

## CSR AND PROFITABILITY IN ROMANIAN IT SMES

### Sebastian Ion CEPTUREANU

PhD, Assistant Professor,  
The Bucharest University of Economic Studies

E-mail: ceptureanu@yahoo.com



### Abstract

*A growing number of European small and medium IT promotes social responsibility strategies as a result of social pressure, environmental and economic crises. These businesses seek to influence decisions of the parties that interact: employees, shareholders, investors, customers, the public and non-governmental organizations. In this respect, companies are investing in their future and it is expected that a voluntary commitment that we make to help increase firm profitability. The European Union attaches great importance of corporate social responsibility it can contribute significantly to the strategic objective set in Horizon 2020 EU the most competitive and dynamic knowledge-based economy with a high level of employment and social cohesion work. This paper is a study of the CSR practices of 121 small-size companies drawn from IT sector in Romania. The empirical analysis shows a high level of incidence of CSR in these SMEs, particularly on the factors that translate into management benefits. Thus, the practice of CSR is seen to both correlate and contribute to the management efforts of the SMEs.*

**Keywords:** corporate social responsibility, SMEs, IT

### Introduction

Although the Corporate Social Responsibility (CSR) movement has grown in recent years, there is a simmering debate if CSR is a necessity for business. It is often said that business is the wealth-creating body of society. Hence, its prime role is to produce the goods and services that people need in their daily lives. Friedman (1970) wrote a famous article for The New York Times whose title summed up its main point: "The social responsibility of business is to increase its profits." He argued that most often the principle of social responsibility is usually a way to justify an otherwise irresponsible action.

More recently, Henderson (2001), emphasizing the anti CSR arguments, states that in an open and competitive environment business further the general interest: "... by responding to the demands of their customers, by keeping down costs and prices, and through timely and well-judged innovation. Not only does such an environment make for better enterprise performance, but at the same time [...] it opens up opportunities for ordinary people including the poorest: prosperity and economic freedom go together". He further adds that

responsible behaviour need not translate into endorsing the current doctrine of CSR; however businesses should act responsibly, and should be seen to do so. Elbing (1970) points out that CSR has been approached as “value of business” and has been discussed academically in universities, pragmatically by businesspeople, politically by public representatives, and approached philosophically, theologically and even aesthetically. From all these discussions, Elbing (1970) states that two distinct positions of CSR emerge:

- a. The singular perspective- i.e., to maximize the economic profits of the firm for its owners.
- b. The other perspective- that the businessman has a social responsibility more important than profit maximization.

While defining the social responsibility framework, Walton (1967) states, “their common denominator is a rejection of enforceable obligations as the only criteria of a corporation’s responsibility to society.” He further adds, “there are costly corporate responsibilities to society that do not necessarily contribute to long-term profitability of the enterprise.” However, he does conclude that there is an abundance of literature advocating a different viewpoint to the classical economic theory or economic framework that considers that businessmen do have a social responsibility, a responsibility other than making money for themselves and their stockholders.

Bowen (1953), similar to Elbing (1970), had recognized two basic principles that relate to the current arguments on social responsibility. The first principle builds on the notion that business is for society and hence would necessarily need to be governed by rules. The second principle attempts to direct attention to the role of business as a moral agent of the society it is within. Although this position is not given due attention by Friedman (1962), his forceful argument against CSR stirred the academic community and paved the way to explore the role of business in society.

In the present, CSR is quite often seen as the business way of pursuing sustainable development and attaining the “triple bottom line”: planet, people, and profits. The triple bottom line is essentially a measure beyond the economic value a business adds, which includes social value of business. This means giving equal consideration to economic and social goals and commitments, and allocating sufficient resources to research that supports these commitments.

Holme and Watts (2000) use the following definition: “CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

However, the most common understanding of CSR comes from the definition used by the World Bank which states the commitment of business is to contribute to sustainable economic development along with employees, their families, the local community and society at large and to improve their lives in ways that are good for its business and for development. This definition seems most comprehensive, as it provides clarity on the business role of CSR. This is because business cannot be seen in isolation, as the primary factors that make up a business are its employees and the society in which the business functions.

From the above, we notice that the strong arguments and mixed point of view on the social responsibility of business people and the value issue of business cover a very wide

spectrum. Further, the basic premise for such arguments is based on the fact that it has not been possible to determine the impact on the financial performance of organizations adopting good CSR behaviour (Nicolescu O. et al, 2009).

### CSR, SMEs and profitability

The 1970s laid much emphasis on finding a correlation between CSR and profitability. This may perhaps have been due to the fact that the proponents of CSR were outnumbered by the ones who believed that business had only one moral duty, i.e., to make profits. Hence, empirical evidence was the only answer to ensure the acceptance of the belief that socially responsible behaviour is good for business. Numerous research studies (McWilliams and Siegel, 2000) and exhaustive literature search (Aupperle, et al., 1985) have been undertaken, with no clear evidence of a positive correlation between CSR and profitability.

Since the 1970s, a number of CSR models have been developed. The most popular and well-cited are the three-dimensional model (Carroll, 1979); the synthesis model (Wartick and Cochran, 1985); the stakeholder model (Clarkson, 1995); and the integrative model (Wood, 1991), all of which provide a description of activities related to social responsibility. Each model has attempted to explore the varied dimensions of CSR and measure the nature and extent of social responsibility in an organization. It is observed that none of the above models are 'stand-alone' answers for measuring social performance in an organization. Further, assessment of CSR activities in an organization involves identifying the activities based on the different stakeholders as Clarkson (1995) notes, "at any point of time one or more stakeholders may be of importance to an organization and hence factors of influence would vary from time to time."

Despite the lack of any empirical evidence of a direct or a visible correlation between CSR and the economic performance of an organization, it has been accepted and acknowledged that CSR (Piercy and Lane, 2009) does impact on the policy and behaviour of companies throughout the world. However, not much attention has been devoted to the link between CSR and management. If one were to expand the focus of profitability in an organization, it would include elements that contribute to long-term financial success, such as reputation, brand value, employee loyalty, strong and long-lasting relationships with stakeholders, etc. (Ceptureanu SI et al, 2015b).

In other words, the CSR activities present benefits at two levels: one for the company as stated above, the other for the society, as many of the CSR initiatives are operative in and around the vicinity of the business. Hence, the community around it is likely to benefit as a result. The impact of these CSR initiatives on customers and other stakeholders is a key to performance improvement in a company.

Although the correlation between CSR and profitability is yet unproven, there have been some efforts to study the links between CSR and management. In fact, there is a growing interest among management practitioners and CSR advocates to develop a framework that could integrate CSR and management.

Vives and Peinado-Vara (2003) found that there is a business case for CSR; in other words, that responsibility generates economic returns highlighting those cases that have brought about both improvements in the competitiveness of firms, whilst, at the same time, improving their relations with stakeholders: customers, suppliers, human resources and communities (Ceptureanu SI, 2015a). The deliberations exhibited the positive impact that

CSR has within the firm, how it can lead to improved competitiveness, and, therefore, profitability.

The concept of “corporate iceberg”, which essentially denotes the increasing risks of the intangibles that surround an organization as against the tangible financial profits, goes to the extent of cautioning companies of the potential threat to their reputation and social license to operate if they fail to address ecological and social responsibilities (Willard, 2002).

The present era of globalization has moved the spotlight from bigger companies to small and medium enterprises (SMEs). However, the vulnerability of the small firm (SMEs) changes with the environment, and its survival depends to a large extent on how it interacts (Ceptureanu EG, 2015a). Here, the environment denotes a larger frame and includes not merely raw material demand and supply, but also the human and financial resource and its governance mechanism within and outside the enterprise (d’Ambiose and Muldowney, 1998). The increase in globalization and the direct supply chain relationship is clearly affecting SMEs globally (Popa I et al, 2009; Ceptureanu SI, 2015b). This includes business ethics, workplace practices and labour issues, company values, health and safety considerations, etc. Furthermore, the effect of globalization is also impacting the production processes and trade and providing opportunities for innovation and technology development.

As mentioned earlier, market forces are driving the need for organizations to address CSR in a credible manner and motivating companies to change their behaviour and use CSR as a strategic instrument (Ceptureanu EG, 2015b).

Conventional thinking has led us to believe that larger companies have been the primary drivers of CSR. However, this does not mean that CSR is irrelevant to or not practiced by SMEs. Some of the academic work discussed earlier and the CSR models (Carroll, 1979; Wartick and Cochran, 1985; Wood, 1991; Clarkson, 1995) were predominantly for large organizations. The Clarkson (1995) study did include some small firms, but they did not provide any details of the outcome of his study on small firms.

Ironically, there is very little known on the CSR practices in SMEs in comparison to the vast amount of articles and dialogues available for large organizations. Most of the academic literature on CSR originates from Western countries; hence, the question arises whether CSR is a standardized concept across different cultures. Not much research is available on the cultural difference in understanding the notion of CSR. Since there is a distinct cultural scheme and changes from region to region, it is but common that social behaviour cannot be assumed to be uniform. Pedersen and Huniche (2006), in a study on CSR in the African context using Carroll’s model, noticed that the ‘critical priorities’ of CSR in Africa are likely to differ from that of a classic case in a developed country. Similarly, the meaning of CSR would differ in SMEs as against a large company and is also likely to differ among SMEs across regions.

A unique feature in SMEs is that they are largely ownership based or in cases where they are partnership based, they would be among family friends or distant relatives (Ceptureanu SI et al, 2015a). In this context, Jenkins (2006) observes that SMEs tend to have a personalized style of management. Given the multi-relationship the owner observes in his day-to-day management, it is perceived that the stakeholder relationships for an SME may be more informal, trusting and characterized by intuitive and personal engagement (Ceptureanu EG et al., 2014). Fuller and Tian (2006) also state that SMEs undergo their business largely on a personal level, and it acts as a catalyst for socially responsible behaviour. They

further note that due to the strong association with immediate stakeholders, such as employees, customers, suppliers and their local community, their involvement is more direct and informal (Ceptureanu EG et al, 2012). Unlike large corporations, SMEs have fewer numbers of stakeholders in aggregate terms to intermingle with, and hence are able to maintain a certain code of conduct characteristic of the neighbourhood or region. The rapid development of legislation and international standardization has had a far-reaching impact, particularly on developing country SMEs (Ceptureanu SI, 2014).

## The research method

The heterogeneous and highly fragmented nature of the SME segment makes the availability of information regarding SMEs and their practices extremely limited. Hence, the given data set from the responses received through the award application made a good case to explore the incidence of CSR in SMEs along the same lines as the earlier study undertaken in the IT sector. The original application received for the awards included both objective (options for responses) and subjective (statements from the applicants) types of questions. However, for the purpose of this study, only the objective type questions were considered. The data provided descriptive statistics regarding the SMEs and their CSR activities, which helped in collating the results and further empirically testing them.

Hence, a similar empirical testing as that of the IT sector (Ceptureanu EG, 2015c) was considered, help in strengthening the basis of using the statistical inference method to explore the incidence of CSR in SMEs. As mentioned earlier, only 45% of the applications were being considered for the award evaluation due to incomplete forms. For the purpose of this study, the responses were once again reviewed and the section that each applicant was unable to complete was recorded. It was observed that incomplete applications were predominantly the narrative section of the questionnaire. Hence, for the purpose of our empirical observation, we had 121 applicants that had responded to the entire "objective" section of the questionnaire. This number was sufficient for empirically testing the applications.

The aim here was to assess the incidence of CSR in SMEs as per the IT sector study. The choice for repeating the statistical analysis on this entirely new sample was primarily to test the efficacy of this statistical method. Hence, the data collected from the application forms were statistically analysed using the method of statistical inference. We assume that the respondents' awareness level would be higher. Hence, during this analysis, the P-value was set on a higher scale, i.e., test of  $p = 0.6$  vs  $p > 0.6$  against the P-value of  $p = 0.5$  vs  $p > 0.5$  taken for the IT sector study. The reason for doing this was to account for the respondents' basic knowledge of CSR as against the respondents of the IT sector study. It follows that the designated null hypothesis (H0), that the proportion of indicative factors of social responsibility is at least 60%. In other words, if 60% responded in favour of CSR practices, then the existence of CSR among the sample would be considered. The alternative hypothesis (H1) is that the proportion is less than 60%.

The questionnaire typically had multiple choices that included "yes", "no", "in part" and "not applicable" responses. The results of the empirical testing are given in Table 1. The survey questionnaire primarily was broken down to four factors and can be depicted as: (a) market policy, (b) workplace policy, (c) company values and (d) social and community policies. In some it also included some prominent sub-factors.

While undertaking the statistical analysis, all those who responded as “not applicable” were removed and were not included in the total number of responses = “N”. Those who responded “in part” were included as a positive response = “X”.

It may be noted that, in this study, the sample was heterogeneous, as the respondents comprised different sectors of industry. Market policy, workplace policy and company values scored well (see Table 2). However, the social and community policy did not show an incidence of CSR. The results of the survey analysis subsequent to the “proportion test” showed an overall incidence of CSR.

In reviewing the questions in this section, the results point to the fact that SMEs are not comfortable with social and community issues. Hence, this provides room for reflection on how to increase the community/enterprise interactions to enable the enterprise to draw benefit. It can be further suggested that perhaps the enterprise do not feel or have the financial resources to take up activities such as the capacity building of community, etc. All the other four factors- market policy, workplace practices and company values- exhibit high incidence of CSR.

However, when it comes to sub-factors, the position gets altered within the factor (Table 3). For instance, regarding the ‘workplace practices’ factor, a sub-factor- provision of good work balance- does not exhibit an incidence of CSR. It seems that facilities such as recreation room, stress management, etc. are not issues for an enterprise that is constantly struggling to make ends meet.

For the sub-factors of “company values”, it is observed that the SMEs score a “No” on the sub-factor on “providing training and having clear guidelines”. The sub-category on “labour standards”, however, exhibits an incidence of CSR. Here, one could conclude that the incidence of CSR is perhaps due to the pressure exerted by the supply chain and due to regulation. However, the survey shows a poor score on “health” practices. Clearly, health issues of the unit employee are not important and the SMEs do not perceive providing health benefits as something that will accrue benefit for them in return. Another factor is that many SMEs have contract labour and, hence, are not obliged to provide benefits that are given to full-time employees.

Examining the last factor, “community and social issue”, the response did not show an incidence of CSR. Further, the sub-factor on developmental activity also does not show an incidence of CSR. The question on philanthropy practices did not receive any attention. This result appears to be different from the usual responses that one gets from SMEs in Romania. SMEs are known for their charitable practices and do so often discreetly. The negative response to this can be attributed to the cultural norms of the country, which is not to share their philanthropy behaviour or activities.

This analysis clearly shows that an SMEs, whichever sector it be in, has a strong inclination in getting factors, such as market policy, workplace policy, company values and labour standards. Further, they ensure that these factors are adhered to within the norms of government regulations.

However, factors, such as training and capacity, social issues and community issues do not appear high on their agenda. This stems from the fact that, and as proved earlier in the IT sector (Ceptureanu SI, 2015c) enterprises do not attempt to engage in any socially responsible behaviour unless they are able to perceive an immediate gain from the engagement for their respective businesses.

**Table 1.** Empirical survey of CSR Factors

Questions	Yes	N	Sample P	Exact p value	0.05 level of Significance
<b>Market policy</b>	116	121	0.93	0	Yes
Environment friendliness of products	121	121	1	0	Yes
Ensure honesty and quality in all its contracts, dealings and advertising	121	121	1	0	Yes
Provide clear and accurate information and labelling about products and services, including its after-sales obligations	121	121	1	0	Yes
Timely payment of suppliers' invoices?	121	121	1	0	Yes
Effective feedback process	121	121	1	0	Yes
Register and resolve complaints from customers, suppliers and business partners	121	121	1	0	Yes
Work with other companies in your supply chain or other organizations to address issues raised by responsible entrepreneurship	107	121	0.89	0.001	Yes
<b>Workplace practices</b>	108	121	0.9	0.001	Yes
Encourage employees to develop real skills and long-term careers	121	121	1	0	Yes
Steps are taken against all forms of discrimination, both in the workplace and at the time of recruitment	116	121	0.96	0	Yes
Frequency of team meetings to discuss operational/occupation health and safety issues?	93	121	0.77	0.029	Yes
Suitable arrangements for health, safety and welfare that provide sufficient protection for your employees?	112	121	0.93	0	Yes
<b>Provision of a good work-life balance that includes:</b>	61	121	0.5	0.861	No
a. Recreation room	27	121	0.23	1	No
b. Stress management	56	121	0.47	0.927	No
c. Annual get together	88	121	0.73	0.063	No
d. Other	61	121	0.5	0.859	No
<b>Company values</b>	121	121	1	0	Yes
Have you clearly defined your enterprise's values and rules of conduct?	117	121	0.97	0	Yes
Do you communicate your enterprise's values to customers, business partners, suppliers and other interested parties?	121	121	1	0	Yes
Are your customers aware of your enterprise's values and rules of conduct?	121	121	1	0	Yes
Are your employees aware of your enterprise's values and rules of conduct?	121	121	1	0	Yes
Do you provide training to your employees on:	76.23	121	0.63	0.348	No
a. Skill performance enhancement?	100.4	121	0.83	0.004	Yes
b. Career Development?	68.97	121	0.57	0.639	No
c. Work Culture/ethics?	88.33	121	0.73	0.066	No
d. Other	44.77	121	0.37	0.989	No
Labour standards	96.8	121	0.8	0.009	Yes
Payment of minimum wages	112.5	121	0.93	0	Yes
Equal remuneration for equal work	100.4	121	0.83	0.004	Yes
Freedom of association	93	121	0.77	0.027	Yes
Elimination of forced or compulsory labour	76	121	0.63	0.352	No
Elimination of discrimination in respect of employment and occupation	97	121	0.8	0.008	Yes
Abolition of child labour	109	121	0.9	0	Yes
Clear guidelines on	81	121	0.67	0.221	No
a. Recruitment	105	121	0.87	0.001	Yes
b. Termination	93	121	0.77	0.027	Yes
c. Career advancement	85	121	0.7	0.128	No
d. Performance appraisal	109	121	0.9	0	Yes
Faced or dealt with any labour disputes in the past three years?	9	121	0.07	1	No
Health policy	52	121	0.43	0.24	No
Health insurance	40	121	0.33	0.11	No

Provident funds	48	121	0.4	0.22	No
Other	63	121	0.52	0.28	No
<b>Social and community policies</b>	72	121	0.59	0.36	No
Offer training opportunities to local community?	108	121	0.89	0.74	Yes
Open dialogue with the local community	73	121	0.6	0.19	No
Strategies adopted to undertake developmental activities	52	121	0.43	0.18	No
Philanthropic initiatives	71	121	0.59	0.39	No
Community investments/social investments	52	121	0.43	0.25	No
Public- private partnership	21	121	0.18	0.04	No
Imparting skills to local community	65	121	0.54	0.32	No
Allowing use of its resources	52	121	0.43	0.19	No
Encourage employees to participate in community activities	61	121	0.5	0.24	No

**Table 2.** Empirical Summary of the Prime Factors

Questions	Yes	N	Sample P	Exact p- value	Incidence of 0.05 level of significance
Market policy	116	121	0.96	0	Yes
Workplace practices	108	121	0.90	0.001	Yes
Company values	121	121	1	0	Yes
Social and community policies	75	121	0.59	0.36	No

**Table 3.** Empirical summary with the Sub-factors

Questions	Yes	N	Sample P	Exact p- value	Incidence at 0.05 level of significance
<b>Market policy</b>	<b>116</b>	<b>121</b>	<b>0.96</b>	<b>0</b>	<b>Yes</b>
<b>Workplace practices</b>	<b>108</b>	<b>121</b>	<b>0.90</b>	<b>0.001</b>	<b>Yes</b>
Provision of a good work-life balance	61	121	0.5	0.861	No
<b>Company values</b>	<b>121</b>	<b>121</b>	<b>1</b>	<b>0</b>	<b>Yes</b>
Do you provide training to your employees on?	76.23	121	0.63	0.348	No
Labour standards	96.8	121	0.8	0.009	Yes
Clear guidelines on	81	121	0.67	0.221	No
Health policy	52	121	0.43	0.24	No
<b>Social and community policies</b>	<b>75</b>	<b>121</b>	<b>0.59</b>	<b>0.36</b>	<b>No</b>
Strategies adopted to undertake developmental activities	52	121	0.43	0.18	No

## Conclusions

The empirical analysis does showcase CSR practices in SMEs and positive responses have been reported across many factors. This illustrate that the SMEs follow a comprehensive approach combining various areas. However, the concept may still appear to be vague to many SMEs. Further, this paper limits itself to exploring the incidence of CSR in SMEs empirically with a sample size of only 121 enterprises and many not is ideally representative of all SMEs in Romania.

Nevertheless, the response to CSR award denotes that SMEs in Romania are now beginning to see CSR as a one of the many managerial channels and are consciously embedding CSR in their respective business policies, as they realize it to be a managerial instrument with direct benefits to them.

Given the stake SMES have in the national economy, management is one of the critical areas that require focus (Ceptureanu SI et al, 2012). Extensively evaluations of such instruments are required to establish a correlation between CSR and management. SMEs do not have the strategic tools and the means for their business development unlike the large

enterprises. Such analysis will give an empirical base for SMEs to appreciate the significance and to adopt CSR practices.

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