

**CSR AND SMES IN ROMANIA. THE CASE OF COMPANIES LISTED
ON BSE AERO MARKET**

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Abstract

This paper aims at analysing the CSR issue in the context of Romanian SMEs. The first part of the paper reviews the literature on CSR in SMEs, identifying the drivers of CSR by SMEs, the particularities of the SMEs and also the barriers to the involvement of SMEs in CSR activities. We will use the case study in order to analyse firms listed on Bucharest Stock Exchange (BSE) Aero Market and we will highlight the lessons learned from SMEs in the process of integrating social responsibility (SR) into their business practice and the potential benefits that socially responsible practices can bring to the business environment and to the society. Our contribution will consist in filling the gap in SMEs CSR research and developing the literature.

Keywords: corporate social responsibility, small and medium-sized enterprises, AERO, case study.

JEL classification: M14, L11, L25.

1. Introduction

Corporate social responsibility (CSR) has become a central topic more often to the attention of the companies, authorities and society in the last years. However, empirical studies on CSR in SMEs (Small and Medium Enterprises) are scarce. The motives and the initiatives of CSR activities in SMEs often take different forms than those of larger firms. SMEs make less use of CSR instruments than larger firms, have less formal CSR strategies, are less likely to report CSR activity, and have fewer resources to invest in CSR activity. SMEs are more likely to engage with CSR in their local community.

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Moreover, the main barriers of CSR activities, which have been mentioned in the literature, are the SME owners' characteristics and the organizational features that are unique to SMEs.

Generally, SMEs play a key role in the economy due to the fact that SMEs represent about 99.6% of total active enterprises in Romania and 99.8% in EU (Dumitru, 2015). Almost two thirds of SMEs are concentrated in four sectors: commerce, professional activities, manufacturing and construction. SMEs have an important contribution in the creation of value (SMEs account for 44% of total Gross Value Added (GVA) in Romania, compared to 59% in EU) and in employment (in Romania, 66.2% of employees are hired in SMEs, in line with EU - 66.9%). In this context, our paper aims at analysing the issue of CSR from a specific SME perspective in order to highlight the potential benefits that CSR activities can bring to Romanian SMEs.

The European Commission (European Commission, 2015a) which defines CSR as “the responsibility of enterprises for their impacts on society” encourages “responsible behaviour by EU companies in terms of social and employment conditions, environmental impact, emissions and pollution reduction, respect for human rights, non-discrimination and gender balance, and dealing with bribery and corruption”, because the private sector is considered to play a very important role in achieving development objectives. CSR does not mean only to obey the national laws and to adopt voluntary codes and standards, but to integrate responsible activities in their business.

There are some possible business-related motivations for CSR in SMEs which may represent also the advantages for SMEs that are engaged in CSR activities and could help SMEs to become more competitive. Among them (European Commission, 2015b) we can mention: attracting and retaining motivated and committed employees; developing and training staff; winning and retaining consumers and business customers; being a good neighbour; changing perceptions of the role of business in society (not only a source of profit), through the media, education, and actions by stakeholders; cost and efficiencies savings e.g. reduced insurance and landfill costs; product/market innovation, differentiation, and competitive edge; reputation – with internal and external stakeholders.

The existing literature in the field even made a differentiation (European Commission, 2002) between benefits obtained by those SMEs who are involved in environmentally responsible activities. The benefits are divided into internal and external benefits. Among the internal benefits are

mentioned the organisational benefits (improvements in the quality of management, improved quality of environmental information, compliance with existing environmental regulations or improvement in the procedures), the financial benefits (cost savings from material, energy and waste reductions and efficiencies), which results in improved economic performance, and the benefits on the internal employees (increased employee motivation and morale, enhanced employees 'skills and qualifications or a better company image among employees). The external benefits resulted from applying environment responsible activities are: commercial benefits (new customers or business opportunities, preferred supplier status, clear environmental profile contributing to competitive advantage or satisfaction of existing customers), environmental benefits (increased energy or material efficiencies and recycling and reduced pollution), and communication benefits (positive enterprise's public image, better relationships with customers, better access to capital from environmentally-sensitive investors or improved co-operation and relationships with regulators and administrative bodies that contributes to reduced regulatory oversight).

The paper is organized as follows: section 2 reviews the literature on CSR in SMEs, identifying the drivers of CSR by SMEs, the particularities of the SMEs and also the barriers to the involvement of SMEs in CSR activities. Section 3 highlights the level of SMEs' engagement in CSR activities in Europe and section 4 shows the level of SMEs' engagement in CSR activities in Romania analysing especially the enterprises listed on Bucharest Stock Exchange (BSE) Aero Market. Finally, we present the conclusions of our research and policy recommendations.

2. Literature review

The literature on CSR and SMEs is scarce. There are authors that tried to conduct a thorough review (Vo, 2011) of the literature on CSR in SMEs and they showed that there are five major topics studied in the literature: the definitions of CSR in general and from the perspective of SMEs, the specificities of SMEs, the drivers and barriers to the adoption of CSR in SMEs, and activities of CSR in SMEs (practices). Vázquez-Carrasco and López-Pérez (2013) found, through a systematic review of the literature, the key themes in the field: idiosyncrasies of CSR management, terminology and language, the recommended theoretical framework, and antecedents, barriers

and potential impact of CSR in the SME context. Important gaps remain unexplored. Principal gaps are specialized theories and tools for the practice of CSR in SMEs, method to enhance knowledge of SMEs about CSR, and the use of human resources management to drive CSR practice (Vo, 2011).

Regarding the drivers of CSR by SMEs, European Commission (2015b) considers that many large companies are initially motivated to engage in CSR as a means of managing risks to their corporate image and brand. Also, they are often under growing pressure to be transparent and to engage in dialogue with major external stakeholders. For most SMEs these particular risks and pressures do not have the same force as drivers for CSR. According to the European Commission (2015a) for SMEs is more important the stakeholder engagement or building a reputation for responsible business. The same opinion is shared by Vo (2011) who considered that the most important factor regarding CSR and SMEs is the owners themselves. Owners possess a significant level of control over how they operate their business. Their values and beliefs often translate into actual practices and influence the organization's culture.

On the other hand, SMEs have specific characteristics that can affect the nature and extent to which they can implement social responsibility. According to Aragon, Narvaiza and Altuna (2016), SMEs tend to be independent, multitasking, cash-limited, based on personal relationships and informality, managed by owners, highly personalized, local in operations, and reduced in structure, time and financial resources. Also, for small businesses such as the Spanish SMEs involved in the case study realized by them, the relations with the community are a requirement to survive.

Taking into consideration that SMEs are characterized by some features, also their CSR activities presents some particularities. Mandl and Dorr (2007) mentioned as the most important characteristics that decisions with regard to CSR are mainly seen as a task for the owner/general managers; the implementation of CSR measures is based upon ad-hoc decisions (they found data from Romania showing that only 5% of the companies have a fixed annual budget for donations and 25% try to have a regular system for giving to charity); the CSR activities of SMEs are often done in an occasional way; it does not exist a monitoring of CSR activities; the smaller the company the more important are employees as the main target group for CSR initiatives;

the majority of SMEs do not limit their CSR activities to one distinctive field, but become engaged in at least two areas.

The Observatory of European SMEs (2002) is highlighting the main barriers that determine SMEs to be reticent in involving in CSR activities. Thus, the SMEs from European countries are not getting involved in social external activities because they have never considered the possibility of engaging in such activities (the biggest percent of responses, 24% of SMEs). The second reason, mentioned by 19% of SMEs is lack of time, and the third (17% of the total respondents) is that external social activities are 'not related to the enterprise's activities'. Other reasons are the lack of financial resources (mentioned by 16% of SMEs) and the fact they do not expect any benefits from these activities. These results show that attitudinal reasons are more important for SMEs when deciding to involve in CSR activities than financial reasons. These can be the problem, in the response "never thought about it" may also be hidden the problem of lack of knowledge, many SMEs not really knowing what these CSR activities mean.

In their study, Turyakira, Venter and Smith (2012) showed that although businesses may have important benefits from implementing CSR activities, SMEs in African countries still face several challenges [...] "These obstacles include a lack of financial resources, a lack of experience in management, weak institutions, poor governance, poor infrastructure, poor skills in strategically reflecting upon the business, low demand for products and services, poverty, withdrawing too much cash for personal use, insufficient profits and lack of market research".

In the case of SMEs from EU, the particular challenges for implementing effective approaches to CSR have been addressed through the publication of a Guidebook for SME advisers in March 2013.

3. Level of SMEs' Engagement in CSR activities in Europe

SMEs are the economic backbone of the EU (European Commission, 2016) and they contribute to economic development. There are around 23 million SMEs in the EU, which represent 99% of European enterprises and account for more than two thirds of employment, even 80% in some industrial sectors, such as textiles, construction or furniture (European Commission, 2015b).

CSR is mainly an issue for large companies. But, after a deeper analysis, we observe that also SMEs initiate CSR activities. The problem is

that, many times, SMEs do not report their CSR activities through CSR reports because do not identify them as being this kind of activities.

The results obtained by the Observatory of European SMEs (2002) show that CSR activities are applied by a large number of the European SMEs. Half of the SMEs from the European countries are involved in social responsible activities. Further, as the size of the enterprise increases, there is registered also an increase of the percentage of businesses involved in social responsible activities. So, only 48% of the very small enterprises use CSR, while 65% of the small enterprises and 70% of medium-sized enterprises initiate CSR activities.

There are important differences of engagement of SMEs in CSR activities according to the country where they activate but also by sectors of activity. From table 1 we observe that 83% of the SMEs from Finland are engaged in CSR activities, followed by Denmark with 74% of SMEs and Austria with 68%. At the other end of the ranking, recording the smallest percentages of SMEs involved in social activities are: Greece with 44%, Spain and the United Kingdom with 46%.

Table 1. Percentage of SMEs involvement in external social activities, by enterprise size and country

Size	A	B	DK	FI	F	D	EL	IR	I	NL	NO	P	E	S	CH	UK	T
0-9	68	61	74	82	31	53	43	62	46	63	67	65	45	62	57	45	48
10-49	72	62	80	96	52	62	68	80	66	84	87	79	65	71	71	62	65
50-249	80	73	82	94	63	74	64	88	50	87	95	78	61	70	85	69	70
Total	68	61	74	83	32	54	44	64	47	66	68	66	46	63	60	46	49

Note: The size of the companies is expressed through the number of employees, thus 0-9 employees - micro enterprise, 10-49 - small enterprise and 50-249 – medium enterprise.

Source: the Observatory of European SMEs, 2002, p. 20.

Generally, the northern and central European countries show the highest percentages of SMEs involved in external social activities, contrary to southern countries as well as France and the United Kingdom where social involvement is less common among SMEs. Reasons to explain these national differences may be different cultural traditions regarding the role of enterprises in the society, different public welfare traditions or different

expectations from the general public on the social involvement of enterprises (the Observatory of European SMEs, 2002).

From the analysed report (the Observatory of European SMEs, 2002) we observe that there are not important differences between the involvement of SMEs in CSR activities according to the economic sector they activate. Thus the SMEs active in the trade and manufacturing sectors show a slightly higher involvement in external social activities than SMEs in the transport and business services sectors. Other surveys realized on this theme confirm these tendencies. The SMEs in transport and manufacturing are most likely to use CSR activities compared to the ones in business services. Although, these findings vary by country, so, in Spain (Fundación Empresa y Sociedad, 2006) the CSR activities are most widespread in the services sector.

Generally, some specific sectors: energy, transport, chemicals and nuclear, as well as specific industries: the timber industry, are more sensitive to how society would react to their CSR initiatives than others, and a negative reaction from the society would have an influence on the decision of an enterprise to adopt CSR initiatives (Bronchain, 2003).

We also consider of interest to identify what type of CSR activities develop SMEs. So, as shown by the Observatory of European SMEs (2002), these activities mainly concentrate in three fields, the support to sport, cultural and health/welfare activities not aimed at the SMEs' own employees. Considering only those SMEs effectively participating in social activities, up to 47%, 33% and 33% carry out activities in the previously suggested fields, respectively. Other fields receive a lower degree of attention from SMEs (Table 2).

Table 2. Percentage of SMEs involvement in external social activities, by type of social activity and enterprise size

<i>External social activities</i>	<i>Enterprise size</i>			
	<i>0-9</i>	<i>10-49</i>	<i>50-249</i>	<i>Total</i>
Support sporting activities*	46	52	59	47
Support cultural activities*	31	34	43	33
Support health and welfare activities*	31	32	39	33
Support education and training activities*	21	28	31	20
Support environmental activities	13	15	17	12
Give preference to personnel from socially deprived groups when recruiting	6	11	14	6
Participate in public affairs or political process	6	9	13	8

on behalf of the enterprise				
Contribute in any other way	10	11	11	10
Do not know/No answer	1	1	3	1

Note: * not own employees

Source: the Observatory of European SMEs, 2002, p. 21.

From the mentioned study we also observe a positive relationship between the size of enterprises and their degree of involvement in the different types of external social activities.

4. Case-study on SMEs listed on AERO market

Regarding the issue of CSR in Romania, Mandl and Dorr (2007) found that “In Romania the concept of social responsibility originates in the 1990s when many NGOs (particularly with humanitarian business objectives) were founded with the assistance of international public or private institutions. The major involvement of both, large and small companies in CSR activities in terms of restructuring their technologies for environmentally friendly production or the adoption of social measures for employees or the society started after 2000. The private sector’s involvement in CSR was mainly fostered by the engagement of multinational companies active in CSR, and – later on – also experienced an impulse stemming from the possibility to access EU funds.”

Considering the SMEs listed on the Bucharest Stock Exchange AeRo market, we noticed that those applying CSR activities are particularly involved in environmentally responsible activities. Thus, we realize a case study on SC Argus SA and Prodvinalco.

SC Argus SA sets and implements specific requirements in order to minimize the impact of their activity on the environment. The established requirements derive both from the application of regulations specific to the food industry and environmental legislation and the requirements of the ISO 14001: 2004 standard. The first environmental system certification was obtained in 2006, maintaining it on an annual basis. The maintenance of the certification is a proof and a guarantee of the fulfilment of the commitments assumed by SC Argus SA through environmental policy. SC Argus SA holds an environmental permit no.169/10.05.2010 valid for 10 years. Environmental monitoring is done in accordance with the conditions imposed by the environmental authority and it considering: wastewater quality indicators,

central heating emissions, waste management, chemicals management, a solvent management plan.

Prodvinenco is a medium company selling alcoholic beverages. The company was founded in 1932 and has maintained its activity on the market since then. Prodvinenco is a young mentality company whose team is fully committed to meeting the quality standards for the portfolio products so they meet the requirements of safety, legality and customer expectations. In this respect, the company has designed and maintains an integrated management system that meets the international requirements and standards SR EN ISO 9001:2008, HACCP and IFS, having environmental management certification ISO 14001 - Environmental Management System.

Besides the environment CSR activities Prodvinenco has applied also CSR activities regarding the society. Thus, in 2009 the firm becomes the main sponsor of the rugby team from Cluj showing their support for community. Concerning the interests of the community, Prodvinenco's concern is a constant one, the participation in various local actions being an integral part of their culture.

A limitation of our research lies in the little information that SMEs give about CSR activities they apply. Sometimes they use this type of activities but they do not even know that they are really using CSR activities, so it is difficult to find information on this issue on the company's website.

5. Conclusions

CSR is generally defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

It is evident from the above that both theoretical and empirical research often point to a positive relationship between CSR activities and competitiveness of the SMEs (Battaglia, Testa et al., 2014) which constitutes an important precondition for the development of the economy.

We have highlighted several benefits that SMEs can have as a result of adopting and implementing CSR activities, such as increased competitiveness, motivation, retention and development of staff, customer loyalty, business reputation, and overall competitiveness of a business. In this context, governments should encourage SMEs for socially and environmentally responsible behaviour (for example, through favourable

taxation, tax deductions for donations, and practices of public authority-private sector partnerships).

Another limitation of our study consist in the fact that at EU level there are not information more recently than 2002 and the Observatory of European SMEs 2002 covers the EU-15 plus Iceland, Liechtenstein, Norway and Switzerland, so no data is available for Romania.

We are fully aware that our research is only providing a partial picture of SMEs' CSR activities in Romania, but it is developing the literature. Further studies can extend and develop the analysis based on more SMEs included in the research and also applying a survey to SMEs regarding the CSR activities.

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