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SHOULD DEVELOPING COUNTRIES ADOPT CORPORATE SOCIAL RESPONSIBILITY? EMPIRICAL EVIDENCE FROM ROMANIA

Abstract. *Corporate Social Responsibility (CSR) has the potential to contribute in a positive way to development of the society and businesses. Companies are beginning to see the benefits from implementing CSR strategies into their agenda. The reason why CSR attention increased is based on its capacity to influence company performance. The field of CSR has rapidly grown in the last years, a large number of methods and frameworks have been developed, mostly in developed countries. This study focuses on developing economies and on Romania specifically. Using a sample of 21 companies quoted in Romania between 2008 and 2012, this study tests the sign of the relation between CSR and financial performance. In order to test this relationship, this study use empirical methods. The results indicate a positive and significant relationship, supporting the view that responsible financial performance can be associated with a series of bottom-line benefits.*

Keywords: *Corporate social responsibility, financial performance, developing countries, Romania.*

JEL Classification: M14,D24

1. Introduction

In recent years, a growing interest in corporate social responsibility (CSR) has emerged, both in the academic literature (e.g. McWilliams and Siegel, 2000) as well as the business world. The main objective of the companies is to maximize shareholders wealth. Carroll (1991) suggested that responsible companies act in socially responsible way and by doing this, companies are not only profitable but also they obey the law, are ethical and are good corporate citizen. Company long-term targets should have positive effects on society and environment, and should have responsible interaction with company employee, community and customers (Porter and Kramer, 2006).

CSR is more frequently implemented and studied in developed countries, whereas the theory and CSR practices in developing countries are still debatable and need to be discussed at length. Jamali and Mirshak (2007) demonstrated that ―there are numerous obstacles in achieving corporate responsibility, particularly in many developing countries where the institutions, standards and law system, are relatively weak. Continuing their research, Jamali and Mirshak (2007) have highlighted that there are various CSR plans developed in countries like US and UK and those CSR plans can be modified to fit the context of the developing countries.

Among the benefits arising from being socially responsible, one important argument for addressing CSR is its business case, or more precisely, the relationship between CSR and corporate competitiveness (Porter and Kramer, 2006). The implementation of CSR practices may increase the possibilities for profitability; reduce risks, improvement of financial investments and commercial benefits. However, currently available studies have focused on CSR in developed countries rather than in developing countries (Dobers and Halme, 2009).

The *Business for Social Responsibility* (BSR) defined CSR as "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment". McWilliams and Siegel (2001:117) refers to CSR as the "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." In Frooman (1997:227) conception the CSR would represent: "An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare". Therefore, CSR is viewed as a set of policies, practices, and programs included in business strategy, supply chains, and decision-making processes during all of the company and frequently are taken account of issues related to business ethics, governance ,community investment, human rights, environmental concerns, , the market place and workplace.

Although the above definitions are given for CSR in developed countries, in literature there are definitions of CSR in developing countries as well. Visser (2008:474) defined the CSR in developing countries as "the formal and informal ways in which businesses make a contribution to improving the governance, social, ethical, labor and environmental conditions of the developing countries in which they operate, while remaining sensitive to prevailing religious, historical and cultural contexts". The World Business Council for Sustainable Development (WBCSD) view CSR as ''the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities'' (WBCSD, 2001).

The present paper underlines that the CSR concept initiated in developed countries it cannot be directly adopted by the developing world. More specifically, for CSR initiatives to be effective, companies should derive from principles and standards, careful analysis upon each *country's unique culture,* competencies, and *strategic opportunities*. The companies' leaders/multinationals companies do not have to reinvent the wheel. While particular CSR practices adopted by some companies in a country might not necessarily be useful for a company subsidies or/a company in a different country, especially in developing countries. Moreover this paper underlines the importance of companies' social performance in Romania and analysis the relation between CSR and CFP (profitability). This motivation is strongly sustained by the country background and literature review.

After briefly reviewing Romanian background and the relation with CSR practices , it is required ,in order to understand the application of CSR in developing countries, a review of the literature on CSR as well as why many organizations are striving for CSR. Next, based on literature review, the paper details the variables used in regression and also the methodology. After the results are interpreted, the paper draw conclusions based on results and discuses some directions of further research.

2. Romanian Background

Before becoming EU member in 2007, Romania was considered "functioning market economy", although the development stage was just on the beginning. In most, the business community and the society was still struggling with the transition effects– the unemployment rates was high, the salaries and income were low, there was a high percentage of grey/black economy and the young and skilled workers were migrating.

CSR in Romania is a new phenomenon. Since the transition, the focus was on economic sustainability which was a continuous challenge for entrepreneurs. The managers' attention was to make companies more profitable. There was no time allocated and/or resources to social *or environmental responsibility. Multinational companies have tried to implement some principles of good corporate governance* but there *was a lack of knowledge, instruments and tools*. The concept was new and not well understood, therefore was hard to implement in company's strategy in such ways that efficiency, profitability, society and environmental responsible could have been done at the same time. Privatization and the new economic agenda resulted in *"wild capitalism"*, where profit became the most important goal for most companies in the region.

Since the mid-90s, companies in Romania gradually inclined to a more *long-term oriented way of operation* thanks to the stabilization of the economy and *the improvement of legal framework for employment and* controls on the environmental impact of economic actors.

Romanian current and future managers need to develop or continue to develop their understanding and capacity to integrate CSR concepts and attitudes into their business strategies because a well-designed CSR can lead to long-run profits (Carroll, 1991), competitive advantage (Porter and Kramer, 2006), innovative thinking, and overall health of the firm (Frooman, 1997).

Many years Romanian general consumption increased quantitative, now days, many Romanian people are looking for goods and services having a special brand, special quality, which give complementary satisfaction to the consumer and offer a specific good feeling. A company competitiveness is now determined, among other factors, by socially responsible management, by environment-friendly technology, by philanthropic and charitable initiatives, by educational support for the members of the community, by the monitoring of the suppliers' respect for the existing market, civil, and environmental regulations, by the ethical transparent corporate management of the given firm (Visser, 2008).

The CSR practice in Romania are mostly based on philanthropic and charitable contributions, but beyond this more and more companies produce and use as advertisement tool systematic and detailed statements about their CSR activities, about the cross-sector partnerships they set up in order to undertake the local or regional community concerns and to promote satisfactory CSR solutions. Consumers are informed on the social and environmental concerns of the company and on the amount of money dedicated by the respective company to solve those issues. For example in oil industry, companies like Petrom, Rompetrom and Mol Romania annually reports all the campaigns sustained for environment; in pharmaceutical industry, companies like A&D Pharma, LaborMed Pharma, Gsk Romania report their investment in research and foundation sponsored; in financial industry, banks like Raiffensen, Romanian Commercial Bank Erste Group (BCR), Group Societe General (BRD) also reports the foundations sponsored and community programs. In other cases, members of the executive board and employees of the company are involved in activities that raise social responsibility and community awareness. In reporting these initiatives, companies register a reputation enhancement in their hosting community and perhaps a significant increase in their sales.

Realizing how much companies can benefit by implementing CSR principles, Djordjija Petkovsky, senior expert of the World Bank Institute stated that ''There is a clear need for companies to accept CSR as a vital component of business strategy and for countries to incorporate CSR in their overall development strategy''.

After a brief literature review on CSR the questions raised in this article will fallow from which the hypothesis derived it.

3. CSR: Literature Review

Studies by Crane and Matten (2007) have highlighted that developed countries like US, UK and many European countries have strong CSR concepts. These countries have developed CSR frameworks, standards, indices and principles locally and internationally, to be used by their companies. Lindgreen et al. (2009) criticized these standards and principles due to their limited applicability in developing countries as there are based on CSR practices of developed countries. Therefore, practice of CSR varies significantly between different countries. This argument is supported by Chapple and Moon (2005) as well and describes the variations in CSR practices among seven Asian countries. Analyzing the website reports of CSR in these countries they confirmed that "there is no single pattern of CSR in Asia" (p. 436). Moreover, they imply that CSR is strongly dependent on national factors of each country. Their findings conclude with the fact that international companies adapt their CSR practices to the specific national contexts regarding their host business systems.

Matten and Moon (2008) stated that CSR practices are different from nation to nation because of the differences in cultural traditions. Continuing their study, Matten and Moon (2008) showed that these variations in CSR across countries take place because of the national business systems framework. Continuing with their theory, they state that CSR in US companies has been largely explicit, whereas in Europe, at least until recently, it has been largely implicit. They end their analysis by assessing the nature of the political, financial, education, labor and cultural systems in the UK and Europe and explain how difference in these key institutional arenas influences CSR on either side of the Atlantic. Furthermore, they underline that CSR and philanthropy are closely related in developing countries, largely due to their cultural traditions.

Another important argument regarding the differences in CSR practices is given by Küskü and Fraser (2004) sustaining that the reasons are: the lack of legal framework regarding the environment, anti-discrimination laws, and the differences in the level of top management, commitment organizations and internal corporate culture. Other authors have stated that cultural differences are the major factor behind these variations, while the level of development of a country may be a key indicator (Chapple and Moon, 2005).

A significant amount of CSR literature has been published on cross-national CSR variations (Küskü and Fraser, 2004; Chapple and Moon, 2005), CSR applications (Carroll, 1991; Wood and Jones, 1995) and the development of CSR frameworks for developed countries. However, there is little evidence related to CSR frameworks, indices and standards for developing countries. Conversely, researchers (Tsoutsoura, 2004; Mcwilliam and Siegal, 2000; Porter and Kramer, 2006) have pointed out that CSR provides many intangible advantages such as market reputation, employee satisfaction, customer satisfaction, government support and growth and survival. It can be argued that companies implement CSR programs to obtain business benefits (Porter and Kramer, 2006) such as enhanced company image and reputation , increased sales and customer loyalty, increased productivity and quality, reduced complexity and costs; better control and management of risks, a better capacity to attract and retain employees, and higher employee motivation. These benefits have been noticed in developing countries companies, that have applied CSR concepts, and in the long run this may enhance company financial performance (Ruf et al. 2001). However, no direct evidence is available to prove that companies can benefit from implementing CSR strategy in developing countries.

In addition, to prove the benefits of CSR, developing countries face a major problem regarding the implementation of CSR plans, and that is the lack a reasonable framework to assess their effectiveness (Jamali and Mirshak, 2007). There is little evidence to show that the companies in these countries have employed CSR plans based on international CSR standards, policies and principles. Studies made by Matten and Moon (2008) have found that cultural differences are the major limitation in adopting international CSR standards in developing world. In addition, the authors have argued that there are many differences among the developing countries *themselves,* and hence framework development is a major issue.

3.1. The Role of Business

Every businesses enterprise has a role within society. Businesses are run by people to produce goods and services for their society which are then sold or/traded to customers in order to make a profit. This profit is then used as a return to investors, to invest in new technologies and new products, meet the wage and career expectations of employees and pays taxes and makes other contributions to government, as specified by legislation. In brief, without profit there is no business, and without business there is no *wealth creation in society.*

Businesses have always played a key role in a country economy and social development of the communities in which they operate. As outlined above, *they generate employment opportunities and profits .Thereby, business contribute substantially in improved quality of life for their stakeholders.* The issues they face in their operations *are predominantly local, requiring local solutions with local actors*. They do not consider this social interaction as CSR; rather, it is just part of normal business operations within society.

3.2. The Practice of CSR

Visser (2008) discussed four reasons for adopting CSR in the developing countries. Firstly, developing countries ‘economies are changing rapidly. Their organizations have profit-making growth market for their operational activities. Secondly, these countries have significant social and environmental problems that may include civil wars, disasters and political instability. Thirdly, developing nations will be forced to adopt CSR practices in response to environmental and social factors such as globalization, economic growth, investment and business activity. In developing countries, CSR programs and challenges are different from those in the developed world. Visser (2008) outlined these differences, describing the many CSR issues facing by the developing world such as infrastructure development versus environment, *employment creation versus high labor standards*, and strategic philanthropy versus political governance. As a result, developing countries prioritize these issues under the label of CSR: improving working conditions and the provision of basic services, supply chain integrity and the alleviation of poverty (Visser, 2008).

Carroll (1991) emphasized the following responsibilities showed within a pyramid of CSR (see Fig.1): economic, legal, ethical, and philanthropic.

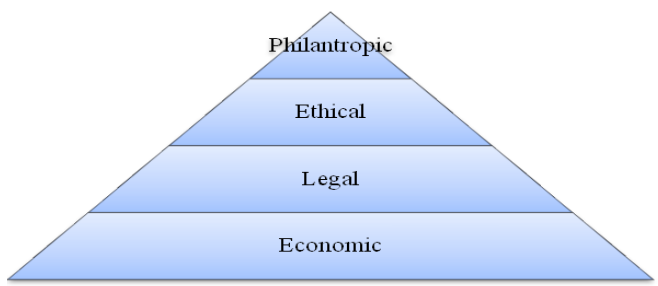

Figure 1. Carroll’s (1991) CSR Pyramid

Source: Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders, Business Horizons, 34(4): 39-48.

Researchers have recognized that CSR characteristics in developing countries are different from those in the developed countries (Visser, 2008). In addition, Chapple and Moon (2005) have found that each developing country, *even within the same region, tends to have different CSR patterns T*herefore, before identifying any scope of CSR implementation and levels of implementation in a particular country, it is advisable to be familiar with CSR activities by developing a country-specific CSR model aiming for their social needs. If a company succeed thought CSR activities to reach the social needs where operates than everything else follow: financial performance (Tsoutsoura, 2004), competitive advantage (Porter and Kramer, 2006) and loyalty brand (Mcwilliam and Siegal, 2000).

CSR reporting is not a compulsory requirement; however, the firms disclose their CSR plans and activity in their annual reports. Researchers have identified theoretical frameworks for the companies that implement their own CSR under issues such as employee relations, human rights, corporate ethics, community relations and the environment (Moir, 2001). Moir stated that companies need to understand CSR and the areas of responsibility, and that CSR depends on the economic perspective adopted by the firm.

Based on the literature reviewed above, this paper identifies limitations in the existing literature on CSR in developing countries. First, there is little research that studies the CSR in developing world .Second, empirical studies on Romania regarding CSR are just a few and most of them are theoretical studies. Last, the majority of studies have been cross-sectional and conducted only to review CSR *within* the companies, not to examine how CSR practices can be development/implemented in the country overall based on social needs. Porter refers to CSR as a win-win strategy for business and society. These benefits have been identified by the developed world, and while the benefits of CSR are being promoted in developing world, many of these countries still lack a clear understanding of CSR. Therefore, the following questions are addressed:

1. Can CSR be employed in developing world, specifically in Romania? If yes,
2. These companies are educated about CSR? Or is just a fashion? If yes, are educated about CSR then
3. Are companies in Romania communicating their CSR activities to their stakeholders and if so, how are they doing it?

The main objective of this study is to identify the relation between CSR and companies financial performance in Romania.

Next section reveals how variables are used and construct before being tested, in this study.

4. Hypotheses

This paper test the sign of the relation between CSR and company financial performance (CFP) The sign might show a negative, neutral or positive relation. If the sign is negative than Friedman (1970) argument is sustained but also other neoclassical economist's theory as well. According to their view, companies that are socially responsible have a competitive disadvantage, because they contract costs that fall directly over the bottom line and therefore the profits are reduced, whereas these costs could be prevented or borne by individuals or the government. Empirical studies (Ullman, 1985), on the other hand, found no significant relationship between CSR and company financial performance (CFP). Continuing his argument, Ullman (1985) underline that the non significant relationship between CSR and CFP is due to the fact that many variables could interfere between these two. Thus, the link between CSR and CFP should not be expected to exist (Ullman, 1985). A third point of view led through empirical results in a positive and significant relation between CSR and CFP (Tsoutsoura, 2004; Waddock and Graves, 1997). Their findings strongly suggest that CSR costs are covered by the benefits. The positive relation is straighten/pointed directly to its relation with society and environment. Therefore, a firm that attempts to diminish its implicit costs by socially irresponsible behavior—by, for example, neglecting to take measures against pollution—will eventually incur higher explicit costs. Socially responsible companies have less risk of negative events. It is less likely for these companies to pay heavy fines for excessive polluting, to have costly lawsuits against them, or to experience socially negative events that would be destructive to their reputation. Theoretically, if there could be two identical companies, where the one is socially responsible and the other is not, it should be expected that the former would have less downside risk for value and encounter fewer events which would be detrimental to its line of profit (Tsoutsoura, 2004). Tsoutsoura (2004) supports the good management theory in that it provides empirical support for financial performance. That is, there is a CSR simultaneous relationship, or a kind of virtuous circle, such that:

H_1: Better financial performance results in improved CSR, ceteris paribus

H_2: Improved CSR leads to better financial performance, ceteris paribus

In the present paper, empirical techniques will be used to identify the sign of the relationship.

4.1. Measurement Problems

4.1.1. Measures of Corporate Social Responsibility

An initial challenge in testing the relationship between corporate social responsibility and financial performance is identifying those companies that have adopted corporate social responsibility. This is because corporate social responsibility reflects an approach to internal decision making, the presence or absence of which may not easily be determined by external observers.

The approach that was adopted for this paper was to identify those companies that issue a sustainability report, and those companies that have adopted corporate social responsibility principles and standards. The preparation of a sustainability report provides information to external stakeholders about the conduct of a company, allowing consumers, employees, investors and others to make informed decisions when dealing with the company. Importantly, the preparation of a sustainability report also provides company management with information about social and environmental performance, facilitating improved decision making. It may be the case that it is not until information is collected for public dissemination that senior managers become aware of an issue.

Generally sustainability reports provide information about a company's environmental performance, such as energy efficiency, water usage and greenhouse gas emissions, as well as their social performance, such as their staff recruiting and retention policies and engagement with stakeholders. There are a number of voluntary reporting guidelines and sets of indicators available for these companies; the most widely used are the Global Reporting Initiative and ISO 26000.

One limitation of this approach to identifying companies that have adopted corporate social responsibility is that it may give more of an indication of a company's willingness to report (annual reports), rather than the degree to which company decision makers are reflected on community and environmental factors when decisions are made. While acknowledging this limitation, we would caution draw the attention that one should not understate the usefulness of sustainability reporting as an indicator of corporate social responsibility for the above reasons. Moreover, it is not possible to empirically determine whether company's financial performance data showed in the annual report are under-reported or over-reported. Only a small number of companies have their CSR reports externally verified or not at all.

Another approach in measuring CSR would be to collect the data from a Corporate Responsibility Index, but this indices exists in developed countries where are fully developed as well as the practices and regulatory framework. Another approach regarding the CSR measurements are surveys made by students, researchers, doctoral students or business faculty members .McWilliams and Siegel (2000) used as measurement for their study, CSR as dummy variable. This paper will follow McWilliams and Siegel (2000) measurement for CSR, and also will consider CSR as in Waddock and Graves (1997) an independent variable supporting McGuire and other (1988) findings.

4.1.2.Measures of Financial Performance

Measuring financial performance is not a simple task, it has specific complications and there are many debates regarding which measurement should be applied. In this sense many researchers refer to market measures as being the right ones

(McGuire et. al.1988), others consider accounting measures the good ones (Waddock and Graves 1997) and some adopt both of these measures (McGuire et. al. 1988). The point of tension came from the fact that the two measures represent different points of view regarding how a firm's financial performance can be evaluated. Moreover, each, in turn, have different theoretical implications and or/meaning (Hillman and Keim, 2001) and each is subject to particular biases (McGuire et. al., 1986). According to McGuire (et. al.1986) ,accounting measures capture historical aspects of company financial performance and this performance is subject to managerial manipulation and differences in accounting measures.

5. Methodology

This paper studies the relationship between company's financial performance (CFP) and corporate social responsibility (CSR) across 81 companies listed at Bucharest Stock Exchange (BSE) from 2008 to 2012. Based on the questions addressed in this paper (if companies are aware about CSR, if they include in their business strategy CSR principles and, the most important, if they made public their CSR report to be sure that CSR is not just a fashion), a total of 21 companies remained in the sample size after companies which were not socially responsible were eliminated. In order to investigate the aforementioned relationship, the OLS methodology is used, by considering the following general specification of the regression model:

$$Y_i = \alpha + \beta_i X_i + \mu_i \qquad (1)$$

where: i = the number of companies = 1, …, 21;

Y_i = dependent variable. There were considered three dependent variable: ROA, ROE, ROS (each dependent variable is explained below) in order to employ the regression model;

α is the constant term or intercept;

β is the slope coefficient and measures the rate of change of dependent variable;

X_i represents the independent variables. For all three models the independent variables will be the same: CSR, TAS, TSS, Risk, Employee. The use of each independent variable is detailed beneath.

The data was collected from Bucharest Stock Exchange and KTD invest publicly available information. As in McWilliams and Siegel (2000) study, this paper considers CSR a dummy variable. Therefore, if a company is socially responsible has a value of one and zero otherwise (Smeureanu and Ruxanda, 2013). In order to evaluate a company financial performance, this study employed accounting measures. The measures used are return on assets (ROA), return on equity (ROE) and return on sales

(ROS). Each of these financial indicators reveals special information about a company (McGuire et.al. 1988; Mitrut et al. 2013).

ROA shows the amount of earnings a company can achieve for each dollar/euro tied up in a business and is a good indicator of company profitability. It measures the efficiency of resources allocated by the company. From financial management perspective, ROA is very important as it measures how much profit can be realized by the company with the money given not only by shareholders company but from creditors as well (lawns made by the company from the banks or other institutions). Whereas ROE measures how well a company uses its resources in making profit with the money provided by shareholders only. Therefore, ROE is the most important indicators for shareholders. A company who's ROE is low it means that net income is also low and this "push" shareholders to sustain the business with their own finance. ROS measures a company profit per dollar/euro of sales (Bodie, et. al. 2002).

This research hypotheses is whether CSR leads to an improved financial performance of a company or vice versa. In this sense a cross sectional regression analysis was used, utilizing OLS method. The independent variable is CSR and financial performance indicators ,ROA,ROE and ROS are the dependent variable in turns, the controlled variables are size (where three size of measures were used: total sales-TSS, total assets-TAS and number of employees), and risk (measured as the ratio of long-term debt to total assets).

5.1. Control Variables

Because risk and size have been found (Ullman 1985, McWilliams and Siegel 2000) to be key variables that effect firm's performance, each of these variables are used in the regression as control variables. Multinationals companies or/larger companies have the tendency to adopt CSR principles more often and this make size variable an important control variable. According to Burke, et al. (1986), as the company grows, they draw more attention from stakeholders. Furthermore, the company leverage is also a significant control variable; as a proxy, was adopted the level of long – term debt over total assets held by the company. Another important control variable for size variable is the number of employees. Recent studies have highlighted that CSR is, increasingly, an important factor in attracting and maintaining skilled, talented and diverse workforce (McWilliam et.al. 2000). Companies that offer good working conditions for their employees will increase performance in terms of quality and delivery, and, therefore, a higher level of productivity will be registered.

6. Results Discussion

As mention above, this paper study the companies listed on Bucharest Stock Exchange (BSE) using their annual report. Each company must have finished the financial year 2012 with financial annual reports delivered and published on BSE. In the BSE are listed 81 companies but this paper had considered only those companies which are socially responsible with an annual report on Corporate Social Responsibility (CSR) published from at least two years ago. Therefore from 81 companies remain in the sample size only 21 companies. The companies in the sample size were considered on the above criteria regardless on the industries. Some companies were found to be socially responsible during the entire studied period, from 2008 to 2012, while other companies became socially responsible later on. For this reason CSR is measured in this study as dummy variable, one for the year in which the company is socially responsible and zero otherwise.

In order to test the hypothesis in which the CSR would improve the company's financial performance (CFP), was used cross sectional regression analysis, OLS method on 21 companies for the years 2008-2012. The financial data used are ROA, ROE, and ROS and are the dependent variables of the regressions. All the data was collected from BSE and KTD invest, http://www.ktd.ro/ro/bursa/bvb_soc_list.php . Table 1 gives descriptive statistics for all variables considered in the study.

Table 1. Descriptive Statistics

Variable	N	Mean	Std. Dev
ROA	105	5.17	5.61
ROE	105	18.08	22.56
ROS	80	8.21	11.78
TSS	105	1.59	5.13
TAS	105	1.36	3.85
RISK	105	0.35	0.24
EMPLOYEE	105	2329	5517

Source: Authors' calculations

Table 2 Provides information's about Person correlation matrices for the variables considered in the study for the years 2008-2012.Note that CSR is positively and statistically significant with all three measures of financial performance (ROS,ROE,ROA) at $p \leq 0.001$ for ROS and ROE respectively $p \leq 0.1$ for ROA.

Table 2. Correlation Matrix for the Key Variables for the Year's Between 2008 and 2012

Variables	TAS	TSS	ROS	ROE	ROA	RISK	EMPLOYEE	CSR
TAS	1.00	.019*	-.06*	.019**	.016***	.226**	.02^{+}	.15*
TSS		1.00	-.07**	.18**	-.053*	.35***	.08***	.22***
ROS			1.00	.004^{+}	.087**	- .037**	.06**	.09***
ROE				1.00	.135**	-.0053**	.002**	.04***
ROA					1.00	-.18**	.01^{+}	.09*
RISK						1.00	.03^{+}	.092*
EMPLOYEE							1.00	.14**
CSR								1.00

*p≤0.1; **p≤0.05; ***p≤0.001

Source: Authors' calculations

Cross-section regression analysis was used to test the hypothesis whether a better financial performance of a company results in improved CSR or is the other way around using as dependent variable ROA, ROE, ROS and controlling for size (total assets-TAS and total sales-TSS), debt level(long-term debt on total assets-Risk) and employee(number of employees).CSR is a dummy variable and this paper study the sign of the CSR on company performance having all other variables constant, ceteris paribus. Thus, Table 3 presents the regression results. For this study were considered three regression having as dependent variable ROA,ROE and ROS and each regression had the same independent variables, Risk, TAS, TSS, Employee and CSR as dummy variable.

Table 3. Regression Results

Dependent variable → **Independent variable ↓**	**ROA (model 1)**	**ROE (model 2)**	**ROS (model 3)**
CSR	.02485*	.08257***	.03795***
Risk	-.0576***	-.039716***	-.0330**
TAS (total assets)	.0023*	.0068**	.0047***
TSS (total sales)	.0502^{+}	.0811**	.0427*
Employee (no. of employees)	0.953^{+}	1.22**	0.784**
R Squared	.5208	.5313	.5226
No of obs	105	105	80
F-stat **(p-value)**	3.190 (.004)	5.460 (.006)	4.333 (.003)

*p≤0.1; **p≤0.05; ***p≤0.01

Source: Authors' calculations

Each of the models (1, 2, and 3), show a positive and significant relation between CSR and CFP. The value of R^2 for ROA is 0.5208; for ROE is 0.5313 and for ROS is 0.5226. R-Squared is a measure of the goodness-of-fit of the model, known as the "coefficient of determination". Represents the proportion of total variation in the dependent variable explained by the model. In this case, R–Squared is 0.5208, 0.5313 and 0.5226 respectively meaning that approx. 52%, 53.1% and 52.3% of total variation in the dependent variable (in our case ROA, ROE and ROS) can be explained by the model. In other words the R^2 for ROA is 0.5208 and represents the correlation between ROA and the CSR variables. This means that approx. 52% of the variation in ROA is explained by the independent variables. Same logic follows ROE and ROS where R^2 is 0.5313 and 0.5226 respectively. An R^2 close to 1 would show that the regression model fits the data rather well. The R^2 value in our models is not quite low but also does not tend to 1 which means that about 48% of the dependent variable cannot be explained by the first model, 46.9% by the second model and 47.7% by the third model. The fact that explanatory variables included in the regression model explain only about 48%, 46,9% and 47.7% respectively of the variation in ROA,ROE,ROS does not necessarily mean that there is a weak relation between explanatory variable and explained variables.OLS estimates are still reliable estimates of the ceteris paribus effects on each independent variable on ROA,ROE,ROS. Generally a low R^2 values indicates that is hard to predict individual outcomes on dependent variable with much accuracy but in our models is somehow better (Smeureanu and Ruxanda, 2013).

The hypothesis of this research is to analyze if CSR leads to improve financial performance of a company. The regression results show a positive and statistically significant between CSR and CFP. In the first model the coefficient for CSR is 0.02485 and is statistically significant at 5% ($p \leq 0.05$). This means that, holding all other factors constant, a 1% increase in CSR will lead to a 2,485% *increase* in ROA. The coefficient for CSR in the second model is 0.08257 and is strongly significant at 1% ($p \leq 0.001$).Therefore a 1% increase in CSR will lead to an 8,257%, ceteris paribus, *increase* in company earnings. Similarly, in the last model the CSR coefficient is 0 .03795 and is significant at 1% level ($p \leq 0.001$).The CSR coefficient in the third model show that a 1% increase in CSR will result in a 3,795% ,ceteris paribus, increase of company sales.

All three regression models illustrate positive results between CSR and company performance. ROE seem to be more closely to CSR fallowed by ROS and ROA. All three models are statistically significant at $p \leq 0.05$ level for ROA and ROS and $p \leq 0.1$ level for ROE. These results consist in rejecting the null hypothesis in which the CSR coefficient would be zero moreover it shows that *improved CSR is related to better financial performance*.

7. Conclusions and Implications

There is a broad discussion regarding whether companies should be socially responsible and the benefits raised by socially responsible business. There are different points of view on the role played by a company in a society .The point of tension is given by the disagreement as whether the wealth maximization should be the only goal of a corporation. Most people classify firm benefits of a business being socially responsible, but in the same time, these benefits are still hard to quantify and measure.

This study attempts to address the question whether corporate social performance is linked to financial performance. Using empirical methods, was tested the sign of the relationship between CSR and financial performance. This study focus was on developing economies and on Romania specifically. The study used data covering a five year period, 2008-2012. The dataset included 21 companies listed on BSE. Results indicate that there is a positive relation between CSR and financial performance, which supports other empirical studies that found positive linkages in the past (Waddock and Graves, 1997; McGuire et al. 1988; Tsoutsoura, 2004). A more in depth explanations of this result depends on the direction of the causality between CSR and profitability.

There are arguments in the CSR literature that sustain the view of which firms with solid financial performance have more resources available to invest in social performance like employee relations, environmental , community relations. Others refer to CSR as being just a fashion or a way to maximize shareholders wealth. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption.

This study did not explore this direction of the causal connections but it is taken into consideration as future research. Nevertheless, the findings indicate that CSR is positively related to better financial performance and this relationship is statistically significant, supporting, therefore, the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

8. Further Research

Further research in this area could proceed in a number of directions. First, more extensive studies are needed to discover which mechanism link CSR to profitability and to determine whether or not those relationship hold over time. In other word, if CSR practices are linked to this mechanism and which are these practices. The source of this type of linkage has rarely been investigated. The time is important in determining this linkage since it is valuable to investigate and ascertain how long it take for the impact of CSR practices to be revealed on the financial performance. For the above to be realized, more data on CSR is need it to be available and also the data needs to be reliable.

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