

Corporate Philanthropy in Top Romanian Companies

Ana-Maria PETRACHE¹

ABSTRACT

This paper aims to provide an insight on the CSR activities developed by top Romanian companies and to analyze whether some economic indexes as number of employees and turnover have a considerable impact on the decision of companies to involve in social responsible activities. The approach is based on a cross-analysis of the statistical weight of donations for eight top company donors in 2007 in Romania. By reviewing the results of the research, the author considers the opportunity to develop a case for CSR, even in its basic form: philanthropy, as a premise for long run social performance.

KEYWORDS: *corporate philanthropy, corporate social responsibility, microeconomic indexes, stakeholders*

JEL CLASSIFICATION: *M14, F23, A13*

INTRODUCTION

Corporate Social Responsibility (CSR) is a concept that has attracted worldwide attention and acquired a new resonance in the global economy (Jamali & Mirshak, 2007). This type of behavior goes beyond economic and legal obligations to meet the expectations of the stakeholders, aiming for competitive advantage. Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship. Moreover, while governments have traditionally assumed sole responsibility for the improvement of the living conditions of the population, society's needs have exceeded the capabilities of governments to fulfill them.

The European Commission's Green Paper, *Promoting a European Framework for Corporate Social Responsibility* (European Commission, 2001) is a response to this new setting. It provides a clear, simple definition of what should be understood by corporate social responsibility: *a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*. In this context, the spotlight is increasingly turning to focus on the role of business in society and progressive companies are seeking to differentiate themselves through engagement in CSR (Afrasine & Petrache, 2009).

While increasing attention has been accorded in recent years to CSR, as a postulate for ethical and responsible behavior in business, very little is known of the practice of CSR in developing countries (Petrache, 2009). Various scholars have indeed highlighted the Western centric nature of academic publication on the topic. Belal (2001) notes for example

¹ The Bucharest Academy of Economic Studies, Romania, anamariapetrache@gmail.com

that most of the CSR studies conducted so far have been in the context of developed countries such as Western Europe, the U.S.A., and Australia and that is still known too little about practices in ex-colonial, smaller and emerging countries.

From a business perspective, researchers often argue that Corporate Social Responsibility (CSR) can improve the competitiveness of a company (Burke & Logsdon, 1996). In the long-term this implies a positive relationship between the CSR involvement of a company and its financial success suggesting that there is a business case for Corporate Social Responsibility. Although various researchers analyzed the relationship between CSR and financial performance (Margolis & Walsh, 2003) the research produced mixed results and does not seem to support the further development of CSR in business practice. The development of CSR could well be inhibited by “the lack of a systematic framework linking investment in these responsibilities to social or business outcomes” (Weber, 2008).

While the reasons for giving are as diverse as the companies that practice philanthropy, most companies cite both societal and business reasons for giving. The two most often-mentioned benefits to society are: improved quality of life and capacity-building for the nonprofits themselves (Benioff & Adler, 2007).

What do these benefits mean? To support the capacity of nonprofits, a corporation must focus on fortifying the inner workings of the nonprofit partners with which it works. This requires that companies, in addition to assisting with specific community projects that a nonprofit undertakes, must provide management and strategy consulting to the nonprofit organization to ensure its longevity and effectiveness. Assisting with scalability and sustainability issues ensures that nonprofits make ongoing commitments to serve their constituencies.

Improved quality of life captures a spectrum of positive outcomes. For example, some companies invest in broadening awareness of social issues, such as domestic violence or breast cancer. This may involve public education as much as it does assisting victims. Other companies set up programs to facilitate access to services for those in need, such as free eye exams in remote areas or wholesome food for malnourished children. Other companies put their energy into job-training and skill-building programs. The environment, arts and culture, health and human services, and education are all examples of focus areas that feed into the idea that it is crucial to help build thriving communities. Thriving communities, in turn, are obviously good for business (Benioff & Adler, 2007).

Corporate philanthropy, or corporate giving, refers to the voluntary contributions corporations make to local, national and/or overseas communities, usually in partnership with nonprofit organizations. As it refers to actions that are not within the traditional endeavors of businesses many people are puzzled by why companies support nonprofits and community projects.

Most companies identify both societal and business reasons for giving. In the words of Robert Forrester, the Committee to Encourage Corporate Philanthropy board member, chairman and CEO of Payne, Forrester & Associates, LLC: "The highest aspirations for corporate philanthropy should be to encourage and nurture the nonprofit and philanthropy communities. These sectors are key to producing the healthy, civil societies required for business competition to flourish." (Monteiro, 2006)

In addition to adding societal value and fostering the healthy societies upon which all businesses depend, corporate philanthropy can provide direct benefits on the corporate side as well. A strong corporate philanthropy program directly supports employee recruitment,

retention, skill-building, teamwork, and morale. Similarly, it can foster improved relationships with customers, vendors, and suppliers. In some cases, philanthropy initiatives can facilitate the creation of new products and the penetration of new markets regionally and internationally.

These are just a few examples of what motivates companies to give. CECF recommends that corporations develop programs tailored to their own corporate strengths. Often, a mixed portfolio of cash, in-kind contributions, volunteerism, and pro bono services is the most sustainable solution. It is the work of each company to define the business and societal outcomes that it is looking to achieve and what resources it is best suited to provide. Often, this entails leveraging the company's competitive business advantages (Benioff & Adler, 2007).

This paper aims to analyze whether some economic indexes as number of employees and turnover have a considerable impact on the decision of companies to involve in social responsible activities. The approach is based on a cross-analysis of the statistical weight of donations for the top company donors in 2007 in Romania. By reviewing the results of the research, the author considers the opportunity to develop a case for CSR, even in its basic form: philanthropy, as a premise for long run social performance.

1. METHODOLOGY

The empirical section of this paper comprised a secondary research, which was conducted by accessing the official websites of the Romanian companies. The scope of this virtual diagnosis was to assess the involvement of the top players of the Romanian economy in the corporate social activities. The sample consisted of eight companies operating in Romania that were selected based on their turnover from a complete list of the active firms registered at The National Trade Register Office, by September 2008 (The National Trade Register Office, 2009), and their CSR budgets, as reported in the Romanian Donors' Competition of 2007 (Romanian Donors Forum, 2009).

The selected companies spanned relatively homogeneous industries (Table 1). The sample therefore comprised two mobile operators, one car constructor, four oil processors and distributor companies and one steel manufacturer. It is interesting to note that all eight companies are subsidiaries of international corporations (Orange, Vodafone, Renault, ArcelorMittal, Lukoil). Even though the composition of the sample may seem rather flat, CSR practices can be the differentiator which enriches the competitive advantages on the Romanian market. We intend also to observe the extent to which local subsidiaries have been influenced by the philosophy and CSR approach of their mother firms.

The research is structured in two areas: description of the involvement of the companies into CSR practices on a unilateral basis and cross-case analysis.

Table 1. Sample Profile

Company Name	Location	Full Details	Line of Business
Petrom SA	Bucharest	Romanian company, privatized in 2004, 51,01% of its shares belong to OMV AG (OMV Austria)	the largest oil and gas producer in South Eastern Europe
ArcelorMittal Galati SA	Galati	Office of ArcelorMittal	Producer of flat carbon steel, long carbon steel and stainless steel; processing, finishing and distribution of steel
Automobile Dacia SA	Argeş	Branch of Renault Groupe, since 1999; Renault's participation at Dacia currently runs at 99.43%	the first Romanian car constructor, was created in 1966 with the establishment of the Mioveni Motorcar Plant
Rompetrol Rafinarie SA	Constanţa	Member of Rompetrol Group N.V., a multinational oil company headquartered in Amsterdam, The Netherlands, operating in 13 countries, and with the majority of its assets and operations based in France, Romania, Spain, and South-East Europe	The company processes a variety of crude oils with high sulfur and API contents
Lukoil Romania SRL	Bucureşti	Branch of LUKOIL Oil Company from the Russian Federation, since 1998	oil processing and petroleum products distribution
Rompetrol Downstream SRL	Bucureşti	Company member of the Rompetrol Group, manages a network of around 250 gas stations at a national level	a wide range of car fuels – gas and diesel, as well as fuels for domestic use
Orange Romania SA	Bucureşti	Company member of France Telecom	mobile communication, Internet and television services
Vodafone Romania SA	Bucureşti	Company member of Vodafone UK	mobile telecommunications network company

Source: official web-sites of companies and in Responsabilitatea Sociala, 2009

2. RESULTS

2.1 Unilateral analysis of CSR involvement of the companies in 2007

Petrom S.A.: One of the main concerns of the company is to support the efficient use of resources and energy. With its corporate social responsibility programs, run under the slogan "Respect for the Future", the company tries to take into account both the needs of clients and the interests of future generations for the environmental protection and the sustainable development of society. The CSR projects aim to support the development of employees, education, sports, environmental protection and local communities.

The most important CSR projects undertaken by Petrom are:

- a) Parks of the Future – the rehabilitation of five parks in five cities;
- b) Think Ahead – environmental protection awareness and education campaigns for the Petrom employees;
- c) National disaster preparedness campaign – information and training program for communities vulnerable to natural disasters, developed together with the Romanian Red Cross. "Getting ready" programs for communities included the construction of temporary shelters, building wells and providing first aid materials;
- d) Petrom Olympics – project in which more than 1,300 children and young performers in sports, art, literature, computer science, chemistry, physics, civic education, foreign languages were supported with grants to participate in contests, recognized both nationally and internationally;
- e) Resources for the Future – education and awareness program for employees and communities about the responsible use of natural resources.

Arcelor Mittal: As part of the global rebranding in 2007, ArcelorMittal adopted the motto, 'transforming tomorrow'. The new brand is founded on three key values – Sustainability, Quality and Leadership. Each of these values is reflected in the business strategy that targets ambitious but responsible growth while seeking to deliver quality outcomes for customers, shareholders, employees and communities alike. One example of the commitment of the company to respect the above core values is the creation of the partnership with UNICEF in order to create a friendly environment mother and baby at Maternity Hospital Emergency "Apostle Andrew" Galati. Steelmakers provides assistance of 160,000 U.S. dollars to implement a program that aims to increase the quality of maternity services by training health professionals and improved conditions for mother and child by replacing existing furniture with modern one.

Automobile Dacia aims to embrace a sustainable development, which refers to 3 dimensions: economic, environmental and social. It started to rebuild and sustain the economic dimension: in 2005, with over 170 000 manufactured cars and a turnover of 1.2 billion euros, Dacia has become again a profitable business and an important vector of the economic development. The environmental concerns have resulted in bringing the plant of Pitesti to the appropriate quality; it was ISO 14 001 certified. Helped by Dacia Groupe Renault, 47 abandoned children of the "Dumbrava Minunata" orphanage of Brasov have been taking care of in 2006. The company initiated a program which consisted in the construction of 2 care centers for 24 children; the other 23 children have been helped to reintegrate into society. They donated 25 computers and a 3 day trip to Paris for the students who won the "Challenge Dacia" contest, disputed by the Gheorghe Asachi Technical College of Iasi.

Rompetrol: “Educatia merita” (i.e. Education deserves) program increases performance at school, focusing on two of the main problems of the educational system in Romania: under-funding and declining prestige of schools. The foundation “Energia vie” (i.e. Living Energy) aims to sponsor a different school facing problems of under-funding every week during two years. Rompetrol Refining, member of Rompetrol Group, organizes internships for young engineers and students from the faculties of petrochemical and chemical industry of five cities.

Lukoil participates in helping the Romanians affected by floods, in the western country, with a donation of 100 thousand dollars. The aid will be in the form of construction materials and items of first necessity for restoring the houses which were destroyed by floods.

Orange Romania has a well defined strategy for corporate responsibility, by which it ensures that the activities take place in a responsible manner. Orange brand is the most cherished value for the company therefore the necessity to protect its integrity. Orange Romania initiated a partnership with the Foundation ADEPT for biodiversity conservation and rural community development in South-Eastern Transylvania. The program has provided assistance to villagers.

Vodafone Romania donated 20 million pounds to develop community programs in 2002, when Vodafone Foundation was established. Locally, Vodafone Romania invested over 3.5 million dollars in projects in the fields of education, arts and culture, environment and sport, between 1997 and 2004.

For Vodafone Romania be a responsible company means to respond to the needs of the community and support initiatives that help improve people's lives. Vodafone Romania launched in March 2007 the National Program for recycling mobile phones. The program's goal is to reduce the amount of electronic waste. The money collected in this program is donated to environmental organizations.

2.2 Cross-analysis of selected companies: microeconomic indexes

Based on their involvement in philanthropic events in 2007, companies have been rated with 1 or 0 scores, where 1 signifies the existence and 0 the inexistence of such engagement in this basic type of CSR activities. Donations to environmental protection or social related causes have been encoded as dummy variables ACT1 and ACT2, descriptive of the dependant variable, CSR. There have been considered three independent variables: turnover (TRN), number of employees (NOEMP) and the revenue (REV). The research question asks if there is archetype which determinates the most successful Romanian companies to give back to society.

A separate evidence of charitable actions from Rompetrol Downstream and Rompetrol Refinery is not advertised in terms of amount spent in 2007 on the public websites; the author will consider their input as one observation.

Based on official reporting data, companies donated less than 1.5% of their revenue to charity. Insufficient incentives granted to sponsors and employers are most often inhibitory factors to a satisfactory system of sponsorship. For Romania, these incentives relate primarily to the deduction of income tax. In other countries, these incentives have different forms and deduction thresholds lying between 4 and 12%. Deductions are appealing for a sponsor or employer being related to a certain level of income tax so that two percent allow a real reduction in the financial effort of the sponsor or employer. Lacking of such

incentives and of a correlated treatment between the field and threshold percentage deduction of income tax rate is detrimental, especially for those potential recipients that have less social visibility or are not using in promotional campaigns the name and logo of sponsors.

Table 2. Types of Donations from Top Romanian Companies in 2007

Company	ACT1	ACT2
Petrom	1	1
Arcelor	0	1
Dacia	0	1
Lukoil	1	0
Orange	0	1
Vodafone	1	1
Rompetrol	0	1

Source: personal contribution

A more visible involvement in philanthropic activities towards environmental protection is noticeable from the oil processors. However the social causes are more likely to awake an immediate and punctual reaction rather than the ambient related ones, because of the smaller amount of financial effort involved, the effectiveness of the aid and the visibility in media.

The number of observation is limited, however the lack of CSR activities translated in reported quantifiable measures grants the originality of the research.

The correlation matrix does not suggest any causal relationship among variables. To estimate the parameters of the four-variable regression model, we consider the method of ordinary least squares (OLS).

The substituted coefficients of the model are as below:

$$\begin{aligned} \text{CSR} &= 0.0001172394817 \cdot \text{NOEMP}^* + 0.008684902613 \cdot \text{REV}^* + 0.3912650929 \cdot \text{TRN} - \\ &\quad - 2.411385952^* \\ \text{SE} &= (9.91\text{E-}05) \quad (0.003856) \quad (0.892074) \\ &\quad (1.502448) \\ \text{t} &= (1.183202) \quad (2.252062) \quad (0.438602) \\ &\quad (-1.604971) \end{aligned}$$

with $R^2 = 0.852837$, $*=p < 0.5$

Partial regression coefficients measures the change in the mean value of CSR, per unit change in the in each regressor, all other predictor variables being constant. In our case, we can state that the number of employees and the revenue influence the amount of donations.

CONCLUSION

Perceived as a micro-economic dimension of sustainable development and a contribution to the welfare of business stakeholders, CSR subsumes four areas: economic, legal, ethical and charitable responsibility. To increase performance related to CSR, it is subsequently

needed an augmentation of its components, including the corporate philanthropy by improving the legal and the business awareness of the importance of the sponsorship phenomenon. Without the appropriate support of the legislative provisions, Romanian companies are not encouraged to donate; however, as a corporate citizen, they are motivated to give back to society as an investment in the brand's identity, to instill loyalty for their products, to enhance their reputation, but also as responsible actors. The revenue and the number of employees are important variables which influence the firm's charitable behavior.

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