

## **Corporate Social Responsibility Between Reality and Perceptions: Case study of Republic of Moldova**

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### **Abstract**

*Corporate Social Responsibility (CSR) is an indispensable factor for sustainable development in a society with a global economy, the present article proposes an exploration of the realities and trends in CSR's. Article provides an analysis of results derived from researching the way organization, coordination and evaluation of CSR activities is made within Moldovan companies, as well as the benefits they have as a result of involvement of social responsibility in the communities in which they operate. In this article were highlighted the way of communication and the degree of transparency in CSR activities of companies and were detected perceptions on the peculiarity of local CSR.*

### **Article**

Corporate social responsibility is a concept that has developed and enriched in the last half century. Since '53, when Bowen first used the term "modern CSR" as an obligation of companies "to pursue those policies, to make those decisions, or to follow those action lines which are desirable in terms of the objectives and values of our society" (Bowen, in Thomas, 2006, p.4).

CSR has been enriched with other internal and external dimensions, such as: employees, consumers, other stakeholders, environmental protection, poverty alleviation and society's concerns.

The increasing pressure upon large firms due to globalization and increasing concerns related to the growth of power equilibrium between society and companies, have turned CSR, over the years, in a discussed matter in economic, political, ethical, social etc. terms.

The current financial crisis has strengthened the debate on CSR. More than ever, this recession has focused on the role of profit in appearance of crises in general, but also on the relationship between the market and the public sector. Supporters of CSR see in this crisis a confirmation of the need to strengthen the social responsibility of companies, as a way to avoid major turmoil in the future.

The main source against CSR is the argument of Friedman developed in 70s, under which a business should take care of creating profit, respecting the laws and ethical principles imposed by society. Companies do not have moral rights, they are not

persons, and any attention of the firm on the effect of its external actions is not relevant and therefore should not be a concern for the company's management (Crowther and Martinez, 2004, p 103). This position seems to gain special attention during the current crisis. Liberal point of view, according to which repeated interventions on the market and new obligations created for the companies (such as CSR) have diverted businesses from their main objective of earning money. "The best way to ensure a positive role for business is to extend the scope and improve the functioning of markets" (Henderson, 2001, p 31). CSR - as a set of volunteering actions, places companies that are engaged in such activities, in a disadvantageous position, compared to those that do not carry out CSR activities. Therefore, the current crisis is the result of intrusion into the market mechanism; and CSR proves its failure, both for companies and for society.

Various studies, showed a negative relationship between CSR and aspects related to corporate performances: environmental performance has a negative effect on the financial statements (Ingram and Frazier, 1983 Souto, 2009), CSR and shareholder value does not coincide (Freedman and Jaggi, 1982 Souto, 2009), social and economic performance have opposite consequences on financial statements (Waddock and Graves, 1997 Souto, 2009), social constraints and responsible social behavior can work against value maximization (Jensen, 2001 Souto, 2009), investment in CSR is negatively reflected upon domestic owners (Barnea and Rubin, 2005, Souto, 2009), strong evidence against the idea that CSR initiatives have universal or systematic positive financial impacts (Mittal et al., 2008 Souto, 2009). As a consequence, economic recovery cannot be expected if firms are asked to deal with other issues than those related to their intrinsic activity.

Many authors sustain that the current crisis is due to irresponsible behavior of companies. Porter and Kramer (2002) highlights the need to review the entrepreneurial model, focusing more on integrating social aspects in corporate objectives, Stiglitz (Souto, 2009) emphasizes that financial issues have lagged behind social needs, Scherer and Palazzo (2007) consider CSR not concerned with public issues, but more of a marketing exercise (Maignan and Ferrell, 2001 Gond and Matten, 2007) and Jonker and De Witte (2006) argues that the crisis is an expression of lack of maturity of the present.

Problems created by Enron, Union Carbide, the collapse of Arthur Andersen (Crowther and Martinez, 2004, p. 102), greedy and irresponsible banks, irresponsible financial sophistications developed only for speculations and for profit reasons, irresponsible corporations and irresponsible managers, and, finally, irresponsible capitalism (Visser, 2008; Reich, 2008), are causes of the present financial crisis. "In 2009, we are discovering business responsibility through the effects of irresponsibility, [embodied by] the likes of Madoff and Lehman Brothers" (GlobeScan, 2009).

And, as an irony, the rescue plans developed by governments starting with 2008 were designated to save those large companies that demonstrated an irresponsible behavior in conducted business and ignored any social and moral values!

For the CSR supporters, this crisis is a new, more powerful reason for reinforcing

CSR. Those in favor of CSR have stronger arguments in pledging for approaching CSR more vigorously than ever.

In the opinion of those that sustain CSR as a viable dimension of businesses (Crowther and Caliyurt, 2004, Gond and Matten, 2007, Visser, 2008, Thome, 2009, Vermeer and Clemen, 2009, Souto, 2009), there are no evident oppositions between business activity and responsible behavior.

What the economic crisis is asking from companies is similar to what CSR needs, such as: innovation, that in term of responsibility means a CSR that is stronger, embedded in the corporate goals and strategy, a long term vision on CSR that is more related with social goals, a communicative, motivated atmosphere. These are all meant to increase the employees' productivity, the partnerships with stakeholders, to reconnect them to the business purposes, create a long term sustainable business strategy, based on CSR, that would rebuild investors' confidence, public trust, good image and reputation.

Behind theoretical approaches, the attitude that managers have against CSR sustains the idea that responsible behavior of companies is strongly influenced by the economic cycle and efficiency, as a concept related to prove it, leads to diminish the budgets for CSR. Managers do not conceal the difficulties that companies faced and that they have to reconsider their CSR practices. Janet Blake, Head of Global CSR, BT and Stefan Crets, General Manager of CSR, Toyota affirmed that a lot of pressure is on companies and managers allocate less time to CSR, focusing on the short term, with committees on cost reduction. Another pressure on CSR activities was seen to be a more cautious approach to CSR in companies. With major job cuts hitting junior through to senior staff, heightening the "emotions of the company," and "having a significant impact on senior (CSR) decisions," Blake observed new "risk-aversion among senior staff", and a determination to look after their own parts of the business. Such narrow thinking could complicate CSR decisions, which require a company-wide perspective (GlobeScan, 2009). A study carried on by The Economist Intelligent Unit in 2008 showed that companies reduced a lot their budget designated to CSR, despite declarations of their management to remain committed to CSR. The survey of more than 560 business people found that despite a majority of respondents saying their business depends on effective corporate citizenship, only about one-quarter believe it is "very important" to overall business strategy, and only 28 percent of respondents characterized their CSR strategy as proactive (EIU, 2008). A survey of U.K. businesses by KPMG and "Business in the Community" found that a third of companies cut their corporate social responsibility budgets in 2009. Companies that developed CSR based mostly on philanthropic actions will cut out the funds (Visser, 2008). According to a study by the Giving USA Foundation, charitable donations by U.S. companies fell by 8% in inflation-adjusted terms in 2008 (Evans, 2010). A major obstacle in invigorating is the trust that consumers, investors and other categories of stakeholders have in companies. This trust is a consequence of the corporate responsible behavior and the society expectations that were very high. Poor corporate responsibility performance would be exposed during crisis. "We will see who is not behaving responsibly for core reasons," argued

Rob Cameron, Chief Executive, Fairtrade Labeling Organizations International. "In 2009, we are discovering business responsibility through the effects of irresponsibility, [embodied by] the likes of Madoff and Lehman Brothers" (GlobeScan, 2009). A survey of 130,000 Facebook users conducted by Georgetown University and the World Economic Forum found that only a quarter of respondents believed corporations have a "values-driven" approach to business (Evans, 2010). Rebuilding the trust in the companies' behavior can be very difficult to achieve. Data collected by GlobeScan on 10 industries, across 32 countries shows that expectations on CSR are increasing, while CSR performance is perceived as being lower. Consumers are increasingly punishing irresponsible companies and rewarding responsible ones, most markedly in the USA and Canada, but also in large developing economies (GlobeScan, 2009).

The first step in the analysis presented below was consultation of annual and sustainability reports of each company from the sample, for the financial year 2008-2009, to effectively identify social responsibility actions towards partners of economic entities. After content analysis of company reports, preliminary results consisted of an extremely rich material, presenting a wide range of corporate responsibilities in relation with the two stakeholder groups: employees and customers. This material has been filtered to create a synthetic image for each group of partners, including as many of the identified responsibilities as possible.

**Table nr. 1: The final sample, indicating the country of origin and classification by sectors**

<b>Nr.</b>	<b>Sector of activity</b>	<b>Company</b>	<b>Country</b>
1.	Automobiles and components	Daimler	Germany
2.	Banking	HSBC	UK
3.	Raw Materials	BHP Billiton	UK
4.	Chemical industry	Bayer	Germany
5.	Food industry	Nestlé	Switzerland
6.	Pharmaceutical products	Roche Holding	Switzerland
7.	Industrial goods and services	Siemens	Germany
8.	Insurance	Allianz	Germany
9.	Oil and gas	Royal Dutch Shell	UK
10.	Retailing	Tesco	UK

Source: elaborated by the author based on companies reports, 2010

CSR practices are marked by two essential attributes: voluntary character and a wide diversity. In addition, it is difficult to determine the boundary between mere compliance with legislation and those initiatives that go beyond legal requirements, providing to their social partners a guarantee that companies have actually learned the social and environmental responsibilities.

Most social responsibility initiatives do not have a major negative impact on the profitability of the company; in fact, they are integrated in core products and services, as elements of economic efficiency. Instead, these initiatives may have an extremely important positive impact, when employees and consumers consider company as a fair and generous player who gains profit by selling products and services, not by violating rights of the social partners.

A successful company is not just a company that registers substantial profits, has thousands of customers or represents a brand of millions. A successful company is first and foremost a company that has a responsible attitude towards its employees, customers, community and partners, and in general has a responsible attitude towards the society in which it activates and develop its business. In European Union is mandatory that every company develop its own programs of social responsibility, this criteria is being introduced in European policies. Moreover, the government support and provide certain facilities, in particular to the companies that promote social responsibility. In this way, the business, along with the state, contribute to the creation of a healthy environment and society. Some studies indicate that the practice of CSR brings some benefits to companies, at least for some economic sectors. The most obvious can include:

- reduction of the production costs;
- companies that offer benefits to employees (such as flexible working hours, working with trade unions) have a highly motivated personnel;
- international certification standards and the implementation of the code of ethics at the company level, generates the growth of technological innovation within the institution;
- there is also a strong correlation between practicing certain CSR activities (code of ethics, external audit) and attracting new customers and partners.

Although CSR is a relatively new concept for the business environment in Moldova, many companies state that they are interested in understanding of this concept.

Many of them are still in the process of clarifying the differences between philanthropy and CSR. Some of them (but very few) are at the stage of institutionalization of the concept, while others are already looking for the right model that can be used in the interaction with the company's internal and external environment (suppliers, customers, partners and employees), and some companies are at the more advanced level (development code of ethics, developing a strategy and annual budget for CSR activities, etc.). The majority of managers of the companies do not understand what RSC actually means, while most of them do not even consider that the integration of these principles and values in current practice to happen soon and do not realize the benefits that it can bring to the company.

Thus for the Moldovan reality, at the moment CSR remains a more declarative

practice, since too few companies are likely to transpose the principles of CSR in their activity. Profile of the companies interested in integrating CSR as part of their business model is different from the ones that practice philanthropy: there are big companies, members of international networks that understand the long-term benefits that social responsibility brings. They are aware of the benefits and follow exact goals.

- While CSR is a term apparently difficult to understand for most of the companies surveyed, philanthropy seems to be very well integrated into the business culture of Moldova. Companies often consider donations as a "tribute" they pay to the society. However, companies experience difficulties since most of the times, institutions requesting donations are not transparent, and the donor have no way to check the use of funds. Precisely because of this reason, companies prefer to donate money consistently to the same "verified" institution.

- Independent business networks are currently the most pro-active group of respondents regarding the organization and support of philanthropic activities. Moreover, IBN is trying to inform public authorities about the difficulties encountered by economic agents in performing philanthropic activity. However, independent business networks have a great potential in promoting CSR that remains untapped.

- Although in following the study were identified some progress regarding the practice of philanthropic activities, the essence of the CSR term still remains relatively obscure to all interested social actors. Large majority of respondents tend to assimilate CSR with philanthropy.

- The category apprehending to a certain extent the distinction between these two types of activities is represented by officials from the ministries.

Unfortunately, the study shows that some of these respondents are the most uninterested in implementing and promoting CSR. This lack of interest is partly explained by the fact that public authorities do not realize the opportunities that would open a wider application of CSR principles. As a result, public authorities have not developed policies that would aim to promote or at least to support the activities of the RSC.

- In the case of philanthropic activities, we identify a problem of institutional management that constitutes a barrier in attracting funds. Therefore, economic agents that want to run some philanthropic activities often waive these initiatives simply because they do not find an official who would direct them.

- Some government agencies have a number of initiatives, both philanthropic and CSR, which often are not supported by public officials at higher hierarchical levels. At this level, can be detected once more, the lack of interest in promoting CSR of the authorities.

## Conclusion

A feature of the SR in the Republic of Moldova is the fact that the most responsible are large companies, or monopolies. Their practice is based on sponsorship. Among the SR companies are commercial banks and companies like Orange, Moldcell, Bioprotect - in fact the most profitable ones, etc. The question that arises is wouldn't it be more responsible to reduce taxes to services to be more responsive to social needs, but not to provide some philanthropies at their discretion. We could say that CSR is currently a method to clear errors made to the society, but not to be a simple collector of profits.

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