the market whenever any damage is discovered and they [the companies] are made aware of the respective problem affecting them"** (Campbell, 2007, p. 951). The previous CSR studies mainly focused on the two wide approaches.

The previous studies examined the level of involvement and the effects of the CSR on the company performance (Matten and Moon, 2005; David *et al.*, 2005; Tsang *et al.*, 1998; Simionescu si Gherghina, 2015 Tyagi, 2012), or on identifying the key determinants of the CSR, and its benefits and theoretical developments (Hemingway and MacLagan, 2004; Porter and Kramer 2006; Welford and Frost 2006; McWilliams and Siegel, 2000; Aupperle *et al.*, 1985; Carroll, 1991; 1999; 2001; Friedman 1984; Freeman 1984; Clarkson 1995). The various CSR studies focused most of their attention on the development of the CSR concept. In the specialised literature, many studies analysed the CSR in order to identify its elements, including the extent to which it relates to increasing the competitive advantage of the companies. For instance, the theorists in the

should lead to a higher company performance, regardless of whether their cause or effect is or not the cost reduction or the income increase (Ruf *et al.*, 2001; Griffin and Mahon 1997).

3. Research Method

This paper analyses the relationship between CSR and CFP over a shorter period of time, namely for a year. For this method, the questionnaire was used as a research instrument. A questionnaire was thus developed as a means to gather the data to seize the policies on social responsibility practices of the companies listed on the BSE and to understand which ones of the CSR activities influence the CFP. The questionnaire was sent to all the companies listed on the BSE via e-mail in the period from November 2014 to July 2015.

The questionnaire was addressed to all the companies, regardless of whether they implemented or not any CSR activities. The questionnaire data were then processed using two different techniques, as follows:

1. a CSR global score was created (CSRGS), as well as CSR specific scores, then
2. a CSR global index (CSRGI), as well as CSR specific indexes.

The establishment of the CSRGS and CSRGI was designed to compare the results of the estimates whose regression models were only different in terms of how the CSR score and index were obtained.

This paper examines the CSR-CFP relationship while taking into account the Romanian economic context. The influences of the CSR policies were thus analysed, namely, insofar as the employees, clients, environment, local communities and education and health social activities were concerned related to the CFP. The CSR policies make up a global index (CSRGI) and a global score (CSRGS) of the CSR, and every individual policy represents an index, namely a specific score of the CSR.

Therefore, this paper studies the relationship between CFP and CSR in the companies listed on the BSE in the period from 2003 to 2014. The collection of financial data for these companies was made using the reports they published on the BSE website, and on Bloomberg and Thomson Reuters Eikon. The data for the CSR were collected both from the Company Sustainability Reports published on their websites, and through the questionnaire method. In order to measure the CFP this paper used both market indicators, and indicators calculated based on the accounting information, since they can indicate the use of several relationship sources, thus leading to a complete matrix of the CSR concept. Or, in order to analyse the CSR-CFP relationship, the following variables were used in the regression models: Dependent variables: ROA, ROE, ROIC, EPS, PBV, RLC. Independent variables: CSR (dummy variable, CSRGS and CSRGI), and the CSR scores and specific indexes.

4. Research Results

For this paper, a questionnaire including 44 questions was developed and implemented (in the regression models, 78 questions will result by considering the sub-points of the 44 questions). Each individual question was parametrically tested related to the CFP variables used in the regression models. In other words, by using the T-Student test, we tested **whether there are any differences between the financial performance averages of the companies having answered “NO” and of the ones having answered “YES” to the same questions, as well as between the companies having stronger CSR policies compared to the ones having no such policies or having merely just adopted the CSR practices.**

The T-student test was applied to 74 questions in the questionnaire, since out of the 78 questions, 4 questions were excluded because the companies answering the questionnaire all answered the respective questions by either YES or NO. Therefore, as there was no variation, no difference could be made, in average, for 4 of the questionnaire questions.

According to the results, the average results showed superior EPS values in the case of companies implementing CSR activities related to the environment, education, culture and local communities, compared to the companies performing no such activities. Moreover, differences regarding the RLC average appeared also between the companies aware of the CSR concept and the rest of the companies. The existence of a coherent and consistent legislative framework, the compliance with the legal regulations, the creation of sets of rules and regulation for the CSR implementation, and the involvement and support of the authorities in the implementation of the social responsibility activities highlight a superior average performance for the RLC, PBV, ROIC and ROA. Concurrently, superior ROA and PBV values are also recorded in the companies considering employee health policies.

5. Conclusions

The empirical records show a positive and statistically significant relationship between the CSR practices and the CFP. The companies listed on the BSE should develop or continue to develop their understanding and capacity to integrate the CSR practise in their business strategies, since such activities can lead to long-term profits, competitive advantages, strengthening the company position of the product and/or service market they address. The CSR policies for employees, environment protection and clients are the most important activities adopted/implemented by the companies.

The competitiveness of a company is nowadays determined, amongst other factors, by a socially responsible management of the company, highlighted by the use of environmentally friendly technologies in the company production process, the observance of the environment protection regulations, philanthropic and charity initiatives, supporting the access of young professionals to the labour market through various educational programmes, supporting and communicating with the local community members, implementing ethics and conduct codes, and company transparency.

The companies having social responsibility practices to their employees, to the local communities, considering implementing various international product and service quality standards in their business strategy, and caring for the environment, improve their CFP.

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TAG: Corporate Social Responsibility, financial performance, stakeholder, proceedings

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