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HOW DOES GLOBALIZATION INFLUENCE CORPORATE GOVERNANCE AND RESPONSIBILITY? AN OVERVIEW OF ROMANIAN COMPANIES

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Abstract:
Corporate social responsibility has been the hot topic of recent debates. More and more consumers trust those organizations that also focus on issues related to the issues people are facing each day. These problems mostly relate to: poverty, air pollution, water pollution, global warming, energy consumption. According to most researchers, social responsibility is a means to be used in order to built and also maintain the capital of a brand. However, there are researchers who argue that organizations should and ought to be socially responsible, since this would be the fair way of acting within a society. The main principles of social responsibility are: transparency; taking responsibility and sustainable development. The occurrence of the financial crisis has also intensified debates around the concept of CSR. Most debates refer to the role played by CSR in society and the pros and cons related to the involvement of a company in such social responsibility activities.

Key words: *audit, corporate governance, social responsibility, financial accounting.*

JEL classification: M42

1. INTRODUCTION

The present research uses an interdisciplinary approach of such topics as: the management of business entities in relation to corporate governance; the relationship between various control systems and the internal and external audit, as well as the corporate social responsibility directed at increasing the stakeholders' trust in the information provided.

The focus of the paper transitions from the international perspective towards the domestic market and particularly targets various issues related to corporate governance and corporate social responsibility, starting from the assumption that a synthesized summary of the results obtained from these comparative analyses is absolutely necessary and could become actual illustrations of the various corporate governance theories that may further refine the best practices of corporate governance in general and audit in particular. The range of benefits provided by such a research endeavour includes the possibility of identifying and becoming acquainted with the international best practices in the field of corporate governance, thus assisting in the implementation of the principles of corporate governance and increased CSR for Romanian entities.

Carroll and Buchholtz's four part definition of CSR provides that "*social responsibility encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time*". This so-called "*four-part model of CSR*" that has been first introduced by Archie Carroll in 1979 and later refined in a paper written in collaboration with A. K. Buchholtz is accepted as the most elaborate and extensive model of corporate social responsibility.

In the author's opinion, corporate social responsibility is a multilayered concept that encompasses four closely connected aspects: *economic, legal, ethical and discretionary responsibilities*, arranged in a pyramidal structure. Therefore, *true* social responsibility entails the presence of all four dimensions within a corporation.

The European Commission defines corporate social responsibility in the Green Papers as „*a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment and interacts with the stakeholders affected by their business*". CSR is also defined as the obligation to exert a positive impact and, at the same time, reduce the negative effects on society. The comparative analysis of the positive and the negative impact of the CSR projects, has revealed that the lack of social responsibility activities and negative information impact consumers more than positive endeavours. There is also evidence that the information about the CSR activity of certain companies may even have influenced their brand.

2. OBJECTIVES AND ASPECTS OF DECISIONS IN RELATION TO CORPORATE GOVERNANCE

Numerous studies on the behaviour of public and private investors operating in developing economies have shown that 80% of them are willing to pay more for the shares of those companies with an efficient system of corporate governance. Two criteria must be met in order for corporate governance to positively influence the market value of the company:

- *firstly,* corporate governance should contribute to raising the shareholders' income, and
- *secondly,* the financial market should be efficient enough for the stock price to accurately mirror the performance indices recorded by the company. These criteria are most frequently met in countries with well developed financial markets.

The American professional literature documents several corporate governance models that have been designed by K.H. Spencer Pickett, models that have been adopted by the international best practices, as follows (K.P. Spencer Pickett, 2006):

A. The Agent Theory, that focuses on the need for managers to be monitored by the shareholders in order to prevent any opportunistic conduct of the former (Fama, 1980; Jensen and Meckling, 1976; La Porta et al., 1999; Nicholson and Kiel, 2007). The agent theory approaches the dominant elements of the relationship between the owners of the company, i.e. the providers of capital (called *principals*) and the managers of the companies (called *agents*). Therefore, some of the issues addressed by the agent theory focus on the following aspect: the managers, as legal advocates of the investors, have the obligation to augment the profits to the benefit of the latter but, if their goals are in conflict, the agents can choose to maximise their own personal benefits. The phenomenon has also been analysed by Berle and Means (1932), the first researchers who have grasped the factors we eventually came to know as lack of management ethics, i.e. a situation when managers knowingly deceive. The phenomenon was later analysed by Jensen and Meckling (1976) who have predicted and studied the opportunistic behaviour of managers and their proneness to pursue their own interests against the best interest and at the expense of the company they work for.

The recent developments in the corporate environment have validated the aforementioned predictions as general truths and there's no further need for academic evidence to support this concept. Professional literature provides an example in this respect, namely the granting of very generous indemnities. Both American and British professionals believe that this particular factor (*extremely generous salaries* for the management) relates corporate bankruptcy to the failure of corporate governance. The specific case of WorldCom may be quoted here, a company that has lent Bernard Ebbers, its executive manager, the amount of $5 billion. Another popular example in economics is that involving the compensations granted by Enron to its executive managers between 1998 and 2000, amounts that have augmented from $103 million to $1.4 billion during these two years (a seven fold rise), a situation that had occurred a year before the company went bankrupt.

The surprising fact is that, as the stock price was falling dramatically – in 2001 that is – the company awarded its key employees the amount of $54 million (Murray, 2006). The agent theory has been heavily criticized since the end of the 20th century by the supporters of the *stakeholder theory*.

B. The Stewardship Theory states that managers are keen administrators who eagerly perform in the best interest of the shareholders since they believe this is the best long term approach and the reason why they will not try to pursue their own personal goals (see the analyses conducted by Donaldson and Davis, 1994; Donaldson, 1990).

The stewardship theory starts from the assumption that managers are essentially trustworthy, as far as corporate governance, and that they do not automatically, when left on their own, turn against the best interests of the company. The theory is mainly based on the development of the Y Theory, devised by McGregor Douglas (part of the integrated Theory of human motivation, alongside the X Theory). The Y theory starts from the assumption that managers are rational beings and, as such, their behaviour doesn't need to be excessively monitored, as provided by the Agency Theory (Nicholson and Kiel, 2007), thus resulting in lower costs for monitoring the management since their actions are not very likely to distress shareholders. (Donaldson and Davis, 1994). The management, as trustee of the shareholders' wealth, will protect and maximise the interests of the owners by enhancing the performance of the company. This is at least one of the reasons why the administrator position is a very advantageous one (Davis & al., 1997) , as the long term benefits are multiplied if one chooses to act in the best interest of the company and not against it (Braun and Sharma, 2007). According to the stewardship theory, the managing structure needs to include members from within the company, or at least have a majority percentage.

The theory further details that managers from outside the company could pursue short-term goals rather than long term strategies (Baysinger and Hoskisson, 1990). In contrast, managers promoted from within the company can develop long-term strategies and invest in research and development activities (Hoskisson, et al., 1995) rather than pursue hire purchase or market penetration strategies. This is mainly due to the fact that the latter type of managers has access to information pertaining to long term development strategies.

C. The legitimacy theory establishes the connection between the company and society through the social contract (Gray et al., 1996; Mathews, 1993). From the theoretical perspective of corporate governance, companies should regulate, control and direct the activity so as to meet the collective interests of the stakeholders – shareholders, employees, creditors, suppliers, the government and the community it operates in.

Companies are becoming aware that the social function they perform can be in their favour and thus they can decide to provide information on the activities they develop. When a company is active in the manufacturing business that may affect the environment, it is expected to provide complete and accurate information on pollution or other environmental issues that the community may be interested in (Solomon, 2008). Therefore, this theory was the basis for our suggestions concerning the companies' voluntary disclosure of information.

D. The stakeholder theory states that companies must protect the interests of the stakeholders – members of the community, employees, creditors and suppliers – which means that the responsibilities of companies are not necessarily confined to the interests of the shareholders or of the owners of the company (Charron, 1985; Donaldson and Preston, 1995; Jonge, 2006).

From a corporate governance standpoint, this last theory described above states that the company is not only liable to the stakeholders but to the society at large as well. According to Charron (1985), companies that enjoy security and protection as a result of their presence and activity within a community, must pay for the support and the public services they benefit from. This theory was specifically considered to provide a proper framework that would support the arguments formulated in the present paper and emphasize the fact that companies must be encouraged to provide information on the activities they develop, not strictly to the shareholders or stakeholders.

3. THE FINANCIAL CRISIS AND CORPORATE SOCIAL RESPONSIBILITY

The occurrence of the financial crisis has intensified the debated around the concept of CSR. Most of these debates mainly focus on the role played by CSR in society and the pros and cons concerning the involvement of a company in such social responsibility activities.

The main benefits provided by CSR and acknowledged by professional literature are: it boosts the financial performance, ensures the increasing notoriety of the brand and strengthens the reputation, it boosts sales and customer loyalty, increases productivity and quality, develops the ability of attracting and retaining employees, attracts the respect of the community and facilitates access to capital resources.

The main assets gained after these companies implement CSR are:

- increased reputation;
- more motivated employees;
- and a better relationship with the stakeholders and the business environment.

CSR contenders believe that any company should focus on its most important objective, i.e. *profit maximization*, by observing the laws of the state and business ethics. This is believed to be the only way to create new jobs and to pay government taxes. They also argue that social responsibility is quite a dangerous endeavour and it may keep entrepreneurs from focusing on the main purpose of a business which is profit maximization.

The research on the number of CSR projects developed during the financial crisis is quite scarce. Karaibrahimoglu emphasizes the effects the financial crisis had on the number and scope of CSR projects (Karaibrahimoglu, Yasemin Zengin,, 2010). The findings have revealed that the main stakeholders companies focus on are the employees and the social issues. The crisis and the panic that ensued have brought about a significant decrease of CSR projects in 2008 developed by the Fortune 500 companies under analysis.

Njoroge has researched the effects of the financial crisis on CSR projects and has concluded that most companies have decreased their social responsibility activities and the corresponding budgets. The author also mentioned that the main effects of the crisis in this case are the delay or cancellation of some very numerous and important social responsibility projects (Njoroge, J.,2011).

Table no.1. Corporate social responsibility strategies

TYPE OF CSR STRATEGY	PURPOSE AND EFFECTS OF THE STRATEGY	BENEFITS
Reactive strategy	Increasing efficiency and legitimacy through the adjustment of internal procedures	Flexible organisational structure; rapid and efficient restructuring of the internal procedures; investments in trainings, resources and innovation in order to speed up the compliance with the stakeholders' demands.
Adjustment strategy	Maintaining the current market presence through actions that influence the demand of the main stakeholders	Raising and increasing social capital; activating social networks in order to maintain the current position on the market; lobby for containing unforeseen changes.
Defensive strategy	Gaining competitive advantage and increasing reputation by taking preventive measures based on the anticipation of the changing demands of the stakeholders	Consistent investments in environmental protection; employing professionals and gaining knowledge about the changes occurring in the stakeholders' demands; anticipatory forecasts about changes in demands lead to a more efficient allocation of the resources.
Proactive strategy	*Actions meant to model and redefine the demands, wishes and values of the main stakeholders in order to correlate them to the fundamental values of the company*	*Influencing the social culture; this strategy can enable the company to actively create and develop its fundamental rules and regulations in order to guide social culture in the desired direction.*

(*Source:* Adapted from Fang, Shyh-Rong, Huang, Chiung-Yao, Huang, Stephanie Wei-Ling , *Corporate social responsibility, dynamic capability and organizational performance: Cases of top Taiwan-selected benchmark enterprises, African Journal of Business Management,* Vol. 4(1), 2010, pp. 120-132.)

The figure below is meant to describe the relationship that should be developed between corporate governance and social responsibility. We believe that this relationship is essential if we take into account the small number of enterprises that actually benefit from such alliances, the

American model of corporate governance being a relevant example in this respect. Nevertheless, such a model should be adjusted to the specific circumstances of the Romanian business community before it could be implemented.

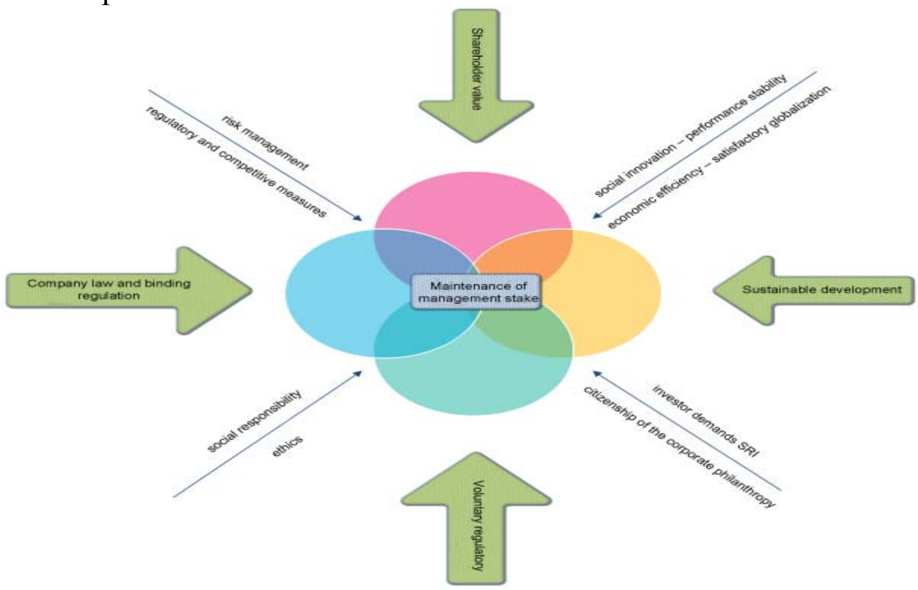

Figure no.1. Mapping of the 4 recommendations related to the corporate governance-social responsibility relationship

Source: process by the author.

The combined enforcement of property rights and inefficient methods of settling conflicts of interests among the multiple shareholders could result in "corporate governance" issues that eventually lead to a negative progress of capital markets, insufficient funds, lower enterprise market value and a higher capital cost, etc.

4. SOCIAL RESPONSIBILITY ACTIVITIES OF ROMANIAN COMPANIES

Corporate social responsibility is still a new concept in our country, and the main companies that get involved in social projects and allocate considerable resources in this respect are multinationals. The annual CSR market in Romania accounts for €30 million, ranging from a few thousand Euros deployed by SMEs to millions of Euros spent by large companies (1).

Nevertheless, social responsibility and public relations are frequently mixed up. The main purpose of CSR is to create long term value, as well as a good relationship with the stakeholders. The financial crisis is a good opportunity to revisit the ethics of business practices and to redefine the fundamental principles of CSR, directed at social welfare, environmental protection and the proper development of the economy as a whole.

Table no.2. The amounts allocated by Romanian companies for social projects

List of companies 2008		List of companies 2009		List of companies 2010	
Company	*Amount allocated (€ mil)*	*Company*	*Amount allocated (€ mil)*	*Company*	*Amount allocated (€ mil)*
Petrom	2,62	Petrom	2,70	Petrom	4
Vodafone Romania	1,99	Vodafone Romania	2,70	BCR	2
Holcim S.A.	0,70	Transylvania Bank	0,76	Transylvania Bank	1,28
A&D Pharma	0,31	Unicredit Ţiriac	0,30	BRD	1,17
Raiffeisen Bank	0,27	GlaxoSmithKline	0,27	EON Romania	0,95
Unicredit	0,25	Alexandrion	0,21	Apa Nova	0,81

Ţiriac		Grup			
Agricola	0,24	Agricola	0,20	Unicredit Ţiriac	0,8
Alexandrion Grup	0,208	Mol Romania	0,18	Raiffeisen Bank	0,6
"Lukoil Romania" SRL	0,20	IBM Romania	0,13	JTI	0,5
Orange Romania	0,19	SC Pasmatex	0,09	Danone	0,46

Source: http://www.forumuldonatorilor.ro/proiecte/top-corporate/44

The main criterion used in the analysis of Romanian companies consists in the number of competitions they organize each year. One of the events is the *Top Donors*, where the Donors' Forum awards the first 10 companies that were actively involved in CSR activities in Romania. The award winning companies are selected based on the quantitative analysis of the funds allocated for CSR activities. Participants provide information on the areas of interest they sponsor, the target group of stakeholders and the CSR instruments they make use of.

As can be seen in the above table, the official statements made by companies on the amounts they invested sound very encouraging and the amounts follow an ascending trend. Thus, Petrom has raised the amount from € 2,6 million in 2008 to €4 million in 2010.Most large companies maintain the same level of CSR budgets as the ones allocated in 2009. On the other hand, the SMEs that took an interest in CSR have reduced their allocated budgets by 30% as opposed to the ones they had in 2009.

If we take a look at the media coverage, certain companies that have developed CSR activities embrace a reactive strategy and respond to the demands of the stakeholders only when a problem arises in their activity and must be settled in order to reinstate their credibility.

An eloquent example in this respect is Danone. When the company was accused of consumer dioxin poisoning, first waited for the lab results and afterwards withdrew the products from the shelves. As a consequence, their sales decreased by almost 80% in the first three months after the scandal and the company image was severely affected. Nevertheless, after the scandal, the company has become involved in social projects aimed at restoring their image. Thus, they have reached an official CSR budget of €0,46 million in 2009.

On the other hand, Petrom has resorted to a proactive strategy in order to influence the demands of the stakeholders and to become a leader in their specific industry. Their projects (e.g.: *Andrew's Country*) have a social impact and make an active reference to their value in the community.

BCR has launched a highly important programme called *My finances – Financial Education for Young People*. The financial education of young people is probably the most important part of the bank's social responsibility strategy as it aims at educating future customers to be responsible in their consumption/spending habits and investments. Thus, in the autumn of 2008, BCR joined forces with Junior Achievement Romania and launched the financial education programme for young people: *My finances.* The programme provides high-school students with relevant information on:

- the stages of an efficient financial planning;
- the components of an age-appropriate personal budget;
- savings and investment principles, types of investments;
- credit details – advantages and disadvantage, types of loans and related costs – as well as detailed information on what human resources and a banking career entails.

At the beginning of 2009, the pharmaceutical chain DONA has started an osteoporosis diagnosis and prevention campaign, called "Free of charge transportation towards health". (Eugenia Iamandi, 2010).The campaign lasted for 4 months and approached issues such as: puberty, contraception, pregnancy, cancer screening, osteoporosis, and menopause - conditions women are most likely to encounter. Moreover, campaign coordinators handed 30 000 brochures and 10 000 free DEXA bone densitometry coupons for women over the age of 65, who are highly exposed to the risk of osteoporosis. The campaign has thus managed to establish contact with a number of 2145 patients.

According to research findings, consumers believe that the adequate concern for employees and suppliers is one of the fundamental principles a reliable enterprise should observe. The employees and the community are among the stakeholder groups Romanian companies mainly focus on. During a budget cut "age", such as the one triggered by the current economic crisis, the working environment may influence the attitude and the performance of the employees. Thus, a company should ensure that the work space mirrors the company values and has a positive effect on the staff. The companies that have allocated considerable resources for employee training and development are, among many others: Petrom, BCR, BRD, Coca-Cola HBC, MOL, Vodafone, Unicredit Țiriac.

5. SOCIAL RESPONSIBILITY IN INTERNATIONAL COMPANIES AND ENTERPRISES

An increasing number of companies have taken an active interest in social causes. American Express, Avon, The Body Shop, Ben & Jerry's are the international brands that mostly support the development of social responsibility programmes. Companies believe they are making a difference, that their contributions are highly appreciated by consumers, whose loyalty they subsequently gain as long as their products provide something different from those of their competitors. The top companies – according to Kotler and Caslione – that have demonstrated their commitment to social responsibility and the social causes they have supported are (Kotler, P., Caslione, J.A., Chaotics, 2009):

Table no.3. Companies and social causes supported

Company	Social cause
Aleve	Arthritis
Avon	Breast cancer
Best Buy	Recycling used electronics
British Airways	Children in need
General Mills	Better nutrition
General Motors	Traffic safety
Home Depot	Habitat for humanity
Kraft Foods	Reducing obesity
Levi Strauss	Preventing AIDS
Motorola	Reducing solid waste
Pepsi-Cola	Staying active
Shell	Coastal clean-up
Starbucks	Protecting tropical rainforests

Sursa: Kotler, P., Caslione, J.A., *Chaotics, The Business of Managing and Marketing in The Age of Tubulence,* American Management Association, 2009, p. 185-186.

The Corporate Social Responsibility (CSR) concept defines the voluntary commitment of companies to social and environmental issues, as part of their business activity and in their interaction with various stakeholder groups.

There are several terms used interchangeably on the European market (Corporate Responsibility, Corporate Sustainability, Corporate Governance, Corporate Citizenship), and they are often employed in reference to corporate social responsibility.

6. CONCLUSIONS

CSR can generally be defined by the following essential aspects:

- Responsible entrepreneurship;
- Voluntary initiatives that transcend legal obligations or binding contract clauses;
- Development of activities to the benefit of employees, stakeholders (including the society at large) or the environment and ecosystems;
- Planned rather than isolated activities (e.g. based on a business strategy vs. Ad-hoc);
- Positive contribution in relation to the target groups and reduced negative effects for others (especially the environment).

Corporate social responsibility can have positive effects on the competitiveness of SMEs, such as (Oprea, L.,2005):

- Improved products and/or manufacturing processes that can lead to greater customer satisfaction and brand loyalty;
- Increased visibility over winning awards, competitions and/or word of mouth advertising;
- Increased loyalty and motivation of employees, thus leading to a higher degree of innovation and creativity;
- Favourable market positioning;
- Better relationships with business partners and local authorities, as well as ease of access to public funds due to a successfully restored company image;
- Reduced costs and increased profitability due to a more efficient management of the human and production resources;
- Increased (sales) turnover, due to the competitive advantage created by all of the above.

To conclude with, globalization creates various and dynamic opportunities and issues for international organisations. The improved ability to access information and to control stands at the core of corporate governance.

International exposure entails the adjustment to global competitors, and these specific circumstances also strengthen globalization, thus urging companies to consolidate and to streamline their corporate responsibility mechanisms in order to meet the ever changing needs of society.

ENDNOTES:

(1) http://www.forumuldonatorilor.ro/proiecte/TOP-Donatori-editia-a-4-a/126

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