

# The relationship between Corporation Social Responsibility and Financial Performance, An empirical Research in Vietnam

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**Keywords:** Corporation Social Responsibility; Financial performance; Customer's satisfaction; Institutional Environment .

**Abstract.** There is a series of pollution problem, it is caused by a big amount of manufactures in Vietnam. The problem is a ring for Vietnam government to built the policies and for enterprises to find the other way gain profit while protecting environment. Radically, every corporation's purpose is gaining profit, earn money, raise the revenue. In developing countries, especially Vietnam, the leader of these enterprises chose reduce the cost, low labor, nonstandard producing and careless of environment. This article is an empirical research for proving that Corporation Social Responsibility (CSR) is a solution for this problem. It point out the effect of CSR to financial performance. A survey is sent to 137 Vietnamese, who are working in the manufacturers from south to north Vietnam. The method is include reliability analysis and multi-regression via SPSS software. And it is found the positive relation between CSR and financial performance of company. The customer's satisfaction partly plays mediating effect in the relationship between corporation social responsibility and financial performance. And institutional environment moderates the relationship between corporation social responsibility and financial performance.

## Introduction

In business, a company structure and policies are decided by the leaders or the boss. What they focus on is how to make more money, gain more profit. This is the essential reason to build a company. Therefore in long time, many companies make their biggest purpose become profit. From small, middle companies to joint stock companies or international group, they all put the only one target, making more profit, on the first. Not only in Asia but also in the whole world, especially in developing country, they care about money become multiple, but not about the social effect, which influences in the long time. Therein, we have to mention joint stock companies, this kind of company is built on relationship of the shareholder's benefit, so they have to more consider about the shareholders' right, they have the pressure of making more money from the investors, so in a understandable way, they take short-term targets for gaining profit. Therefore, more and more problems appeared. For example: environment pollution problems, consumer claiming or easily breaking business acceptance... All these consequences obviously influence their income through reduce their images, reliability or people choices. In the current cut-throat competition background, they are the main reasons to make present company have to self-questioning and change their business operation.

China and Vietnam also open the markets from the 80s. Till now, these two economies is two of the fastest grown developing countries. In the 21st century, they said that China and Vietnam become of the biggest potential countries in the world for investment. Vietnam and China has the cheap labor and loose economy law, in some way, these two countries attracted many investors, the main reason increase the developing speed. But in the other hand, they also became the manufacture of developed countries, a tasted cake. Therefore the economy explosions leaded a series of social problems, which is able to destroy the economy system without well controller or handler. Vietnam and China has the cheap labor and loose economy law, in some way, these two countries attracted many investors, the main reason increase the developing speed. But in the other hand, they also became the manufacture of developed countries, a tasted cake.

## CSR Background in Vietnam

In these few years, the corporation social responsibility problem in Vietnam became one of the most important and indispensability content in almost Vietnamese corporation's management strategy and every economic field.

Undeniably, the consequences that is created by Vietnamese companies was involve a huge effort into Vietnam economy's increasing and development. Nonetheless, beyond the growth racing, many enterprises exposes the opposite of the trading market. The environment pollution, poisoned food, low quality products are daily raising.

According to VNR Top500 company Quaterly Report, there is a big proportion of Vietnamese enterprise realized the importance of CSR implement, especially after the economic crisis and recession.

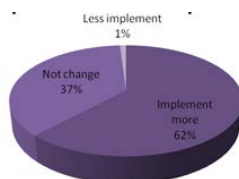


Fig. 1 CSR importance realization in Vietnam

A large number of VNR 500 enterprises has very specific strategies in order to achieve CSR. Up to 59% of businesses surveyed said the proposed budget for CSR activities of enterprises in the next 5 years will increase from 0-25% compared with present. Just 1% enterprises wants to reduce the proposed budget for CSR activities. A significant proportion (23%) of businesses said the proposed budget for CSR activities will increase from 25% - 50% in the next 5 years. It can be seen that, in the current development trend, large enterprises Vietnam has identified the importance and benefits practical implementation of CSR. Hopefully, in the near future, with the commitment to CSR of the largest enterprises Vietnam VNR 500, picture of economic competition - life - social in Vietnam would have bright markings, created a foundation for economic development - sustainable society.

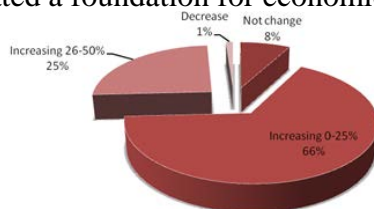


Fig. 2 Expected budget of Vietnamese firms for CSR in next 5 years

There are many factors in CSR, for example: products safeness, environment friendliness, labor life-care, charity activities etc. In Vietnam, longtime invest for social activities is regarded as the most important and most influence activity by Vietnamese enterprises. Stand at the second position in their CSR strategy is charity activities. Detail is as following chart.

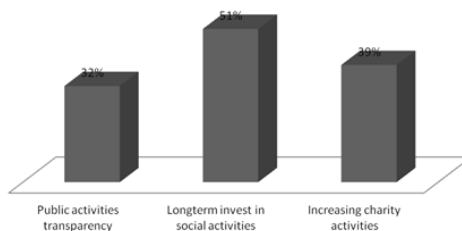


Fig. 3 Proportion of CSR activities

## Literature review

June 1971, the US Economic Development Commission published an article entitled "Commercial Corporate Social Responsibility Report" listed a wide range of corporate social responsibility behavior, the following ten aspects: (1) economic growth and efficiency; (2) education; (3) employment and training; (4) civil rights and opportunities equality; (5) urban reconstruction and development; (6) pollution prevention; (7) resource protection and regeneration;

(8) Culture and Arts; (9) medical services; (10) support from the government. In June 1971, the US Economic Development Commission published an article entitled "5 Commercial Corporate Social Responsibility Report", listed a wide range of corporate social responsibility behavior, the following ten aspects: (1) economic growth and efficiency; (2) education; (3) employment and training; (4) civil rights and opportunities; (5) urban reconstruction and development; (6) pollution prevention; (7) resource protection and regeneration; (8) Culture and Arts; (9) medical services; (10) support for the government. This is a kind of demarcation, which is extended from the definition of the concept of corporate social responsibility.

World Bank defines Corporate Social Responsibility (CSR): The collection, which including relationship between business and key stakeholders, values, law observing and respecting human, about social and environment policy, is the commitment from the enterprises to improve the life quality of stakeholders to contribute a sustainable development.

U.S. Headquartered of the Social Accountability International (Social Accountability International, referred to as SAI) established the concept: CSR is different from business liability, it is in addition to the shareholders, namely the creation of wealth, but also must take responsibility for the whole society in general, including compliance with business ethics, protection of labor rights, environmental protection, development of philanthropy, donations welfare, protection of vulnerable groups, and so on.

Customer satisfaction is an important organizational outcome. The success of a business depends on whether it creates a satisfied customer (Drucker, 1974). A great deal of marketing research has found positive effects of customer satisfaction. Satisfied customers tend to repurchase more (Brady & Cronin 2001), spread positive words about the focal firm (Swanson, 2003) and financial performance (Fornell, Mithas, Morgeson, & Krishnan, 2006; Luo, 2007). For example, Luo and Homburg (2007) suggest that due to the increasing availability of customer service information, not only customers but also job seekers are able to learn more about a firm's customer service, from which they make inferences about the firm's management and corporate cultures. Based on such inferences, job candidates make their employment decisions. They also find that a high level of customer satisfaction helps save investments in advertising and promotion. Relatedly, empirical evidence suggests that customer dissatisfaction hurts firm performance.

From these studies, we found some deficiencies in previous studies, namely: (1) The previous study goes deep into theory, lack of realism. (2) The previous studies are still largely single, no connection, codified elements. The researches of these factors to CSR is not a strung overall, particularly from the legal environment, employee satisfaction, customer satisfaction to corporate image (3) The study previous research has not shown the impact of the implementation of CSR in the business, especially financial. (4) Most of the research on CSR either too general or is encapsulated within a country lacking a comparison between economic actors (5) Previous studies have not shown the engine but now must implement CSR.

Recognizing the missing, this thesis will study the following specific points: (1) Summary of the factors affecting CSR a complete system overview and (2) show how relations between the relevant factors and CSR (3) Comparison of this relationship on both the economy of Vietnam and China. (4) This study is a proven fact based on two national surveys, spread across all regions.

## **Hypothesis and model**

Some researcher in the world point out it is necessary for a link between CSR and financial performance. (See Ruf et al., 2001; Moneva et al., 2007; Odemilina et al., 2010). Moneva et al. identified profitability as an important factor in corporate disclosure of CSR practices. Wu (2006) also found a statistically significant relationship between CSR disclosure and CFP in a sample of 197 companies he analyzed in his study.

The boss of Do Thanh technologies in Ho Chi Minh City, he planned and implemented good policy for his employees, such as raise salary every years, free holiday for all companies or invest new equipment to increase products' quality. The income as he said, raises 20%-30% per year, especially in 2014 while many same companies bankrupt.

In the mix of all finding, I hypothesize as follow:

Hypothesis 1: The corporation social responsibility is positively related to its financial performance.

In the March of 2015, one of the biggest company, the leader of Vietnam beverage industry, THP Group had to face a problem which is raised by their social responsibility. The problem is people discover a fly in their beverage products, which is unacceptable in food industry. That lead a wave in social to find the other same situation and they found more five products with dirt inside. Only in 2 months the gross revenue of THP group reduce 80%. People say no with series of their product like Number one, Tra xanh O do, Dr. Thanh...

THP Group and Do Thanh techonologies company, we could find out some important thing. the role of the consumer. The feeling of costumer about provided goods or serving, it affects directly to the revenue of the business. For THP, their products are food, beverage, nutrition, so the product will be contaminated, so when their product is found polluted, it makes their sales amount fell 80% in two months. Do Thanh technologies is different, their products are PET bottle preform, they are made of high quality, stable, shiny, crisp, easy-blowing, making customers feel satisfied, reliable and select them, it is causing economic growth 20% per year.

Therefore, customer satisfaction is directly connect to financial performance. And all CSR policies that is implemented by companies is showed via customer satisfaction.

Hypothesis 2: The corporation social responsibility is positively related to customer satisfaction.

Hypothesis 3: The customer satisfaction is positively related to its financial performance.

Hypothesis 4: Customer satisfaction plays a mediating effect in the relationship between corporation social responsibility and financial performance.

Discussion of CSR, we have to concern about the government intervention efforts. It belongs to the local market, the construction of government policy in CSR and local culture fit with the company's business philosophy.

H5: Institutional environment moderates the relationship between corporation social responsibility and financial performance.

## **Research Design**

To test the effectiveness of the model proposed above, I conducted an empirical research on the basis of previous studies. After a numbers of interview with employees, junior managers, middle manager and senior managers in Vietnam, I designed a questionnaire, issue and collect it to be the research data basement. The questionnaire content is including five parts: Basic information, CSR, company performance, Institutional environment and customer's satisfaction.

This questionnaire is used Likert 5-scale for measuring. The respondents should give the score from 1 to 5 for Corporation social responsibility related questions. The questionnaire is issued and collected in 6 months, from June to December of 2014 via many ways, such as email, interview, facebook, online questionnaire, sms, wechat, mobile application, phone call. Total number is 180 issued questionnaires and collected 136 valid answer sheets. Respondents were Vietnamese or foreigner who were working for Vietnamese enterprise. I process data through reliability and multiple regression via SPSS software in this paper.

## **Basic Statistics**

In the first part, this paragraph describes the age, education background, job and position of repondents.

About the age, it is found that a big amount of repondents is in the age of 26-30, accounted for 63%, while 18-25 is 12%, 31-45 is 21% and 45-60 is 5%. About education background, most of repondents get barchelor degree 58%. Under bachelor respondents account for 11%, master respondents propotion is 31%, there is no one get Ph.d degree. The statistic realize that job distribution is quite equal, 20% repondents work on R&D, 28% work on accounting, 17% work on manufacturingand 25% work on marketing. About the position of respondents in company, author

also do the survey, the result found 58% is technical personnel or technical backbone. 5% is junior manager, 16% is middle manager, 21% is senior manager.

The second part is about the corporation basic information.

Table 1 Respondents' companies basic information

Categories	Corporation	Amount	Percentage	Categories	Corporation	Amount	Percentage
Property type	State - owned	26	19%	Company sales amount in these three years (RMB)	< 3 million	48	35%
	colectivity	1	1%		3-20 million	24	18%
	Private	65	48%		21 -40million	49	36%
	Joint	3	2%		>40 million	15	11%
	Foreign-owned	41	30%				
Employees	< 20	37	27%	Company ages	< 3 years	25	18%
	20-300	63	46%		3-5 years	23	17%
	301-1000	14	10%		6-10years	51	38%
	> 1000	22	16%		11-15years	13	10%
R&D intensity	< 1%	12	9%		> 15 years	24	18%
	1%-2%	11	8%	R&D personnel Proportion	<2%	26	19%
	3%-5%	23	17%		2%-5%	21	15%
	5%-10%	25	18%		6%-10%	20	15%
	10%-15%	17	13%		11%-15%	37	27%
	>15%	48	35%		> 15%	32	24%

## The results

**Reliability Analysis.** This study use Cronbach's  $\alpha$  coefficients to test the reliability scale and variables. Table 2 shows that, Cronbach's  $\alpha$  coefficients were greater than 0.7 indicates that the scale of internal consistency is ideal.

Table 2 Reliability test

Variables	SR	CS	IE	FP
Items	4	5	4	4
Cronbach's $\alpha$ coefficients	0.816	0.782	0.730	0.814

**Multi-regression.** The following regression method is used to test the hypothesis, and the results shown in Table 3. As can be seen from the results in Table 3, the model 1 the regression equation of independent variable CSR and the financial performance, the result showed that the relationship between corporate social responsibility ( $\beta = 0.393$ ,  $p < 0.001$ ) and the financial performance has a significant positive impact. Thus, the construction of H1 been verified. It can be seen from the model 5 that the corporation social responsibility ( $\beta = 0.560$ ,  $p < 0.001$ ) had a significant positive impact on customer satisfaction. Assuming H2 been verified. From the model 1, it can be seen, customer satisfaction ( $\beta = 0.470$ ,  $p < 0.001$ ) had a significant positive impact on financial performance. H3 hypothesis is verified. As can be seen from the model 2, on the basic of importing independent variable, put the mediating variables into the regression equation analysis, mediating variables of customer satisfaction ( $\beta = 0.364$ ,  $p < 0.001$ ) has a significant positive impact on financial performance, but the independent variable CSR's positive impact ( $\beta = 0.190$ ,  $p < 0.05$ ) on the financial performance is weakened, so customer satisfaction partly plays mediating role to financial performance. H4 partially verified. As can be seen from the model 3 and the model 4, on the basis of importing the independent variable and the moderating variable, then put the interaction into regression equation, the interaction ( $\beta = 0.222$ ,  $p < 0.001$ ) had a significant positive impact on financial performance, the moderating effect is good, assuming that H5 verified.

Table 3 Regression Analysis

Variables	Financial Performance				Customer's satisfaction
	Model 1	Model 2	Model 3	Model 4	Model 5
1.Independent Variables					
Corporation Social Responsibility(SR)	0.393** *	0.190**	0.018	0.059	0.560** *
2.Mediating Variables					
Customer's satisfaction(CS)	0.470** *	0.364** *			
3.Mediating Variables					
Institutional Environment(IE)			0.659** *	0.612** *	
4.Mediating Effect SR x IE				0.222** *	

Note: \*<0.1, \*\*<0.05, \*\*\*p<0.01 (two-sided test) , N=136

## Conclusion and Suggestion

On the whole, the relationship between corporate social responsibility and the financial performance has a significant positive impact, CSR also had a significant positive impact on customer satisfaction, customer satisfaction had a significant positive impact on financial performance, customer satisfaction partly plays mediating role to financial performance, and institutional environment moderates the relationship between corporation social responsibility and financial performance. H1 to H5 are tested and verified.

Actually, many corporations avoid implementing or investing in CSR because they can not see the immediate profit from these acts. But our research proved that the CSR has a significant impact on the income of company. Moreover, the investment on CSR is a long-term profit, it not only influence to this period income but also next period. Consumer desires the good quality, good service and taking promise from the seller, so improve CSR will satisfy them and bring back more profit.

At last, as today saturated market, Vietnamese company has to take corporation social responsibility as the core strategy of company, to prove themselves competitive power and maintaining abilities.

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