

The Research of Relationship between Central Enterprises' Social Responsibility and Corporate Performance

Heng Ma, Ruoyu Zhang

Department of Economic and Management, Nanjing University of Aeronautics and Astronautics, China

ABSTRACT

China's economy has been in a period of rapid development over the past decades. However, the increasing amount of GDP usually based on the environmental pollution and resource plunder. In this condition, it is important to balance the corporate social responsibility and corporate performance. The paper conducted an empirical study of the relationship between corporate performance and corporate social responsibility of 99 listed Central Enterprises with the panel data from 2010 to 2014. The main empirical results demonstrate that Corporate social responsibility and Corporate performance has mutual promoted effects. So, Central enterprises should take the social responsibility when trying to increase the corporate profits.

Keywords: Corporate Social Responsibility, Corporate Performance, Central Enterprises, Environment

1 INTRODUCTION

In the early twentieth Century, some scholars put forward the concept of corporate social responsibility, with the development of China's economy, the relationship between corporate social responsibility and corporate performance also become one of the hottest topic among scholars. In 2006, State-owned Assets Supervision and Administration Commission (SASAC) published 'Central corporate social responsibility report', after that 8 state-owned enterprises have publicly released the first annual corporate social responsibility report or Sustainable Development Report. Chinese Academy of Social Sciences have published the 'Corporate social report' since 2009, the report shows that the index of our country's social responsibility only 34.4 which is lower than those developing countries'. However, in recent years more and more companies fulfill their social responsibility. The report also points that the central enterprises do better than other enterprises. Central enterprises play the leading role in Chinese state-owned economy development, it has a great influence on the social and economic development of the country, and can set an example to other enterprises. Thus, compared to other enterprises, the central enterprises bear more responsibility in the country's economic and social development. The goal of the central enterprises should not only be simply to maximize the economic benefits of enterprises, but also protect the interests of the public and environment, Therefore, it is worthier to pay attention to the relationship between the central enterprises to fulfill their social responsibility and corporate performance.

2 LITERATURE REVIEW

2.1 Positive Correlation Between Social Responsibility and Corporate Performance

After summarizing the relevant past research adequately, Weber (2008) thought that enterprises proactively fulfill the corporate social responsibility can promote the image and reputation among the public. And then-enhance the relationship between the stakeholder and company which may decrease the cost of the company and increase the income^[1]. Simpson (2002) used the data from 1993-1994 of American State owned banks, proved that there is a positive correlation between CSR and corporate performance^[2]. Salzamann (2005) found that synergy theory can explain the correlation between CSR and corporate performance, through the performance of social responsibility can significantly improve the competitiveness of enterprises in the market^[3]. Archie B. Carroll, Kareem M. Shabana (2010) proved that the customer's concern and trust of the enterprise can be improved by publishing the CSR Report^[4]. Flammer C (2015) set the shareholders' proposal of corporate social responsibility is adopted or not as a breaking point. By using the regression discontinuity approach, approved that the passing of shareholder proposals on CSR leads to an increase in financial performance, especially for those companies who has lower social performance before^[5]. Wen subin, Fang yuan (2008) found that most of the variables of social responsibility have a negative impact on the current financial performance in the short term, but it has a positive impact in the long term^[6].

Zhang zhaoguo, Xin xiaoqin and Li genqin (2013) found that one period lag social performance has positive impact to current corporate performance by using the GMM method^[7]. Li zongya (2014) analysis the real estate industry and found that in the real estate industry, the performance of social responsibility has obviously influence to the corporate's financial performance. The higher ranking of social performance, the better financial situation will be^[8]. Wang wencheng, Wang shihui (2014) based on the fixed effect panel model evidenced that social performance of state-owned enterprises has positive interactive relation to corporate performance^[9].

2.2 Negative Correlation Between Social Responsibility and Corporate Performance

OL Freeman, R Karen (1982) thought that social responsibility leads to the higher cost for enterprises and ill with economic benefits^[10]. Brammer et al. (2006) evidenced that stock return have negative correlation between corporate social responsibility, which means the lower social performance, the higher stock returns^[11]. Li zheng (2006) analysis the relationship between enterprises' social activity and corporate value, the empirical evidence shows that corporate take more social responsibility will lead to lower corporate value in current year^[12]. Wang huaiming, Song tao (2008) researched 180 listed company, thought that the responsibility to employee is negative to financial performance, and social activities uncorrelated to financial performance^[13].

To sum up, there are large amount literatures about relationship between social responsibility and corporate performance, but using EVA as the index to evaluate the corporate performance of the central enterprises in China is limited. Although this issue has been researched for serval years, still do not have an identical conclusion. The main reason is the index selection in the research is different. In this essay, choose the data from 2010-2014 of central enterprises to evaluate the correlation between social responsibility and corporate performance, aims to provide some empirical evidence support for central enterprises to balance this two index.

3. HYPOTHESES

Based on the perspective of stakeholders, Central enterprise need to take responsibility to shareholders, customers, employees and environment. Enterprises use the CSR report to show what they have done to the society and shareholders. The fully disclosure of information usually makes investors have more trust to the company and may influence their investment. On the one hand, social responsibility will lead to the cost and human resource increase, on the other hand, external reputation resources, customer trust and protection of the environment can bring long-term benefits, it will be more powerful to promote the improvement of corporate performance. We hypothesize a positive relationship between corporate social and financial performance:

HYPOTHESIS 1. CSR of central enterprises leads to an increase in financial performance.

The abundant enterprise funds can make enterprises have more opportunities to make charitable contributions to society, raise the level of science and technology. Whether it is to improve the quality of products or optimize the working environment of employees, are based on the economic level of the enterprise. If the performance of the company continues to decline, it will not be able to provide sufficient funds and energy to fulfill social responsibility. Accordingly, we propose the following hypothesis:

HYPOTHESIS 2. financial performance of central enterprises leads to an increase in CSR.

4. DATA AND METHODOLOGY

4.1 Data

The samples used to test our two research questions were initially drawn from the MCTI and Wind database. The State Council started to use EVA as the index to measure the central enterprises' performance since 2010. To make sure the data is continuously, this essay chooses the listed central enterprises who published CSR report from 2010 to 2014, which had only 99 companies, resulting in a total of 495 observations.

4.2 Variables

4.2.1 Corporate performance

Compared to the traditional financial performance index, EVA add the capital cost into calculation, which consider the opportunity cost of equity capital. Using EVA to evaluate the corporate performance, requires profit of the enterprise is higher

than the cost of capital, this index can accurately reflect the increase or decrease in owner's equity. It is a comprehensive evaluation of the effective use of capital and the ability to create value for shareholders. Therefore, it can reflect the enterprise's capital use efficiency and value creation ability more accurately than the traditional accounting indicators. On data processing, the economic value added rate (EVAR) to measure corporate performance.

$$\text{EVAR} = (\text{Net operating profit after tax} - \text{capital cost}) / \text{invested cost}$$

4.2.2 Corporate social responsibility

This essay use the MCTI rating system as the indicator of corporate social responsibility. In current situation in China, MCTI rating system is one of the most comprehensive assessment system. It evaluates the corporate social responsibility report from four aspects: the overall, content, technology, and Industry. Indicators has a high degree of quantitative.

4.2.3 Control variables

1. The size of the company(SIZE). Generally speaking, larger enterprises will be more concerned by the public, and then take on more social responsibility. Some research also shows that, the size of the company will lead to differences in profitability, which further affect the performance of enterprises.
2. The enterprise is heavy polluting enterprise or not(WR). This control variable is a dummy variable-heavy polluting enterprise is 1-not heavy polluting enterprise is 0. Enterprises which is belonging to heavy pollution area are facing more problems of environmental protection. Therefore, compared to other companies need to take more social responsibility, invest more financial resources to protect the environment and maintain the sustainable development of society.
3. The pervious EVAR(EVAR_{it-1}). The performance of the previous period will affect the performance of the next period, similarly, the previous performance of the enterprise will also affect the performance of social responsibility. Enterprise has a good performance in the last year which means it has more money to invest in the charity, employee welfares.

4.3 Panel Data Model

From two hypotheses above, to determine the effect of CSR on firm performance, according to hypothesis 1, we estimate the following regression:

$$\text{EVAR}_{it} = \beta_0 + \beta_1 \text{CSR}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{WR}_{it} + \beta_4 \text{EVAR}_{(it-1)} + \varepsilon_{it} \quad (1)$$

According to hypothesis 2, we estimate the following regression:

$$\text{CSR}_{it} = \beta_0 + \beta_1 \text{EVAR}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{WR}_{it} + \beta_4 \text{EVAR}_{(it-1)} + \varepsilon_{it} \quad (2)$$

5. RESULT

5.1 Correlation Analysis

Essay uses SPSS19.0 to calculate the Pearson correlation. Table1 below shows that enterprises' size, social responsibility and heavy polluting enterprises significant correlation at 1% confidence level. Previous corporate performance also correlation with current year corporate performance at 1% confidence level. Other indicators do not have significant correlation. Considering there is the influence of multicollinearity exists in the variables, which may result the different conclusion. So, the essay does the multicollinearity analysis in the following paragraph.

Table 1: The correlation analysis of variables

Variables	CSR	EVAR _{it}	SIZE	WR	EVAR _{it-1}
CSR	1	0.5	0.604**	-0.21	0.009
EVAR _{it}		1	-0.26	0.62	0.227**
SIZE			1	0.139**	0.059
WR				1	0.002
EVAR _{it-1}					1

**p<0.01

5.2 Multicollinearity Analysis

From Table1, the correlation coefficient between the variables is greater than 0.5, which means we cannot exclude the possibility of multicollinearity among variables. From Table2, it shows that the VIF of variables is lower than 5. So, the variables in this model do not have significant multicollinearity.

5.3 Regression Analysis

5.3.1 The impact of social responsibility on central enterprises' Performance

The impact of CSR on corporate performance is shown in Table3. Social responsibility is positively related to current performance, and significant at the 5% level. Hypothesis1 has been proved, the results show that the central enterprises to undertake social responsibility will have a positive impact on corporate performance. EVAR in the previous period has a positive correlation with the current corporate performance, and significant at the 5% level, which means the central enterprises have better performance in the previous year, distributable profits increased will promote current year financial performance. Corporate size has a negative correlation with corporate performance, and significant at the 5% level. May be due to the larger the size of the enterprise led to an increase in the cost of the enterprise and need higher level of management requirements, thus affecting the growth of enterprise performance. The enterprise is heavy polluting enterprise or not has no significant correlation between EVAR. This may be determined by the nature of the central enterprises, whether it is polluting enterprises will not affect its pivotal position in the national economy-also will not affect the state's investment and support, Therefore, it do not have a great impact on the financial performance of the enterprise.

5.3.2 The impact of central enterprises' Performance on social responsibility

The impact of the performance level of the central enterprises on social responsibility is shown in Table4. It can be seen that the current financial performance is positively related to CSR, and significant at the 5% level. Hypothesis2 has been proved. But, the previous financial performance has no significant correlation between social responsibility. Heavy polluting enterprises or not is negatively correlated with corporate social responsibility, and significant at the 5% level. The results show that the higher degree of pollution will affect improvement of the level of CSR. Compared with other enterprises, high polluting

Table 2: The multicollinearity analysis of variables

Variables	Tolerance	VIF
CSR	0.616	1.625
EVAR _{it}	0.937	1.067
SIZE	0.601	1.664
WR	0.957	1.045
EVAR _{it-1}	0.942	1.061

Table 3: The regression results of the impact of social responsibility on corporate financial performance

Variable	Coefficient	Standard error	t-statistic	Prob.
C	0.205768	0.102822	2.001216	0.045926
CSR	0.002668	0.001132	2.356430	0.018848
Size	-0.019746	0.008633	-2.287400	0.022602
WR	0.045615	0.024696	1.847053	0.065348
EVARit-1	0.211763	0.038844	5.451595	0.000000
Effects specification				
Period fixed (dummy variables)				
R-squared	0.07488	Mean dependent variable		0.059591
Adjusted R-squared	0.05963	S.D. dependent variable		0.272647
S.E. of regression	0.26439	Akaike info criterion		0.195294
Sum squared resid	33.90339	Schwarz criterion		0.271858
Log likelihood	-39.23753	Hannan-Quinn criterion		0.225353
F-statistic	4.90739	Durbin-Watson statistics		1.976096
Prob (F-statistic)	0.00001			

Table 4: The regression results of the impact of corporate financial performance on social responsibility

Variable	Coefficient	Standard error	t-statistic	Prob.
C	-24.87583	3.95921	-6.28303	0.00000
EVAR	4.24270	1.80048	2.35643	0.01885
Size	4.69839	0.27253	17.23976	0.00000
WR	-3.09459	0.97825	-3.16339	0.00166
EVAR _{it-1}	-2.40230	1.59205	-1.50894	0.13197
Effects specification				
Period fixed (dummy variables)				
R-squared	0.41627	Mean dependent variable		42.38259
Adjusted R-squared	0.40664	S.D. dependent variable		13.68745
S.E. of regression	10.54341	Akaike info criterion		7.566930
Sum squared resid	53914.29083	Schwarz criterion		7.643494
Log likelihood	-1860.03162	Hannan-Quinn criterion		7.596989
F-statistic	43.23294	Durbin-Watson statistics		0.236549

enterprises will have more negative effects on the environment, governance and financial needs are greater, which lead to some companies are not willing to fulfill their social responsibilities. Company size is positively correlated with social responsibility and is significant at 5% level, indicates that the larger the size of the company, can take more responsibility than those smaller enterprises.

6. CONCLUSION

Chinese central enterprises can effectively promote the improvement of economic value added in the process of actively fulfilling their social responsibilities, enhance enterprise performance. The growth of enterprise performance can also provide economic support for enterprises to fulfill their social responsibilities. Central enterprises as part of the market players, not only maintain the market operation, to prevent market failure, at the same time, it also takes the responsibility to maximize the interests of enterprises. Therefore, the central enterprises should continue to improve business performance. At the same time, because of the particularity of the state-owned economy, the central enterprises also have to take into account the social responsibility when pursuing profit. The empirical results also show that there is a positive correlation between firm size and social responsibility. It shows that large enterprises in general can better fulfill their social responsibilities. Therefore, the central enterprises as China's super large enterprises, compared with other enterprises should play a leading role in taking the social responsibility. Finally, polluting enterprises should improve their awareness of environmental protection, and take more responsibility in environment.

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