

The Relationship Between Corporate Social Responsibility and Financial Performance

From the Perspective of Stakeholder Theory

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Abstract—The relationship between corporate social responsibility and corporate financial performance has always been a controversial issue. In recent years, more and more scholars believe that better handling the relationship between enterprises and stakeholders and fulfilling corporate social responsibility are crucial to the sustainable development of enterprises. Especially for the construction industry which will result some social issues, the study of the effects of corporate social responsibility on financial performance is more necessary. Based on the analysis of previous literature and stakeholder theory, this paper discusses the internal mechanism of social responsibility and financial performance of listed companies in the construction industry, and concludes that corporate social responsibility is positively correlated with financial performance through empirical analysis.

Keywords—*corporate social responsibility; financial performance; stakeholder theory; construction industry*

I. INTRODUCTION

Traditionalists argue that the main objectivity of managers who operate the business is to maximize the shareholders' wealth. While, other scholars hold the view that management should consider social and environmental factors in commercial decision-making. This is called corporate social responsibility (CSR) which means that the enterprise has the responsibilities to create profits, to run the business on behalf of the shareholders, to consider the wealth of employees, at the same time, the enterprise also has responsibilities for consumers, community and environmental. Corporate social responsibility requires enterprises must go beyond profit as the only goal of the traditional philosophy, emphasize on the environment, consumers and contribution to society. It is understood to be the manner where a firm balances the economy, social and environmental aspects of its operations, addressing the expectations of its stakeholders and society-at-large. In this regard, the concept of CSR is often used interchangeably with concepts of sustainable development, corporate citizenship, social enterprise, triple-bottom line, corporate ethics, and in some cases with corporate governance. Additionally, construction industry plays an increasingly important role in the domestic market. Due to its specific nature of the building materials, there produce some

projecting issues, such as materials wastage, environmental pollution, safety misadventure and even labor relation. It also means that corporations within the construction industry undertake much more social responsibilities towards variety of stakeholders (employees, community, employees and environment), compared with those in other industries.

However, although firms may invest in social performance, the social reputation will be hard to achieve without proper disclosure of such information. By disclosing on CSR related activities, companies are signaling that they are 'doing the right thing'. In other words, enterprise provides the signals to the shareholders and stakeholders in order to enhance its market value and strengthen brand awareness.

Nowadays, the single bottom line of economic profit in CSR context has become triple (i.e. economy, environmental and social), making a profit is still a fundamental concern for corporations development, as it guarantees their long-term survival. Given the fact that the implementation of CSR by firms is on voluntary basis, it can be questioned why some companies invest in CSR and others not? Does CSR increase profits, and if does not, why would companies invest in it anyway? Notwithstanding extensive scientific research on this issue, the relationship between CSR and CFP still remains unclear. Based on related theories and previous research, this paper has a further study on CSR and CFP from the perspective of stakeholder theory. And according to results of the empirical analysis, the suggestions about the sustainable development of corporations are given.

II. RELATED THEORIES

A. Stakeholder Theory

Stakeholder theory is based on idea that companies have a social responsibility that requires them to consider the interests of all parties influenced by their actions. Donaldson and Preston (1995) [1] explain that stakeholders are persons or groups with legitimate interests in procedural and / or substantive aspects of corporate activity. In this perspective, managers are not mere a shareholders' agents, they are builders of stakeholder relations. Stakeholder theory places shareholders as one of the multiple stakeholder groups

managers have to consider in their decision making process (Clarkson, 1995; Wood and Jones, 1995) [2], while CSR is the strategy for dealing with stakeholders demands. Moreover, someone argue that CSR is often useful in generating a long-term shareholder value.

B. Corporate Social Responsibility

According to the World Business Council for Sustainable Development, CSR is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of workforce and their families as well as the local community and society at large. CSR is also a concept whereby organizations consider the interest of society by taking responsibility of the impact of their activities on consumers, suppliers, employees, shareholders, communities and others stakeholders, as well as the environment.” Some scholars mention that CSR activities have enabled companies to make contributions to communities that they belong to and are regarded as a significant means of communication in order to maintain relationships with stakeholders. And CSR is defined as significant management activities that contribute to society and maintain an affirmative relationship with stakeholders of companies by Maignan and Ferrell (2004). CSR has also been recognized as a corporate management activity and social responsibility is considered an essential factor in management strategy.

C. Corporate Financial Performance

Szilagyi (1984) [3] first proposed the connotation of performance. He believed that it was fair and reasonable to use performance to measure the results of organizational structure, and performance could test whether the organizational strategy was implemented correctly or not. The financial index of an enterprise usually takes its business performance and market performance as the evaluation index. For business performance, the most important indicators are the return on total assets of the enterprise, namely ROA and the return on equity, which is called ROE. For market performance, the total value of assets of the enterprise is the main index.

D. Relationship Between CSR and CFP

Empirical research on the association between CSR and CFP are from different fields, including strategical management, marketing, accounting, finance, and business ethics, has consumed a vast amount of attention. And the existing literature on the CSR–CFP relationship seems to be grouped by four kinds of findings: negative, insignificant, positive relationships, and even mix relationships. While a number of research suggests that investment in CSR increases operating costs and makes the company less competitive (Jensen, 2002; Moore, 2001)[4], other stream of research argues that through investing in social responsibility, companies can achieve competitive advantage by attracting easily resources and high-quality employees, differentiating its products and services, reducing its exposure to risk, etc. (Godfrey, 2004; Simpson and Kohers, 2002)[5][6]. In this

paper, the opinion is that the investment in CSR is positively related to the CFP.

III. THEORETICAL HYPOTHESIS

CSR towards investors examines firms’ policies and practices with respect to issues such as shareholder participation in decision making, respect for investors’ rights, auditors’ independence, policies toward insider trading, transparency in financial and non-financial disclosures, and transparent compensation policies with respect to key executives. Evidence suggests that the adoption of better corporate governance standards increases firm performance. It is also stressed that companies adopting CSR principles toward investors are more transparent and have less risk of bribery and corruption.

H1: Voluntarily undertaking the social responsibilities of corporations towards investors will increase the financial performance.

Policies and practices toward workers’ unions, employees’ participation in decision making, remuneration policy, and working conditions portray a firm’s CSR toward its employees. By adhering to high standards, firms can satisfy employees’ needs, enhancing their job performance and improving the company’s financial performance. It is obvious that satisfied employees have higher motivation and higher productivity. Companies perceived to have a strong CSR commitment often show an increased ability to attract better job applicants and to retain employees, which leads to reduced staff turnover, recruitment and training costs. CSR also influences work attitudes, increasing employee morale and their contribution to initiatives that are beneficial to the organization. The accumulation of human capital derived from socially responsible practices can become a source of competitive advantage and result in improved financial performance.

H2: Voluntarily undertaking the social responsibilities of corporations towards employees will increase the financial performance.

CSR towards the community is seen mainly in terms of philanthropic donations, public-private partnerships, community relationships, and participation in social and economic development issues. These actions can be treated as instruments of enhancing brand image and reputation building. Corporate philanthropy is an exceptionally positive one that affects corporate financial performance because decisions regarding charitable contributions can be made strategically to raise a company's image and reputation, as well as to increase the value of its “moral capital”. With the broad spread of cross-sector partnerships and engagement initiatives, a rich discussion has focused on the competitive potential related to discretionary investments in community development projects or relationships with public and nonprofit organizations.

Studies have also started to analyze the impact of participating in community development projects on corporation development, showing how partnerships and community engagement have the potential to support firms

in the development of a proactive attitude toward their context of reference, helping them to foresee dynamics of change and potentially risky challenges. Additionally, Porter and Kramer (2011) [7] argue that integrating CSR into the corporate value proposition can benefit society as well as boosting competitive advantage. Finally, the involvement in social and community development projects has been proven to have important impacts on organizational capability development.

H3: Voluntarily undertaking the social responsibilities of corporations towards community will increase the financial performance.

CSR in their relationships with customers have better chances to enhance their reputation as reliable, open and trustworthy exchange partners. What's more, closeness to and collaboration with consumers support firms in generating new knowledge and experience, thus increasing the ability to innovate and the attentiveness to growth opportunities.

H4: Voluntarily undertaking the social responsibilities of corporations towards customers will increase the financial performance.

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Profit-Dividends of Preference Shares}}{\text{the Number of Ordinary Shares}}$$

Economical responsibilities include providing safety working conditions and associated insurance, the legal responsibilities include offering competitive wages and that the payment should be compliance with the minimum wage, and the ethical responsibilities include mutual esteem and career professional development. And the employee interest rate suggests the percentage of the payment, welfare and other benefits of the corporations to employees' remuneration to the total income of main business. And this

$$\text{Employee Interest Rate (EIR)} = \frac{\text{Payroll Payable}}{\text{Revenue}}$$

Social responsibilities to community reflect the main business for charity, donations, as well as public welfare activities, which can help to shape a good corporate image, and promote the harmonious link between the corporations and communities. Furthermore, it can promote the economic development of the community, environmental improvement, for the residents' employment, etc. If not having a good responsibility to the community, such as environmental pollution, noise pollution and other ecological environment,

$$\text{Community Donation Rate (CDR)} = \frac{\text{Donations Outlay+Sponsorship expenses}}{\text{Revenue}}$$

Customers are the necessities of the survival and development of businesses. Once losing them, corporations will be deprived of the core competition in the industry. Establishing a strategic working ship with customers, not only the existing but also the potential, guarantees the

IV. RESEARCH METHODOLOGY AND RESULTS

A. Sample and Data Sources

This paper studies the constructional companies listed on Shanghai Stock Exchange in 2014. A total of 50 listed enterprises are included, excluding incomplete data of enterprises and enterprises obviously false. After screening, a sample of 32 companies is selected. In order to reduce the impact of sample data on the results of the study, this paper is based on the following principles: first, to eliminate the data that information is not complete; Second, to exclude the data significantly exaggerated false.

B. Definition of the Variables

1) *Independent variables related to CSR*: The primary objective of management is to maximize the shareholders' wealth, which can be represented by dividend payment and share price appreciation, proving that there is critical and basic link between the investment of shareholders and the business performance. Voluntary undertaking social responsibilities to shareholders can strengthen the confidence of shareholders, resulting in much more capital injection to form long-term coordination. Due to economic profitable activities, EPS can be used to reflect the required return per share owned by shareholders. And the larger EPS, the more security corporations provide with shareholders.

part of information can be obtained from the statements of cash flows. Besides, information about career professional development given to employees can be obtained from the notes of annual report, and is always qualitative rather than quantitative. Therefore, this cannot be included. Meanwhile, a high figure of this index indicates that corporations pay more attention to employees, which ensures the equity of employees.

it will make the community residents' health and life affected. Therefore, enterprises should bear the responsibility of the community to get the support of residents and public opinion, to create surplus value. And community donation rate reflects the percentage of the total philanthropic expenditures of corporations to the total revenue. And this part of information usually comes from the disclosure notes of annual report. A higher figure suggests more contributions to community development.

required returns in the future. Therefore, corporations should undertake social responsibilities to customers voluntarily through better satisfaction of customers' needs, providing high quality goods and services, and even after-sales mechanism. In the business transactions, operating costs

reflects the association between corporations and customers. If the operating costs take up largely, the gross profit will be retained a little, on contrary, it shows that corporations greatly meet with customers' requirements, which will enlarge the transfer of profits of customers.

$$\text{Main Business Rate (MBR)} = \frac{\text{Costs of Sales}}{\text{Revenue}}$$

2) *Control variables*: The creditors of corporations provide a large amount of money for the production and operation of businesses, and even other resources. Undertaking the responsibilities to creditors, such as timely repayment of the principal, debt service liability, guarantees the smooth operation to create more profits, in the premise of ensuring their own safety. Only in this way can corporations get the capital support of creditors to promote the improvement of performance. And the index designed of asset-liability ratio measures assets utilization, and a small

$$\text{Government Contribution Rate (GCR)} = \frac{\text{Taxes Paid-Refunds of Taxes}}{\text{Revenue}}$$

The responsibility of the corporations to the environment is the obligation to protect the environment and to prevent the environment from the broken ring, which arise from lots of environmental pollution or damages in the production and management process. Voluntarily undertaking social responsibilities to environment can achieve the sustainability, promote the coordination of businesses, environment and human beings, and greatly conserve the resources required, otherwise they can only wait for the depletion of the

$$\text{Rate of Environmental Protection (EPR)} = \frac{\text{Environmental Management Expenses}}{\text{Revenue}}$$

The scale and the nature of the enterprise will also have an impact on the enterprise performance. However, because of the special nature of the constructional industry in China, it's believed that the ownership and size of the listed corporation have a certain impact on the financial performance. The size is measured by the natural logarithm of the final assets. Ownership is measured as state-owned enterprises (SOE), typed by 1; non-state firms, typed by 0.

$$\text{ROE} = a_0 + a_1\text{EPS} + a_2\text{EIR} + a_3\text{CDR} + a_4\text{MBR} + a_5\text{LNSize} + a_6\text{OWNER} + a_7\text{CDR} + a_8\text{A/L} + a_9\text{EPR} + \varepsilon$$

a_0 : the intercept, a_1 - a_9 are the regression coefficient, ε is the random error. (See "Table I".)

TABLE I. DESCRIPTIVE STATISTICS

	Max	Min	Mean	Standard Deviation
ROE %	21.930	0.128	8.735	5.271
EPS	0.920	0.010	0.336	0.248
A/L Ratio	0.883	0.059	0.663	0.241
EIR	0.2219	0.0004	0.0243	0.0518
MBR	0.9770	0.0076	0.8311	0.1726
GCR	0.6082	0.0073	0.0507	0.1057
CDR	0.0008	0	0.0001	0.0002
EPR	0.0022	0	0.0003	0.0005
LNSize	26.72	20.32	23.17	1.49
Ownership	1	0	0.71	0.46

figure of this will guarantees the security of capital injected by creditors.

$$\text{Asset-Liability Ratio (A/L)} = \frac{\text{Liabilities}}{\text{Assets}}$$

Corporations, in the society at large, from the establishment, registration, management of the whole life cycle, are closely linked to the government. Only receiving government's assistance and grant, enterprises can obtain better development. The social responsibilities to government include timely and full paid taxes and fees, and full compliance with the state laws and regulations, which can reduce the stress faced with corporations to enhance the business performance. Government contribution rate reflects the percentage of taxes paid to revenue. The higher figure indicates better contributions of corporations to government, then showing greatly undertaking social responsibilities towards government.

enterprise. The rate of environmental protection reflects the percentage of the expenditures of corporations to total revenue of the current year. In modern society, information about social responsibilities to environment is voluntary to disclose. Meanwhile, although disclosed, the information is more narrated on the corporations' website or in other hard-copy nature. Obviously, it is qualitative and uneasily to measure. A higher figure of this shows that corporations focus more on the friendly environmental activities related.

$$\text{Rate of Environmental Protection (EPR)} = \frac{\text{Environmental Management Expenses}}{\text{Revenue}}$$

3) *Dependent variables related to CFP*: ROE is used to be the dependent variables. It is the ratio of net profit and net assets of the enterprise, and reflects the index of general enterprise's profitability.

V. THE DESIGN OF THE MODEL AND RESULTS ANALYSIS

The aim of the model is to define whether the hypothesis is tenable.

The standard deviation of ROE is 5%, which suggests that there still exists a big gap among different companies. Companies among construction industry are more likely to use debt financing due to the 66% mean value of Asset/Liability Ratio, showing higher finance risks and business risks. There is a big difference between the maximization of EPS and the minimization, which indicates the dividend policy is different in the companies. Meanwhile, there still a small part of companies choose equity financing to reduce some risks undertaken by them. Besides, the difference between the staff salaries and benefits of the construction industry companies is not very big, and the mean value of 0.02 suggests a relatively low social responsibility, reflecting less human capital investment, education spending, and employees' career professional

development, as a consequence, less concentrating on employees. From consumers' perspective, the 98% maximum of operating costs to revenue ratio and 83% of mean value indicate a good performance to pass the savings to customers. However, an obvious difference between the maximum and minimum reflects the extent of the business for consumers of different degrees of emphasis. In other words, there is a possibility that some companies are greatly meeting with customers' requirements. From the government contribution rate, the gap among those companies is very large, reflecting great disparity in taxes payment, as a result, a different awareness of social responsibility towards government. Additionally, there is a gap between social expenditure, such as donations outlays, sponsorship expenditure, sewage treatment costs and other environmental

expenditures, in the process of taking responsibility for the community and environment within the construction industry. In other words, different companies choose to implement the donations, and to protect environment, according to their own situation. Although having a certain difference, but the overall gap is not great. However, some companies still choose to take the ignorant attitude towards social responsibility to community and environment. According to the ownership, there is a 46% standard deviation, indicating 54% State-owned enterprises.

In a word, the overall operation in construction industry is favorable, however, the gap among these companies in every aspect is relative large. Meanwhile, the standard deviations in all variables are very considerable, showing there is not a standardized operation in this industry.

TABLE II. CORRELATION ANALYSIS

	ROE	EPS	A/L	EIR	MBR	GCR	CDR	EPR	LNSize	Owner
ROE	1									
EPS	0.25	1								
A/L	0.73	0.18	1							
EIR	0.76	-0.013	0.32	1						
MBR	-0.19	-0.32	-0.58	0.37	1					
GCR	0.59	0.37	0.14	0.28	-0.08	1				
CCR	0.18	-0.09	0.26	0.31	0.012	-0.1	1			
EPR	0.14	0.22	0.29	0.29	-0.39	0.24	0.17	1		
LNSize	0.28	0.16	-0.095	-0.14	-0.15	0.17	-0.35	0.2	1	
Owner	0.11	0.026	0.11	0.07	-0.29	0.23	-0.25	-0.17	0.15	1

As it shown in "Table II", most of the variables are positively related to ROE, except the MBR, which is negatively related to ROE. It means when the MBR increases, the ROE will decrease. The reason for this is the increase cost of sales will decrease the profit, then result a lower ROE. The other variables mean that when the variable increase, the ROE will also increase.

has a significant relationship with ROE. The MBR has a negative relationship with ROE, although the fulfilment of customers' responsibility can increase the company's reputation, the cost of goods should also be considered because the cost is a part of profit calculation. With the increasing of CDR, the ROE will also increase, but not significant. This may be the limitation of the data.

TABLE III. REGRESSION TEST OF CSR INDEXES ON ROE

Variables	Estimated Parameters	T-Value	P-Value
EPS	0.48863	4.36362	0.00023
A/L	0.12135	1.14609	0.01692
EIR	0.57682	1.05941	0.00042
MBR	-0.01433	-2.53486	0.05823
GCR	0.26250	2.74061	0.02323
CDR	0.99211	0.30787	0.04133
EPR	0.41176	1.1354	0.00263
LNSize	0.00281	0.24422	0.00165
Owner	0.42212	0.05674	0.06534
R ² =0.5892		F-Value=4.2061	

^a Significant correlation on 0.01 level (bilateral)

From the regression results above in "Table III", the F-value is 4.2 means the total model is significant. The R-squared is 58.92%, which indicates the variables fit the model. At 1% level, T-value of EPS is 4.36 which are significantly related to financial performance. The EPS is positively related to the ROE and this represents the hypothesis between the responsibility to investors and corporation financial performance is appropriate. A/L has a positive relationship with ROE but not significant. EIR also

VI. CONCLUSION AND SUGGESTIONS

A. Conclusion

Based on the above analysis, a conclusion can be reached from the independent variables related to CSR and dependent variables related to CFP, and prove the previous hypothesis. Corporation social responsibilities voluntarily undertaken by Public listed companies in construction industry will promote the financial performance, and there exist a positive correlation. In other words, when social responsibilities are greatly performed, the business operation will be more effective and efficient.

B. Suggestions

Firstly, Corporations should pay more attention on the shareholders' interest when they are running the business. When they are making decisions, the directors should consider the long-term development of companies, which is benefit to the shareholders' interest. At the same time, the shareholders are the main investors of a company's capital, thus the shareholder equity should be protected.

Secondly, Human resource is important to the sustainable development of a corporation. Undertaking the social responsibility towards the staff, mainly refers to training expenditure occurred to the long-term development and professional career development. What's more, enterprises should pay a modest salary and benefits to protect and motivate the enthusiasm of staff.

Thirdly, the research shows that there is a positive correlation between corporate social responsibility and corporate performance. Therefore, actively taking social responsibility for the community will get social image, support and praise. Meanwhile, the state should encourage enterprises to carry out public welfare and charity undertakings, give a certain preferential policies, so that enterprises are more consciously take the responsibility of the community.

Fourthly, customer is the determinate of the survival and development of the enterprise. Through the research on social responsibility and corporate performance of private enterprises in constructional listed companies, it is found that voluntarily undertaking the responsibility of customers will increase the enterprise performance. Therefore, enterprises should actively safeguard the interests of customers based on their demand, should ensure product quality, should keep the price at a reasonable level and so on. Besides, customer's loyalty is also taken into account.

ACKNOWLEDGEMENT

This research was financially supported by the project of research on the influence of the development of China's banking industry on the technological innovation of enterprises — based on the perspective of property right structure (18XWC18).

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