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*CONSIDERATIONS REGARDING THE ANALYSIS
BETWEEN CORPORATE GOVERNANCE AND SOCIAL
RESPONSIBILITY IN ROMANIAN COMPANIES,
IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY*

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Considerations Regarding the Analysis between Corporate Governance and Social Responsibility in Romanian Companies, in the Context of Knowledge Based Economy

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Abstract

Knowledge-based economy highlights the need to develop cooperation relationships between all economic actors. It is known the fact that the system of relations between a company's management, board, shareholders and other stakeholders (which corporate governance in fact is) has, at least, elements of congruence with what CSR means. Although corporate governance codes apply only to listed companies, however, practice has shown that good corporate governance is essential also for unlisted companies as efficient networking between all stakeholders in an entity activity generates real opportunities to increase profitability of that entity and of the society in general. Of course, harmonizing the interests of all stakeholders is also the purpose of social responsibility. Therefore the basic idea of the study concerns the fact that companies listed or unlisted which is assuming social responsibilities can easily implement corporate governance codes, because of the similarities between the two processes and phenomena that manifests in knowledge-based economy.

La Knowledge-based economy evidenzia la necessità di sviluppare rapporti di cooperazione tra tutti gli attori economici. È noto il fatto che il sistema delle relazioni tra il management di un'azienda, il board, gli azionisti e altri stakeholders (che costituiscono in realtà la corporate governance) ha, almeno, elementi di congruenza con ciò che la CSR significa. Anche se i codici di corporate governance si applicano solo alle società quotate, tuttavia, la pratica ha dimostrato che una buona corporate governance è essenziale anche per società non quotate, come rete efficiente tra tutti gli stakeholders che si riferiscono ad una entità, in quanto genera opportunità concrete per aumentare la redditività di tale entità e della collettività in generale. Naturalmente, l'armonizzazione degli interessi di tutti gli stakeholder è anche lo scopo della responsabilità sociale. Pertanto l'idea di base di questo studio riguarda il fatto che le società, quotate o non quotate, che vanno accogliendo la responsabilità sociale possono facilmente implementare validi corporate governance codes, a causa delle somiglianze tra i due processi e fenomeni che si manifesta nell'economia basata sulla conoscenza.

Keywords: corporate governance, social responsibility, transparency, communication, relationship.

1 – Introduction

In the context of the knowledge economy, in which the paradigms of management, work and organization have been in major changes, classical and

neoclassical theories of the enterprise no longer meet the requirements of the theoretical and practical aspects of the business world. Moreover, in the process of globalization, no matter how the transformation of production, of social relations, institutions is necessary, it will be effective,

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sustainable or possible only if the change will be made in the same time with the relations of things, with nature, with other beings in everyday life (Toffler, 1995, 1996). All these relationships can be changed only through economic, social and environmental responsibility of organizations, and in particular of the firms.

As such, the new theory of the firm bring to the fore the need to identify new targets of entities such as social responsibility, with the shift from the idea created of profit enterprise, to the idea of social enterprise. Obviously, defining company objectives in terms of the knowledge based economy, highlights the need for clearly defined responsibilities of each group within the company, the centers of power, authority and management from changes made in the business world. Regardless of the method of defining the objectives or, more precisely, systems objectives, under the impetus overcoming of the economic crisis and also the solutions found (maximizing profit, financial stability, diversification of products/services, staff development, etc.) is imposed to be taken into account the structure of power and authority within the company and the process of harmonizing the interests of all partners involved directly or indirectly in the work and business strategy. In this respect, naturally appears the concept of corporate governance. This is because the concept of corporate governance, although there is no universally accepted definition in the literature is already a fashionable concept, with implications for profitability and business development.

Known is the fact that essential for developing effective relationships between all partners involved in the manifestation of creative organizational entities, corporate governance has become effective in business since 1990, within the recovery and highlighting the importance of agent theory, which emphasizes the need to regulate the use of others resources at a specific time and in a given context.

Although, at first, the concept of corporate governance had involved a complex system of rights, obligations, responsibilities and control measures established to protect shareholders and investors, regarded as a community, and also to ensure responsibility administrators and managers toward shareholders and later, phenomenon of corporate governance extends. Thus, with further research of the phenomenon correlated with other ones that manifest in organizational field (social responsibility, organizational culture, organizational intelligence, organizational behavior effectively, communication, etc.) is getting to the conclusion that corporate governance refers to the rights and responsibilities all those concerned in a business, revealed in double aspect: behavioral and normative (Popescu, Crenicean, 2010).

In terms of behavior, corporate governance encompasses the behavior of shareholders, managers, employees, investors, financial institutions, suppliers, state institutions and other interested market and regulatory side refers to the rules and regulations governing all relationships and behaviors developed and manifested on the market generated by that business.

The extent of the phenomenon and its implications on business conducted, at present, to the fact that corporate governance is seen as a modern business approach in the context of the knowledge based economy, where innovation and creativity are the essence in insurance business competitiveness. Interestingly, although started from the considerations of business managers and administrators activity control, currently is considered to represent the foundation of proactive entities connected to the environment in which they operate. This means that entities which implement effective corporate governance model assumes economic and social responsibilities to all those concerned, respect the rights of all concerned, a fair behavior towards partners, transparency of information, compliance with legislation.

2 – Key issues of social responsibility in the context of the knowledge based economy

In knowledge based economy increasingly affirms the idea that businesses exist in a national framework to meet social needs and not just the material ones. Under this approach the business, macro-social perspective, it requires consideration of the concept of CSR (Corporate Social Responsibility) as business purpose, namely socio-economic function is to satisfy the optimum conditions not only social needs consumers but to all those concerned (employees, suppliers, partners, social organizations, local community residents, area, regional, national).

In the context of the global economic crisis, the companies' interest for CSR increased considerably since the fact that a good way of survival and development in the crisis context is creating and delivering real value. The reason in assuming social responsibility is being precisely the profit as a result of fair valuing the efforts of the firm.

Corporate Social Responsibility (abbreviated: CSR) is a concept that refers to an alleged debt that companies (as social actors) should have to all parties involved in the alleged actions of their economic activity. The concept refers to all types of companies, from micro to multinational. The debt being understood that the company must act in accordance with the obligations it has towards stakeholders and

respecting moral principles accepted over tradition (Popescu, 2012).

Today the social responsibility of companies has become an institution (www.ethicsweb.ca) with academics; with research institutes, specialists, budgets and departments within companies, with festivities and prizes, with programs dedicated to theoretical debates and their practical application, with publications and papers tops, with teachers and departments in economic faculties, with a whole consultancy industry promising.

Known is that the *social responsibility of organizations has different manifestations* from different social groups, events that decrease in intensity as it moves more in their external environment. So that the social responsibility of companies is manifested in order in connection with social and economic problems of employers, members, shareholders, customers / buyers / consumers, employees, unions, suppliers, the communities in which they are placed, the companies in which they operate, competitors, government agencies and non-governmental institutions, organizations, professional associations, etc.

Social responsibility of entities can be considered under dual aspect: *through reporting activities results to the social effectiveness of the organization's and through processes and phenomena reporting within organization to realities of social global organization* (Popescu, 2003).

In a knowledge based economy, the concept of social responsibility takes on new dimensions, enriching it with new meanings and directions of achievement. Thus, the term social responsibility can be approached from the *perspective of the global market and from the perspective of the manager*.

From the *perspective of market*, social responsibility is manifested through the game rules and market requirements and regulatory thanks all its forms. Deregulated global market, however, require certain restrictions organizations (business) in terms of environmental protection, security and consumer safety, ensuring social inclusion of disabled people, etc.

From the *perspective of the manager*, social responsibilities are undertaken primarily in order to achieve the economic interests of business organizations. If motivating, is establishing cooperative relationship with employees, marketing partners (suppliers, customers, unions, government, etc.), Local community, disadvantaged etc. The profit is high, and then the manager will assume all the responsibilities.

At the organizational level, managers are responsible for substantiating a strategy oriented CSR (Corporate Social Responsibility) (Popescu, Crenicean, 2010) in order to ensure high performance.

Social responsibility is, in fact, obligation of the firms to use free capacity of decision and action corresponding to their objectives and assumed mission. Freedom is consisting precisely in assuming responsibilities of the facts and commercial acts of the company concerned. Moreover, each entity develops its own type of legitimacy, i.e. a specific type of social responsibility, based on their resources and developing business practices that contribute to the general good.

In the context of the economic crisis the interest for CSR has increased, because of the fact that the socially responsible companies are the ones that offers safety to employees, real gaining opportunities to investors, quality products to consumers, profit to Shareholders and increased quality of life to all citizens (Popescu, 2012). Therefore, more companies pay importance to the process of assuming social responsibility. Obviously, the economic efficiency of the company is not the only objective pursued by it, but also social efficiency comes to the attention of companies to the same extent (social responsibilities of employees, environment, stakeholders, community etc.).

The study revealed that, in terms of social responsibility, many entities conducts voluntary actions, activities, real CSR campaigns, the most diverse, without waiting coupled with efforts made, high profitability.

Obviously, CSR is a management strategy profitable to the extent that generate long-term credibility and trust required of a company in relation to those upon which shareholders, business partners, customers, community and society. Transparency and credibility is achieved through a process of effective communication.

3 – The essence and importance of corporate governance for the business world

The concept of corporate governance has emerged with human behavior prediction approach in business management, in the sense that entrepreneurs and shareholders should ensure, by means of rules and regulations, understanding and predictability of decisions managers employed to exploit resources, especially financial ones. In other words, the need to control the degree to which managers fulfill their role and function within the organization generated a series of principles to guide organizational activity and patterns of organization, control and monitoring. All this becomes more complex as they have been implemented, providing true system of corporate governance. It is true that corporate governance systems should take into account not only the universal principles apply to any legal entity, but also

the constraints and incentives that direct the activity of managers. Corporate governance systems include *structures* (general assembly, board of directors, committees and commissions, etc.), *procedures* (ways of action, means for performing an operation and so on in the form of codes) and *behaviors* (of all interested) existing in different legal entities.

Although it is stated that corporate governance models are necessary to large companies listed on the stock exchange, the complexity of decision-making and problems of economic organization, given the existence of shareholders not involved in company decisions, however, the role of corporate governance is essential also in smaller entities, even if the contractor is the same person with the manager. This is because, in the current context, corporate governance has become a model of efficient organization and business development.

Moreover, although there is a rich literature regarding corporate governance, most of the work focusing on the role and importance of the phenomenon in managerial decision-making transparency and the ethical aspects of social responsibility, without too much emphasis on the importance maximize the value of corporate governance entities and to achieve high performance.

The study reveals that there are few entities that have implemented a system of corporate governance, based on a model of effective corporate governance, nationally or internationally validated. Of course, this, on the one hand because there are peculiarities in the structure, organization, socio-economic and political context within which entities occur analyzed and, on the other hand, the fact that they have particularities in the organizational manner and of the activities, processes and socio-economic phenomena.

The importance of corporate governance in the knowledge economy comes from the fact that it has become a real business development model. Essence concept consisting of harmonizing the interests of all stakeholders in ensuring a functioning and sustainable development and assembly of each business entity can not by itself, by the will of managers and owners, but with the help of effective models, which are based the structure, procedures, norms, rules, behaviors, mechanisms customized according to each entity separately, and the context in which they occur.

4 – Considerations regarding relation corporate governance-social responsibility

Corporate governance is based on a series of principles found in the first Corporate Governance Code (1992) developed by the Cadbury chairman, *Sir Adrian Cadbury (Report and Code of Best Practice)* and known as Cadbury Code (to which is based The London stock Exchange Code). The basic idea of that

code consists in basic principles and rules necessary for an efficient administration of a company so that there is no discrimination of shareholders. As a result, many companies and institutions were involved in ensuring total transparency and effective control over the managerial decision making process. In 1999 the OECD principles for managing corporate occur, globally recognized as universal principles and one of the 12 pillars of financial stability. These principles relate to the responsibilities of management (Board of Directors and executive management) to protect the rights of shareholders, at their fair treatment, transparency and dissemination of information in a timely, fair and regular, and the role and rights of stakeholders. At EU level, the principles of corporate governance are reduced to the responsibility to protect the interests of shareholders, the fair treatment of all shareholders, the company's transparency and accountability of the Board and the management entity in compliance with the law. In other words, corporate governance conceptual bases its existence on four pillars: accountability, integrity, openness and competence.

This means that corporate governance models need to be developed starting from the essence of the phenomenon (balancing the interests of all parties involved) and also from the particularities of the national, local, regional where organization is manifested and the characteristics of that entity.

In general, corporate governance is a way of organizing entity by implementing specific systems and processes that would ensure the achievement of high performance and increased value for all interested and society in general. This means that it takes into account all the formal and informal rules and procedures, internal and external environment to those imposed by the competent bodies, implemented at the strategic and operational.

It is stated in the literature that test the effectiveness of a system of corporate governance is the extent to which fails to maximize shareholder value as a company. However, the complexity of the environment of action, phenomena, processes within the entities, and the results achieved by companies that have implemented corporate governance models bring to the attention of researchers and practitioners that the efficiency of a system of corporate governance is measured by the degree to the interests of all stakeholders are harmonized by high performance levels achieved through maximizing the value of the legal entity for the society as a whole. This means that the legal entity which organizes and implements systems focused on satisfying customers, employees, suppliers, distributors, community and society as a whole, while maximizing value and achieve sustainable high performance are entities that have effective corporate governance systems.

It is also known that corporate governance brings to the attention of the business world the need to ensure transparency and integrity of their activities, the need for social accountability.

Regarding the two concepts analyzed it can be said that both can be regarded from the perspective of harmonizing the interests of all stakeholders, from the perspective of the manager, from the perspective of maximizing the value of the entity and increase its performance.

Manager has the role to harmonize the interests of shareholders with the interests of all other categories of stakeholders on the background of managerial performance and a high quality of managerial performance. Obviously, the manager task is facilitated by the implementation of an effective corporate governance.

At the same time, both concepts can be defined in terms of the outcome of the event at the organizational level. Thus, social responsibility relates directly to ensure increased profitability of the entity that assumes social responsibility and the implementation of effective corporate governance system also generates an increase in the profitability of that entity.

In other words, corporate governance is a successful business model. In the same time, interest in CSR, the European Union considers it as a means by which any economic system may become the most competitive and dynamic in the world. As such, it can be said that the two phenomena and processes are at the same time, real models of business development and high performance insurance entities assumed they implement and use them effectively.

Standards regarding human rights, environmental protection, consumer interests, corruption and competition for companies that are moving towards CSR are contained in ISO 26000. These standards also refer to the phenomena of corporate governance.

Currently, to demonstrate that it is "socially responsible", a company must understand the principles of CSR are promoted internationally and regularly report on the integration of these principles in its activities. Also, companies that have implemented a corporate governance model should report stage and the results obtained.

Most of the analyzed companies offering social market reports built on GRI guidelines with respect to corporate governance policies in particular. It means that firms express commitment to the environment, employees, community, without presenting CSR performance. But whatever the reasons for reporting: economic or ethical (risk reduction, employee motivation, learning and innovation), the transparency of social responsibility of companies is a prerequisite for effective communication between the company and interested groups. Transparency

requires corporate responsibility policies (Popescu, 2012):

- definition of a code of ethics (principles that guide the organization in its actions or a set of ethical standards which establish rights and obligations they have company to interested groups);
- publishing and promotion of the ethical code among employees and business partners;
- social development periodic reports elaboration reflecting the extent to which the company meets its obligations assumed;
- publishing reporting standards used and the auditor that it has developed;
- evaluation of social investment programs, their impact on social groups concerned;
- publishing the results of social investment programs.

An analysis of CSR reports reveals that they are mostly transparent because companies shall take into account the interests of all stakeholders and develop and implement its social engagement strategies, strategies that are integrated into development strategies and communication their respective companies. In Romania there are few real CSR programs that have a system of objectives, budget, evaluation methods and performance indicators.

The analyzed companies which assume social responsibilities mostly from all categories (the environment, sports, community, disadvantaged etc.) have developed models of effective CSR (*UPC Romania, SIVECO Romania and UniCredit Tiriac Bank*). In the same time, more than half of the analyzed entities have implemented corporate governance models.

Another similarity between the two concepts analyzed are that, on the one hand, the notion of corporate responsibility (CSR) remains only an abstract concept that is not defined by offering solutions to two major questions: to whom are socially responsible companies and what are their moral responsibilities?, and in terms of corporate governance is required an answer to the following questions to managers who are responsible (to shareholders, employees, customers, banks, local community, state, etc..) and what are their ethical and moral responsibilities?

Managers should behave ethically towards all categories of stakeholders and to the owners and shareholders. So I can assume social responsibilities, personal and organizational level.

7 – Conclusions

The analysis of the relation “social responsibility - corporate governance” has revealed that there are

many elements of congruence and similarity cycle through the two concepts, processes and phenomena.

Analyzing cases of social responsibilities by different companies was noted that there is a close relationship between ethical behavior, social responsibility and corporate governance systems. This means that, slowly but surely, global companies begin to realize the importance and benefits of integration expectations of interested in their overall strategy. However, efforts to legitimize the companies have revealed the whole society, and an important role in this lays in communication. Currently, CSR actions became, for more firms, part of corporate communication.

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