

DETERMINANTS OF SOCIAL RESPONSIBILITY EXPENDITURES OF SMALL AND MEDIUM ENTERPRISES FROM BIHOR COUNTY

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Abstract

This paper investigates the social responsibility expenditures of small and medium enterprises (SME) in Bihor County. In line with the literature we consider donations and sponsorship the expression of philanthropic behavior of companies. Positioned at the top of the CSR pyramid such actions are some of the few on which there is consensus in considering forms of CSR. Explaining the factors that drive such expenditures at the level of small and medium enterprises fills in a gap in the scientific knowledge both at international and national level. Particularly in Romania, the CSR processes are less studied and seem developed mimetically by large companies from the example of multinational companies. However the data provided in this paper reveals that a significant number of small and medium enterprises are engaged in CSR actions, as almost 20% of SME with registered profit donate money. The factors explaining this orientation are in line with the literature as the size of the enterprise influences both the decision to donate and the amounts donated. The larger a company in terms of profit, turnover and number of employees the bigger the chances it donates money and the amounts donated are larger. The data was extracted from the National Agency of Fiscal Administration regarding expenditures of small and medium enterprises in 2013. Future studies should include information regarding the destination of these expenditures. More, in order to fully explain CSR at SMEs level qualitative data is needed regarding the motivations of managers for such actions and the reasons behind the choice for a specific area or action.

Key words: corporate social responsibility, social involvement, small and medium enterprises

JEL classification: M 14, A13, L21

1. Introduction

Social involvement of organizations is traditionally linked with attributing responsibilities of businesses which go beyond their economic function. The debates regarding such actions are derived from several theoretical lines: social-business relationship and business ethics, stakeholder management, sustainable development with the contribution of the economic sector. These topics reached high levels in the last fifty years, though from a research standpoint the benefits can be contested (McWilliams et al. 2005). While practitioners focus mainly in the effects of such actions for the companies, policy makers reflect on the community level effects. Surpassing the many controversies regarding to the relevance of each form of involvement, there seems to be a general agreement that enterprises can contribute positively to development.

Philanthropy is considered at the top of social responsibility actions beyond the existence of different level policies (environmental protection, human resources, customer relations, etc.) as well as actions towards the satisfaction of requests of different stakeholders. Social responsibility is traditionally associated to large companies, especially multinational

corporations. Nonetheless research emphasize that this attitude may characterize all type of organizations: large and small, public and private, governmental and non-governmental. In this paper we focus on philanthropy of small and medium enterprises (SME) in Oradea - Bihor County as one of the classical forms of social responsibility of firms. Namely the data investigated covers the expenditures for social causes as deducted from taxes. The study is covered by a postdoctoral study regarding the social involvement of Romanian organizations, in which we try to identify both the forms of such actions, as well as their drivers and obstacles. In previous analyses we have found significant evidence that in the case of Romania it is important to analyze these processes for small and medium companies. Identifying mechanisms that trigger social involvement for these firms can hinder ways to promote such attitude from all companies.

Consequently the main scope of this study was to determine whether there enough evidence of social activity of SMEs? Due to the availability of data we restricted our analysis to Oradea as we expect that in this regard the differences between counties should not be very large. More, knowing the fiscal facility regarding the deduction of taxes for donations or sponsorship we limited the search for evidence of social involvement of small and medium enterprises in Oradea, Bihor County to this form of action. We are aware that there are other ways SMEs may get involved in their community; however donating is one of the key forms considering CSR theory, and thus defining for this phenomenon. The first question this paper is answering is *to what extent SMEs from Bihor county donate money as social involvement actions?* More, aiming at the characterization of this process we answered to the second question: *which are the firm level characteristics that determine such actions?*

2. Social responsibility: discourse or reality?

2.1. General framework

The topic of social responsibility has gained high notoriety in the last two decades both from theoretical and practical perspectives. Nonetheless theoreticians did not yet reach full consensus regarding different related concepts (corporate social responsibility or performance, corporate citizenship, corporate sustainability and the list can continue) as well as regarding what constitutes social behavior on behalf of organizations (Aguinis and Glavas, 2012). The most widely used concept remains corporate social responsibility (CSR) yet the distinctions between it and other terms are not that clear-cut. In this paper we will refer to CSR, acknowledging that such social attitude can be observed generally in organizations private as well as public, large as well as small. Nonetheless, the interest in economic objectives surpasses the social ones for private economic organizations (Acar et. al. 2001). Social responsibility of organizations can be considered a new paradigm regarding business-society relationship (Saveanu et. al. 2014).

We have adopted a narrow definition of CSR as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams et. al. 2005, p. 3). The broad classical approach was developed by Carroll (1979, 1991) for whom CSR comprises all economical, legal, ethical and discretionary responsibilities of a company. We consider that the first two levels are mandatory to all firms and, as such, should not be considered as criteria when deciding if a company is socially responsible or not.

Still following a narrow approach, CSR can be contested as being purely a discourse of PR propaganda (Sahinis and Kamoura, 2014) or another form of symbolic domination of large companies (Banerjee, 2007). Smaller companies or companies in less developed countries are copy CSR related behaviors from large companies with no real interest in the impact of such behavior. The difficulties in assessing the external impact (Barth et. al. 2007) rise also questions regarding which actions are relevant in considering social responsibility and also which are the more profitable investments for companies as well as for society as a whole

(Knox și Maklan, 2004). More, in assessing the contribution of the business area for development it is hard to distinguish from the fundamental role played by governments and the political level (Moon, 2007).

Measuring CSR is one of the core problems and a requiring source of critics. It starts with deciding which actions can be considered socially responsible ranging from mission statements to direct involvement in community programs. Some theoreticians argue that the motivations behind each action are the ones that make the difference between opportunists and “true” CSR, however practitioners consider that it should be a win-win context. If we disregard the reasons behind such actions one of the areas which does not raise questions is represented by offering money to charities or social campaigns. Donations and sponsorships represent corporate philanthropy and are at the top of CSR pyramid (Carroll, 1991). This is the level of CSR we focus on in this paper: the donations offered by small and medium enterprises in Bihor County. Information regarding the destination of this money was not available and consequently it is impossible to discuss the impact of these payments.

Regarding the factors that stimulate social responsibility the literature highlights both subjective (manager level factors such as motivations and attitudes) and objective factors (Aguinis and Glavas, 2012). Lindgreen (2009) shows that the interests regarding different stakeholders changes depending on the level of development of the firm. At the begging companies will focus on the satisfaction of primary stakeholders' needs (such as clients), while as the company grows it develops social objectives into its strategy and invests systematically in these actions (see also Roberts, 1992 CSR disclosure is determined by company performance). Consequently we expect this trend when analyzing small and medium enterprises (up to 250 employees), and we will investigate the relationship between the decision to donate money and the size of the firm.

2.2. CSR in Romania: policy and practices

International studies reveal the fundamental role of policies in shaping the way CSR is manifested in different countries or cultures. The variability of practices at international level is greatly explained by such policies (Albareda et.al., 2007) as well as by the impact of culture (Matten and Moon, 2005). As Albareda and colleagues show (2007), the European countries are more focused on CSR, and implicitly the CSR related policies, compared to US counties.

At the European level there is strong emphasis on promoting social involvement through policies promoting social responsibility of enterprises in Europe (Green papers and Strategies of CSR), standards and performance parameters (ISO 26000 Guidance Standard on Social Responsibility), evaluations and comparisons of achievement of these standards and the objectives set in the strategies. It is important to note that the social responsibility of small and medium enterprises was considered a priority of the European Alliance on CSR (COM (2006) 136), as these were considered to have a great role in sustaining a responsible business environment and as promoters of such an attitude. We consider that the European focus on SMEs' CSR provide enough context for furthering research on this topic. Consequently we reflect in our study some of the efforts made in this regard by SMEs in Oradea, namely in the form of donations or sponsorship.

Through the European level studies and assessments of CSR impact, some conclusions regarding Romania can be drawn. Up to last year, comparative studies reveal the lack of maturity mostly by Romanian agencies in fostering CSR initiatives but also by Romanian business in engaging in such actions. Even if several steps were undertaken with the elaboration of a national strategy and the initiation of specific actions, these are fragmented, lack transparency, are dependent on external funding and are insufficiently monitored and reported (Williamson et. al. 2014). As such, the National strategy for promoting social responsibility (2011, based on the latest European CSR policy: COM

(2011) 186) has little visibility and was not translated into concrete action plans and steps towards its implementation.

If one considers the narrow view of CSR, the legal aspects are relevant if considered as facilities meant to stimulate such actions and not the mere obedience to the law. As such, in Romania there are several fiscal initiatives for enterprises meant to stimulate social actions. There are also more targeted initiatives regarding employment/human capital or the environment but these are not the object of the current analysis. We refer mostly to the Fiscal Code by which people can direct 2% of their taxes to a specific NGO (art. 84 (2)-(3)) or the deduction of 20% of the due tax by companies of amounts offered as sponsorship or donations (art. 21, lit. p). These mechanisms stimulate directly enterprise philanthropy – the top of Carroll's pyramid (1991). The promotion of these mechanisms in Romania is conducted mainly by the beneficiaries of such initiatives / NGOs whose activities can be financially supported with these sums.

In our analysis we focus on the latter instrument, the deduction of 20% of taxes for donations, aiming at the assessing the impact at small and medium enterprises in Oradea. More, we will also analyze the profile of the enterprises undertaking such investments.

Generally in Romania CSR is considered to be less developed, mainly imported by multinational companies (Ilies, 2011). There are several steps undertaken by small and large companies operating in Romania, however these activities are not very visible, and integrated in a strategic approach (Baleanu et. al. 2011). Studies on the Romanian CSR highlight that in this case it still seems more discourse than reality (Badulescu and Petria, 2013) even the theoretical approaches are highly normative (Obrad et. al., 2011). Romanian studies focus on a diversity of aspects, and are conducted on too small samples (Saveanu and Abrudan, 2014) Our study fills in this gap as it focuses on a single aspect of CSR - philanthropy and highlights practices of all SMEs in this area from Bihor county.

3. Social responsibility of small and medium enterprises in Oradea

3.1. Research methodology

The objectives of this paper, were both to assess the extent to which small and medium enterprises use the fiscal facility of deducting up to 20% of taxes as donations or sponsorship, and also to analyze the profile of the SMEs which declare such costs. In order to achieve these objectives we analyzed data provided by the National Agency of Fiscal Administration regarding expenditures of small enterprises in 2013. We considered companies which registered profit as only these can deduct taxes as donations. The available data in order to have a homogenous sample included the whole population of small and medium enterprises with registered profit. As presented in table no. 1 the structure of this sample – profit making SMEs is comparable to the structure of SMEs in general. There are less micro enterprises (0-9 employees) and more small (10-49 employees) than in the general group, indicating that micro firms are less developed (considering registering profit an indication of development) than small firms. We acknowledge that the subgroups of SMEs are defined on number of employees and turnover; however at the Institute of Statistics there were no data available to make an aggregate index, consequently we referred solely to employees as good proxy for enterprise size.

Table no. 1. The description of small and medium enterprises with profit in our sample in comparison with the total number of SMEs active in Bihor county, author's calculations

Size on no. of employees	SMEs in Bihor in 2013 – National Institute of Statistics		SMEs with profit in 2013	
	Number	Percentage	Number	Percentage
Micro	14562	87,15	1929	78,76
Small	1839	11,01	491	20,05
Medium	308	1,84	29	1,18
	16709	100	2449	100

The main data reflects the amount of money offered as donation or sponsorship. In order to create the profile of companies which have social investments, we collected also data regarding the size of the enterprise: number of employees, profit and turnover. Unfortunately there was no data available regarding the destination of donated money, data that would shape the profile of social investments of small companies.

3.2. Main conclusions

Out of the total 16.709 active SMEs registered in Bihor county in 2013 (according to the National Institute of Statistics: <http://statistici.INSSE.ro/shop/>), there are 2782 which declared profit to the Agency of Fiscal Administration. As presented in Figure no. 18,11% of firms with profit offer different amounts as sponsorship or donations.

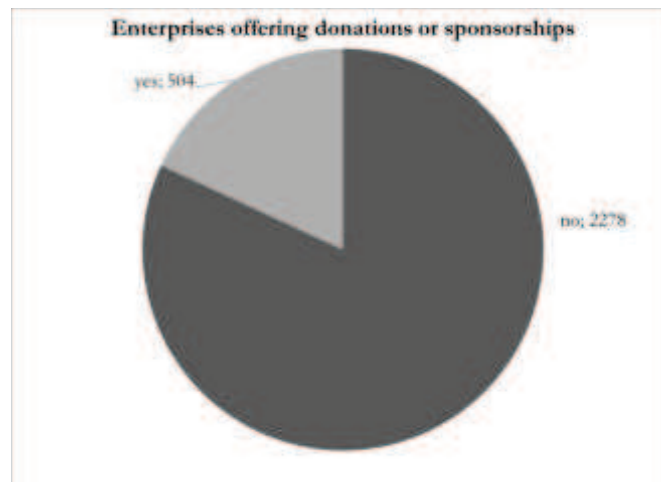


Figure no.1. Number of small enterprises from Bihor County offering donations, Agency of Fiscal Administration, own calculations

Even if this percentage seems rather small (representing 3,4% when reported to the total number of SMEs in Bihor county), we consider that it is significant for social responsibility of these enterprises. This finding supports previous conclusions regarding the openness of micro and small enterprises in Romania towards social responsibility actions (Saveanu et.al. 2014). We thus reinforce the conclusion that CSR of SMEs is an understudied phenomenon that should gain more attention by researchers.

The average money donated is 2685 lei, about 600 euros. The minimum reported amount was 10 lei and the maximum 37814 lei. The data referring to the profile of donations and the normal distribution of the sums offered as donations can be observed in figure no. 2.

Unfortunately there was no data regarding the destination of this money: NGO's, campaigns, or individuals. This type of information would be fundamental in creating a complete picture of social actions supported by these firms.

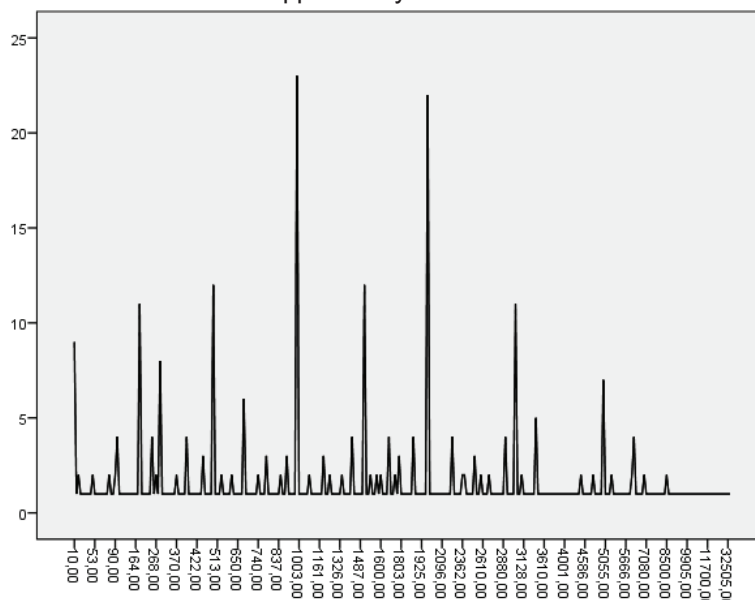


Figure no. 2. The distribution of donations offered by small enterprises from Bihor County offering donations, Agency of Fiscal Administration, own calculation

Turning to the profile of the enterprises which financially support social actions, we investigated one of the classical determinants of CSR: size of the enterprise (Lindgreen et al. 2009). Consequently we tested the relationship between the donated amounts and number of employees, profit, and turnover.

All three independent variables considered in our analysis significantly correlate with the donations and sponsorship: turnover ($p=0.681$, $\text{sig}=0.00$), profit on reference year ($p=0.586$, $\text{sig}=0.00$) and number of employees during the reference year ($p=0.139$, $\text{sig}=0.00$). These data support the conclusion that the amounts donated by companies increase along with the increase in profit, turnover and number of employees: as a firm is growing so are the chances it will display this form of social responsibility.

More, regarding the influence of profit we could investigate also if there are differences between the firms that donate and those that do not. Again, through T-test we can highlight a positive relation: the average profit is significantly higher for the companies who donate money than those that do not ($F=1.74$; equal variances not assumed; $\text{sig}=0.00$).

We need to compare the group of SMEs to large companies, and to make comparative analysis between the groups of small vs. medium enterprises in order to generalize this conclusion. At this point we have found important evidence that within the small enterprises the social responsibility actions are influence by the level of development of the firms.

The regression analysis, as presented in table no 2, show that these factors influence the variability of the donated sums in a proportion of more than 80%, $R=.875$, $R\text{ square}=.0766$.

dependent variable – Donations	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	325,910	110,611		,003
profit	,041	,002	,585	,000
cifra_afaceri	,000	,000	,449	,000
nr_mediu_salariati	14,701	5,517	,058	,008

4. Conclusions

We can say that the incidence of the fiscal facility regarding tax deduction for donations and sponsorship is of 18% among the profit gaining small and medium enterprises in Bihor County. The factors facilitating such actions on behalf of enterprises are the profit, turnover and number of employees. Both the existence of donations, and the amount spent in this manner are influenced by these aspects related to the size of the firm – the richer and larger a small firm chances increase to donate, and the sums increase along with the level of development of firms.

As mentioned above, this conclusion was validated solely for the small and medium enterprises and further analysis should extend the comparison with large enterprises. Nonetheless there is evidence to suggest the same pattern in general. Another limit is the result of the lack of information regarding the destination of this money. In order to complete the image regarding social responsibility actions at the top of Carroll's CSR pyramid we need information regarding the actions that are actually funded through these donations and more information on how where these social actions chosen.

This paper fills in an important gap in the knowledge regarding CSR in Romania, as well as CSR within SMEs. The main conclusion is that within these enterprises there is an important orientation towards social actions which needs to be understood better. More, understanding the mechanisms that stimulate the investment in social actions at the level of small enterprises would improve our knowledge regarding these processes and consequently would highlight methods for promoting social involvement of companies.

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