

The Impact of Financial Performance upon the Social Responsibility of Romanian SMEs – Point of View

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Abstract: The aim of this paper is to assess the different approaches regarding the impact of social and environmental responsibility upon the financial performance. Most of the authors consider there is an impact and mostly only the ways of evaluate it or report it is different from an approach to another. Moreover the literature commonly separates the discussion regarding the social responsibility from the environmental approach. The study developed shows at least a variation of one of the many approaches and shows the specificity of Romanian business environment.

Keywords: social responsibility; financial performance; environmental responsibility

JEL Classification: O16; P34

1 Introduction

All the enterprises produce both positive and negative effects during their economic activity no matter of size or industry. In environmental terms there is a fact that SMEs around the world produce 60 % of the carbon emissions (Marshall, 1998) and 70 % of total pollution (Smith & Kemp, 1998). That is why regardless the size or industry the businesses should be accountable of their actions. Social responsibility centers on making firms accountable of their negative impact upon all stakeholders (Sethi, 2003). Moreover The World Business Council for Sustainable Development stated the CSR as: “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (WBSCD, 1999). A balance between shareholders and other stakeholders should be realized in this respect (Perry & Towers, 2009).

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The studies confirmed a positive relation between the social responsibility (Cochran, Wood, 1984; McGuire et al., 1988; Waddock, Graves, 1997) or the environmental responsibility (Hamilton, 1995; Klassen & McLaughlin, 1996) and the financial performance. Again is the case of big companies the literature discusses and mostly ignore the small and medium enterprises adaption of the matter.

Some studies determined a double positive influence both of the environmental performance upon the financial performance and of financial performance upon the environmental one (Nakao&All., 2007). The duality of the problem is partly explained by the fact that those companies certified for an environmental management system (ISO 14001) benefit of an improved market image and value. (Wahba, 2008)

We have some limitations. One is the fact that the individual attitude (regarding the environment and the intergenerational solidarity) is mostly irresponsible (Bazina & Ballea & Touahrib, 2004). These limitations came together with the system of motivations and incentives, many of them that may have a fiscal dimension or public policy related as well. Lynes and Andrachuk (2008) structured the main motivations as financial benefits, competitive advantage, image enhancement, stakeholder pressures and desire to avoid or delay specific regulatory constraints (Bonnafeous-Boucher & Pesqueux, 2005). Although the set is considered as a general pattern for every enterprise there are different ways to assess these motivations. For example the financial motivations are achievable in short and medium term according to Kiernan (2001) or Hart (1995) through eco-efficiencies. The SMEs has their own characteristics regarding the motivational system as well as the way of action and responsibility involvement and also a more personal way of managing its activities including those with social and environmental impact.

It is a fact the issue of impossibility for transferring the CSR from big companies to small and medium enterprises (Welford & Frost, 2006) due to the sum of limitations related to this kind of businesses. This is why the need for dimensioning the concept of responsibility and adapting it to the scale and characteristics needed. It is also a fact that the Romanian small and medium entrepreneurs wish to involve their businesses in such activities. They also wish to learn more about the benefits of the responsible behavior (Nuță, 2012). The necessity of a motivational matrix for the SMEs is given by the specific behavioral characteristics and resource limitations (Towers & Burnes, 2008) of this type of businesses. It is also generally known that larger firms have more financial resources to implement CSR than smaller firms, who are less able to overcome obstacles such as lack of resources and skills, lack of awareness of stakeholders' demands and inefficient production techniques (Welford & Frost, 2006). The financial resources insufficiency is one of main obstacles and a way to overcome this issue is knowing how much of the profits can a SMEs sacrifice for responsibility in order to achieve its non-financial

targets and at the same time keep its financial performance at highest level possible. It is also helpful the fact that SMEs are considered to be comparatively more innovative than large corporations as well as being more amenable to undergoing evolution and change (Storey, 1994).

2 The Assessment

For the correlation model we chose a Romanian SME's. We assess the financial performance using the ROA for the last twelve years. The trend is constantly positive for the first seven years then has a decline (the economic crisis influence) and at the end of the period grows again. The SME constant growth and the economic sector growth determined us to use it for our study. For describing the social responsibility we have assess the employees comfort and work security related costs. We have also assessed the bonuses evolution during that period of time to see if the influence of the enterprise welfare affects its responsible behavior or the salary package offered to its employees.

So the first assumption is that the financial performance of the Romanian SME has a direct positive influence upon its social responsibility described by the work place comfort and security of its employees.

The dependent variable is the cost for ensuring the employees comfort and work security as a percentage in total costs (the responsibility cost: *cos_resp*) and ROA as an independent variable.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,387 ^a	,150	,065	,10377

a. Predictors: (Constant), ROA

b. Dependent Variable: *cos_resp*

The correlation coefficient (R) shows a weak connection between the two variables. R square shows a little proportion of explanation upon the dependent variable trend given by the regression model. So the regression model does not explain a relation between the two variables. Based on it the cost of responsibility is not determined in this case of the financial performance.

Model Summary^b

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	df1	df2	Sig. F Change	
1	,150	1,764	1	10	,214	2,681

b. Dependent Variable: cos_resp

The second assumption is that the enterprise welfare determine for a part of this welfare to be transmitted to its employees by the salary package and other economic benefits. The good economic run permits the entrepreneur to raise the salary or give bonuses to its employees. But this is not necessary an expression of a responsible behavior. Could be a contractual obligation or as a result of syndicalist pressures. Anyway a higher salary does not necessary prove the enterprise responsible behavior regarding its employees.

The independent variable is again ROA for describing the financial performance that permits the enterprise to have an amount of welfare to distribute. The dependent variable is the percentage of bonuses in the salary fund in the given period.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,863 ^a	,745	,719	,46128

a. Predictors: (Constant), ROA

b. Dependent Variable: bonus

Model Summary^b

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	df1	df2	Sig. F Change	
1	,745	29,196	1	10	,000	1,162

b. Dependent Variable: bonus

The correlation coefficient (R) shows a strong connection between the two variables and the R² indicate that ROA explains a lot of the percentage of bonuses

evolution during the given period of time. Given the value of Sig the assumption that there is no relation between the two variables is rejected and accepted our initial assumption that the evolution of ROA explains the trend of salary bonuses.

ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	6,212	1	6,212	29,196	,000 ^a
Residual	2,128	10	,213		
Total	8,340	11			

a. Predictors: (Constant), ROA

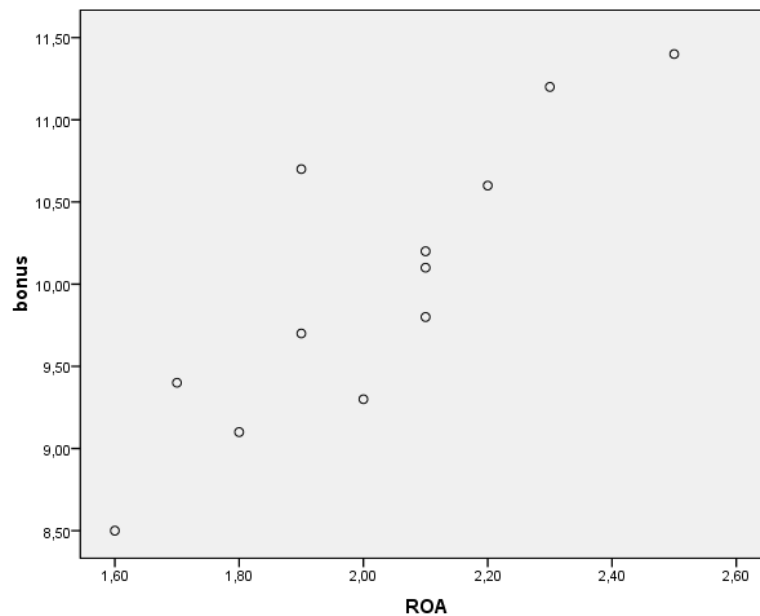
b. Dependent Variable: bonus

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4,063	1,107		3,670	,004
ROA	2,944	,545	,863	5,403	,000

a. Dependent Variable: bonus

The correlation model is $Y = 2,944X + 4,063$.



The scatterplot also shows the linearity of the model and a good correlation between the two variables.

3 Conclusion

The literature shows evidences that the welfare of the enterprise can attract a more responsible behavior of it. Many shown there is a bilateral correlation between the financial performance of firms and their social responsible behavior. That social responsibility attracts better market value and economic benefits from it. Part of the economic benefits later transforms in sources of reinvesting in good image by the meaning of social responsibility tools.

Our study reflects a way of action and an attitude. Many Romanian entrepreneurs under the pressure of the forces on the labor market regard the salary package (including the bonuses) as their main obligation regarding the employees neglecting aspects of work safety and comfort. The attitude is not only accepted but encouraged by the employees that see the salary mostly their only right at work place. The firms holders invest in work safety and comfort only in the regulation levels and not above.

Our future research will investigate similar aspects but extending the study and working with national panels of small and medium enterprises.

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