Experiencing Corporate Social Responsibility in Romania

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Among the other Central and East European transition countries, Romania experienced a hesitant passage from a command economy to a market driven system. After explaining the complex of factors that determined the "stop and go" reform process, the paper insists on the current economic, social and business environment in the country as a background for CSR initiatives and experiences. By showing positive outcomes of the reform process, a major focus is put on what Romanians still have to do in order to achieve a full functioning, wealthy, market economy and a strong social cohesion driven society. In this context, CSR is considered as an appropriate tool for enhanced competitiveness of Romanian and foreign capital companies in the domestic market, but also as a means to improve community responsibility and availability of the locally operating MNCs and for all large, medium and small sized enterprises with public or private (Romanian or foreign) capital. As CSR is a new challenging concept for a post-command economy, a learning process was initiated and fostered by various actors. The paper offers comments on the perception of CSR by local managers and academia as well as considerations on how to implement CSR in the specific business environment of an EU candidate country. The final part of the paper relates to a successful annual event co-initiated by the American Chamber of Commerce in Romania (AmCham) and the Romanian Community Relations Association (ARC): a national contest referring to "Corporate Social Responsibility and Philanthropy", followed by the "People for People" Gala, awarding the most valuable projects developed by natural persons, companies, MNCS, not for profit organizations and institutions, that operate in Romania.

Romania experienced a specific post-communist transition

The collapse of communism in Europe generated in all the Central and East European countries the premises for regaining of individual freedom, rebirth of democratic institutions, reestablishment of the state of law, founding a new market driven open economy and reorien-tation towards countries from Western Europe, as they share with them the cultural and historical heritage as well as the future political project.

After the calming down of the huge wave of euphoria, the countries committed to the post-communist transition, with a hope for a better life in the new era of *"democratic capitalism"*. If politically, the passage towards democratic pluralism, free local and parliamentary elections and the freedom to express and promote opinions was enthusiastically adopted by the overwhelming majority of the population, the economic transition from a command economy to a market economy proved to be much more difficult, lengthier than initially believed and implying considerable economic and social costs.

Besides the missing economics of a post-communist transition and the absence of a previous experience in passing from a centrally planned economic system to a liberal, market driven economy assisted by a consistent legal and institutional framework as well as the lack of professional competencies backed by the newly set-up political parties may offer some explanations for the difficult start-up of the economic transition in all the Central and East European countries.

Indeed, another legal system, different from the one inspired by collectivism, had to be conceived and enacted. A new institutional framework with a different attitude towards taxpayers had to be created in order to manage the problems of a society based on guaranteed private property, on the recognition of the right of individual initiatives and entrepreneurship, on equal chances for all the members of the society in a context of a strong internal and international competition. Solutions from internal and/or international sources had to be found for covering the costs of transition and for adequate management mechanisms in order to avoid sliding towards social or inter-ethnic conflicts, which are easy to manipulate in a society that is just rediscovering the rules of democratic living together (individual rights and freedom, as well as ruling principles and accepted self-limitations and obligations in the community), etc.

Of all the aspects of post-communist transition, *the change of mentality* and attitude of individuals, their social behavior is undoubtedly the component, to last longer. Inertia, the fear to change the (legal, institutional or even personal) context and to challenge new unknown horizons is one of the major issues that all the transition societies have to face. Within this context of discussing post-communist transition, it is generally accepted that the change of mentality and attitudes will take a number of years, equaling the lifetime of at least one generation. Without a systematic concern for a continuing learning process and an unbiased access to information for all people, without ensuring everybody's right "from cradle to grave" to education, in the spirit of the new liberal, competition based, internationally open society, this estimate (one generation for changing individual and collective mentality and attitudes) might be too optimistic.

One should not forget the specific background of moral values and of social and institutional culture in each of the transition countries, the different degree of social and political cohesion of the citizens of each country with respect to the transition problems. They all generated distinct experiences and results, variable paces and different sequencing of the transition process in these countries.

Among the Central and East European countries, Romania had and still has a special experience in the post-communist transition process. Many factors have been invoked in a quite impressive number of Romanian and international publications intending to explain the sinuous evolution of the main economic and social indicators highlighting the transition achievements of the Romanian society. A brief remainder may be useful in order to better understand the local organizational culture and the managerial behavior:

- Romania used to have a singular communist inheritance which can be defined by at least three aspects: (1) a centrally planned economy where the collective (state and co-operative) property produced almost the whole gross national product in large an very large companies, which proved to be very difficult to be privatized; (2) a political and bureaucratic structure of the society which *ab initio* eliminated any personal initiative and/or entrepreneurial spirit; (3) a society that lived in the 1980s in an almost complete isolation from the rest of the world, without any opportunity to keep contact with representatives of the intellectual representatives across the borders. The collapse of the communist regime and the dismantling of the state monopoly on businesses induced a severe crisis in the Romanian economy. Some of the analysts consider the 1989-1992 crisis even more dramatic as that of 1929-1933 in terms of social costs and fall of the general output. However, this time the crisis was not a supra-production one but a structural crisis, generated by macroeconomic disequilibria and by the slow change of the legal and institutional framework for doing business. In an interview dated January 2003, Mugur Isărescu, Governor of the National Bank of Romania (the Central Bank) comments the impact of the early reform measures and the perspective of continuing the process in 2003-2004 as follows: *"Naturally, these reforms present tremendous social problems for the part of the society affected. Because the industrial system was so integrated under Ceausescu, structural reforms have had a domino effect. Closing down a factory affects workers in other factories. Whilst it is very important that we complete the process of structural reform, the fear is that these could be very well delayed as the next election approaches."*

- The excessive involvement of politics in the emerging new social and economic life. One example would explain this peculiar aspect: the alternation of the governing political coalitions is for sure an important democratic achievement of the Romanian society after 1989, but it generated and still generates every four years radical changes in the reform policies and options (which is not only normal and acceptable, but also desirable in order to speed up the transition process) as well as in the technical and administrative staff, called to implement them (which means a delay in continuing the transformation process, as the newly involved technical and bureaucratic staff has to be trained and customized to the administrative work). It was only in the year 2000, after ten years of debates, that a *"Mid-term National Strategy for Economic Development"* gained the support of all the political parties from the governing coalition of that time and from the parliamentary opposition. Trade unions, cults and the Group of Economic Evaluation of the Romanian Academy also backed that strategy before being presented to the European Commission in Brussels as a commitment of the Romanian society to ketch-up the gap existing between European Union member states and Romanian performance indicators. Unfortunately, the National Strategy is limited to some macroeconomic options and does not specify clear goals for the sectors of the Romanian economy aiming at a realistic, competitive advantage based specialization and an equitable future position of the country in the European economy.

• During all these years of transition, trade unions had a negative impact on the reforming options of the successive governments, irrespective of their political color. By negotiating *"social peace agreements"* with the political parties, during the electoral campaigns before poling, the trade union federations manage to impose an inflexible attitude as regards restructuring and wage policy. Even if some of the Romanian governments announced during the electoral campaigns radical restructuring measures in order to shorten the transition period and to limit the reform costs, they ended up in re-analyzing, slowing down and even de-privatizing large companies, under the pressure of the trade union movements.

• A volatile legal and institutional framework (here including the regime of domestic and foreign investments) with frequent changes, in short and very short periods of time, accompanied by highly unpredictable inflation rates and a strong, almost continuous depreciation of the local currency (the ROL – Romanian leu) has permanently challenged not only the quite vivid local entrepreneurial initiative, but also the privatization process and the inflow of foreign direct and portfolio investments.

• The excessive and confusing taxation policy (domestic and foreign manufacturers complain to be confronted with almost 200 types of taxes and fees, however, Romania's VAT, corporate and income taxes are very similar to those applied in other countries). This policy has been rendered even more complicated by the central administration through the approval of numerous, but inconsistent measures of tax exemption, delays in the recalculation of installments to be paid to the state budget. This kind of conduct has, in its turn, at least three serious consequences: (1) Quick increase of corruption, fiscal evasion and a growing gray economy (estimated by some Romanian analysts as representing 35-40 percent of the GDP); (2) Increase of the volume of deferred payments, including taxes and other fees to be paid to the state budget (estimated to an equivalent of 40 percent of the GDP); (3) A reduced number of large foreign direct investments capable to influence significantly the rules of a competition based economy and to ask the relevant market monitoring institutions to fulfill their mission.

- The transformation process also generated an unemployment rate varying between 8 and 12 percent (a new phenomenon for Romanians that induced a lot of concerns and fears, as during the communist regime full employment was state policy) and a sharp decrease of the purchasing power of the families. People with incomes under the minimum living standards' costs have reached an officially estimated quota of around 40% of the total population, but 11.8% of the inhabitants live in extreme poverty, as they have lost their employment and the only income source. Certain vital sectors of the economy such as infrastructure and rural development have been neglected by the previous governments, despite the fact that Romania has 26 percent of its labor force working in agriculture and about 40 percent of its overall population is living in rural areas. The labor force conversion towards more value added activities is not effective in-off to cover all the (re) training needs and not well linked to the regional development policies, which leads to sever differences between the eight economic development regions of Romania as well as between the urban and rural area of the country.

- The absence of a logical and temporal sequencing of the various stages and steps of the transition process, together with the lack of sector strategies in the real economy have often endangered the external equilibrium of the country's economy. The following two examples might be illustrative for this affirmation. (1) In 1990 the government decided to apply a shock therapy by dismantling the pre-existing command and control structures and offering full autonomy to economic operators, without any guiding principles or benchmarks. By the end of the same year, companies and individuals turn to the state asking for financial support, as they were customized to do under centrally planned economy. Institutions and regulations specific to a market driven economy were only later introduced, in an attempt to prevent the total collapse of the economy. (2) The early privatization of the foreign trade and introduction of the free exchange rate, without making the necessary correlation with measures aiming at informing and stimulating the actors of the local economy in order to cope with this opening towards the world economy, generated a huge demand for hard currency and reduced to almost nil the official reserves of the country. Imports of goods and services are still higher then Romanian exports, showing not only the low performance of the economy in terms of international competitiveness, but also a lack of political willingness to adopt a clear strategy defining a possible future position of the country in the world economy, mainly related to a better defined specialization and orientation to high value added goods and services.

What was the result of such a confusing complex of influences and determinants on the Romanian transition process?

Most of the local and international macroeconomic analysts refer to a continuing *"stop and go reform"* during the period between 1990 and 1999 (see some relevant macroeconomic indicators in *Table 1*), and to an economy that is still confronted with some structural measures to be implemented, a dramatic level of poverty to be tackled with and an external growing imbalance to be corrected. By looking retrospectively, one can notice that Romania's economic policy was guided in the years between 1989 and 1999 according to the criterion of *"minimizing the costs of transition and obtaining rapid results in the output growth"*, without ensuring the design and implementation of consistent structural reform measures that would have created the needed background for a sustained growth in output and welfare. This explains why the growth achieved in the 1993-1996 period was not a sustainable one. The sinuous evolution of Romanian economy after 1989 show that financial macro-stabilization measures are just a prerequisite for the *"go"* process and has to be accompanied by adequate strategies in the sectors of real economy. Otherwise, the process will sooner or later *"stop"*.

Starting with 2000, Romania has registered a positive trend for almost all the macroeconomic indicators and this happens in a context of further structural reforming, of nearly scrutinizing the privatization process and of considerable reduction of inflation (the Central Bank is keen to follow a step-by-step strategy in managing the decrease of the inflation). It remains to be seen how healthy this new economic growth is as it is based mostly on an increase of the role of the external sector, rather than on a more active involvement of the local companies in businesses development in the domestic market. Another worrying aspect is the increase of the stocked output (without a clear selling perspective), which slows down the rotation of the capital in a context of high interest loans from the banks and of limited capability of the local companies to cover the effects of this slowdown.

Ziad Alahdad, Romania Country Director of the World Bank offers a short but consistent panorama of the current status of the Romanian economy in the following appreciation included in an article published in 2003 on the *"Work still to be done"*:

"Driven by aspirations of European Union accession, the recent turnaround in Romania's economic performance is now a matter of record. Macroeconomic achievements have been sustained, perhaps for the first time in the last 12 years, because they have been underpinned by key structural measures, thus breaking the legacy of "stop-go" reform.

Three sets of figures amply illustrate the achievement. In 1999, Romania had just completed three years of successive contraction of the economy, at about 5% each year. In early 1999, inflation levels were close to

100%. Reserve levels stood at around USD 1.7bn. Today these indicators look starkly different. We just witnessed the third year of economic growth: (after a 1.8 growth rate in 2000), 5.3% in 2001 and nearly 5% in 2002. This has occurred at a time when much of the world is in an economic slowdown. … Inflation is down to 17.8% (in 2002), lower than the 22% target agreed earlier with the IMF – still high, but a dramatic improvement nevertheless. As for the reserves, today they stand at over USD 7bn, including USD 6bn, representing nearly five months of imports, and that against a growing import bill.

These figures should dispel any myth that the reform has yet to take root. However, at the margin, there is some fragility, particularly in the implementation of structural reform, which demands urgent attention. The broadening and deepening of the structural reform agenda are critical determinants in Romania's ability to sustain growth in the future".

On the other hand, Romania has opened its economy towards international transactions. In relative terms (compared to GDP), exports of goods and services rose from 21.4% in 1989 to 33.7 in 2000, and imports grew from 16.7% to 39.8% in the same period. Imports continue to increase at a higher tempo as exports after 2000 and the trade balance deficit (see data in *Table 1*) remains at an "attention level" for the Romanian Government, despite the relative decrease of its macroeconomic significance. A structural analysis of Romania's trade in goods reveal that only 30-31% represents intra-industrial trade, the rest is imputable to inter-industrial trade. This finding expresses the structural and performance difference existing between the Romanian economy and that of the main partner countries. It is also a kind of invitation to invest in an economy offering huge opportunities in most of its sectors and branches. The invitation to adhere to NATO and the significant improvement of the ratings given by world wide recognized risk analysis institutions show that the business environment in Romania is now stable and manageable, despite the continuing reform process.

The changing evolution of the domestic economy in the decade after 1989 did not attract huge foreign direct investments (FDI) as it was the case of other more smoothly evolving transition economies from Central and East Europe. Romania shows a stock of FDI of only USD 350 per inhabitant, which is almost three times lower than the average value registered in the region. This might be also an invitation to (re)consider more carefully the direct and portfolio investment opportunities of the country. After liberalizing the balance of payments' current account and of the exchange rate in the early years of the transition, Romania committed itself to liberalizing movement of capital by 2004. This issue is still under debate, but the effort to catch up with other forerunning transition countries is remarkable.

Turning back to the domestic real economy and observing the guiding principles that an active, competitive economy in the global market has to follow, Romania should promote, besides macroeconomic stabilization measures, economic policies based on the companies' competitive advantage and improve the business climate both for establishing new entrance firms and for yet operating businesses.

It is well known that the macroeconomic behavior adapts itself in order to internalize the various categories of economic, financial and fiscal stimuli from the national and international business environment. Therefore, when formulating, implementing and monitoring the country's further development strategy, the Romanian Government will have to continue to promote instead of a macroeconomic approach a set of comprehensive measures favoring companies' development and boosting the investors' confidence. With a view to entering the single European Market and to compete in the global market, it is critical to create those favorable conditions for companies, that allow them to apply *"active and selective policies, oriented towards certain targets within the context of competition mechanisms on the market"*- as it was formulated by Aurel Iancu, Romanian economist and specialist in development strategies.

This request for a functional, competition based market economy is sustained by the fact that in 2001, privately owned companies cover more than 57% of the overall industrial output of the country, 96% of the agricultural production, 64% of the capital investments, 98% of the domestic trade, 67% of the total exports and 71% of the imports, 60% of the banking sector. By summing up, the private sector is responsible for 66.8% of the national output, from just 16.4% in 1990. Private ownership cover 54.8% of the total assets in the economy from less than 10% before 1990 and private companies ensure near 60% of the total number of work places in the Romanian economy, as compared to 22% back in 1995, or less than 1% in 1989. The rest of employees work in the huge public administration (including a quite large systems of health care and of education and training) and in the (still) state owned companies (some 2350 commercial companies and "régies autonomes" in 2001, as compared to almost 8300 units back in 1992). *Table 2* shows how quick the private sector evolved in terms of number of active economic actors in the Romanian market. Today 99.7% of the total number of active enterprises is private capital owned.

The measures adopted by the present Government in the sense of stimulating the private sector, offering advantages to big investors and at the same time of promoting entrepreneurial spirit and small and medium sized enterprises could be perceived as a sign that the *competitive advantage lesson* has been finally learned. Indeed, no sustained economic growth can be achieved while ignoring the need of an appropriate legal and institutional framework of the market, that favor the competitiveness of companies within a context of an increasing local and international competition.

What is the current expectation of the business environment in Romania and what is still to be done

to achieve a full functioning market economy?

While structural problems still have to be tackled, a strong and dynamic domestic private sector is emerging, supported by a growing influx of foreign direct investments.

The local banking sector appears to have more confidence and higher propensity to offer credits and loans to the private actors without the backing of the state. The 70% real increase in the last two years in bank lending to the real economy determined a growth of the total value of bank credits equaling 11% of the GDP. Even if this result of the rapid growth of bank lending in Romania appears to be less impressive when compared to the performance of other countries in the region, it is for the first time after 1989 that this aspect, specific to a well performing or at least curing economy, is registered also in this country.

The combination of these factors creates *"good prospects for long-term and stable development"* of the Romanian economy. In considering Romania's development perspective, Mircea Geoană, Minister of Foreign Affairs also observes: *"Creativity-based sectors have begun to lead the growth pattern over the past few years. ... Building upon this trend, the Government envisages a policy that support the development of innovative clusters based on public-private partnerships and capital infusion in education, research and advanced technology sectors. Such a policy can be parlayed into a significant role in the regional development agenda and support to some less-developed regions of the country"*.

Romania experiences currently its fourth year of continuing growth in output and of positive macroeconomic developments, but the benefits of the reform have little impact on the living conditions of the citizens. Moreover, the population did lose confidence in the capacity of the political class to solve in a reasonable way the rest of the structural problems and to come to an end with the post-communist transition. Indeed, the delays in implementing the most needed transformation measures, the frequent change of regulations, of taxation, of legal, financial and institutional framework, combined with a significant increase of corruption and bureaucracy generated a kind of resignation, of disinterest as regards the reform process in Romania.

Table 2 shows a significant decrease of the quota of the state owned enterprises. The World Bank private sector adjustment loan programs (PSAL I+II) and the permanent monitoring by the European Commission of economic trends in candidate countries have undoubtedly a positive contribution to this outcome. Still 60 large and very large state-owned companies are to be privatized or restructured. Each of them employs more than 1,000 persons and is responsible for a part of the state budget deficit. The enterprises of the energy sector continue to be state-owned. The lack of performance and the bad management are covered by central budget subsidies and the result is that during the winter, a significant part of the urban population spends more than half of the monthly salaries on utilities.

The lack of transparency in the privatization process, the unclear and contradictory legislation regarding post-privatization investment and human resource obligations of the new owner and accuses in the mass-media addressed to the governmental body in charge with privatization for favoring political clientele in deals involving medium-sized enterprises affect generally the business climate. One has to refer not only to the directly involved company but also to the many suppliers and clients in the local and international market, who relate to the given enterprise. This kind of confusing conduct affects image and confidence of businessmen and of investors in the local market. It also nourishes the corruption and bureaucracy.

The results of the *Transparency International Global Corruption Barometer* (announced on July 3, 2003) developed with Gallup International in July 2002 in 47 countries show that the main sources of corruption in Romania are by far the political parties (24.3% of the first choice votes), courts (20.2%) and business licensing (15.1%) and (the under-financed and un-performing) medical services (12.6%).

As corruption became a prevalent problem for the Romanian society, the Government assumed in 2002 its responsibility in the Parliament by announcing a package of *"Clean Romania"* legislation. The Romanian Transparency Association, however, has argued, *"many elements have nothing to do with corruption"* and other civil society NGOs have insisted on showing that *"the legislation is contradictory, full of omissions and could lead to different interpretations"*. The political dialogue between parties represented in the Parliament was also affected and a censure motion against the Government was submitted, without having the necessary number of votes to dismiss it.

The outcome of that huge hyper-politicized debate and the current perception of corruption in the Romanian society are revealed by the May 2003 *Public Opinion Barometer* developed by the Gallup Organization Romania: corruption is ranked on the third place (with 30% of the total opinions expressed – multi-options were accepted), after poverty (61%) and unemployment (42%). Public criticism refers to inconsistency of the measures to fight corruption (69%) and to the lack of capacity of the courts to offer equal treatment (69%). In fighting corruption, 21% of the respondents consider that it cannot be reduced and another 40% expressed the opinion that it will be only marginally reduced, while only 29% appreciate that corruption will be significantly reduced (the rest of 10% is divided between those considering that corruption can be entirely eliminated – 4% and those non-responding – 6%).

In stead of concluding remarks on corruption fight, it is important to mention that 72% of the respondents consider that after almost one year of implementation of the *"Clean Romania"* anti-corruption package, the Government did not act or has adopted insufficient concrete measures to fight this social *flagellum*, against only 15% appreciating that measures were numerous and/or extremely numerous.

To be honest, one has to mention that the Government took some significant steps in tackling corruption, administrative capacity and judicial reform issues. The gradual but continuous withdrawal of the State from the economy (by the commitment to continue the privatization and restructuring process in the remaining state-owned medium sized and large commercial companies), the e-based purchasing procedures for the public sector, the design and implementation of comprehensive regulations and the set-up of appropriate institutions meant to monitor permanently the market functioning are examples of governmental initiatives aiming at the achievement of a real functional domestic market. But these initiatives and measures are mostly adopted under internal or international pressure. *Therefore, the whole governing process appears to be a more reactive as a proactive one.* There is also a lack of communication, a lack of democratic exercise in presenting and explaining the different regulations and a significant distance between the design of appropriate legal and institutional framework and its implementation. In one word, *the institutional and governance reform still has to be performed.* It includes judicial reform, civil service reform, legal and regulatory reform, public expenditure reform, and decentralization of government to the local levels and bodies, as enumerated by the Country Director of the World Bank when presenting the intention of the institution to assist Romania in its efforts by means of Programmatic Adjustment Loans.

It is important *to have a new discourse on the topic of reforming programs and to have a honest dialogue with the representing NGOs of the civil society* on this issue, as hyper-politicized discourse proved to be counter-productive: the further improvement of the legal and institutional framework, including corruption fight, has to be done not for the sake of the NATO or the European Union or the World Bank, but in order to have a normal functioning of the Romanian society, to benefit with equal chances from the democratic freedom Romanians fight for, to improve the competition based market regulations for running businesses and for new comers, to develop a sense of responsibility, solidarity and cooperation between the individuals and other actors (companies and institutions) of the Romanian society.

Current practice of Romanian and foreign companies, including affiliates of the multinational corporations (MNC), shows how easy they learn to profit from the created regulatory background and to go beyond it and enhance their competitiveness in making use of ways and means related to the social and environmental concerns of the host communities where they are located.

Corporate Social Responsibility as a Tool for Enhanced Competitiveness of Romanian and Foreign Capital Companies in the Transition Context

Economic analysts and corporate management experts might wonder how corporate social responsibility (CSR) fits with current problems and development perspectives of companies in a country like Romania, where market economy was recently (re) established, where actors in the emerging markets could make use to their profit of the incomplete regulations and insufficiently effective monitoring institutions as well as of asymmetric access to market information.

During the first decade after 1989, the strongly under-capitalized Romanian citizens and economic actors seek to maximize their immediate incomes and tend to neglect the long-term perspectives. Some of the analysts compare this first decade of the transition period to that of *"primitive accumulation of capital"*, others to the *"skimming"* of the short-run opportunities apparent in an emerging (insufficiently regulated and monitored) market by means of the *"single (unique) transaction"* between the same contractors. In the given business environment, the company management is interested only in maximizing the immediate revenue, without considering social costs and/or impact on the natural environment of the closer or wider community where the enterprise is located.

But the economic and social background of transition countries is quickly evolving and the conduct of that decade is now history for many of the enterprises present in the Romanian market. It is generally accepted that a company might be defined as a combination of tangible and intangible assets in order to perform a specific activity with a view to covering a real or a potential demand on the market and to obtain a net income from it. Under the former regime, tangible assets were critical for an enterprise that was constrained to fulfill material output objectives. Intangible assets of a company were considered only as eventually needed accessories as the state guaranteed the needed amount of input factors and the same state took over the output. In the current context:

(a) of increasing inter-connectedness between economic actors and between countries (including transition countries),

(b) of consistent critical externalities for all types of enterprises confronted with an increasing competition in the local and/or international market,

(c) of tremendous impact of the new information and communication technology on each company, in terms of strategic development and of organizational behavior,

the strategic management relies more and more on the intangible assets in achieving corporate or market goals. These refer on one hand to company advantages given by the access in real time to accurate information, by the intellectual capital of the firm's human resources, by the good reputation and image in the direct contact with clients, shareholders or suppliers, and on the other hand, these refer to the moral capital of the company, to the ethical conduct of the managerial team, to the transparency of the financial accounts by voluntary reporting to the interested circles, to the respect of the employees' rights, to the use of environment friendly technologies, and last but not least, to the CSR promoted in contact with the members of the hosting community.

Romanian managers do not yet recognize a general need for CSR. Those having previous experience in the centrally planed economy show strong resistance to consider CSR as an appropriate means to improve the company's competitiveness, as most of their management education concentrated on operations management aiming at achievement of the state-planed output of the company. Other local managers, addressing CSR, tend to account only the costs side and often ignore the added value of CSR. It is true that SMEs cannot absorb the costs of huge advertising campaign (but they do not have to do so) or of extended marketing programs. For the almost 1 million active Romanian SMEs so closely related to their direct costumers and to the day-to-day community life it is only a matter of personal initiative to identify needs and to find means and ways to be socially responsible. The difference between large MNCs and local SMEs is mostly in terms of how each one is marketing its CSR activities. The contribution of the local SMEs is generally more focused on local and personal issues and do not need advertisement budgets as the CSR initiatives of the world wide active MNCs. Both categories of companies could have a substantial contribution to the improvement of the local/regional community in terms of social and environmental co-habitation and mutual responsibility.

In other words, Romanian current and future managers need to develop their understanding and capacity to integrate CSR concepts and attitudes in their business strategies because a well designed CSR can lead to long-run profits, competitive advantage, innovative thinking, and overall health of the firm. They have to realize that intangible assets related to CSR initiatives have a strong value added effect on the producer's brand and on the trademarks of their products. After a decade of quantitative increase in the general consumption, many Romanians seek to buy goods and services with a special brand, which give complementary satisfaction to the consumer and offer a specific good feeling of a responsible citizen of the local (sometimes of the global) community by choosing to make use of those specific products that respect social, ethical and environmental norms. The competitiveness of a company is currently determined, among other factors, by the socially responsible management, by the environment friendly technology, by the philanthropic and charitable initiatives, by the educational support for the members of the community, by the monitoring of the suppliers respect as regards the existing market, civil and environmental regulations, by the ethical transparent corporate management of the given firm.

In combating the inertial attitudes of actual Romanian company managers, the dissemination of information on successful CSR initiatives and programs proves to be a very efficient means (see the last paragraph of this paper referring to CSR campaign of the American Chamber of Commerce in Bucharest).

The initial training and the life long learning programs for company managers should have a critical contribution in changing perception and attitudes towards CSR. But even local educators are sometimes not familiar with the complex and dynamic content of the CSR concept. In leading Romanian business schools, topics related to sustainable development, environmental economics or business ethics or corporate governance are currently presented in a professional manner by young and middle-aged educators, but the CSR concept is still missing from the textbooks and from the syllabi of company management disciplines. When addressing social responsibility, the older educators still refer only to the responsibility of the employer to ensure a proper ergonomic workplace for each employee. But this represent only a small part of what a company could and should show in terms of CSR and the rest of the approach is of overwhelming importance for a responsible citizenship of the company, be it a large one or a personal affair (a micro-enterprise without employees).

In my opinion, SMEs have a special role in serving interests of the citizens living in their neighborhood, as they are customized to deliver personalized products and/or services to their clients. This intimate relationship to the client is for the SMEs an excellent source of relevant information referring to specific needs or concerns that could be solved with a minimum effort by the company, without any special promotional campaign, without being necessarily familiar with the concept of CSR. Such entrepreneurial initiatives, which are socially and/or environmentally responsible have a strong impact in the local community and improve the image of the respective entrepreneur. SMEs often manage and make operational their societal impact in a more intuitive and informal way than large companies or multinational corporations do.

Beyond philanthropic and charitable contributions, more and more firms (including SMEs) produce and use as an advertisement tool systematic and detailed statements about their CSR activities, about the cross-sector partnerships they set-up in order to tackle local or regional community concerns and to promote adequate 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. In other cases, members of the executive board and employees of the company are involved in activities that rise 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.

The dynamics of power distribution between the private sector, the government and the civil society also shapes more and more the corporate citizenship as *"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"*- as mentioned by Djordjija Petkovsky, senior expert of the World Bank Institute.

In Romania, a country with an emerging market economy, CSR should be considered an integral part of the general development agenda of the government and of businesses, but also as an appropriate tool to strengthen social cohesion and community awareness. CSR is an indirect means to fight non-ethical conduct in the market and to combat institutionalized bureaucratic corrup-tion in the public administration.

In the current context of a transition country, the background for corruption is given by the fact that powerful stakeholders from the business circles, the political milieus or trade unions capture the (weak) state and manipulate it in order to misuse the (weak) market with the sole scope of immediate huge profits. This is why the state should quickly finish the design and implementation of a comprehensive package of regulations and institutions capable to ensure a permanent and effective monitoring of the conduct of actors in the market. As a self-regulating mechanism, a good functioning market is by definition a tool to fight corruption, as the later impedes fair competition among competitors.

On the other hand, the government should advocate social values of responsibility, honesty and fairness in businesses. It is generally accepted that companies cannot be forced to adopt CSR as a strategic tool of their management, even if there are attempts to oblige corporations to report systematically on their social and environmental initiatives (in France, for instance). Under these circumstances, it might not be appropriate for the Government to regulate the social responsibility of company practices or to set minimum standards for CSR, but it should offer tax incentives and other facilitations to foster CSR and to create an environment in which companies feel motivated to practice CSR. A multi-stakeholder system (local public administration, businesses, consumers, civil society representative NGOs) could facilitate the dissemination of successful experience and of good practice examples.

As current and future managers need to be trained, educational institutions should instill values of honesty, fairness and social and environmental responsibility in the leaders, especially in the future leaders and executives. If management inertia of the currently leading generation proves to be quite resistant to change, at least the generations of tomorrow should trust in the power and legitimacy of the cooperative effort of the government, consumers, NGOs and businesses to engage in a more equitable growth. The already existing international codes of conduct for companies could be a good starting point in persuading future corporate leaders on the benefits resulting from CSR.

How to implement Corporate Social Responsibility in Romania's emerging market economy?

It is well known that all around the world, civil society, NGOs, academic communities and/or governments have driven from outside the private sector the CSR agenda. Indeed, consumers, investors and the media exert continuous pressure on companies to pay more attention to their employees, clients, communities and environment, to have an ethical conduct in producing and selling products and services, in limiting pollution effects on natural and social environment, in not using children labor in the manufacturing process or in not performing life-risky experiments on animals and so on.

However, the implementation of CSR driven strategies differ between countries as a result of many determinants, among them: the level of economic development, the organiza-tional culture and communication particularities between individuals and between those and organizations, the distance from the central power of the state and the effects of administrative decentralization, the degree of civil society activism and its involvement in sustainable and ethical development of businesses, etc.

The American approach of CSR is a liberal one. CSR is market driven as supply and demand is relatively atomized in a stable and well-regulated market. In such a context, businesses promote CSR in order to achieve corporate long-term profits and competitive advantage by applying innovative strategies that respect but go beyond market regulations in order to attract and stabilize clients. American firms include their social and environmental responsibility message in the *"image building"* of the company and/or in the product advertisement they offer in a competitive market. CSR has its roots in community activism for human rights and for equal treatment of the employees, in anti-war and anti-apartheid movements. Even the modern outcome of the CSR – the ethical investment funds – has a history of more than 30 years in the American economy and proves to be a strong instrument in offering benchmarks to a large number of individual and institutional investors.

In Europe, social policy and consumer rights' protection is traditionally subject of government regulation. Public institutions monitor the respect of the rules and principles, which are implemented with the support of public money. The European approach of CSR has been influenced by national regulations, but recent changes in the business climate and in the perceptions of actual or potential customers, employees and investors have gradually transformed the approach, *"empowering workers interests and consumer pressure groups and putting business behavior under microscope, as never before"* - as recently recognized by Anna Diamantopoulou, EU Commissioner responsible for Employment and Social Affairs. She commented on the further perspective of CSR in the specific context of the European Union institutional framework, as the number of European companies reporting on their social and environmental conduct has exploded during the last few years. The European Commission (EC) is confronted with several important issues of public policy referring to CSR: (1) The EC has to consider if there is a need for, or a benefit from public policy intervention and, in particular, how far is there any specific added value from a possible EU level action? (2) If there is scope for purposeful intervention, how can it develop and define the rules of the game in practice? (3) How could CSR initiatives be related to existing social and environmental legislation in the EU member states? Beyond the theoretical debate, the EC sees CSR as *"an important tool, which demonstrates that businesses and social partners can and will do better for themselves and for others too. Demonstrating that responsible corporate behavior is part of a new and better way of managing change, reconciling social progress with improved competitiveness"*, CSR is perceived in Europe *"as being essentially based on voluntary action and cooperation. Even though there is obviously some need to encourage convergence across Europe given the pace of European integration, on the one hand, and the challenge of enlargement, on the other"*.

As a EU candidate country, Romania has two major objectives related to the implementation of a socially and environmentally responsible corporate management:

(1) In order to catch-up with the gap existing between the Romanian companies' management and that existing in advanced economies, an infusion of *CSR culture* should be promoted as a means for the reconciliation of economic, employment, social and environmental interests. Not only in companies and in educational institutions, but also in the civil society and in the media CSR related debates should become a regular series of public events (as it was the case of the Open Society Foundation together with the "Capital" weekly magazine) with an aim to awake and make effective the interest of consumers and of investors for their capacity to influence in a decisive way the general improvement of the social and environmental background of the community and to the strengthening of social cohesion and community awareness and responsibility.

(2) In order to respond to the need for convergence across Europe, the "*acquis communautaire"* related to CSR has to be as soon as possible internalized in an effective way. That means to adopt similar regulations and tax incentives as EU member states have, measures that stimulate and encourage companies to formulate and implement their socially and environmentally responsible policies (eventually to assist them in the design of the first attempts to introduce CSR in their current business administration). It is important to keep pace with the expected revised position and the new regulation intended by the EC when addressing CSR public policy concerns. That means, at the same time, to persuade companies to adopt ethical codes of conduct, to report on their financial results and on their socially and environmentally responsible initiatives, to have a fair conduct in the competition for new clients and to promote a transparent dialog with the local community.

As regards MNCs operating in the Romanian economy (or in another economy as that of the home country's economy), it is important to understand that CSR cannot be uniformly applied in all the countries. In order to achieve the expected benefits, local cultural, behavioral and even purchasing power aspects have to be carefully considered when addressing CSR issues. CSR investments of the multinationals will become a strong base for sustainable development only in adapting general requirements and/or principles to what the local market is prepared to accept. In this respect, MNCs could and should be more active and contribute to quality education in their own field of interest and labor force needs. Aiming at business development through long-term investment and sustainable community development, they have to support the introduction of a culture of lifelong education and training, and of learning how to learn for the "knowledge economy". The recognized good quality of the initial education in the Romanian schooling system creates a promising perspective for this kind of CSR involvement of MNCs and of large Romanian companies.

Cooperative actions of companies with universities and other educational units, as well as with NGOs and local administration aiming to bring closer the educational contents to the actual needs of the employers has an immediate impact on the involved personnel and on the teaching team, with an incredible multiplier effect in the society. They make persons more self-confident, more proactive in contact to social or environmental concerns, more creative and also more demanding and knowledgeable.

In the current coordinates of the income policy in Romania, the development of ethical investment funds is in an initial phase. Nevertheless, positive experience in managing similar funds in USA or in EU member states has to be considered by Romanian companies as a future opportunity to increase their competitive advantage.

CSR learning process in Romania

For every post-communist transition country, CSR is a new concept, which finds in a quite slow pace adherents among individuals or companies, within the inertial context of inherited passive attitudes, group interests driven human relations, and particularly, of a society confronted with moral disappointments and/or physical shortage in covering day-to-day living needs.

It is not surprising to hear on the street or to reed in the press opinions like *"nothing is evolving in the right direction", "nothing is well operating", "the society is atomized and lacks of human solidarity", "absence of community spirit", "businesses are oriented only by short-term profit goals", "NGOs and, more generally, the civil society is under-developed and inactive"* etc.

It is clear that Romanians have still a lot to do and to achieve in order to become a wealthy market economy doubled by a strong social solidarity. But in such a social climate *it is critical to* *show that not everything is wrong*, as encouraging signs of a new track towards a more equitable and sustainable growth are present and macroeconomic indicators show that some positive result has been registered, despite the global economic climate, which is by far not supporting the internal efforts.

In a context of heavy impoverishment of a significant part of the population, in an economy that still struggles for a smooth and wealthy growth of its private sector, *there are initiatives of natural persons and of companies that confirm the availability and willingness to address concerns and needs of individuals and/or communities in difficulty*, to support the development of a strong, coherent civil society, to assist educational institutions and medical care units to better perform their commitments.

These activities and initiatives have to be largely disseminated locally and nation wide. A multiplier effect is the natural consequence of sharing positive experience and ways to overcome mistrust, inertia, resistance, and operational difficulties in implementing community programs. By making them publicly known, *a learning process* is initiated, and more and more individuals and companies will try to experience their own ideas. Charitable initiatives are welcome, but human solidarity and community cohesion become consistent and sustained by developing long-term programs with continuous involvement of both financial and human assistance.

Multinational corporations that entered the Romanian market and currently operate successfully their local or sub-regional businesses have an important mission in demonstrating their interest and availability for the host community concerns and needs. Of course, CSR is not and cannot be seen as a panacea that could solve all the existing or potential problems. Showing interest for local issues, allowing for personnel involvement in community activities, supporting community program design and implementation, reporting on their ethical conduct by choosing environment friendly technologies and consumer health oriented products might have a *positive "contamination" effect* on local businesses. This was the idea behind a USAID initiative back in 2002, as it decided to support *a CSR project in Romania aiming at clarifying the concept for local managers and at assisting them to implement first attempts of CSR in their business plans.* In this respect, the World Learning Inc. PTP Romania has been involved as a consultancy agency and the Chamber of Commerce and Industry was chosen as an appropriate local partner, as it has a nation-wide coverage. Five MNCs operating in Romania have presented their CSR experience with local communities: McDonalds, Kraft Foods Romania, Procter & Gamble, CISCO Systems and Eli Lilly. As the SMEs sector was not directly addressed, one could appreciate this first attempt to introduce CSR concept and experience as a limited success. The "learning by doing" of the Romanian companies invited to implement CSR in their current business practice encountered difficulties, as they had to adapt the experience of large corporations to their limited financial and human resources. But the idea to start a CSR learning process in Romania is still highly valuable. Romanian NGOs, foundations and professional associations became aware of the added value of CSR for a transition society and newspapers and business journals frequently refer to CSR initiatives and outcomes.

Another CSR event – *the national contest* ***"People for People"*** *followed by the gala awarding the most impressive and effective nominees* – was initiated and designed by the American Chamber of Commerce in Romania (AmCham) in partnership with the Romanian Community Relations Association (ARC). The National Volunteering Center Pro Vobis, the Romanian Donors Forum, the European Union through the Phare Program and The Charles Stewart Mott Foundation also supported the initiative. This is a very ambitious project that proved to be, on its first edition, an appropriate means, with an unexpected large positive impact on the Romanian society at large.

Its fundamental aim is to convince people and businesses that there are tangible and intangible reasons to affirm that people in Romania has not given up the sense and spirit of solidarity, that businesses can have and (some) show to have an active, socially and environmentally responsible management, that NGOs and the larger not-for-profit sector plays a critical role in the sustainable development, as an important partner of the public sector and of the business oriented sector.

The start point for the co-organizers was the *recognition of donations, sponsorships, volunteering and corporate social responsibility as defining dimensions of community cohesion* expressed by natural and moral persons living and working together in the same location/region.

The *target groups* consisted in companies, non for profit organizations or natural persons who, during the period between January 2002 and March 2003, have carried out community programs and/or community marketing programs, have offered donations or sponsorship in cash or in kind, have undertaken fund-raising programs for the benefit of some organization or cause (without being related in any way to political parties or people holding a political office) and/or have developed or have participated in volunteer programs. Self-nominations and nominations by third parties were encouraged.

An *independent selection Jury* was set-up to evaluate every registered nomination on the basis of *specific criteria* distinctively formulated for each of the four categories of programs.

The 2002-2003 edition registered a great success, as *110 projects, institutions, companies (including local SMEs) and natural persons* (leading and/or carrying out projects in full observance of the legal conditions) were enrolled as participants.

Four categories of programs have been designed in order to cover the defining dimensions of community cohesion attitudes of representatives belonging to the relevant target groups, as it is presented in the following lines.

Donation Programs developed by:

o Corporations for donation or sponsorship, in cash or in kind, offered by companies employing at least 250 people

o Small and medium sized enterprises for donation or sponsorship, in cash or in kind, offered by economic actors employing less than 250 people

o Natural persons engaged in donation or sponsorship in the benefit of a cause or a non-for-profit organization.

The Jury applied the following *selection/evaluation criteria*:

- The amount donated was used for clearly identifiable and quantifiable purposes or projects.

- The support is granted systematically and in the long run, as part of a coherent donation strategy.

- There is a long-term partnership between the donor and the benefiting organization or institution, in full compliance with ethical principles and without involving any direct financial benefit for the donor.

- The donation is accompanied by know-how transfer showing the beneficiary organization/institution how it can improve its financial wealth in full compliance with the legal norms in force.

Fundraising Programs (for not-for-profit purposes) developed in form of:

o Institutional fundraising campaigns carried out by companies, NGOs, educational institutions and units, medical care institutions and other not-for-profit organizations without any political obligations

o Natural persons coordinating fundraising campaigns for the benefit of a community project or of a company, organization or foundation intending to use the acquired means for community purposes.

The Jury used the following *selection/evaluation criteria* for this category:

- Observance of the transparency requirement in form of an annual narrative and financial report and of an internal financial audit procedure

- Involvement of the beneficiary natural or moral person and of the community representatives in the program conception and implementation

- Creativity in organizing the fund raising campaign with full observance of ethical conduct in raising funds and using the results of the campaign

Volunteer programs rewarding:

o Volunteer work to the benefit of the community or of a non-for-profit institution, carried out by company employees with the consent of the company, during the working hours and paid by the employing company

o Natural persons coordinating volunteer programs that involve either several companies, organizations, foundations and associations or several categories of volunteers working in a particular project driven by community concerns or needs o Public volunteering campaigns initiated by a company, organization or institution and involving individuals of the general public as volunteers, for the benefit of a community cause or project.

Jury selection/evaluation criteria:

- Personal abilities used by volunteers, a special attention being paid to high qualified activities of the volunteering persons

- Scope of the volunteering program: number of hours invested, number of participating persons or percentage of employees involved in the project, number of benefiting persons/organizations, etc.

- Importance of the community cause targeted by the volunteering program and significance of the results achieved

- Creativity of the campaign coordinator in mobilizing the volunteers.

Corporate Community/Social Programs aiming at:

o Community programs that do not make reference to brands, do not involve sampling or other corporate elements, but may be developed under the name of the initiating company for the benefit of the whole local community or of one or more not-for-profit institutions and/or organizations

o Community marketing programs meant to promote the brand(s) of the initiating company, involving consumers and raising funds for the community.

The Jury applied the following *selection/evaluation criteria*:

- Clearly identifiable and measurable outputs of the budget used for achieving the projected purposes

- Existence of a coherent, long run corporate strategy mentioning systematic support offered to the community or to the targeted social group

- The identification of the topics approached, as well as planning and implementation were undertaken with the partner/beneficiary organization or institution in full observance of ethical norms.

As the first edition of this annually intended event turned to a success story (see awarded nominations and special awards on the web sites of the contest co-initiators: www.amcham.ro and, respectively, www.arcromania.ro), and the media reserved special presentations of the successive steps and phases of the country-wide contest and of the Awards Gala, the seeds for an even larger participation of local and international companies in CSR programs and projects seem to be well put in the soil of the Romanian economy. More nominations and a diversified participation in the projected future editions of the *"People for People"* contest are to be expected.

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Table 1

Romania's macroeconomic performance indicators (1996 and 2000-2003)

Item	1996	2000	2001	2002*	2003**
GDP-at market prices USD billions	35.33	36.89	39.75	44.88	47.88
GDP real growth -%	3.9	1.8	5.3	4.5	4.9
Population - millions	22.6	22.4	22.4	22.4	22.3
GDP per capita - at PPP - USD	6595	5533	5832	5948	n.a.
Net monthly average wage - USD	138	133	147	162	n.a.
Net monthly average wage - Euro	110	144	165	171	n.a.
Annual inflation rate %	56.9	40.7	30.3	18.4	12.0***
Unemployment rate %	6.6	10.5	8.6	9.0	8.3
Exports - USD billions	8.09	10.37	11.39	13.87	15.04
Imports - USD billions	10.55	12.05	14.35	16.48	17.83
Trade balance - as % of GDP	- 7.0	- 4.6	- 7.4	- 5.8	- 5.8
External debt - as % of GDP	23.6	28.9	30.6	30.2	31.1
Foreign exchange reserves - USD billions	2.1	3.9	5.4	7.2	7.8
Exchange rate -annual average ROL/USD	3862.9	19955.8	26026.9	31255.3	36000

Explanations: * - preliminary data; ** - Oxford Business Group forecasts; *** - revised forecast of the National Bank of Romania, n.a. - not-available data.
Source: IMF, National Bank of Romania, National Institute of Statistics, Oxford Business Group.

Table 2

Distribution of active economic actors in the Romanian market according to the ownership
(1992, 1996 and 2000-2001)

Item	1992	1996	2000	2001	2001/1992 % Change in number of enterprises
Total number of active enterprises, out of which, in %:	286,832	574,464	711,429	722,961	+ 152
- State-owned enterprises	2.89	0.89	0.33	0.33	- 71
- Private commercial companies	46.66	54.72	44.17	43.88	+ 137
- Private entrepreneurs	50.45	44.39	55.50	55.79	+ 179
Out of the total active enterprises, companies with foreign capital	6.44	8.34	10.96	11.76	+ 360

Source: *White book on SMEs in Romania*, Bucharest, 2003