Assessing the Financial Performance Impact on Fulfilling Corporate Social Responsibility in terms of Added Value

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Abstract — Stakeholders need an enterprise financial performance indicator. The work here tries to analyze the financial performance to assess the impact on fulfilling corporate social responsibility, and estimate the value added as a very important tool to evaluate corporate financial performance. Taking the Shanghai and Shenzhen A-shares panel data of listed companies from 2006 to 2012 as the research samples, this study puts forward research questions, tests hypotheses and constructs fixed effect panel data model, testing if an enterprise value-added has an impact on fulfilling social responsibility. This study results show that improving the enterprise previous value-added has a positive impact on performance of the current corporate social responsibility.

Keywords- add value, financial performance, fixed effect panel model

I. INTRODUCTION

The correlation between financial performance and Corporate Social Responsibility (CSR) has become a popular topic in the academic circle of business management research at home and abroad in recent years. Carroll (2000) thought that the relationship between them was very intricate from methodological point of view. The clarification of the relationship between CSR and corporate performance is of great worth for the business managers, shareholders, stakeholders. But so far, many scholars from home and abroad study the relationship between them from the perspective of shareholders and by setting the profit index (Michael Barnett and Robert M. Salomon,2012) or market return index (Chuck Mc Peak & Nina Tooley, 2008; Seoki Lee and Sun-Young Park,2008) as the explained variable. In spite of the continuous improvement, deepening and innovation of the study on the correlation between them, there have been many differences in defining the financial performance index in the academic circle and no final conclusion has been reached so far. Studies show that maybe the explanation strength of the performance measurement index is inadequate or the viewing angle is narrow, and we should pay more attention to the interests of the stakeholders other than shareholders when we evaluate enterprise performance. So far, there are very few scholars who prove the relationship between them by measuring financial performance from the perspective of stakeholders. The added value (VA) is a financial indicator which can reflect enterprise's capacity of value creation and an important tool to measure financial performance. Added-value has recognized the interests of both shareholders and other stakeholders who have made contribution to value creation (Niranjan Mandal & Suvarun Goswami,2008)[1]. It can not only increase shareholders' value but also encourage the enthusiasm and creativity of other stakeholders (in particular, the employees) to measure the corporate financial performance by value added. It is of great significance for enterprise and even the society because it has a perspective which is broader than the index of profit and can encourage more stakeholders to actively cooperate (Chris Pong and Falconer Mitchell, 2005), (Orlitzky et al., 2003)[2];Wu Meng-Ling,2006) found that profit index has more explanation strength than market index. And Karpik & Belkaoni (1990) proved that the indicator of value added has an ability to explain the market risks which is more powerful than the indicator of profit and cash flow. What’s more, the final aim of enterprise should be the maximization of stakeholders' integral interests. There are few literature to study that improving add value affects fulfilling social responsibility from the perspective of stakeholders to measure financial performance.

In view of the above, from perspective of stakeholders, this study synthesizes an indicator as the explained variable with the help of all the indicators that can reflect corporate social responsibilities on each stakeholder. Taking the Shanghai and Shenzhen A-shares in 2006-2012 panel data of listed companies as the research sample, this study puts forward the research questions, tests hypotheses and constructs fixed effect panel data model, testing if enterprise value-added has an impact on fulfilling social responsibility. The results show that improving enterprise previous value-added has a positive impact on performance of the current corporate social responsibility.

II. LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Since the Berle-Dodd debate in the 1930s, the academics have stated extensive researches on stakeholders. The involvement of stakeholders influences the normal operation of enterprises. Enterprises cannot continue the sustainable development if they fail to meet stakeholders' reasonable requirements (Ahlstedt and Jahnukainen,1971). It can not only increase company's reputation but impact positively on...
its performance (Johnston, 2003), and improve its value to meet key stakeholders' requirements (Freeman and Liedtka, 1991; Johnston, 2003).

Li Zheng (2006) [3] took TobinQ value as the explained variable to study their correlation, and it was found that assuming social responsibilities wouldn’t reduce corporate values in the long run. The research by Liu Chang-cui and Kong Xiao-ting (2006) found that return on equity was significantly correlated to the contribution rate in social responsibility. The research by Wang Dongmei et al. (2008), which also took TobinQ value as the explained variable, found that better performance in CSR indicated higher corporate values. Fang yuan and Wen Su-bin (2008), who examined the correlation between CSR and financial performance by taking return on equity and TobinQ value as the explained variables, discovered that CSR was in significant positive correlation with its financial performance. Nevertheless, some scholars held that corporate financial performance was in positive correlation with CSR. That is to say, corporate financial performance is the cause and reason for CSR. Advocates of this idea proposed that the ability of performing CSR was rooted not only in corporate readiness to do so but in their possession of adequate economic strength and resources. So, in reality whether enterprises can fulfill their CSR is restrained by their resource capacity, despite that some of them are willing to help the disadvantaged and fulfill their obligations at any time. This argument undermines the proposal that the fulfillment of CSR would result in better corporate financial performance. In contrary, the fulfillment of CSR depends largely on the improvement of corporate efficiency, which can raise corporate values. The empirical study by McGuire et al. (1988) proved that better corporate financial performance would result in better abilities in CSR performance or better CSR performance. (Preston, 1991; Kraft & Hage, 1990) indicated that whether enterprises were able to fulfill their CSR was constrained by their financial performance during both the prior and the current periods. In CSR studies, the “Funding Hypothesis” was proposed. (Preston & O'Bannon, 1997) pointed out that the fulfillment of CSR would be limited by many objective economic conditions, despite enterprises’ willingness to perform CSR. Therefore, better efficiency and greater profiting abilities are the pre-requisites for the fulfillment of more corporate social responsibilities. Shen Hong-tao (2007) showed that companies with better profitability were more likely to fulfill CSR. T. Qin, and S. Zheng (2013) [4] took commercial bank as samples and indicated fulfilling social responsibility will increase financial performance Fang Xiao-zhi & Zhu Weidong (2013) [5] took the data of China's listed companies from 2005 to 2011 as samples, the results show that enterprises' fulfilling their social responsibility is positive to added value in the long term. The study by Yin Kai-guo and Liu Xiao-qin (2014) [6] showed that under the exogenous hypothesis of CSR, CSR of the current period would exert significant positive influence on the corporate financial performance of the same period. Wang & Li (2014) [7] suggests that investors are more special attention to environmental image with the sustainable development of enterprise rather than short-term profitability. Zhu Nai-ping & Zhu li (2014) [8] took China's high-tech enterprises in 2009-2011 as samples, the research results show that enterprise actively bearing the social responsibility can directly promote the enterprise financial performance for a long time, but have no significant impact on enterprise financial performance in the short term. Huang Jun & Guo Zhi-jiao (2015) [9] took small board and gem listed companies in 2010-2012 as samples, the research results show that the enterprise to fulfill the social responsibility is beneficial to improve the level of technology innovation, so as to improve enterprise value. Li Zhicai & Fan Yingjie (2015) [10] took Shanghai and Shenzhen A-share manufacturing listed companies from 2011 - 2013 as samples, the results show that the company financial performance reacted to social responsibility with a time lag. Su Xin etc. (2015) [11] took construction enterprises in our country as samples, the study shows that the current corporate disclosure of environmental information are scarce, they have immanent connection between environmental performance and financial performance, and the improvement of environmental performance can bring economic benefits for the enterprise.

However, few literatures were devoted to studying how the improvement in added values of financial performance would influence CSR fulfillment from the perspective of stakeholder theory. Thus, it is hypothesized that:

H: The creation of corporate value added during the prior period will significantly affect its CSR performance during the current period.

III. RESEARCH DESIGN AND SAMPLE SELECTION

A. Research Design

The author constructs the panel data model according to the corresponding research needs on the basis of previous study methods, relationship between CSR and value-added, and according to the study hypothesis and collected data. The panel data model is as follows:

\[ Y_t = a + bX_t + \epsilon_t \]  

(1)

In formula (1), Yi is the explained variable. X is the explanatory variable. a is the constant term in the model. b is the coefficient vector which is corresponds to the independent variable vector Xit in the dimension of k×1. K is the quantity of independent variables. \( \epsilon \) is random error items that are independent of one another, with the average value being zero, and the random error items being equally variant. N is the quantity of cross section members. T is the whole time of each cross section member.

The Hausman test is adopted in this article to determine the type of model to be adopted. The results of the Hausman test for the model demonstrate that the fixed-effect regression model should be adopted in conducting panel data analysis. The detailed formula is as follows:

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\[ C S P_{it} = \alpha_i + \beta V A P A_{it-1} + \epsilon_{it} \]

Considering a relatively high value-added can provide resources for enterprises to fulfill social responsibility, this paper chooses the previous value-added rate as explanatory variables. There is no considering the differences between industries, this involves in the robustness test.

B. Variable design

1) Corporate Social Responsibility Variable

Currently China still doesn’t have an agreed assessment indicator system for corporate social responsibility, nor has an assessment agency to perform this duty as what has been the norm in many other countries. So, to understand an enterprise’s CSR performance, one has to analyze its publized information and data, like annual reports, financial statements, etc. Major corporate stakeholders, according to their influence on enterprises, including shareholders, creditors, employees, customers, suppliers, government and community.

Currently, it has become a common practice to evaluate corporate social responsibility from the perspective of stakeholder theory, which has been included into the framework of corporate social responsibility by Wood(1991), Clarkson(1995), Brammer et al. (2006), peters & mullen (2009). This paper, however, tries to construct a CSR assessment indicator system from the perspective of stakeholders. As is shown in Table1.

Regarding the social responsibilities that enterprises have to assume, this study holds that they are of equal significance and are in agreement with the globally popular practice of non-weight-assignment. Therefore, this paper synthesizes an indicator as the explained variable with the help of all the indicators that can reflect corporate social responsibilities on each stakeholder, that is social responsibility variable.

3.2.2 Asset Value-added Rate Variable

2) Asset Value-added Rate Variable

As an absolute figure, when an enterprise's VA grows larger, the contributions that the enterprise makes to shareholders and other stakeholders become greater. However, also because VA is an absolute figure, the scales of enterprises are not taken into consideration, and VA of enterprises of different scales is not comparable. To remove the influence of the assets scale, this article takes the previous asset value-added rate as explanatory variables, making enterprises of different scales comparable. The formula to calculate asset value-added rate is: 

\[ A V A R = \frac{VA}{Average \ total \ assets} = \frac{(Beginning \ total \ assets + Ending \ total \ assets)}{2} \]

C. Sample and Data Selection

This study selects some A-share listed companies as samples, and the study period is from 2006-2012. The samples are selected according to the following principles:
In the regression test of the model, the estimation coefficient of year variable is not very significant, indicating that the addition of year variable into the model regression doesn’t significantly change their correlation. The findings of that the addition of year variable into the model regression coefficient of year variable is not very significant, indicating performance in CSR.

The previous asset value-added rate and CSR from the aspects of the public undertaking, commerce, real estate, industry, and integrated industry, to test whether the conclusion is robust. By comparing Table 4 with Table 3, it is found that in the the previous asset value-added rate and CSR model, the symbols of regression coefficients in all formats are identical, while only the degree of significance and values of the coefficients are different. Although in the model, a few coefficients have different symbols, coefficients that have high degree of significance have identical symbols in all models, and coefficients of which the symbols are different in different models do not have high degree of significance and do not have high values. This demonstrates that the panel data regression in different industries does not affect corresponding conclusions in this article. Therefore, the empirical result about the influence of the previous asset value-added rate on CSR is reliable. As is shown table 4 for specific results.

### IV. THE EMPIRICAL AND ANALYSIS

In the regression test of the model, the estimation coefficient of year variable is not very significant, indicating that the addition of year variable into the model regression doesn’t significantly change their correlation. The findings of Table 3 show that the empirical results are in consistency with the research hypothesis of this paper. The coefficient estimations of the added value indicator during the prior period are all positive and are significantly positive at the level of 0.01, indicating that the added value of the prior period has significantly positive influence on CSR. Such results demonstrate that higher value improvement during the prior period can and will enhance enterprises’ performance in CSR.

### V. ROBUSTNESS TEST

In-depth studies of the previous asset value-added rate and CSR have been conducted in the preceding paragraphs, and the study has got some meaningful conclusions.

In order to prove the correctness, it is necessary to conduct robustness analysis. This study will probe into the previous asset value-added rate and CSR from the aspects of the public undertaking, commerce, real estate, industry, and integrated industry, to test whether the conclusion is robust. By comparing Table 4 with Table 3, it is found that in the the previous asset value-added rate and CSR model, the symbols of regression coefficients in all formats are identical, while only the degree of significance and values of the coefficients are different. Although in the model, a few coefficients have different symbols, coefficients that have high degree of significance have identical symbols in all models, and coefficients of which the symbols are different in different models do not have high degree of significance and do not have high values. This demonstrates that the panel data regression in different industries does not affect corresponding conclusions in this article. Therefore, the empirical result about the influence of the previous asset value-added rate on CSR is reliable. As is shown table 4 for specific results.

### VI. CONCLUSION

Basing on the important theories and taking integrated analysis of the above test results, the following conclusions can be drawn:

1. Higher value added during the prior period can provide necessary resources for enterprises to fulfill their CSR, thus prompting them to do so actively. This conclusion supports the “Funding Hypothesis”.

2. From the empirical influence of listed companies added values during the prior period on the CSR fulfillment of the current period, it can be observed that the industry of public service enjoys the best fitting, followed by real estate industry. The comprehensive industry, however, has the worst fitting results. They are significantly positive at least at the level of 0.05. The reason is that taking added values as the indicator to assess financial performance is able to gather supports from stakeholders as this practice takes into consideration the larger stakeholder group and pays attention to their interest demands.

### CONFLICT OF INTEREST

The author confirms that this article content has no conflict of interest.

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