

THE RELATIONSHIP BETWEEN FINANCIAL CRISIS, CORRUPTION, AND CORPORATE SOCIAL RESPONSIBILITY IN ROMANIA

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Abstract:

The aim of the paper is to evaluate the influence of the financial crisis and corruption on the corporate social behaviour of Romanian organisations. Starting from the reference literature on financial crisis, corruption and corporate social responsibility, this article is an investigation of the impact that financial crisis and corruption characteristics have on the corporate social responsibility of the organisations. Our research underpins quantitative and qualitative methodology based on the outcomes of the HeRmeS international project.

Keywords: corporate social responsibility; corruption; financial crisis, HeRmeS international project.

Introduction

The financial crisis, the corruption and CSR are issues which have attracted a great deal of attention in both academic and non-academic areas as reflected through an increased number of studies devoted to these topics (e.g. Burlea Schiopoiu, 2007; Eigen, 2002; Felton & Reinhart, 2008; Judge & al., 2008; Kingshott & Dincer, 2008, Theobald, 2002).

The effects of the financial crisis led to a series of unfavourable consequences for the organisations around the world, but the most affected ones were the organisations which did not have a sustainable strategy.

There is a series of questions arising, such as:

- Is there more corruption during the crisis?
- Do organisations adopt sustainable strategies in order to fight against corruption and promote CSR?

- Can the effects of the financial crisis be defeated by promoting CSR and by taking efficient actions against corruption?

- Do the levels of corporate social responsibility relate to the economic/financial wealth of the organisation?

- Does the overall level of corporate social responsibility activity relate to corruption levels?

Which have not been answered yet and specialists are more and more overwhelmed by the inflation of negative phenomena.

Being faced with the global financial crisis, the organisations are seeking financial, economic and social solutions in order to fight against the effects of the crisis.

Under these circumstances and according to the adopted strategy, social responsibility can:

- become one of the most efficient tools in the fight against this negative phenomenon or

- be neglected, because there is no time for voluntary services and charitable acts.

The current crisis, besides the negative financial effects, has also brought up a series of corruption acts at a national and international level.

Corruption, Financial Crisis and CSR

Corruption is a global phenomenon like the financial crisis, which acts globally. The international Organisations – World Bank, Transparency International, the European Union – have tried to find some instruments to measure corruption so that they could come up with global and national strategies of fighting against corruption.

The definition, causes and ways of fighting against corruption are highly controversial issues, which have drawn the attention of specialists in the past. The philosophers Baron de La Brede and de Montesquieu (1989) considered that the ruling principles of each government generate acts of corruption.

Corruption is defined as an “act in which the power of public office is used for personal gain” (Jain, 2001, p. 73).

On the other hand, March (2007) claims that societal corruption is the result of a positive feedback of the fight between lie and truth where the result is the lie multiplier, and, on the other hand, this phenomenon stimulates the welfare of the society and the individual.

The unethical behaviour may lead to certain results on a short term (Dahling *et al.*, 2009), but these are not sustainable and are not an advantage for the society, organisation or individual (Veiga, 2004).

The causal explanatory power of the moral facts is considered to be superior to some immoral facts (Shafer-Landau, 2007). That is why the global financial crisis is used as a moral

justification in order to explain the acts of corruption.

Organisational corruption can be mitigated through a control mechanism, which should act at the level of the managers (Ashforth & Anand, 2003) so that the managers who have deceitful skills could get the approval and the support of the stakeholders and of the managers from other organisations (Anand *et al.*, 2004).

Starting with the last century, specialists have been interested in the social performance and financial performance relation. Griffin and Mahon (1997) have classified and analysed the existent research in this field and their goal was essentially to report results from existing literature. Their research has been carried on, but up to present there has not been found a positive or negative correlation which could be unanimously accepted by specialists.

The efforts of the managers and academics to identify the outcomes of corporate social responsibility have been transposed by Orlitsky *et al.* (2003) in a first meta-analysis of the empirical evidence on the impact of CSP on organisational financial performance.

In this period, featured by the financial crisis and full of scandals and corruption, the relations between CSP and financial performance depend on the institutional context and on the national differences.

For example, in Romania, one cannot assess the relation CSP-CSF according to the broad measurements of social performance: CSP disclosures, CSP reputation ratings, social audits, CSP processes and observable outcomes and managerial CSP principles and values, environmental performance, responsibility of stakeholders, corporate philanthropy, because the social audit has not been implemented in the Romanian organisations (Burlea Schiopoiu & Domnisoru, 2005; Burlea Schiopoiu & Ciobanu, 2005), the CSP reputation

ratings cannot be calculated at the national level.

Due to the fact that in the Romanian organisations there is not real competition in the field of CSP, managers are not interested in elaborating a sustainable strategy. Moreover, in the Romanian organisations, the relation between managers and stakeholders (shareholders, consumers, employees and communities) has different connotations, as for example collaboration/cooperation relations, indifference/carelessness and infliction/fear, according to the influence of the stakeholder and of the manager on the financial result and of the organisation. Certain stakeholder interests are deemed to be more vital to the corporate well-being than others and under these circumstances; the stakeholder is seen in a more respectful way by the manager. Consequently, without financial outcome, many stakeholders would simply not exist for the manager.

In this period of crisis the actions of the stakeholders should be concentrated on the ethical part of the organisation and on the institutional legitimacy of the manager decisions and actions.

Corruption around the world

The corruption scandals and those related to the irresponsible expenditures of the public funds during the crisis in which ministers of two important ministries responsible for the promotion of CSR in Romania - the Ministry of Youth and Sports and The Ministry of Tourism - influence the organisations in their decision of paying attention to the CSR values as long as at the high level these values are ignored.

The corruption scandals emerged along time in almost all the states of the world. In France, the National Printing Corporation was involved in an international corruption business with four contracts concluded in the past

years with Romania, Georgia, Senegal and Syria (Fleury, 2009b).

In Greece, the political class has become helpless in front of the corruption acts and of the financial crisis which have led to the degradation of the public finances. (AFP, 2009b).

In the Czech Republic, the corruption scandals marketed out both the year 2008 and the year 2009. In 2008, the Defence Ministry and 24 former officials at the ministry and their civilian accomplices were accused of corruption by the police in connection with commissioning public contracts during the term of Defence Minister Karel Kühnl between 2004 and 2006 (Richter, 2008). In 2009, two of the ministers of the Environment Ministry - Jan Chrbet and Viliam Tursky - have been relieved of their positions because they signed and mismanaged a sales contract for the carbon dioxide emission right AFP. (2009c).

In 2008, the integrity of the Nobel Prize was called into question. The Nobel Prize Committee (two Nobel-affiliated corporations - Nobel Media and Nobel Webb) were accused of corruption in awarding the Nobel Prize in medicine for the benefit of a Swedish-American pharmaceutical giant AstraZeneca (Charter, 2008).

In Taiwan, the former president Chen Shui-bian and his wife were sentenced to life imprisonment for corruption acts (AFP, 2009a).

In 2009, Brasil was also caught in the middle of a corruption scandal where the President Luiz Inácio Lula da Silva was involved because he made pressures to stop an audit of Mr. José Sarney's (the head of Brazil's senate) family businesses (Lyons, 2009).

In conclusion, corruption has come to be identified with all government officials in almost all countries.

Assessment of corporate social responsibility and of corruption

The relation between CSR and corruption is evaluated with the help of

a few research instruments designed to reflect the level of business ethics activity for countries around the world and to evaluate the way in which corruption is perceived at the national and international level:

- Business Ethics National Index (BENI),
- Account-Ability's National Corporate Responsibility Index (NCRI),
- Responsible Competitiveness Index (RCI),
- World Economic Forum's Growth Competitiveness Index (WEF/GCI)
- Civil Society Index (CSI), and
- Corruption Perceptions Index (CPI).

The Business Ethics National Index (BENI) - (Schwartz & Weber, 2006, p.386) "consists of distinct dimensions or sectors of formal business ethics activity. The seven sectors include: (a) academia, (b) business, (c) social or ethical investment, (d) business ethics organizations, (e) government, (f) social activist groups, and (g) the media. Each of these sectors of society is proposed as potentially involving formal business ethics activity".

The Civil Society Index (CSI) developed by CIVICUS (2004) has already been implemented in more than 50 countries and its role is to measure the health of civil society.

Account-Ability's National Corporate Responsibility Index (NCRI) and Responsible Competitiveness Index (RCI) are developed by AccountAbility – an international institute based in London.

NCRI "examines both the extent to which there is an enabling national environment for corporate responsibility and the resulting outcomes of corporate responsibility practice" (MacGillivray, Sabapathy, & Zadek, 2003, p. 6).

Transparency International's (2004, 2005, 2006, 2007, 2008) Corruption Perceptions Index measures the degree to which corruption among public officials and politicians is perceived to exist by Business people, risk analysts, and the general public for: 145 countries in 2004, 158 countries in 2005, 163 countries in 2006, 179 countries in 2007, and 180 countries in 2009.

Partners from 5 countries work together in the HeRmeS project – Belgium, Bulgaria, France, Portugal, and Romania.

For the period 2004/2005 the correlated results of the three indices - RCI, NCRI, and WEF/GCI – are available for 30 countries. Unfortunately, of the 5 countries involved in this project, we could only find information about Belgium, France, and Portugal (see table 1).

Table 1

The values of AccountAbility Index

Country Rank	Country	RCI	NCRI	WEF/GCI
13	Belgium	15	15	21
16	France	18	17	22
19	Portugal	25	27	20

The table 1 shows that the living standard is also reflected in the promotion of CSR at the national level. The same hierarchy can be found in

surveys of the Transparency International (see table 2).

The Effects of the Financial Crisis on the Romanian Organisations

The financial crisis has affected the Romanian organisations as well, which can also be seen in the large number of companies which went bankrupt.

The statistical data show that in the period 1 January-30 June 2009 the number of publishing requests for the procedure acts issued by the judicial

courts and published in BPI was of 43,192 petitions.

In the Oltenia region –Dolj, Gorj, Mehedinti, Olt, and Vilcea counties – their number amounts to 3,844 petitions (8.90 %). Most of the petitions have been registered in Bucharest– 5,557 petitions, and the fewest in the Alba County – 151 petitions.

Dolj comes topmost of the five counties of the Oltenia region, with 1,188 petitions and the Vilcea County is on the opposite side with 264 petitions.

Table 2
The surveys Corruption Perceptions Index for 2004 -2008

Year	Country Rank	Country	2004 CPI Score ¹	Confidence Range ²	Surveys Used ³
2004	17	Belgium	7,5	7.1 - 8.0	10
	22	France	7,1	6.6 - 7.6	12
	27	Portugal	6,3	5.8 - 6.8	9
	54	Bulgaria	4,1	3.7 - 4.6	10
	87	Romania	2,9	2.5 - 3.4	12
2005	18	France	7.5	7.0 - 7.8	11
	19	Belgium	7.4	6.9 - 7.9	9
	26	Portugal	6.5	5.9 - 7.1	9
	55	Bulgaria	4.0	3.4 - 4.6	8
	85	Romania	3.0	2.6 - 3.5	11
2006	18	France	7.4	6.7 - 7.8	7
	20	Belgium	7.3	6.6 - 7.9	7
	26	Portugal	6.6	5.9 - 7.3	7
	57	Bulgaria	4.0	3.4 - 4.8	7
	84	Romania	3.1	3.0 - 3.2	8
2007	19	France	7.3	6.9 - 7.8	6
	21	Belgium	7.1	7.1 - 7.1	6

¹ CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

² Confidence range provides a range of possible values of the CPI score. This reflects how a country's score may vary, depending on measurement precision. Nominally, with 5 percent probability the score is above this range and with another 5 percent it is below. However, particularly when only few sources (n) are available an unbiased estimate of the mean coverage probability is lower than the nominal value of 90%.

³ Surveys used refer to the number of surveys that assessed a country's performance. 18 surveys and expert assessments were used and at least 3 were required for a country to be included in the CPI.

	28	Portugal	6.5	5.8 - 7.2	6
	64	Bulgaria	4.1	3.6 - 4.8	8
	69	Romania	3.7	3.4 - 4.1	8
2008	18	Belgium	7,3	7.2 - 7.4	6
	23	France	6,9	6.5 - 7.3	6
	32	Portugal	6,1	5.6 - 6.7	6
	70	Romania	3,8	3.4 - 4.2	8
	72	Bulgaria	3,6	3.0 - 4.3	8

*Source. http://www.transparency.org/policy_research/surveys_indices

In the same period, 1 January – 30 June 2009, the number of petitions for the procedure acts issued by practitioners and published in BPI was of 31,445. The counties of the Oltenia region registered a total number of 1,374 petitions (6.40 %). Most of the petitions were registered in the Cluj county – 2,485 and the fewest in the Ialomița County – 14 petitions.

According to the National Trade Register Office, in 2008, almost 14,500 companies went bankrupt in Romania. Most of the companies which went into bankruptcy registered activities in the field of trade, technical assistance and constructions.

The measures taken by the Romanian government in order to fight against the effects of the financial crisis were not appreciated by the organisations and by financial specialists.

The lump tax, which was introduced in order to fight against fiscal evasion, has led to the closure of many SMEs. Financial analysts think that the lump tax will lead to the increase of the number of fiscal evasion cases, because the organisations will be “tempted” to work on the “black market” in order to reduce their financial expenses.

In June 2009, the Romanian government decided that the organisations reporting financial problems will not be unwillingly executed due to the financial crisis and that they should pay their monthly debts

to the state. The debt repayment schedule is not a real solution for the SMEs as long as these do not have a sustainable restructuring strategy. They will finally get to the position of “chess mate” due to the accumulation of some huge debts to the state and to the suppliers, which the organisation will not be able to pay. Consequently, a viable governance policy is a necessary condition for economic growth and development of the organisations.

Taking into consideration these aspects, one can say that Corporate Social Responsibility (CSR) is a phenomenon, which due to the pressure of the stakeholders (Burlea Schiopoiu, 2007), continues to have a strong resonance both in the economic and in the political environment.

Conclusions

It is difficult to assess the controversial connection between CSR, corruption and financial crisis in the Romanian organisations because:

1. There is no clear perception of the CSR concept in these organisations,
2. The public and private organisations are confronted with a lack of strategy on a short and medium term,
3. There are enough deficiencies of the managerial cultures which are reflected in the way of making decisions and in promoting the corruption practices.

The analysis of the data supplied by AccountAbility and Transparency International indicates that the degree of

technological advancement, the living standard and the particularities of the political-cultural space are factors which influence the corruption at the level of each country.

In order to reach a low corruption level and to alleviate the effects of the

financial crisis, it is important for CSR to be perceived by the Romanian organisations as a beneficial voluntary process with strong strategic and financial implications.

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