Empirical Research on Corporate Social Responsibility and Financial Performance

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Abstract

this study is conducted for investigating the corporate social responsibility (CSR) disclosure practices of listed firms in the textile and apparel industry Vietnam and their determinants. A checklist of 20 attributes was developed to capture the social and environmental disclosures from the annual reports of 56 firms in textile and apparel industry on the Vietnam Stock Exchange over a two-year period from 2016 to 2017. The determinants of the disclosure are proxied by the firm, financial performance (profitability) and auditor type. The data obtained were analysed using descriptive statistics, correlation, and regression. The results show that the level of CSR is 38%, made up of social disclosure (63%) and environmental disclosure (6%). Findings also reveal that CSR is influenced by firm size, auditor type; and profitability. This paper recommends a mandatory CSR reporting framework in line with international practices for all listed firms in the textile and apparel industry Vietnam

Keywords: Corporate social responsibility, financial performance, annual reports

1. Introduction

Corporate reports are required to furnish all stakeholders with financial and non-financial information, which are relevant, faithfully represented and useful for making prudent, reliable, effective and efficient decisions. Companies worldwide are now focusing on how best to integrate their financial and non-financial information, particularly as businesses are experiencing unprecedented environmental and social changes. Hence, the need for every organization to disclose in their annual reports the various activities that affect the stakeholders. This practice is becoming a very fundamental issue the world over.

Corporate Social Responsibility (CSR) is a form of internal monitoring, management, and external communication, which allows organizations of all sizes to meet the growing information needs of internal and external stakeholders. In essence, it conveys information about an organization's economic, environmental, and social operations, the related impacts it has through its everyday activities; and the consequences of those impacts for the firm and others. Stakeholders (investors, government, employees, customers, suppliers, trade associations and environmental groups) are expecting firms to produce reports that will demonstrate financial value, drive innovation and promote learning. Long term business success depends not only on a healthy financial position but also on vibrant social and environmental performance. CSR is a crucial step towards achieving a sustainable global economy. It enhances corporate accountability, builds trust, creates transparency, drives greater innovation, improves internal management and decision making processes, reduces compliance costs and gives a competitive advantage.

Financial reporting is often criticized for its focus on historical, quantitative and short-term performance, rather than on long-term value creation. Corporate reporting based only on accounting standards allows firms to externalize environmental and social costs due to the fact that financial results are not placed within the context of the greater economy, society or the environment in which the business operates (Terry, 2008). According to Eccles and Krzus (2010), traditional corporate reports are increasingly less relevant and useful for analysts and investors as they are difficult for even the most sophisticated users to understand. The users of financial information today, need the data that would allow them to assess whether the entity is environmental, socially and financially responsible. It is expected that businesses should do more than simply turn in financial statements in line with the accounting standards. They are expected to operate in a manner that is socially and ethically responsible as well as minimize negative impacts on the environment. They should also contribute positively to the community where they operate by taking into consideration the varied needs of their stakeholders.

Currently, in most jurisdictions around the world, the minimum requirement is the inclusion of significant non-financial information in firm reporting. The Global Reporting Initiative (GRI), launched in 1997, has taken the lead in delineating a global disclosure framework for corporate social responsibility and sustainability. KPMG (2015) shows that the Global Reporting Initiative (GRI) remains the most popular

voluntary reporting guideline worldwide, with 60 percent of all CSR reporters in the 45 countries surveyed referencing the GRI. This is roughly stable with the 2013 rate (61 percent). For stand-alone Corporate Responsibility (CR) reports the GRI application rate is at 72 percent (2013: 74 percent). The GRI reports by region for 2015, show GRI application in the USA of about 69 percent, whilst the Middle East and Africa show lower GRI rates about 50%.

Even in the midst of the IFRS adoption controversies in developing countries, there is a new move towards integrated reporting, a more comprehensive model that encompasses significant elements of traditional reporting and environmental, social and governance reporting within a single presentation (KPMG, 2011); of course, and firms have been put under increasing pressure from a variety of stakeholders to integrate social and environmental considerations into their operations and to ensure higher standards of governance. Only a few countries have mandated the use of integrated reporting, but, there has been evidence of voluntary participation worldwide. The largest firms in Denmark are now obliged to report on non-financial information while South Africa has made significant progress in addressing the challenges of IR by mandating all listed entities to issue annual integrated reports instead of annual financial and sustainability reports.

Various research studies have been undertaken by researchers in different countries to examine corporate social responsibility disclosure practices and the relationship between corporate social responsibility and financial performance. However, the results have been inconclusive, inconsistent, and often contradictory (Aggarwal, 2013). A positive relationship was seen by Van de Velde et al. (2005) for Europe, Buys et al. (2011) for South Africa and Eccles et al. (2010) for the U.S). A negative relationship was noted by Brammer et al. (2006) for UK and Dhaliwal et al. (2011) for the US while the mixed relationship was observed by Jones (2005) for Australia and Moneva and Ortas (2008) for Europe. The insignificant relationship was observed by Buys et al., (2011).

In Vietnam however, it appears there is no study yet that has identified the specific factors that influence environmental and social disclosures after the IFRS adoption. Against this background, the aim of this study is to (i) determine the level of corporate social responsibility (CSR) disclosure practices of Nigerian listed firms after the adoption of IFRS; and (ii) identify the relationship between financial performance and CSR disclosure practices among listed firms in textile and apparel industry Vietnam.

The hypothesis (Ho) was formulated to guide the study:

Ho: There is no significant relationship between financial performance and CSR disclosure practices among listed firms in the textile and apparel industry in Vietnam.

The paper is structured into five sections. After this section, the second section reviews the relevant literature on the subject matter. The research methods adopted for the study are presented in section three while section four discusses the result. Finally, section five presents the summary, conclusion, and recommendations.

2. Literature Review

A number of different theories provide a sound foundation to substantiate CSR reporting. The dominant ones are Stakeholder theory (Gray et al., 1995; Brammer et al., 2006) and Legitimacy theory (Lindblom, 1994; Suchman, 1995). The stakeholder theory is a system-oriented theory (Gray et al. 1995), which assume that any organisation is influenced by the society in which it operates and, in turn, the organisation also influences society. In this study, firms are considered to engage in some form of stakeholder management. Firm's survival and success is attributable to economic and non-economic achievements. Being socially responsible and having good relations with their stakeholders will bring about competitive advantage, making them achieve better economic results (e.g., profit maximization) and non-economic (e.g., corporate social performance) results. The stakeholder theory argues that a firm's financial success is dependent on its ability to formulate and execute a corporate strategy which manages its relationships with stakeholders effectively (Brammer et al., 2006). On the other hand, legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of

norms, values, beliefs, and definitions (Suchman, 1995). Legitimacy theory, according to Lindblom (1994) and Suchman (1995) is value system-centered. Legitimacy exists at the organisational level when there is congruence between organisation and society value system. Legitimacy theory (Suchman, 1995) focuses on whether the value system of an organisation is congruent with the value system of society, and whether the objective of organisations is to meet social expectations. Both theories, i.e., stakeholder and legitimate theories are united in their resolve to advance CSR reporting.

Determinants of CSR Disclosures

Echave and Bhati (2010) examined the determinants of corporate non-financial disclosures practices of Spanish firms using annual reports of 41 Spanish firms for the year 2007. Findings revealed that there is a positive relationship between firm size, profitability, auditor type and level of corporate social and environmental disclosure practices as suggested by many authors cited by him (Deegan et al., 2000). Deegan et al. (2000) have qualified this positive relationship between firm size and profitability and the level of disclosures to be valid only in the case of environmentally sensitive industries. However, findings in the study by Prado-Lorenzo et al. (2009) have not supported any association between firm size and the social disclosures made by the firm in the case of Spain. Also, findings in the study by Prado-Lorenzo et al. (2009) have not been supported by any other study. Osazuwa et al. (2013) examined the impact of corporate attributes on environmental disclosure among quoted firms in Nigeria. The researcher investigated a sample of all listed firms in the textile and apparel industry in Vietnam. Data were extracted from the financial statements of the listed firms in the textile and apparel industry in Vietnam. The data were analyzed using descriptive statistics, and Binary probit regression analysis. It was observed that the financial performance of the firm (profitability) had a significant influence on environmental disclosure. Separate studies also discussed under the following headings:

2.1. Firm Size and CSR Disclosures

Advocates of stakeholder theory state that larger firms come under more scrutiny than smaller firms, thus they feel the pressure to disclose more environmental, social and corporate governance information to obtain approval from the stakeholders for continued survival. Larger firms are also perceived to be important economic entities and therefore have greater demands placed on them to provide more information for customers, suppliers, analysts and government bodies (Prado-Lorenzo et al., 2009). A positive association between the size of a corporation and the amount of CSR disclosure has been consistently found by prior studies such as (Prado-Lorenzo et al., 2009; Stammy and Ely, 2008; Albassam, 2014). Roberts (1992) however found a negative relationship between the size of the firm and the level of CSR disclosure.

2.2. Profitability and CSR Disclosures

Ali et al. (2004) argued that management of profitable organisations might disclose detailed information in the annual report because they feel comfortable communicating this good news to the stock market in order to improve the firms' valuation. However mixed empirical results were found in both emerging and developed countries. For instance, Ali et al. (2004) and Roberts (1992) provided results which support a profit-environmental, social and governance reporting relationship. Roberts (1992) provided evidence for a positive relationship between lagged profit and non-financial disclosure. Hackston and Milne (1996) found no association between the amount of disclosure and profitability and they concluded that both the size of the organisation and industry are significantly associated with the amount of disclosure, whilst profitability is not. It is consistent with other studies as neither Davey (1982) could find evidence of a relationship between environmental disclosure and profitability for New Zealand firms.

2.3. Auditor Type and CSR Disclosures

The primary responsibility for preparing the annual report lies with firm management; external auditors play a major role in the disclosure policies and practices of their clients. Ali et al. (2004) argued that big auditors exert a monitoring role in limiting the opportunistic behavior by management. Fama and Jensen (1983) suggest that large audit firms have a greater incentive to report. If the client issues inadequate disclosure, this is likely to diminish the reputation of large audit firms more than small audit firms, which causes large

audit firms to be more diligent. Previous research suggested that auditing firms that belong to the Big 4, Big 5 or Big 6 (Big N) are more sophisticated or have better audit quality (Gupta & Nayar, 2007) than non-Big N auditing firms. The higher quality auditor may help clients prepare more sophisticated annual reports with advanced financial and non-financial information, including environmental disclosures.

3. Research Methodology

The ex-post facto research design was adopted. This design was deployed as it permitted the examination of independent variables in retrospect for their possible relationship with dependent variables. The population for this study consisted of 56 listed firms in the textile and apparel industry in Vietnam. It was adopted based on the ease with which the data could be collected from the firms' website as at July 2015. Data in this study were derived from 56 listed firms in the textile and apparel industry Vietnam covering the period from 2016 to 2017, is the most recent annual reports available online. Data were obtained from the online published annual reports of the select firms specifically from the Directors' report, Corporate Governance Report, Statement of Financial Position, Statement of Comprehensive Income, and Notes to the Financial Statements. Because the study population was relatively small, a census was undertaken instead of sampling. As Lodico et al. (2010), census technique is whereby the researcher surveys the entire realistic population and therefore it is a method appropriate when the realistic population is not too large. By extension, the application of census technique makes irrelevant the need and rigor of sampling since the sample size represents 100% of the population size.

In order to determine the level of CSR disclosures, a checklist of 20 questions (Appendix 1) was developed by the researchers in line with previous studies (Hackston & Milne, 1996, Ortas et al., 2015) to capture the environmental and social information using content analysis. Each firm was scored "1" for full or partial disclosure and "0" for non-disclosure. The disclosure score (DSi) for each firm was computed by using the formula below;

$CSRD_i, = \sum$ (CSR information disclosed)/$\sum$(all possible CSR disclosures)

The data obtained were analyzed using descriptive statistics, correlation, and linear regression.

This model is used:

$$CSRD_{it} = \alpha_0 + \beta_1 \times TA_{i,t} + \beta_2 \times ROE_{i,t} + \beta_3 \times AT_{i,t} + \varepsilon_{i,t}$$

Where:

i,t is for firm i in year t,

α is the intercept

β is the coefficient of the independent variables

ε is the error term

The definitions of the dependent and independent variables and their expected signs are as given in the table below.

Table 1: Dependent and Independent Variables

Variables	Types	Definition	Expected sign for independent variables
Disclosure Score	Dependent	CSR Disclosure (CSRD)	
Firm size	Independent	Total Assets of the firms (TA).	Positive
Profitability	Independent	Return on Equity (ROE), i.e., the ratio of Profit for the year to Equity	Positive
Auditor Type	Independent	Auditor Type (AT); 1 for Big "4", 0 for otherwise	Positive

4. Results and Discussion

4.1. Descriptive Statistics

Table 2 shows the descriptive statistics of the variables. It depicts the number of observations (N), minimum, maximum, mean and standard deviation of the variable used.

Table 2: Descriptive Statistics of Dependent and Independent variables

	n	Min	Max	Mean	Std. Deviation
CSRD	112	.11	.72	.3821	.08216
DSS	112	.12	1.91	.6298	.23182
DSE	112	.01	.56	.05782	.12015
TOTAL ASSET	112	6832126 0	5129689328 0	2190028269 68.	1132371028 12
ROE	112	-18.02	162.58	17.4829	21.00892
AT	112	.00	1.00	.7026	.46218
Valid N (listwise)	112				

Table 2 shows that average disclosure score is .3821 with a range from a maximum of .72 to a minimum of .11 and with a standard deviation of .08216. This suggests a very low variation on the disclosure score of the quoted firms over the period of observation. Specifically, the average environmental and social scores were 6% and 63% respectively. This shows that social information was the most disclosed while environmental information was the least disclosed. The return on equity reveals an average of 17.48%. The range is from -18.02 to 162.58 with a standard deviation of 21.00. This shows that listed firms in the textile and apparel industry Vietnam are profitable. The auditor type shows an average of 70.26%, minimum of 0 and maximum of 1 and a standard deviation of .46. This shows that 70.26% of the sampled listed firms in the textile and apparel industry Vietnam use the Big 4 as their auditors.

4.2. Discussion

Table 3: Correlation Matrix

		Total Assets	ROE	AT	CSRD
TOTAL ASSET	Pearson Correlation	1	-.062	-.071	.209
	Sig. (2-tailed)		.631	.528	.058
ROE	Pearson Correlation	-.062	1	.199	.162
	Sig. (2-tailed)	.631		.071	.144
AT	Pearson Correlation	-.071	.199	1	.256*
	Sig. (2-tailed)	.528	.071		.023
CSRD	Pearson Correlation	.209	.162	.256*	1
	Sig. (2-tailed)	.058	.144	.023	
	N	112	112	112	112

*. Correlation is significant at the 0.05 level (2-tailed).

Correlation is used to test the presence of multicollinearity among the variables. The result is as depicted in Table 3. It reveals that the correlation between CSR disclosure score and total assets, return on equity, and auditor type is 0.209, 0.162 and 0.256 respectively. The correlation between total assets and return on equity is -0.062, between total assets and auditor type, is -0.071 and between auditor type and return on equity is 0.199. This shows that the correlation is not high between each of the variables.

The potential effect of multicollinearity on the regression is also assessed by using the Tolerance level and Variance Inflation Factor (VIF). The tolerance level is above 0.2 (0.954, 0.962, 0.958) and VIF did not exceed 10 (1.005, 1.051, 1.033), this reveals that multicollinearity is not a challenge. The normal P-P plot of regression standardized residual suggests no major deviations from normality. The Durbin-Watson checks the serial correlation, the result less than 2 (1.529), which shows that the regression model has a good fit.

Table 4: Regression Result

Variables	Coefficients[a]	Model t-values	Significance
(Constant)		22.862	.000
Total assets	.232	2.312	.028
Return on equity	.136	1.203	.002
Auditor Type	.258	2.319	.028
R square	0.126		
Adj R square	0.110		
F value	3.956		
Sig	0.01		
DW	1.529		

Table 4 is used in presenting the regression result. The beta coefficients show the contribution of each independent variable. The beta coefficient for firm size is 0.232, for profitability is 0.136, and for auditor, the type is 0.258. The largest beta is for auditor type; this means it is the variable that makes the strongest contribution in explaining the CSR disclosure practices.

The results also show that t-calculated for firm size, profitability, and auditor type are 2.312, 1.203 and 2.319 respectively. The critical value at 10% level of significance is 1.664. The result supports the study of Robert (1992) and contradicts the studies of Cooke (1991); Deegan and Gordon (1996) and Naser et al. (2006).

The t- calculated for firm size, profitability, and auditor type exceeds the critical value; hence the null hypothesis is rejected at 10% sig. level. This result is a confirmation that CSR disclosure is influenced by firm size, profitability, and auditor type, which is in line with the researcher's expectation. The result supports the studies of Ali et al. (2004), Echave and Bhati (2010); and Gupta and Nayar (2007).

The R square indicates how much of the variance in the CSR disclosure scores are explained by the model. The result shows the adjusted R squared of .110, which means the model, explains 11 percent of the variance in CSR disclosure practices. However, from the ANOVA result, the F value (3.570) which tests the regression relationship between the independent and dependent variable is significant.

5. Conclusion

The study reveals that the level of CSR disclosure is 38%, this is made up of environmental scores (6%) and social scores (63%). This shows that social information is the mostly disclosed while environmental information is the least disclosed. The result also discovered that CSR disclosure is influenced by firm size, profitability and auditor type. That is, the larger the size of a firm, the more likely such a firm will be willing to afford to invest in CSR activities. This is also the case for firms that engage the Big 4 in auditing and profitability. It is the conclusion of this study that environmental matters are not usually disclosed in annual reports and CSR disclosure practice is influenced by the firm size and auditor type and by profitability. The Financial Reporting Council (FRC) in collaboration with the business sector, the accounting profession, and stock exchange should take necessary steps in motivating and compelling quoted firms in addressing social and environmental issues in their annual reports. Based on the results, we recommend a mandatory CSR reporting framework in line with international best practice for all listed firms in the textile and apparel industry in Vietnam. Current trends of integrated reporting worldwide call for listed firms in textile and apparel industry Vietnam to consolidate social, environmental and financial information, disclosing the positive with the negative in order to provide greater transparency and helping to build superior trust.

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Appendix No. 1: Social Responsibility and Environmental Accounting Disclosures

Social Responsibility Disclosure

1. Safety arrangements

2. Health arrangements

3. Training arrangements

4. No of employees

5. Donations made to community or community involvement

6. Labor Rights

7. Pension Schemes

8. Policies on firm's remuneration packages

9. Welfare programs for staff

10. Sponsoring education and scholarship for students

Environmental Accounting Disclosure

11. Environmental accounting policy/strategy and principles

12. Environmental accounting objectives for the period

13. Extensive discussion on environmental accounting

14. Environmental Financial Disclosure

15. Environmental Performance Indicators

16. Contribution in the environmental protection program

17. Conservation of natural resources

18. Using equipment which protects the environment

19. Research and development for the environment

20. Energy serving devices