

# CORPORATE SOCIAL RESPONSIBILITY DURING THE ECONOMIC CRISIS. THE CASE OF THE ROMANIAN COMPANIES

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*The aim of the present paper is to identify and comment on the existing relationship between corporate social responsibility (CSR) and the current economic crisis, by focusing on the experience of the Romanian companies. After briefly defining the concept of CSR, the article presents the above mentioned relationship from a triple perspective: the lack of ethics as a cause of the economic crisis, the threat of CSR in periods of crisis and the opportunity of CSR in periods of crisis, considering that the last perspective could be maximized if companies are going to approach CSR from a strategic point of view. Finally, the second part of the paper presents what Romanian companies really do, but, more important, what they should do in order to increase their effectiveness in terms of CSR implementation when social budgets seem to remain constant or even decrease.*

*Keywords: Corporate Social Responsibility, Economic Crisis, Stakeholders, Risk Management.*

*JEL Codes: M14, G32, G33.*

## **Introduction**

Before the crisis that has begun in 2007, CSR was considered just a luxury and a set of voluntary assumed initiatives implemented by successful companies in good times for ethical, altruistic or branding purposes, but definitely not a part of a corporate core strategy, and companies would have reduced or even abandoned their commitments to CSR in times of economic difficulty. Nowadays, the evidence of the last three years suggests that commitments to CSR are neither being reduced nor abandoned during the crisis, except in those cases of total bankruptcy, and a well institutionalized, communicated and reported strategy of CSR is granting the responsible company “a license to operate” in the new world economy emerging after the crisis.

The global economic crisis and the collapse of trust in the capital markets are strengthening CSR, while the rules of the game are changing by considering sustainability and responsibility the main new pillars of the game. According to KPMG (“KPMG International Survey of Corporate Social Responsibility Reporting 2008”), the proportion of the world’s 250 largest companies issuing annual reports on CSR increased from only 50% in 2005 to 80% in 2008, the main drivers for implementing CSR strategies being risk management, investors’ pressure for long-term profitability and ethical considerations<sup>675</sup>.

## **1. Current State of Corporate Social Responsibility**

The most accepted definition of Corporate Social Responsibility (CSR) is the one of the European Multi-Stakeholder Forum on CSR (2004) considering it “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction

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<sup>675</sup> Møller, K., 2009.

with their stakeholders on a voluntary basis”. Two aspects are relevant in this definition and they actually represent the essence of the notion: first, the fact that CSR is about simultaneously satisfying economic, social and environmental needs of the company and the community it is acting in; second, the fact that these obligations are voluntarily assumed and they are not imposed by any type of rules or regulations<sup>676</sup>.

## 2. Relationship between Corporate Social Responsibility and Economic Crisis

Often it takes a crisis to precipitate attention to CSR. The present global crisis emphasizes stronger than ever the idea of *corporate responsibility*, a new commitment to responsibility being demanded of companies in order to create economic and social value. As a result of the combination of the economic crisis with what has been called “an entrepreneurial crisis of maturity”, CSR has risen to prominence in the last decade and, even though CSR is a new controversial concept, everybody in the academic and business spheres agree that it is a fundamental strategy for achieving the sustainable development in the globalized world<sup>677</sup>.

The results of the GlobeScan Salon: “CSR in the Economic Crisis” – that took place in London, on February 2009 – emphasize the fact that companies are now facing enhanced expectations, pressures and opportunities regarding their social and environmental behaviour, even if they are confronting with the worst economic crisis in 80 years. The presented data (based on compiled results from 32 highly developed or large developing countries) showed that expectations of CSR are on the rise again and have reached a new high point since tracking started in 2001; at the same time, perceived CSR performance continues to fall and have reached a new low point, with a lowest one in the banking sector, which registered the sharpest decline. The new pressures imposed by the crisis on CSR commitments include the reduce time available for short-term decisions, the cost reduction and a more cautious approach to CSR in companies. Finally, companies not fully committed to CSR face growing risks, whereas those with CSR at the core of their business model could gain ground and new business opportunities<sup>678</sup>.

The relationship between CSR and the economic crisis could be analyzed on three levels:

### ***The lack of ethics of the financial decision-makers as one of the causes of the economic crisis:***

A scientific paper on the analyzed topic<sup>679</sup> presents a set of arguments for reducing the magnitude of the economic crisis, perhaps not systematically but definitely in some of the organizations that have been most affected by the crisis, by appealing to and implementing generalized practices of CSR within financial institutions. The author considers that it would have been necessary to apply a CSR with ethical background – a voluntarily-assumed code of ethics – in order for the financial decision-makers to cope with self-generated duties.

***The threat of CSR in periods of crisis:*** The negative potential of CSR is particularly represented by the high cost of its implementation, considering the fact that putting into practice responsible policies and strategies is a long-term process. More than that, the overuse of corporate sponsorship, based on CSR only with marketing purposes, can change the customers’ initial positive perception because customer sensitivity is much more likely to break out during crisis.

***The opportunity of CSR in periods of crisis:*** CSR could also be considered an opportunity that increases the corporate core values on the long run, especially because organizations must redefine and coordinate their essential business objectives in order to implement responsible practices. Some of the main advantages that CSR could bring during crisis periods are: innovation; comfortable atmosphere; adequate treatment to stakeholders and better engagement with them; reinforcement of business strategy; strengthening of market position; consumers’ loyalty; guarantee and confidence for investors; deep internal reflection. Generally speaking, successful CSR policies might contribute to the sustainability of companies in times of global

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<sup>676</sup> European Multistakeholder Forum on CSR, 2004, p. 3.

<sup>677</sup> Fernández-Feijóo Souto, B., 2009, p. 38.

<sup>678</sup> [http://www.globescan.com/news\\_archives/salon\\_lon-0109/](http://www.globescan.com/news_archives/salon_lon-0109/).

<sup>679</sup> Argandoña, A., 2009, p. 2.

economic crisis, by rehabilitating their corporate image on the market and by positively involving all the interested stakeholders, especially for the sectors that have caused the economic recession, like the financial and banking one, for example.

CSR in crisis periods can be converted from being a threat to an opportunity<sup>680</sup>: CSR, as a management tool, can be helpful in identifying ways to overcome the crisis and meet the social and ecological challenges of the future<sup>681</sup>.

### **3. What Romanian Companies Do**

Usually when an economic or financial crisis appears, the normal reaction is to cut costs or, at least, to try doing this in all the business sectors. This is why many companies acting on national or international level are firstly cutting the costs that are not aggressively impacting their core business and CSR appears to be an attractive area from this point of view, especially when companies intensively rely their responsible initiatives on non-strategic philanthropic forms of CSR that are most at risk in times of economic crisis.

CSR in Romania is rather a PR fashion and it is frequently strictly associated with multinational companies, lacking strategic vision, long-term commitment, coherence and unity. The main areas of corporate social involvement in Romania are: environmental protection, social problems, civic behaviour, human rights, health, education, research, arts and culture, sports. The most important forms of corporate social involvement in Romania are represented by donations and charity, sponsorships, philanthropic and volunteering activities, CSR being usually considered just a tool to react to certain situations or a PR instrument. CSR in Romania is not correlated with the core business activities of the companies and it is not fully integrated into business practices.

Projects that are limited to sponsorships or donations – as it is the case with the majority of CSR initiatives in Romania – and have no direct connection with a company's core business have little to do with true CSR, and during a recession they are usually the first activities to fall victim to budget cuts. This type of social engagement is, more than anything else, a cost item whose benefit to the company is difficult, if not impossible, to measure and its value to society is also limited, since the corporate resources for philanthropic purposes are not sufficient to achieve a comprehensive solution to social problems<sup>682</sup>.

Romanian Donors' Forum (RDF), a NGO promoting philanthropy and CSR in order to contribute to the sustainable development of civil society in Romania, yearly celebrates Top Romanian Corporate Awards, emphasizing the first 10 companies in terms of their social involvement. First year when such a research took place was 2006 (quantifying the social involvement of the most responsible Romanian companies in 2005) and the last one, for the time being, was 2009 (quantifying the social involvement of the most responsible Romanian companies in 2008). The yearly analysis of Top 10 Romanian most philanthropic companies shows a sharply increase of CSR involvement (it was financially quantified the corporate social involvement through cash and services donations, in-kind contributions, sponsorships and own developed social projects): 2,963,928 EUR in 2006; 7,035,586 EUR in 2007; 7,565,100 EUR in 2008; and 16,215,000 EUR in 2009. The 4th edition of Top Romanian Corporate Awards (2009) prized organizations from five main categories: Top 10 big companies, Top 10 medium and small companies, Top 10 corporate foundations, Top 10 financing foundations and Top 10 philanthropic individuals; the social involvement of these 50 winners of RDF awards was about 31 million EUR.

In the field of CSR, a paradoxical situation appears in Romania: although NGOs and different types of social beneficiaries or stakeholders are complaining about the CSR decrease because of the economic crisis and the logical economic thinking is supporting their assumptions, the yearly researches conducted by Romanian Donors' Forum (since 2006) demonstrate all the contrary,

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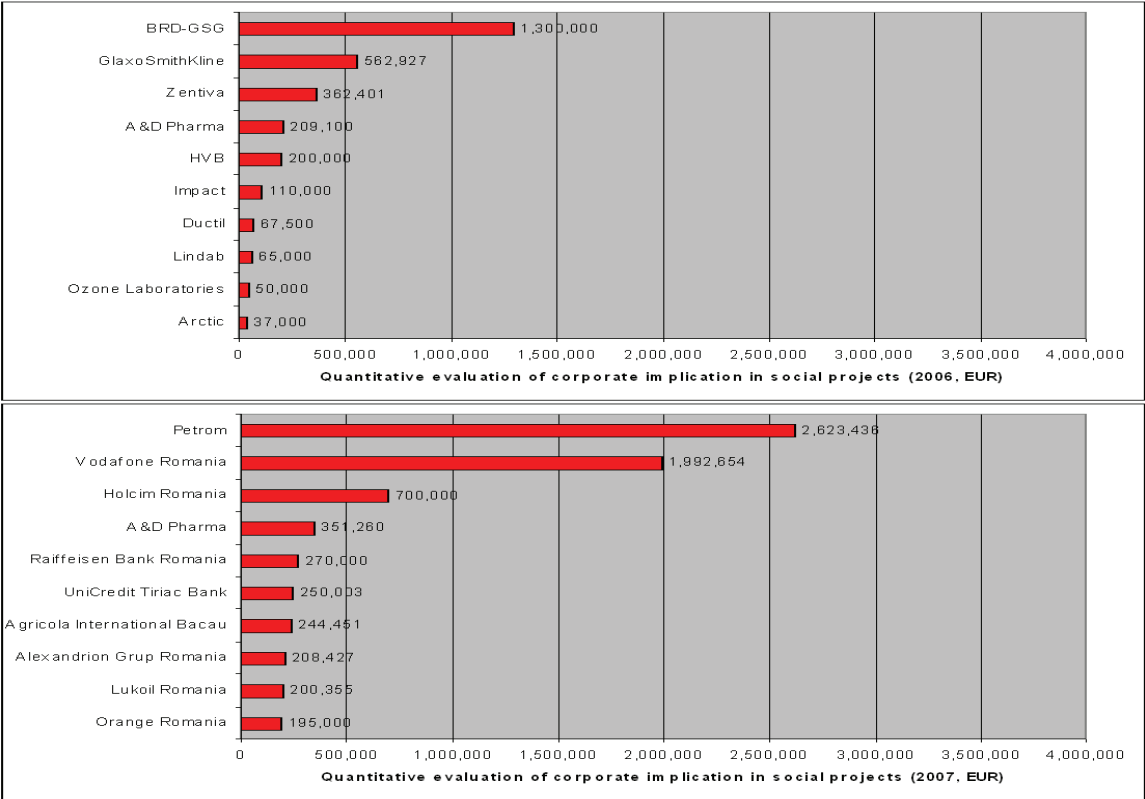
<sup>680</sup> Fernández-Feijóo Souto, B., 2009, pp. 36-47.

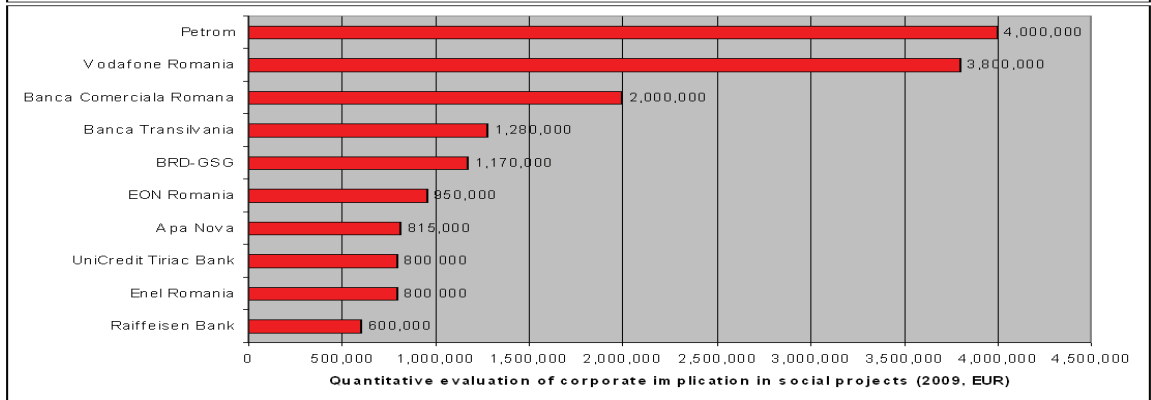
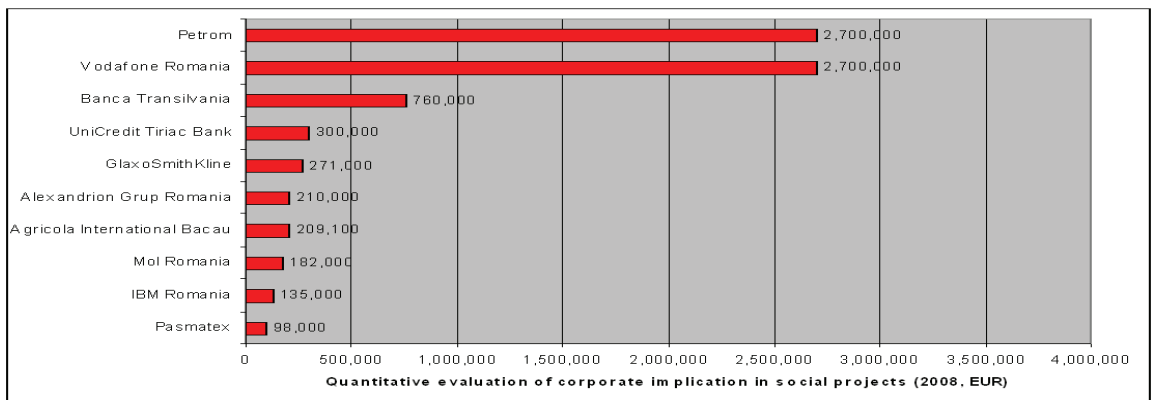
<sup>681</sup> Peters, A., 2009, p. 5.

<sup>682</sup> Idem, p. 8.

showing an increase interest of Romanian companies from one year to another in supporting social causes (see *Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)*). The explanation for this paradox consists in the following three arguments: first, the beneficiaries of CSR initiatives usually take into account only the cash donations that they receive from the responsible companies, meanwhile companies financially quantify all their types of social involvement; second, the economic and financial crisis made companies more accountable than ever for their actions and more conscious about the importance of strategic social involvement, that should be highly correlated with their core business activities (cash donations are basic CSR forms and do not represent strategic social involvement); third, companies are more eager to transparently communicate their social involvement also for pragmatic reasons. Although some companies – especially the SMEs – were obliged to diminish their CSR budgets (strictly considering here the cash donations), this does not mean that their social implication decreased, because usually cost reductions are accompanied by increased employees’ volunteering. The CSR representatives of the most responsible Romanian companies (Petrom, BRD-GSG, Vodafone, Orange etc.) announced that their CSR budgets for 2009 were the same as the ones for 2008, but the economic crisis put a pressure on them in order to restructure the jobs, improve the efficiency of their operations or prioritize the investments.

**Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)**





Data source: <http://www.forumuldonatorilor.ro/proiecte/top-corporate/44>, <http://www.donorsforum.ro/fdr.php?b=TOP%202006&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=Top%202007&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=TOP%202008&lg=ro>, <http://www.forumuldonatorilor.ro/proiecte/TOP-Donatori-editia-a-4-a/126>.

#### 4. What Romanian Companies Should Do

In order to maintain the corporate commitment to improve CSR performance for consolidating the financial performance and not cutting costs with CSR, a company should respect at least the following five main action lines: a) to sharply align CSR efforts with core business objectives for supporting the company's cost-savings efforts; b) to increase research and development spending, including in new CSR initiatives; c) to measure the CSR benefits; d) to build partnerships across important business units and functions; e) to strengthen the implementation of CSR in all the departments of the company<sup>683</sup>.

A study conducted last year by Braun Partners consultancy firm in order to identify the current state and the main problems associated to CSR in Hungary, Poland, Bulgaria and Romania emphasized the strong need of the Romanian companies to consolidate their responsibility regarding the human resources, to integrate the fundamental principles of CSR in their business strategy, to strengthen systematic projects with civil society and to transparently communicate the corporate initiatives in the field to all interested stakeholders. Especially in times of economic crisis, the human resources – their capabilities and behaviors – are becoming an extremely important corporate asset. More than that, integrating CSR in the business strategies and the HR policies of the Romanian companies could improve the “rumple” reputation of the firms, particularly in the financial sector (considered to be the most responsible one for the crisis).

When companies carry out well considered, strategic activities that are in keeping with their core business rather than simply distributing random donations, this produces far greater benefits for both the company and society at large. This type of engagement promotes sustainable stakeholder management, leads to greater confidence and helps to integrate the company into the surrounding

<sup>683</sup> <http://mpiweb.eu/cms/mpiweb/community/commblog.aspx?viewblog=1786&groupblog=4>.

society. As a responsible corporate citizen, a company could test new partnerships, engage in serious dialogue with stakeholders, gain insight into their interests and acquire new expertise<sup>684</sup>. Stop sponsorship and investing in CSR programs can have a boomerang effect, both in corporate image as well as in sales, especially now that companies are facing the largest deficit of trust. Waiving these programs practically shatters the positive results achieved in the past and the corporate effort of being “a responsible citizen” would become much less credible for the public. Although CSR is usually associated with big or international companies, SMEs in Romania should also play a role by pursuing specific socially responsible approaches, engaging in social dialogue and contributing to community development at local level. Moreover, at international level, socially responsible investments as a specific component of CSR are confirming their potential of increasing financial returns by incorporating environmental, social and governance (ESG) issues into the decision-making process<sup>685</sup>.

## 5. Conclusion

Assuming CSR activities proves to be a necessary, but not sufficient, endeavor in systemic risks situations, when the main disequilibrium affects the macroeconomic environment. In this context, the Romanian companies have understood the necessity – both in deontological and pragmatic terms – to maintain and consolidate their implication in social projects, especially in times of economic crisis. The fundamental change that the crisis brought in terms of CSR implication, excepting the thorough awareness considering the potential of socially responsible actions, was represented by the shift from philanthropic activities and simple cash donations to more strategically coordinated CSR actions, related with the core corporate business activities. This trend is the one that should be emphasized and developed in the future, in order for both the companies and the society to gain significant advantages.

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<sup>684</sup> Peters, A., 2009, p. 8.

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