

# Theoretical Analysis on the Relationship between Corporate Public Welfare and Financial Capacity

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**Key words:** Social, public welfare, financial capacity

**Abstract:** Enterprise charity is to show the enterprise is not only responsible to the shareholders' interests but also pay more attention to ecological environment, charity and more of the social public welfare of stakeholders, which has become the inevitable trend of enterprise development and the effective ways to enhance the competitiveness of enterprises. As now our corporate social welfare consciousness have improved, and they realized the investment of public welfare improved performance of enterprises. However, with the development of social economy, the improvement of people's living standard, whether the enterprise can play a part in the public welfare has decide the enterprises' live or death.

## Introduction

The concept of "Stakeholder" was appeared latter than the "Corporate social welfare", but in the development of the stakeholder theory is much more rapidly than corporate social welfare thought. Carroll (1991) pointed out that "between the corporate social welfare and stakeholders of an organization is an natural connection". Although the stakeholder theory is a kind of derivative as social enterprise theory, but from the perspective of the theoretical model of corporate social performance, stakeholder theory is actually an important part of the theory of corporate social performance.

In 1963, Stanford Research Institute first putted forward the concept of "stakeholders", points out that the stakeholder is a groups, without their support, the organizations could not survive. But the formal use of the word "stakeholder" is economist Ansoff (1965), he believed, to make the ideal goal of enterprise, it must consider the balance between many stakeholders, they may include managers, workers, shareholders, suppliers and customers.

About the concept of stakeholders, Freeman and Clarkson's descriptions are the most representative. To Freeman, the stakeholders can be divided into two levels: broad sense and narrow sense "generalized stakeholder refers to any groups or individuals that can influence the realization of corporate goals". The stakeholders in its narrow sense refers to those individuals and groups which provide the indeed capital to enterprise". But according to Clarkson's point, the stakeholder refers to the people in the enterprise who have invested some physical capital, human capital, financial capital, or something of value, and thus bear the risk of some forms; in other word, they risk due to business activity ".

This paper argues that stakeholders are those individuals or groups who have a certain specific investment in the enterprise and they assume a certain risk, the enterprise can influence them through actions, decisions, policies, practices or goals. In turn, In turn, these individuals or groups can also affect the enterprise's actions, decisions, policies, practices or goals, or affected by the process of the enterprise to achieve its goal.

## **Social contract Theory**

According to Grossman, Hart and Moore's research, they think a complete contract is able to accurately describe all the possible situations related to transactions and each of the contracting parties' rights and obligations. However, in the real world that complete contract is not exist, and due to the incomplete which make the company has its complexity of the organizational behavior. For the cause of incomplete contract generally exists, Hart and others thought it's the uncertainty and the limitation of human rationality that result transaction costs. Especially because the related variables of a third party (especially court) is unverifiable, which means it can't make feasible detailed rules in the initial contract for all the probable event and its countermeasures. So, this needs someone with residual control, so that in case of the initial contract provisions against probable events to make corresponding decision. Specific ownership of incomplete contracts have enterprise residual claims and control structure is incomplete.

Thomas Donaldson (1982), adhere to a more extensive contract, which is beyond the social law, namely "social contract theory". According to this theory, the enterprise is a member of the particular society and its function is based on the social contract. As the enterprise is endowed with the rights of existence and operation, they should also have the obligation to responsible for the society. Thomas Donaldson and Thomas W. Dunfee (1995) developed the "social contract theory", put forward the "comprehensive social contract theory". In their opinion, the enterprise is the carrier of stakeholders' explicit contract and implicit contract, so enterprise must respond to the requirements of the stakeholder. The implicit contracts is such an ideal in this theory, is to maintain the interests of both parties, but it doesn't appear in the formal contract of both parties. As a kind of rule which is tacit and binding upon both parties, is implicit in the formal contract as a part of the content. Implicit contracts is a derivatives contract of dominant contract, which can be called derivative contract. Only when both parties are willing to trust each other they will sign a contract, the contract includes both explicit contracts, and implicit contracts.

## **Signaling Theory**

Due to the asymmetry of information, in the process of a complete transaction, both parties lack even the most basic trust to each other, they will spend a lot of time and cost to check the information they received try to find out if the other side is willing to cooperation. Then after a long bargaining and negotiations to reach an agreement, even then they still keep an eye on the performance of another side. All these activities for the two sides can't create value, but waste a lot of resources, thus virtually increased transaction costs on both sides. Because of information asymmetry between enterprise and its stakeholders, there are a lot of transaction costs (fails to perform the social public interest is an important factor in transaction costs abound), which affect the enterprise shareholder wealth. If the enterprise to fulfill the social public welfare to meet the needs of stakeholders, trust each other, then it will greatly reduce the cost from information asymmetry, which can bring more wealth to the shareholders.

So how should the enterprise fulfill the social public welfare? Negotiation with stakeholders is a good method. Sometimes, however, the costs of negotiation is high, and to some stakeholders, such as customers and the public, because they are big in numbers, it is difficult to organize a diverse group, it is almost impossible to negotiate. Therefore, the enterprise will need to choose other ways to transfer the performance of the social situation to its stakeholders, the way of using signal transmission is one choice. For example: paying tax actively, paying attention to the community, propagandizing environmental protection, paying bond interests in time and taking part in social charity, expecting to be able to collaborate with stakeholders. According to the data, the world top

500 enterprises, most of them would release annual report to their corporate citizen. Showing the world that enterprises is fulfilling social welfare, in order to accept the supervision from the society, to encourage more enterprises to make more contribution to society. Through this signal transmission, enterprises can improve their image and reputation in the society. Establish enterprise social reputation for F, you can get corporate social reputation equation:

$$F=f(a, b, c, d, e, g, \dots)$$

In this: “a” represents the interests of the suppliers, “b” on behalf of the interests of governments, “c” represents the interests of the worker, “d” on behalf of the interests of consumers, “e” represents the interests of the creditors, “g” represents the social public interests.

If “ $f' > 0$ ”, then it shows corporate social reputation is increasing function of variables of the suppliers’ interests, the interests of the government, the consumers interests, creditors' interests and social public interests. A, b, c, d, e, g... The value of their increase, the value of F will also increase. By observing the social reputation of enterprise value, stakeholders will be able to understand the enterprise’s performance of the social situation, to know whether the enterprise can meet the demand of interests, and decide whether to cooperate with the enterprises.

### **The examination of correlation between enterprise social and financial capacity**

The examination of correlation between enterprise social and financial capacity includes two parts, one is through the correlation test to verify the direction of the relationship between social and financial capacity, which decide the relationship is positive correlation, negative correlation, or no relationship; Second, through the regression test to understand the nature of this relationship, revealing a cause-and-effect relationship between enterprise social and financial capacity.

#### **4.1 research hypothesis**

Hypothesis 1: the better the enterprise performance in social welfare, the higher financial capacity ability it has.

Test model 1:

$$Sit = \alpha it + \beta 1 CSRit-1 + \beta 2 Sit-1 + \beta 3 SIZEit + \epsilon i \quad (1)$$

S means viability, it is measured by total asset turnover.

Hypothesis 2: The better the enterprise performance in social welfare, the higher security capabilities it has.

Test model 2:

$$Ait = \alpha it + \beta 1 CSRit-1 + \beta 2 Ait-1 + \beta 3 SIZEit + \epsilon i \quad (2)$$

A means security capabilities, it is measured by withdrawal rate index of social security.

Hypothesis 3: firms to carry out social public welfare, the better, the higher profitability. Model 1-3 as follows:

Hypothesis 3: The better the enterprise performance in social welfare, the higher profitability it has.

Test model 3:

$$Yit = \alpha it + \beta 1 CSRit-1 + \beta 2 Yit-1 + \beta 3 SIZEit + \epsilon i \quad (3)$$

Y means the profitability, it is measured by the return on equity indicators.

Hypothesis 4: The better the enterprise performance in social welfare, the higher development capacity it has.

Test model 4:

$$Fit = \alpha it + \beta 1 CSRit-1 + \beta 2 Fit-1 + \beta 3 SIZEit + \epsilon i \quad (4)$$

F means the development capacity, it is measured by operating income growth rate index.

Hypothesis 2: The better the enterprise performance in social welfare, the higher financial ability it has.

Test model 5:

$$CSR_{it} = \alpha_{it} + \beta_1 CFP_{it-1} + \beta_2 SIZE_{it} + \epsilon_i \quad (5)$$

Considering that enterprise which has good financial capacity and more resources to carry out social public welfare, and it will take a time to make the enterprise perform better, so I choose the previous financial ability as the explained variable of the model. The SCR in model is measured with the total social index, CFP is measured with the total asset turnover, social withdrawal rate, return on net assets and operating income growth rate index to measure.

Considering the final goal of enterprise performance of social welfare is to improve the enterprise's financial ability and create more value. The different cooperate social welfare will have different impact on the financial ability. Therefore, this article is based on four different financial capacity, then put forward the following four assumptions.

Hypothesis 3: The better the enterprise perform on the environment, the higher viability it has.

Test model6:

$$Sit = \alpha_{it} + \beta_1 ENV_{it-1} + \beta_2 Sit_{it-1} + \beta_3 SIZE_{it} + \epsilon_i \quad (6)$$

The ENV means the social welfare in environment field, measured by environmental index.

This paper studies the chemical industry, so the environment is the key stakeholders. The performance of environment social welfare will directly affect the viability ability of the enterprise.

Hypothesis 4: The better the enterprise performance with its stuffs, the higher security capabilities it has.

Test model 7:

$$A_{it} = \alpha_{it} + \beta_1 EMP_{it-1} + \beta_2 A_{it-1} + \beta_3 SIZE_{it} + \epsilon_i \quad (7)$$

EMP means the social welfare of employee, measured by employee index. According to the meaning of security capabilities, employee is a factor that affect security capabilities of enterprise.

Hypothesis 5: The better the enterprise performance with its customers, the more profitability it has.

Test model 8:

$$Y_{it} = \alpha_{it} + \beta_1 CUS_{it-1} + \beta_2 Y_{it-1} + \beta_3 SIZE_{it} + \epsilon_i \quad (8)$$

The CUS means the social welfare in customers, measured by customer index. The performance to customers social welfare directly affected the enterprise sales performance, then affect the profitability of the enterprise.

Hypothesis 6: The better the enterprise performance with its stakeholders, the higher developing ability it has.

Test model 9:

$$Fit = \alpha_{it} + \beta_1 GEN_{it-1} + \beta_2 Fit_{it-1} + \beta_3 SIZE_{it} + \epsilon_i \quad (9)$$

The GEN means the general social responsibility, measured by general social class index. General social class belongs the high level of the social responsibility, the enterprise with a long-term vision should pay attention to this aspect of responsibility.

#### 4.2 Correlation test and results

Calculating the total social index and the financial indicators of enterprise financial capability correlation inspection, the inspection results shown in the table below:

Table 1: The correlation test and results of enterprise social and financial capacity

Index	Total asset turnover	Extraction yield of social security	Return on equity	Operating income growth rate
Group1: The relationship between The current corporate social public welfare (CSR <sub>t</sub> ) and The current financial capacity (CFP <sub>t</sub> )				
correlation index	-0.118	0.047	0.056	-0.046
significant	0.201	0.612	0.543	0.620
Group 2: The relationship between the current corporate social public welfare (CSR <sub>t</sub> ) and the previous financial capacity (CFP <sub>t-1</sub> )				
correlation index	0.005	-0.013	0.401	0.311
significant	0.961	0.888	0.000	0.001
Group 3 The relationship between Current financial capacity (CFP <sub>t</sub> ) and previous corporate social commonweal (CSR <sub>t-1</sub> )				
correlation index	-0.079	0.086	0.005	-0.055
significant	0.389	0.353	0.956	0.549

From the point of the above-mentioned correlation test results, (1) Because of the different index between the current financial capacity and current and previous period, there are different results; (2) Besides extraction yield of social security, there have positive correlation between the previous period and current social financial ability. In addition, the total asset turnover indicators' positive correlation is not significant, and the other two indicators have significantly positive correlation relationship; (3) when using the return on equity to show financial ability, there are positive correlation in social public welfare both in the current and previous period.

#### 4.3 regression test and results

In order to take a further analysis of the relationship between cooperate social welfare and financial ability, this article related regression tests, and test results are as follows.

The inspection of hypothesis 1 in the following table:

Table 2 corporate social performance impact on the company financial ability

Test modell1:  $CFP_{it} = \alpha_{it} + \beta_1 CSR_{it-1} + \beta_2 CFP_{it-1} + \beta_3 SIZE_{it} + \epsilon_i$

Explanatory variables	The coefficient	Value of P	Adjusted R <sup>2</sup>	The value of F
Model 1-1: $S_{it} = \alpha_{it} + \beta_1 CSR_{it-1} + \beta_2 S_{it-1} + \beta_3 SIZE_{it} + \epsilon_i$ , the dependent variable is current total asset turnover				
CSR <sub>it-1</sub>	-0.009	0.019	0.722	103.902
Model 1-2: $A_{it} = \alpha_{it} + \beta_1 CSR_{it-1} + \beta_2 A_{it-1} + \beta_3 SIZE_{it} + \epsilon_i$ , the dependent variable is the current social security extraction yield				
CSR <sub>it-1</sub>	1.708	0.323	-0.017	0.334
modell1-3: $Y_{it} = \alpha_{it} + \beta_1 CSR_{it-1} + \beta_2 Y_{it-1} + \beta_3 SIZE_{it} + \epsilon_i$ , the dependent variable is the current return on net assets				
CSR <sub>it-1</sub>	-0.441	0.275	0.124	6.634
Model 1-4: $F_{it} = \alpha_{it} + \beta_1 CSR_{it-1} + \beta_2 F_{it-1} + \beta_3 SIZE_{it} + \epsilon_i$ , the dependent variable is the current operating income growth rate				
CSR <sub>it-1</sub>	-0.057	0.924	-0.005	0.815

The above-mentioned shows that: (1) When take total asset turnover as the financial capacity of measurement indicators, P value is significant, but it's negative correlation; (2) there are three

models have showed negative independent variables, there is only one number is positive, that says the whole enterprise's social performance will weaken the enterprise financial ability, which do not agree with our hypothesis.

The test of hypothesis 2 in the following table:

Table 3 enterprise financial ability affect social performance

Test model 2:  $CSR_{it} = \alpha_{it} + \beta_1 CFP_{it-1} + \beta_2 SIZE_{it} + \epsilon_i$

explanatory variable	coefficient	Value of P	Adjusted R <sup>2</sup>	Value of F
Total asset turnover	0.217	0.816	0.097	7.399
Extraction yield of social security	-0.031	0.384	0.103	7.797
Return on equity	0.087	0.000	0.264	22.297
Operating income growth rate	0.053	0.000	0.197	15.63

The above-mentioned reflects how enterprise financial ability in last issue can influence the corporate social performance. Extraction yield of social security coefficient is negative, but the P value is higher, the rest of the index of the coefficient is positive, and there are two indicators is significant, indicating the previous viability, profitability and development ability which can help to improve the enterprise's social performance, and improve the profit ability and development ability. This basically the same with our hypothesis.

The testes of hypothesis 3 to 6 in the following table:

Table 4 the influence of all kinds of social performance to financial capacity

explanatory variable	coefficient	Value of P	Adjusted R <sup>2</sup>	Value of F
Test model 3: $Sit = \alpha_{it} + \beta_1 ENV_{it-1} + \beta_2 Sit_{-1} + \beta_3 SIZE_{it} + \epsilon_i$ , environment→viability				
Previously environmental index	-0.19	0.017	0.722	104.077
Test model 4: $Ait = \alpha_{it} + \beta_1 EMP_{it-1} + \beta_2 Ait_{-1} + \beta_3 SIZE_{it} + \epsilon_i$ , employees→Security capabilities				
Previously employees index	6.66	0.209	-0.012	0.537
Test model 5: $Yit = \alpha_{it} + \beta_1 CUS_{it-1} + \beta_2 Yit_{-1} + \beta_3 SIZE_{it} + \epsilon_i$ , consumers→profitability				
Previously consumer index	8.946	0.012	0.163	8.701
Test model 6: $Fit = \alpha_{it} + \beta_1 GEN_{it-1} + \beta_2 Fit_{-1} + \beta_3 SIZE_{it} + \epsilon_i$ , normal society→development				
Previously society index	1.964	0.378	-0.002	1.079

This chart reflects the various social influence to enterprises financial capacity: the previous environment index of the coefficient is negative, and P values significantly, it means the better the performance of the enterprise environment, the worse viability it has. This does not agree with our research hypothesis; Previous employees class index of the estimated coefficient is positive, but the P value is higher, that employee class social performance was beneficial to the improvement of the enterprise security capabilities, although its not very obvious; Previous estimates of consumer class index coefficient is positive and significant, that the better corporate social performance of consumer, it can significantly improve the profitability of enterprises; Previous estimates of the general social class index coefficient is positive, but the P value is larger, enterprise information of general social class social performance of the well, its security ability is high, but not very significant.

## Summary

According to the results of the inspection, the enterprise financial capacity can promote cooperate social welfare, and it's a significant positive correlation. From the perspective of the financial capacity of concrete, the promotion enterprise's profit ability and development ability can significantly improve the enterprise's social performance; Enterprise viability can also improve the enterprise's social performance, but not significantly; And the enterprise security capabilities is not conducive to improving the social performance of the enterprise, which may because sample and the selection of indicators in this paper, also may be because it needs a long time to increase the enterprise financial to better fulfill its social welfare performance. Although the conclusion of this article is an enterprise's social performance will weaken the enterprise financial ability, but this does not mean that companies do not fulfill the social public welfare, social public to the enterprise financial ability for enterprises is a long-term process, the influence of the weakening effect is only a short-term phenomenon, enterprise should stand in the long term perspective, should not only see immediate interests; Another conclusion in this paper is the ability of the enterprise financial benefits to improve the social performance of the enterprise, with the continuous development of enterprise and progress, enterprise's social consciousness is in constant improve, they will perform better in the near future.

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