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THE TYPOLOGY OF THE RELATIONSHIP BETWEEN THE SOCIAL PERFORMANCE AND THE FINANCIAL PERFORMANCE OF AN ORGANIZATION

The development of each organization is an objective based on three basic pillars: economic development, social development and environmental protection. This macroeconomic objective can be joined by various microeconomic objectives, including the global performance made out of the organization's financial performance and social performance, its sustainability and social responsibility. The article aims to find answers to the following questions: Is there a relationship between the financial performance and the social performance of an organization? And if there is this relationship between the financial performance and the social performance of the organization, how is it, positive or negative? Understanding the social impact on both the financial performance and the sustainability of the organization has been the subject of numerous studies focusing on the nature of the interaction between organizations' ability to achieve a high level of corporate social responsibility on the one hand and the financial performance on the other.

Key words: social performance; financial performance; corporate social responsibility.

Introduction. The emergence and evolution of the organization's overall performance concept has seen a remarkable development, so that, if by the early 1950s all theories, definitions, and references made us think about financial measures of an organization's performance, which were considered in particular by the cost-benefit relationship, and subsequently, other measures were used, such as, for example, the quality offered to customers by the 1990s, nowadays, the concept of performance has developed and evolved towards a more global approach including both financial aspects and non-financial or social aspects of an organization that primarily refers to social responsibility elements.

Social issues have become a continuing concern for the day-to-day work of organizations that want to accept performance and generate performance. The wide-ranging transformations in the social performance assessment have led to the emergence of the concept of corporate social responsibility, a concept able to capture and guide organizations in the context of global competitiveness. If in the last century an organization's focus was on its financial performance, nowadays, organizations understand that financial performance is just the result of the race in terms of economic activity, but the race in its essence and the determinant of the success of future races is what we call global performance now, in terms of the sustainable development of our society. From these points of view, the overall performance of the organization involves aggregating economic, social and environmental performance.

The importance that the meaning of performance of an organization has gained by using it in all the economics areas has triggered the definition of a new concept, namely, the social performance concept of an organization that implies the approach of performance as the concern, maybe the most important concern of an organization. All organizations claim that they want to achieve performance, so social performance has become an instrument not only useful but also mandatory, as performance is out of the question and removing the social part of an organization, and at this level, performance evaluation is a key to organizational activity.

Since the social performance of an organization is defined and categorized by each class of information users differently in relation to their own objectives, there is currently no consensus on the definition, methodology and models of performance used, due to the diversity of policies adopted by the management of organizations, influences in turn by the legal regulations in each country bearing repeated changes. However, performance evaluation has always been one of the primary goals of any organization, for which reason the study of social performance still awakens the interest of many researchers, as research in this field prove to be rich. Reassessing the notion of social performance also involves finding indicators that reflect the organization's work as faithfully as possible.

Methodology. The drafting of the paper is based on a qualitative research elaborated upon the activity of documentation and analysis of the specialized literature, where one can find elements specific to the approached theme. One intends to obtain certain answers of the specific elements published both nationally, and also internationally, and also to identify the typology of the relation between the social performance and the financial performance of the organization in the context of the lasting development. In order to have a solid documentation, one has analysed specialized articles that show that the social problematics has become a continual preoccupation for the everyday activity of the organisations that want to accept performance and generate performance. The vast transformations within the social performances' evaluation plan generated the occurrence of the corporate social responsibility concept, a concept able to surprise and orient the organization in the global competitiveness plan.

Brief Literature Review. Empirical studies prepared on the interaction between the organization's social and environmental performance and financial performance cannot conclude that there is a stable relationship between the two types of performance. As Saulquin and Schier [1], in 2005 say, there is no evidence to date that a socially responsible organization can achieve better results on a long-term basis. The work of Orlitzky, Schmidt and Rynes [2,2003] show that the relationship between the social responsibility of the organization and the financial performance would be slightly positive (51 studies out of 122 observations identify a strictly positive relationship) and that the methodologies and the results obtained revealed certain inconsistencies in the samples, analysis of the tested variables and causal relationships.

In Ullmann's opinion [3], finding a general explanation of the relationship between the social performance and the financial performance of an organization is a difficult objective to achieve, and that the random factors that influence this interaction are numerous. New variables are worthwhile considering: the size of the organization, the risks it is exposed to, the industry it belongs to, as well as the research and development investments it conducts.

Barnett et al. [4] said that the positive impact of CSR on business performance would be primarily due to the achievements of socially improved behaviour and its effect on stakeholder relations. The efforts made for corporate social responsibility promote the stakeholders' positive reactions to the organization and this not only affects the value of an organization in general but also improves competitive positioning.

In the paper of Man, M., Măcriş, M [5] entitled: Integration of corporative governance into organisation's social responsibility system, one strictly focuses upon the financial performance (for instance, short-term gaining and profits), at the expense of the social or environmental performances, that can cause a decrease in the degree of trust in an organization and can affect the performance as a whole, leading to a decrease in value for all the interested parties.

Research results. The emergence and evolution of the organization's overall performance concept has seen a remarkable development, so that, if by the early 1950s all theories, definitions, and references made us think about financial measures of an organization's performance, which were considered in particular by the cost-benefit relationship, and subsequently, other measures were used, such as, for example, the quality offered to customers by the 1990s, nowadays, the concept of performance has developed and evolved towards a more global approach including both financial aspects and non-financial or social aspects of an organization that primarily refers to social responsibility elements.

Social issues have become a continuing concern for the day-to-day work of organizations that want to accept performance and generate performance. The wide-ranging transformations in the social performance assessment have led to the emergence of the concept of corporate social responsibility, a concept able to capture and guide organizations in the context of global competitiveness. If in the last century an organization's focus was on its financial performance, nowadays, organizations understand that financial performance is just the result of the race in terms of economic activity, but the race in its essence and the determinant of the success of future races is what we call global performance now, in terms of the sustainable development of our society. From these points of view, the overall performance of the organization involves aggregating economic, social and environmental performance.

The importance that the meaning of performance of an organization has gained by using it in all the economics areas has triggered the definition of a new concept, namely, the social performance concept of an organization that implies the approach of performance as the concern, maybe the most important concern of an organization. All organizations claim that they want to achieve performance, so social performance has become an instrument not only useful but also mandatory, as performance is out of the question and removing the social part of an organization, and at this level, performance evaluation is a key to organizational activity [6, 2011].

Since the social performance of an organization is defined and categorized by each class of information users differently in relation to their own objectives, there is currently no consensus on the definition, methodology and models of performance used, due to the diversity of policies adopted by the management of organizations, influences in turn by the legal regulations in each country bearing repeated changes. However, performance evaluation has always been one of the primary goals of any organization, for which reason the study of social performance still awakens the interest of many researchers, as research in this field prove to be rich. Reassessing the notion of social performance also involves finding indicators that reflect the organization's work as faithfully as possible.

The relationship between the financial performance and the social performance of the organization

Traditionally, the economic relationships of an organization and its social and environmental relationships are analysed separately, each of which contributing either to achieving social and environmental goals, or to achieving the organization's economic objectives. It might seem obvious that financial performance and social performance are different and there is, in fact, no relationship between them, because social performance results only from the management of stakeholders associated with organizational values, whereas the organization's financial performance depends on the resources, the strategy and the structure of the industry.

If we look at recent papers focusing on the conditions in which the organization's social and environmental performance could have a positive impact on the organization's financial performance, as Hussted and Allen said in 2001 [7], these two performances show that they have more likely a positive relationship than a negative one. They see this impact as a positive one, basing their studies on the concept of social strategy. This thinking allows them to differentiate between different levels of social responsibility integration in the organization's strategy. Hussted and Allen propose a model in which the organization's social performance and financial performance are based on four key elements, namely [7]:

- The structure of the industry to which the organization belongs;
- The resources available to the organization;
- The values it has created;
- The way stakeholders are managed.

Thus, by using concurrently the determinants of social and financial performance of the organization, it will enjoy not only efficiency and positive reputation, but also the performance of the entire economic organization. Effective communication of the organization with external partners in terms of corporate social performance can lead to a positive image for all stakeholders (clients, investors, bankers, suppliers, groups on which the financial performance of the organization basically depends). They argue that the social and environmental strategy associated with the organization's strategy would have an impact on creating a competitive advantage for the organization, relying in particular on the theory of resources available to the organization, which is a fundamental analysis and research element.

The relationship between performance and social responsibility is also highlighted by the most evolved balancing schemes of financial and operational indicators in order to assess the performance of the organization; these schemes include key questions with profound connotations of social responsibility. At the same time, the key questions whose response is taken into account in future organizational performance growth strategies are known in the economic and managerial field as questions specific to the competitive agendas of organizations. The fact that competitive CSR aspects intersect with global performance aspects is also evidenced by Gallup Organization's largest study, conducted over 25 years, aiming at the sociological approach to the economic activities of over 400 organizations around the world.

While financial and economic assessment criteria are considered to be short-term performance indicators, stakeholder satisfaction criteria are considered as indicators of long-term performance as can be seen in Figure 1 [8]:

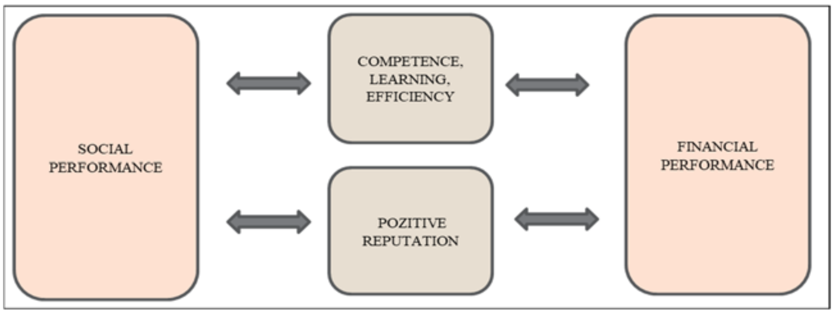

Fig. 1. The relationship between social performance and financial performance

Source: Adapted and processed after Carroll A. B. [8].

In the long run, it will be realized that, indeed, "the environment is a part of our capital and when we degrade it, we reduce the ability to generate real income in the future". Also, according to the research, it has been verified that there is a positive relationship between corporate social performance (CSP) and corporate financial performance (CFP).

The study proves that not only productivity and profitability, but also CSR elements such as staff retention and customer satisfaction constitute "a competitive advantage that leads to the support of the upper performance" of the organization. "Performance cannot be sustained where there is no learning", with the lack of education leading to the economic death of the organization. This value system promoted determines an active and responsible participation from the organization in achieving goals and, implicitly, in achieving performance". Factors such as market measurements, the quality of the goods offered, the quality of the services provided and focused on consumer satisfaction are equally important. All of these elements often show the economic condition of an organization and its growth targets much better than its reported earnings. By adopting the social impact hypothesis, the expectations of positive reactions from stakeholders in increasingly socially responsible business behaviour show that the development of CSR practices allows organizations to improve their competitive performance.

The concern of stakeholders and communicating with them to seek to ensure socially responsible behaviour enables organizations to develop particular intangible assets. Based on relationships and interactions, organizations are able to develop resources that will promote the development and maintenance of competitive advantages that are difficult to measure through accounting or physical parameters. Investigating the reciprocity of stakeholder organizations has already been proposed as a future research line suggesting that using mediation variables which represent these interactions would help to increase knowledge about mechanisms through which corporate social responsibility practices have a positive impact on business performance [9].

Empirical studies show that there is a positive correlation between the social performance of an organization and its economic performance, and social involvement brings a number of benefits that cover and exceed the costs it induces. In addition, the authors of the specialised literature suggest that there is a direct and reciprocal relationship between the social responsibility of an organization and its profitability: a "good" organization, socially responsible, will be well-perceived by the public and will record substantial profits; similarly, a financially sound company can afford to promote and invest in a socially responsible behaviour, which will in the future lead to even greater prosperity [10].

The relationship between the profitability and the social responsibility of an organization follows a circular-ascending trajectory in a so-called "virtuous circle". This conclusion is demonstrated by the experience of multinational organizations involved in various social and ecological projects. However, a strict assessment and a strict quantification of the positive impact of a corporate social responsibility policy on the financial performance of a business organization are difficult and have not yet been universally accepted by the academic community.

Thus, although most specialized studies conclude that there is that positive, more or less asserted correlation between the social performance and the financial performance of an organization, not all researchers in the field support this idea, and the results of some of them precisely contradict the above statement. The typology of Preston and O'Bannon [11] recommends a conceptual framework in which the distinction is made as to the causality between the social performance of the organization and social performance thereof and the nature of causality, i.e. positive, neutral or negative. It can be determined that a growing social performance leads to a higher financial performance of the organization. If an organization does not take into account the needs of all stakeholders, it can experience a number of failures in the market where it operates, such as loss in terms of corporate reputation, which leads to the increase in the organization's share of risk and, ultimately, to the poor performance of the organization concerned. Costs associated with social performance are minimal compared to potential benefits.

In order to have an overview of how the authors of the literature have perceived it in empirical works over the last decades, trying to demonstrate the causal links in both directions between the social performance (SP) and the financial performance (FP) of organizations, next, a model will be presented which has been developed from the conclusions of Preston and O'Bannon [11], showing different theoretical hypotheses that have been subjected to empirical validation attempts for causal relationships between the two types of performance, as can be seen in Table 1:

***Table* 1. The typology of the relationship Social performance (SP) – Financial performance (FP)**

Causal determination	Types of correlation	
	Positive correlation	**Negative correlation**
SP → FP	The social impact hypothesis	The substitution hypothesis
FP → SP	The hypothesis of available resources	The hypothesis of managerial opportunism
SP ↔ FP	Positive synergy	Negative synergy

Source: Adapted and processed after Preston and O'Bannon [11, p. 422].

The hypothesis of available resources states that superior performance allows an organization to assign more resources to achieve social performance. By default, it is considered that only organizations with a higher rate of profitability can afford to be socially responsible.

The type of positive correlation in which financial and social performance are mutually determined, namely higher social performance leads to higher financial performance and vice versa, higher financial performance leads to higher social performance, a theory of the "virtuous circle" I consider simultaneously the hypothesis of the available resources and the existence of a quality management of the organization. An appropriately run organization will certainly achieve both high social performance and high financial performance. The positive link corresponds to two cases of causality, namely:

- the first link is represented by a good social performance of the organization that leads to improved financial performance. This relationship is explained by the social impact hypothesis formulated by Freeman's work [12] on stakeholder theory, which implies that the organization's attainment of stakeholder goals and the improvement of its reputation and brand image positively influence financial performance;
- the second causal link explains that the good financial performance of an organization is the one that positively influences social performance. This is theoretically explained by the hypothesis of the available resources or the "organizational slack" proposed by McGuire (1988). According to this hypothesis, the more important the financial performance, the more the organization benefits from more resources. From that point on, those who will be leaders will have a managerial behaviour of less opportunism and will be able to reflect on the distribution of surplus resources in order to meet the expectations of all stakeholders in terms of social responsibility of the organization.

A third case was proposed by Preston and O'Bannon [11] and corresponds to a positive synergy between the organization's social and financial performance in that a high level of social performance improves financial performance, which will allow the organization to re-invest in socially responsible actions in the end.

The type of negative correlation: Some theoretical findings have shown the negative causal links that exist between the social performance and the financial performance of the organization.

Firstly, the neoclassical approach has shown that if organizations want to increase their social performance, they have to incur high and almost unnecessary costs, which will lower their profit. This signifies the arbitration hypothesis that has its origins in the liberal vision of the authors, starting with Friedman, for whom social responsibility of the organization risks to negatively influence its financial performance.

Secondly, Preston and O'Bannon [11] show that organizational managers use high performance by neglecting stakeholder interests. Instead, all these managers of the organizations will seek to redeem and justify themselves in case of low returns, through a significant social investment. Preston and O'Bannon [11] show this behaviour through managers' opportunism hypothesis and synthesize that good financial performance negatively influences the organization's social performance.

Last but not least, the same virtuous circle that worked for positive synergy can also work in the opposite direction. In fact, a negative synergy can be established between the financial and the social performance of the organization, as a weak social performance of the organization shows low profitability, which therefore forces managers to reduce their social responsibility actions.

The neutral link: Although this is not shown in Preston and O'Bannon's typology [11], the literature has recognized another causal link between the social performance and the financial performance of the organization, namely a neutral link.

Based on the supply and demand theory of the organization, McWilliams A., Siegel D. [13], form a similar model for the demand and supply of the organization's social responsibility, which attempts to explain the reasons for divergences in empirical research results that have focused on the link between the organization's social performance and its financial performance. Faced with this model, organizations should provide a level of social performance that, in an economic context at a standard level, can meet the expectations of stakeholders. Because of this, at a given market balance, namely, the demand and supply of social responsibility of the organization, the costs and profits related to this supply should be mutually cancellable. For this reason, it has been called neutral because the organization's social responsibility supply does not influence or result from financial performance but rather stems from the balance of social stakeholders' demand for social responsibility.

The authors of the specialised literature have determined, based on this theoretical framework presented above, positive or negative correlations between SP and FP and different causal determinations between the two types of performance. Although most studies have shown positive correlations between SP and FP, this conclusion is not yet universally accepted by the academic community, and many aspects remain to be clarified, especially methodological ones. Among the causes that led to contradictory results in the field, the following can be listed, Salzmann O, Ionescu–Somers A. M. and Steger U. [14]:

- methodological deficiencies (often inadequate quantification of social indicators, empirical non-testing of concepts and definitions, failure to test the correlations between the various variables involved, inadequate sampling, reduced availability of data, inconsistency in the measurement of financial indicators, etc.);
- the complexity and wide variety of social and environmental aspects that affect different industries across countries;

- concentrating most of the analyses on inter-industrial samples of US organizations and ignoring intra-industrial studies or those targeting another geographic area (Europe), making it virtually impossible for a comparative approach at international level;
- the unique SP – FP combination, specific to each company, which does not allow for a compelling benchmarking of business organizations to ignore certain specific factors (company size, its exposure to risk, industry or its sector of activity, the context in which the analysis takes place etc.);
- ignoring certain specific factors (company size, its exposure to risk, industry or its sector of activity, the context in which the analysis takes place etc.);
- in addition, in a very recent paper, it is argued that the wide variety of CSR definitions in the specialized literature are confusing as to how corporate social performance can be operationalized and measured,Godfrey and Hatch [15] .

However, some authors have succeeded in reconciling different points of view in a unique theory. For example, Marín L.[16] proposes an integrative theory of the relationship between financial and social corporate performance – a unique theoretical framework for reconciling the contradictory findings recorded so far in the literature – which is based on a parallel between business and responsibility social corporations (products and clients in the sphere of business versus "social products" and stakeholders in the CSR area).

Starting from the parallelism described above, it is stated that the SP – FP relationship should have the same function in the form of a turned "U", which is the basis of the economic relationship between the increase of output and the profits; this nonlinear model could explain the empirical existence of positive, neutral and negative correlations between SP and FP, because different SP levels correspond to different business plan outcomes.

Marín's [16] theory, stating the importance of CSR for supporting corporate financial results, is based on the relationship between the company and the stakeholders: the growth in profitability that a "social product" company feels is directly proportional to the utility of the various stakeholder categories as a result of interacting with those "social products". Thus, a company that engages in socially responsible actions out of pragmatic motivation must always maintain a balance between the benefits it gains from stakeholders satisfied with its "social products" and the costs it incurs to encompass social features in its products.

Conclusion & Discussion. Analysing the SP-FP relationship in terms of corporate costs and benefits, the integrative theory gives value to both the social impact and substitution hypothesis, justifying both the positive and the negative correlations between the two types of performance (depending on the relationship between marginal revenue and marginal costs, the relationship between SP and FP may be positive, neutral or negative). Marín's [16], integrative theory can be of real use to managers, providing them with a useful tool to determine the optimal level of social involvement and management of the relationship with stakeholders by positioning the company in an area where the relationship between SP and FP is a positive one. The analysis comes to confirm the strategic role of the corporate social responsibility policy within a company, as long as some basic rules of economic theory are observed.

The conclusion is that SP and FP are positively correlated, and the relationship that manifests between them is biased. The theory of the "virtuous circle" is the one that best captures the relationship between the two variables: high financial performance leads to high social performance, high social performance leads to even higher financial performance, and reasoning can continue in an analogous way; the relationship can also be read from right to left, which suggests that high social performance can lead to high financial performance, and high financial performance can lead to even higher social performance, and so on. This way, SP and FP are, in turn, dependent variables, and independent variables, an aspect that goes beyond economic theory, where the correlation is manifested in one sense.

The conclusion would be to confirm the existence of a positive relationship between the social involvement of the organizations and the economic benefits they perceive. In addition, a properly conducted corporate social responsibility policy is beneficial for the company as well as for the society as a whole.

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ТИПОЛОГІЯ ВЗАЄМОЗВ'ЯЗКУ МІЖ СОЦІАЛЬНОЮ ДІЯЛЬНІСТЮ І ФІНАНСОВОЮ ЕФЕКТИВНІСТЮ ОРГАНІЗАЦІЇ

Розвиток кожної організації – це мета, яку визначають три основні складові: економічний розвиток, соціальний розвиток і захист навколишнього середовища. До цієї макроекономічної мети можуть бути додані різні мікроекономічні мети, у тому числі загальні результати діяльності, що включають фінансові та соціальні показники організації, дані про її стійкості й соціальну відповідальність. Мета статті – знайти відповіді на такі питання: чи існує взаємозв'язок між фінансовими і соціальними показниками організації? Якщо він існує, то який він: позитивний чи негативний? Розуміння соціального впливу, як на фінансові показники, так і на стійкість організації, було предметом численних досліджень, присвячених характеру взаємодії між здатністю організації досягати високого рівня корпоративної соціальної відповідальності, з одного боку, і фінансовими показниками, – з іншого.

Ключові слова: соціальні показники; фінансові показники; корпоративна соціальна відповідальність.

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ТИПОЛОГИЯ ВЗАИМОСВЯЗИ МЕЖДУ СОЦИАЛЬНОЙ ДЕЯТЕЛЬНОСТЬЮ И ФИНАНСОВОЙ ЭФФЕКТИВНОСТЬЮ ОРГАНИЗАЦИИ

Развитие каждой организации – это цель, которую определяют три основные составляющие: экономическое развитие, социальное развитие и охрана окружающей среды. К этой макроэкономической цели могут быть добавлены различные микроэкономические цели, в том числе глобальная деятельность, основанная на финансовых и социальных показателях организации, ее устойчивости и социальной ответственности. Цель статьи – найти ответы на следующие вопросы: существует ли взаимосвязь между финансовыми и социальными показателями организации? И если существует, то какова она – положительная или отрицательная? Понимание социального воздействия, как на финансовые показатели, так и на устойчивость организации, было предметом многочисленных исследований, посвященных характеру взаимосвязи между способностью организации достигать высокого уровня корпоративной социальной ответственности, с одной стороны, и финансовыми показателями – с другой.

Ключевые слова: социальные показатели; финансовые показатели; корпоративная социальная ответственность.

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ADOPTING SOUND CORPORATE GOVERNANCE PRINCIPLES – A PROSPECTIVE APPROACH TOWARDS THE IMPACT ON STOCK PRICES OF ROMANIAN LISTED COMPANIES

Sound economic developments and successful businesses are conditioned by embracing proper corporate governance principles furthered by their proper implementation. There is a strong body of research that encompasses finance and accounting tools to establish valid links between qualitative corporate governance fundamentals and stock market performance of listed companies, that stem from accountability, operational integrity, transparency, management and board efficiency improvements, risk mitigation and overall better decision-making endeavours. The aim of the present research is to assess the impact of adopting sound corporate governance principles on the stock price of companies traded on the Bucharest Stock Exchange. Following our empirical efforts, the results of our regression study reveal the clear connection between price to book ratio and to our corporate governance assessment index and to a lesser extent the connection between share price and our corporate governance assessment index.

Key words: corporate governance, capital market, share price, price to book ratio, disclosure, Romania, BSE.

Introduction. From a scientific perspective, corporate governance is mainly concerned with maximizing company efficiency by resorting to well established institutional structures such as organizational charts, company policies, constitutive acts and legislative regulations. In our view, these structures should be constantly adapted to the dynamics of a company's endogenous and exogenous shaping factors, which generate changes of various degrees and natures (economic, social, political and technical) that inevitably whittle the business environment.

Given the fact that corporate governance is a highly debated current topic, considered the epicentre of the 21st Century research concerns (Tricker, 2012), it has amounted considerable attention in research and literature, being investigated by researchers coming from contrasting and complementary fields: law, economics, psychology and sociology. Consequently, this concept has received a variety of definitions, however, we must admit that there has not been established a consensus regarding the definition of corporate governance. Some authors view it as the theory of aligning shareholders' and managers' diverging interests (Grant, 2003), while others describe it as a way of harmonizing economic, social, individual and common objectives established or affected by a company's operations (Ahmmed, Mohammad, 2005).

Furthermore, viewed both as a concept and as a practice, corporate governance has undergone changes to dynamically adapt its regulatory instruments to corporate practices. Currently, the corporate governance framework covers a wide range of topics that go beyond the shareholders' approach. In addition, in the last few decades globalization has greatly whittled economic developments (deadening commercial and investment frontiers, transitioning towards mass consumption, expediting the