# ABOUT COPORATE SOCIAL RESPONSIBILITY OF MULTINATIONAL COMPANIES

**Phd. student Silvia Elena ISACHI, Researcher**
”Victor Slăvescu” Financial and Monetary Research Center,
Romanian Academy, Romania
Email: silvia.isachi@gmail.com.

***Abstract:*** *This research paper is developed from the perspective of the sustainability of the economic process, the main purpose of analyzing the relationship between social performance and financial performance of companies, and especially the multinational companies. Multinational companies are those in that practice corporate social responsibility is most strongly developed, given their size, financial resources at their disposal, and exposure to various business environments, with different requirements and standards. The intensification global competition puts also pressure to the performance of companies and on a global market increasingly competitive, companies, whether multinational or domestic, attempted business solutions to identify optimal approaches through the prism of profit or integrated approach. Therefore, a number of increasingly more investors become interested not only in the financial performance of companies, but also how companies fulfill their social responsibilities, leading inevitably to changing the orientation pure financial to take consider other issues.*

***Keywords:*** *corporate social responsibility, social performance, financial performance, multinational corporation.*

***JEL Classification****: F23, M14, L25.*

## 1. Introduction

Multinational companies are those where corporate social responsibility practice is most strongly developed, given their size, financial resources at their disposal, and exposure to various business environments, with different requirements and standards.

An important tendency comes from companies assuming clear policies of corporate social responsibility – we refer to an increase of social responsible investments, using investment funds that apply various selection criteria of the companies in which they participate, depending on the functions and actions of corporate social responsibility that companies develop them. As investor interest towards these funds is increasingly higher, proven increasing the value of their assets, even in times of turbulence in financial markets, these funds may be additional tools to pressure on companies in terms of adoption of rigorous policies in the area of responsibility social engagement strategies developed materialized in the social field. The analysis of the strategies applied by the institutional investors in order to consolidate responsible investments, from a social point of view, and the performances of these strategies, represent a step in comprehending the way in which financial markets recognize the social performance of the company. At the same time, in the context of an intensification of the links between international financial markets, the knowing of the way in which international markets for responsible social investments (RSI), also the benefits the investors can obtain by a diverse range of international portfolios – compared to national ones, all become desirable (Van de Velde, Vermeir and Corten, 2005).

## 2. Corporate responsibility

The members of the society have various financial needs that the economic system must satisfy through production, supply of services, distribution, repartition etc. So, the socio-economic function of the companies as competitive market system is no longer the maximization of the profit, but better satisfying of social needs consumers have – including the need of a job, livelihood, the need of living in a non-polluted environment, or the need of vital public services – such as education, health, and justice (Kotler and Lee, 2005).

Once with the apparition of the corporate social responsibility term the main focus was on the society's expectations regarding the business environment, and the ethic duties of the company. Howard Bowen (1953) believes that the corporate social responsibility (CSR) represent businessmen obligations to follow policies, to take those decisions or to follow those directions which are agreed in terms of the values and goals of our society (Stancu and Orzan, 2007). So corporate social responsibility designates an attitude of the company towards the society in which success is achieved through compliance with the law by assuming ethical behavior by paying attention to the environment and taking into account the needs and interests of all partners (Oprea, 2005).

According to the *participative theory of the company*, a corporation is not run just for the benefits of its stockholders; alongside them there are social groups that have interest, in their turn. This theory is opposed to the idea according to which in a free society there is only a single social responsibility in business – that of using the resources, and engaging in activities meant to increase the profit, as long as the "rules" of the game are respected; in other words, engaging in an open, free competition with no double dealing or fraud (Friedman, 1970). This argument highlights the fact that, the purpose of a business is to engage itself in activities conceived for profit. If this business purpose is alluring, then all those working in a company must work to fulfill it.

At the same time, the companies must develop a system that would sustain a policy of openness towards lobby groups, and political actions, that can help the company by promoting certain laws for social standards, elimination of discriminatory practices, environment protection, and employees' safety. This may be one main justification of the fact that companies start to socially involve, taking over a series of responsibilities that can result in benefits, not necessarily money.

Business responsibility presupposes more than profit making, for this, the *stakeholders'* theory and that of corporate social responsibility, appeared. The two theories express a change in the way of making business, meaning a new company idea, a new private propriety concept:

a) On the one hand, there is a distance between propriety and decision: proprietors no longer in control of the property; as stockholders, they benefit from the company's profit, but they are not the ones to decide the actions and economic measures of the company; the propriety is divided, to a certain length, by its proprietor.

b) On the other hand, the propriety is part of a network and depends on it. It is a shift from a share hold management and propriety company model, in which the propriety is not only belonging to its rightful proprietors, to those who invest in it, but to all those that essentially participate to get profit; the property belongs to all those that invest capital, work, loyalty, risk, time, and creativity in it.

Many specialists in this field appreciate the participative theory as being the most popular and the cheapest of the theories created in business ethic. A company is not run just for the sake of its shareholders; aside from them, there are social groups (stakeholders) that have, in their turn, legal interests when comes to company's activity. (Mitchell, Agle and Wood, 1997). *Stakeholders* suggest that the managers must formulate and implement processes that would satisfy all the groups that have an interest in the company, and just that. The main task is the management and integration of relationships and distinct interest of the shareholders, employees, clients, suppliers, the community, and other groups, in a way that will ensure the long term success of the company (Freeman, Harrison, Wicks, Parmar and DeColle, 2010).

Corporate social responsibility is an ethical and responsible behavior that touches all aspects: of the business, relationship with their employees, customers, shareholders, suppliers, the environment and of course with local communities. As a consequence, more companies, conscious that such an approach can bring benefits to both by creating a competitive advantage and promoting a positive image and good relationships with all partners, included corporate social responsibility in their development strategy. These companies are mostly companies with high turnover; they decide to invest part of its profit in society. They were the first who realized their role, the first having been requested to participate and those who had the financial strength to support important programs.

Among the arguments pro involving companies in corporate social responsibility activities include: that the company as a whole is part of the company, which has an impact on how the existence of society and as such has a responsibility to help preserve and increase overall welfare of society; namely, sometimes said that companies should engage in corporate social responsibility as profitability and growth go hand in hand with treatment responsible employees, customers and community, and carrying out social responsibility actions are a means to make a profit higher by companies.

The arguments against of involving come from the direction of obliging managers to be responsible simultaneously to business owners to achieve the objectives related to profit and to society to enhance the welfare of society, which would lead to a conflict of interest that could lead to failure of the company; namely, company managers should meet socially responsible objectives which is unethical because it obliges managers to spend money belonging to individuals for other people.

*Corporate Social Responsibility (CSR)* is a multilayered concept in which there are four interrelated aspects arranged pyramidal (Carroll, 1979):

- *Economic responsibility*: The companies have shareholders that demand reasonable profit for their investments; they have employees that demand safe, well paid jobs, and clients that demand accessible and good quality products etc. The first layer of corporate social responsibility of the corporation represents the basis for the other types of responsibilities on which sustains and makes them possible.
- *Legal responsibility*: Require companies to obey laws. In most cases, laws and moral beliefs encode views of society, so that their compliance is a prerequisite for any discussion on future social responsibilities of a company.
- *Ethic responsibility*: Calls upon the companies to do what is just, right and equitable, even when there are no legal standards for their actions. Ethic responsibility contains what society waits from the part of the companies, beyond economic and legal demands.
- *Philanthropically responsibility:* At the top of the pyramid, the fourth level of corporate social responsibility of a company includes charitable actions. The introduction of this term in the context of the business environment unites all the situations in which the company has the liberty to choose, without external constraint, to involve in actions that aims at improving the life quality of its employees, local community, and last but not least, of the whole society – using certain initiatives: charitable donations, building recreational facilities for its employees and their families, the support offer to local schools, sponsoring artistic and sport events etc. Philanthropically responsibilities are desired only by the society, without being asked for or awaited form the part of the corporations, thing that makes them less important that the other three categories.

## 3. Problems and solutions of multinational companies in relation to corporate social responsibility

Multinational companies' problems in relation to corporate responsibility are liked to (Crăciun, 2005):

- *The environment.* Ecologic problems are a major point on the international agenda, starting from the idea that man is the discretionary master of nature, as a vision of the "partnership" human-nature for durable development. Thus appeared the bioethics, several different factors likely contributing to the ecological awareness of companies and citizens:

✓ Intellectual critic towards savage capitalism's effects on the nature and on the society;

✓ Printed studies, that highlighted the natural limits of economic growth of extensive type that have contributed to "ecologic era" switch;

✓ Under the pressure of civic movements and arguments of reason, the world's countries have started to adopt special laws to protect the environment; after being consecrated legal, the principle of protecting environment gained a great operation and socially efficiency.

- *Consumer protection.* The factors leading to imposing upon management's priorities the consumer protection problem were given by:

✓ The switch to a post-industrial society – one that lead to the market's transition from producers to consumers, thing that involves a strong development of the strategies of client attraction and hoarding (aggressive marketing), and, also, the switch from materials to services production – things that involves a larger number of workers in domains relevant for the society, leading to a higher level of social awareness (knowing and promoting rights, taking on duties)

✓ The process of educating the citizens in terms of rights and obligations, forming their civic conscience, all leading to a growth of civil society force, and establishing foundations to promote specific rights;

✓ The demands of consumer protections became acute for decisional funds at state level, thing leading to the promulgation of certain laws and creation of specific institutions (the problem of intellectual theft, a growth of counterfeited products' selling, publicity).

- *Corruption control*. A general definition of the term business ethic implicitly appears form the description of the company as a form of behaviors having no ethic or illegal practice. The relation between corruption and business can be observed both ways – each part helps and supports the other. The business world and multinational companies confront ethical problems in various natures and in a large number. Unethical practices have various forms – besides obvious frauds there is disloyal competition, dishonest communication, disrespecting of the business agreements and unjust attitude towards stakeholders by abusing power or because of the conflict of interests. Corruption compromises development by disrupting laws, and weakening institutional fundaments lying at the basis of economic development.

- *Manpower*. The most sensitive problems concerning the staff of multinational companies are: remuneration, filial management, discrimination, minor employment, employees' protection.

Multinational companies are accused of adopting policies regarding remuneration: seeking profit maximization, they breach the hypothetical social contract with various *stakeholders*, bringing prejudice both to employees from various countries – that lose their jobs, and lover their syndical pressure once the employer threatens to move investments to other countries – and the employees coming from less developed countries – that are made to execute tasks equal to the ones valid for developed countries, but being paid far less. In general, multinational companies like to grant low credit to local managers, naming to the lead of their filial managers from their countries of origin, that, in certain cases, do not know well enough the traditions and local problems, and are not flexible enough to the needs and difficulties of the native partners and employees.

At the level of international community there is a set of ethic recommendations for multinational companies: not to harm willingly, to do more good than harm for the host countries, to contribute by their activities to the development of the host countries; to respect fundamental human rights when comes to their employees, to correctly pay taxes; to respect the local tradition and culture, as long as they do not violate the moral norms they follow; to cooperate with local governments towards developing and reinforce institutions.

The international standards and norms (applied to multinational companies) are optional initiatives, promoted by international organizations with the purpose of maintain a responsible business demeanor, at the level of the companies that activate abroad; they have a purely theoretical value, being based on a voluntary demarche of the companies. In addition, the ratification of international standards in the name of the governments does not always mean that they will also be applied. There can be observed that international legislation does not offer sufficient solutions, with reference to grey areas of ethic conflict.

**4. Conclusions**

Essentially, corporate social responsibility designates an attitude and a behavior of the company towards society, by which it can attain success by respecting the law, adopting ethic behavior, taking special care of the environment and taking into, account the needs and interests of all partners.

Companies commit to a series of corporate social responsibilities in as far as the effects are benefic for their profits, so:

- Companies seen as being socially responsible can benefit of a larger and more satisfied variety of clients, whereas a public perception of an irresponsible sort can lead to a boycott or other hostile actions;
- Employees can be attracted to work for those companies that they perceive as being socially responsible;
- Voluntary involvement of the companies in social actions and programmers can prevent government's legal initiatives, ensuring a greater degree of independence of the companies.
- Positive contributions for social development can be considered by the company as being long term investments in consolidating a safer community, better educated and righteous, good for the companies as well.

Besides all this economic arguments, we also bear in mind the moral arguments in favor of corporate social responsibility of companies, we can name:

- Corporations give rise to certain social problems, and, as a result they have the responsibility to solve them and prevent new ones (lay-off growth, manpower migration, depopulation of an area that has been affected by a structural recession and overpopulation of the areas registering economic boom, companies pollute the environment, and exploit non-renewable resources, etc)
- As powerful social actors, with access to important resources, companies must use their power and resources in a reasonable way. A multinational company, with a huge capital obtained through hard work and the creativity of its employees coming from their country of origin, and having the long-term support of the government, does not act correctly when, wanting profit maximization - outsources.
- All the activities that companies carry on have a social impact, be it through products and services they offer or the jobs they ensure, or indirectly, by their effects on other companies – as a result., companies cannot elude the responsibility of this impact;
- Far from exclusively depending on the shareholders' activity, corporations' activities are based on the contribution of various larger socio-professional groups (stakeholders), having the duty of following the interest of these groups as well.

Starting from the analogy between individual, as a member of the society, and the company, as an institutional member of the society, we can create a parallel between individual responsibilities a citizen has towards his/her community. Companies are part of the community, and thought their business interests and their management strategies they must integrate in the community life.

- Companies must be considered both an actively volunteering agent for durable growth, and a source of social and environmental problems; this is why it is necessary to adopt a series of measures that would include governmental regulations concerning liability and transparency;
- The governments must pay a lot of effort in implementing existent agreements; at the same time, the international community must involve more in the development of governmental capacity of developing countries;
- Non-governmental organizations can be considered “guardians” of the companies and governments, and must involve in critical exchange, but, on the other hand, they must be asked to show responsibility towards their key partners;
- A special emphasis must be made when comes to tri-sector negotiations and the implementation of local, national, and international structures, based on distributive power mechanism and on assuming responsibility by all interest partners.

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