Corporate Social Responsibility on Coporate Financial Performance and the role mediating of Corporate Productivity: A Study of Listed Firms in Textile and Apparel Industry Vietnam

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Abstract

As research within the Corporate Social Responsibility (CSR) literature more consistently establishes a positive relationship between CSR and financial performance, attention is shifting to the 'business case' for CSR and examining the mechanisms that underlie this relationship. In this vein, the current study examines the role of productivity in this relationship and builds a case that the influence of CSR on financial performance operates through CSR's influence on corporate productivity. The hypotheses developed are tested on a sample consisting of 56 firms in textile and apparel industry on the Vietnam Stock Exchange over a two-year period from 2016 to 2017 and findings reveal that productivity fully mediates the CSR/financial performance relationship

Keywords: Corporate social responsibility, financial performance, corporate productivity

1. Introduction

The competition for and consumption of scarce resources in the global markets put great pressures on companies to achieve desirable ends beyond maximizing shareholder value. These pressures arise from the increased demands of external stakeholders that hold companies accountable for social and environmental issues. Many companies respond positively to increased stakeholder interest in CSR. Others see a tension between value maximization proposition of the firms (Jensen 2001) and CSR because they become concerned about the legitimacy of corporate involvement in social affairs and the possibility of misappropriating and misallocating scarce resources (Margolis and Walsh 2003). To legitimize CSR on sound economic grounds and alleviate managers' concerns, numerous studies attempt to identify the relationship between CSR and corporate financial performance (CFP). Despite these empirical inquires (Margolis and Walsh 2003), debate and controversy remain about whether and how CSP influences CFP (Luo et al. 2015). Therefore, exploring and unpacking the black box linking CSP and CFP becomes critically important to understand better the underlying mechanisms that create competitive advantages and better integrate CSR engagement with a firm's core business and operations (Porter and Kramer 2006). This study uncovers a productivity-based mechanism by investigating the mediating role of corporate productivity (CP) in the CSP–CFP relationship. Firm-level CP is normally estimated as the residual from a Cobb–Douglas production function with capital, labor, and materials as inputs. Therefore, CP captures the productive efficiency determined by how a firm utilizes inputs to produce output. Treating CP as the accumulation of productive intangibles, we argue that CSR-related stakeholder management helps firms develop such intangibles. Given that improvements in productivity have permanent and lasting effects on corporate financial performance, we examine in greater depth the productivity-based mechanism through which CSP influences corporate financial performance (Edmans 2013).

The main contribution of this paper is to demonstrate the role of an economically relevant variable, CP, as an important mediator of the CSP–CFP relationship. Our analysis reveals a significant productivity-based mechanism, which sheds further light on how CSR creates shareholder value. We recognize that not all types of CSR involvements are driven by motives to improve productivity. Nevertheless, as long as CSR activities are not categorized as pure social issue participations (Hillman and Keim 2001), our analytic framework allows corporate managers to assess and quantify the instrumental value embedded in a portfolio of CSR activities.

2. Literature Review and Hypotheses

2.1. Relationship directly CSR and CFP

A vital issue in corporate governance and management is the influence of CSR on companies' performance, especially financial performance. The conventional view holds that CSR is costly since being socially responsible incurs additional expenses. Examples of socially responsible actions include investments in pollution reduction, employee benefits packages, donations and sponsorships to the community, etc. The conventional view maintains that these expenses will deteriorate profitability and lead to 'competitive disadvantage' (Agle et al. 1999). An opposite view is promoted by the stakeholder theory, first introduced by Freeman in 1984. The dissatisfaction of any stakeholder group can potentially affect economic rents and even compromise a company's future (Clarkson, 1995). CSR is, therefore, a prerequisite for protecting the bottom line (Edmans, 2013). In line with this theory, managers should take account of all individuals and groups with a 'stake' in or claim on the company (Mile and Mile, 2013), not just the shareholders (Roberts, 2003). If managed properly, CSR will not only improve the satisfaction of these stakeholders but also lead to improved financial performance (Aupperle et al. 1985). For example, satisfied employees will be more motivated to perform effectively; satisfied customers will be more willing to make repeat purchases and recommend the products to others, satisfied suppliers will provide discounts, etc. As is evident, the theoretical rationale suggests both a potentially negative or positive relationship between CSR and CFP. The question, therefore, arises as to which effect prevails. It appears reasonable to consult the empirical literature to determine an answer to this question. The main findings of the empirical literature review are summarised in Table 1.

Table 1. The nature of the CSR–CFP relationship identified in the empirical literature.

Nature of the CSR–CFP relationship	Representative references
Positive	Al-Tuwaijri et al., 2004; Burnett & Hansen, 2008; Erhemjamts et al., 2013; Rodgers et al., 2013
Negative	Baird, Geylani, & Roberts, 2012; Peng & Yang, 2014
No relationship	Alexander & Buchholz, 1978; Aupperle et al., 1985; Soana, 2011; Sun, Salama, Hussainey, & Habbash, 2010; McWilliams & Siegel, 2000
U-shaped/inverted U-shaped	Barnett & Salomon, 2012; Bowman & Haire, 1975

By: Olayinka Marte Uadiale et al., (2012)

As noted, there are a variety of ways that CSR may have a positive influence on the financial performance of a firm. These may occur through cost savings, competitive advantage and/or reputation (Carroll & Shabana, 2010), but regardless of the mechanism firms that engage in greater CSR practices appear to have greater financial returns. While there are still some questions regarding factors that may moderate this relationship the preponderance of studies do in fact find a positive relationship (Margolis et al., 2009). As such, it is predicted that:

H1. There will be a positive relationship between CSR activities and firm financial performance.

2.2. Relationship CSR and CP

Porter and Kramer (2006) argue that CSR has become an inescapable priority for companies in every country since it is much more than a cost or a charitable deed. CSR can bring opportunities, innovations, and competitive advantages to companies. If a company establishes an affirmative CSR agenda and incorporates the agenda into its business practice, this can generate maximum social and financial benefits for the company. Vilanova et al. (2009) argue that CSR is related to competitiveness through a learning and innovation cycle. First, learning takes place when a company integrates CSR activities into its business process. Then, learning generates innovative ideas and practices. Finally, the innovative practices lead to competitiveness. Vilanova et al. (2009) propose that a firm's competitiveness can be grouped into five dimensions, including (1) financial

performance, including conventional measures such as return on assets, net income; (2) quality of product/service; (3) productivity, in terms of higher outputs and lower inputs; (4) innovation in product, service or management process; and (5) image/reputation.

While most CSR studies examine the impact of CSR on the first competitiveness dimension—financial performance, research exploring the impact of CSR on other dimensions is still limited. Part of this study focuses on the productivity dimension of the firm competitiveness. If the propositions in Porter and Kramer (2006) and Vilanova et al. (2009) are valid, we would expect that participating in CSR activities can lead to higher productivity. The main hypothesis is stated as follows:

H2: Corporate social responsibility is positively related to corporate productivity

2.3. Mediating Role of CP in the CSP–CFP Relationship

Building on instrumental stakeholder theory, we draw on various lines of research and posit that CP can provide crucial but missing clues about the CSP–CFP relationship. Economists have related output to inputs for a long time and argue that CP is an important source of growth (Beck et al. 2000). CP is generally defined as the residual of a production function, which is the fraction of output that factor inputs cannot explain (Griffin and Mahon, 1997). In other words, CP captures productive efficiency as well as capital misallocation for micro production units (e.g., firms or plants). CP is not directly observable and needs to be estimated. Therefore, it represents a collection of important, productive, intangible assets (Battisti et al. 2015). CP improvements reflect phenomena such as technological innovations, better allocation and utilization of resources, accumulation of human capital (Steindel and Stiroh 2001), and demand fluctuations (Prucha and Nadiri 1981). Correspondingly, we argue that as a multidimensional and complex construct (Barnett 2007), CSP can affect productivity and help in the development of such intangible assets in multiple ways.

First, CSR activities enable firms to forge strong relationships with key stakeholders, and such relational capital greatly enhances the capacity to create new technologies, develop new products, and penetrate new markets (Thomson and Heron 2006). Moreover, firms with better innovation capabilities can pursue proactive social and environmental strategies (Buysse and Verbeke 2003). CSR-related stakeholder engagement can facilitate the development of product innovations, and this is an important source of competitive advantage because it is difficult for rivals to copy and imitate (Surroca et al. 2010).

Second, although technological innovation is a major component of CP, productivity growth is not merely a high-tech phenomenon (Steindel and Stiroh 2001). Strong stakeholder relationships give firms access to various resources and help them utilize resources efficiently. Firms with better CSR performance face significantly lower capital constraints (Cheng et al. 2014) and can raise cheaper funds from debtholders (Oikonomou et al. 2014) and equity holders (Ghoul et al. 2011). Relational-specific investment in stakeholder relationships also facilitates transactions between suppliers and customers with better terms (Banerjee et al. 2008) and attracts financial resources from socially responsible investors (Hockerts and Moir 2004).

Third, CSR-related programs (e.g., ESOPs or long-term employee benefit plans) can help firms build human capital to improve productivity (Edmans 2011). Specifically, firms with better CSP are able to attract talented employees (Jones et al. 2014), have lower absenteeism rates, and have lower voluntary turnover rates (Huselid and Becker 2011). Such increases in labor stability are necessary for employers and employees to share the costs and returns of investment in firm-specific human capital, which not only improves productivity (Hatch and Dyer 2004) but also mitigates the potential risk of transferring knowledge to rivals.

In this paper, we argue that by forging strong relationships with key stakeholders through participation in social issues, a firm can develop productive intangibles such as technological innovations, organizational legitimacy, better access to resources, and human capital, all of which help firms to efficiently utilize the assets, obtain competitive advantages over rivals, and create shareholder value. Put it other way, CSR activities have

instrumental value in help firms to accumulate productive intangibles as reflected by CP. Accordingly, shifts in CP are factored into the pricing-formation process (Faleye and Trahan 2011). Given that productivity improvement has a direct and long-lasting effect on firm financial performance (Steindel and Stiroh 2001), our analysis of the CSP–CP–CFP relationship permits us to investigate in greater depth the mechanism through which CSP influences firm financial performance. Therefore, we propose the following hypotheses:

H3: CP will mediate the relationship between CSR and CFP

3. Research Methodology

3.1. Sample

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. 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 Lou et al. (2015), 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.

3.2. Measures

We used the following measures to operationalize the constructs necessary for hypotheses testing.

Corporate Social Responsibility

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 (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 for each firm was computed by using the formula below;

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

Corporate Productivity

Corporate productivity is the effectiveness of the company in using and utilizing resources to generate the profit by the Annual report and financial report of listed firms in the textile and apparel industry in Vietnam.

In this research, Productivity measurement is based on Spring (2011), value added-to-sales ratio, which measures the proportion of sales created by the organisation over and above purchased materials and services. This ratio as the productivity measurement, measure the efficiency in the use of purchases, favourable price differentials between products and purchases, or good control of stocks. The formula as following below:

Value added-to-sales ratio = $value\ added$/sales

$$= (sales - cost\ of\ Purchased\ goods\ and\ services)/Sales$$

Firm Financial Performance

Firm Financial Performance serves as the dependent variable for the study. A variety of measures of firm performance have been used within the literature, including Rin, Return on Investment (ROI), and Return on Assets (ROA). Return on Sales was deemed inappropriate because sales revenue is used in the creation of the

productivity measure and multicollinearity issues might arise. Instead, attention was turned to creating ROA and ROI measures for each of the time periods. Consistent with the previous calculations, each measure represents data summed across the time periods before performing any calculations. Thus, the ROI measure for a period was created by summing the net income for each year and then dividing by the sum of the yearly invested capital. Similarly, the ROA measure was created by taking the same sum of yearly net income and dividing by the sum of the total assets for each year. As expected, these measures are highly correlated and return similar results. Given that, only the results using ROI are reported here.
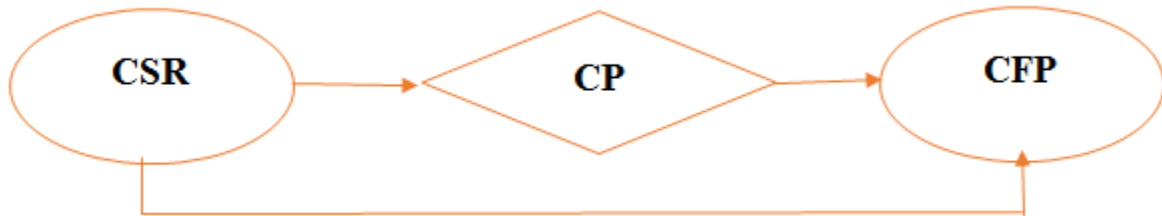
Figer 1: Reseach model

4. Analysis and results

Before proceeding with analysis, the data were examined the or normalcy, unexpected correlations, and the presence of outliers. This examination revealed a handful of values that did not appear to have face validity, and fell outside the normal limits. As such, following the practice of other statisticians (Huselid, 1995) we applied the multiplier of 2.2 times the middle 50% as a conservative estimate for the elimination of outliers.

Table 2 presents the means, standard deviations, and correlations for the sample in the relevant time periods. As expected, a significant correlation exists between all measures of firm profitability and previous firm performance, making it necessary to control for a previous performance in the regression model. Further, the variables of interest were correlated in the expected directions, suggesting that further analysis was warranted.

Table 2. Correlation Matrix

	Z ROI 2016	Z ROI 2017	Z Productivity 2016	Z Productivity 2017	Z CSR 2016-2017	Mean	SD
Z ROI 2016	1					-.00	.96
Z ROI 2017	.36**	1				.04	.98
Z Productivity 2016	.18**	.04**	1			.11	2.08
Z Productivity2017	.19**	.36**	.26**	1		.01	.98
Z CSR 2016-2017	28**	.26**	.16**	26*	1	-.03	.96

** Correlation is significant to 0.01 level (2-tail); N = 112

Hypothesis 1 posits that there will be a positive relationship between CSR and a firm's financial performance. This relationship was explored in several ways. First, as can be seen in Table 2, there was a significant positive correlation between the variables for the 2016-2017 time period of interest. Second, the mean values for the CSR and control groups (described above) were compared. Specifically, the control group's average ROI is 6.68%, while the CSR group's average ROI is 10.58%, a statistically significant difference (f = 12.16, p < 0.01). Similarly, the computed Z value for the ROI in the for the control group is 0.512 while the Z value for the CSR group is 0.568. A difference such as this in standardized values suggests a difference of about 19% on the normal curve, a statistically significant difference (f = 12.39, p < 0.01).

As a more rigorous test of the hypothesis, the continuous version of the CSR variable was used as a predictor in a regression equation where previous performance could be controlled for. As expected, profitability 2016 was a significant predictor of performance for the period from 2017 (see Table 3), but the CSR variable was also

significant and added additional explained variance even after controlling for past financial performance. With all three analyses returning the same conclusions, it is clear that Hypothesis 1 is supported. As can be seen in this graph (even using standardized values) firms with a commitment to CSR will show higher profitability over time. Hypothesis 2 predicts a positive relationship between CSR and productivity. As with Hypothesis 1, this relationship was examined in three different ways. First, an examination of the correlation matrix revealed a significant positive correlation. Next, the means for the control and CSR groups were compared. The control group's average firm productivity is 1.226, while the CSR group's average productivity is 1.18, a statistically significant difference ($f = 8.26$, $p < 0.01$). Similarly, the computed Z value for productivity for the control group is (-0.17), and for the CSR group it is 0.096, suggesting a difference of about 26% on the normal curve, again, a statistically significant difference ($f = 9.18$, $p < 0.01$).

Table 3. CSR and Firm Financial Performance regression model

	Model	Unstandardized Coefficients		Standardized Coefficients			Change Statistics	
		B	Std. Error	Beta	t	Sig.	R-Square	Sig. F
1	(Constant)	.099	.038		2.608	.016		
	Z ROI 2016	.468	.051	.390	8.681	.000	.16	.00
2	(Constant)	.098	.039		2.621	.012		
	ZROI 2016	.426	.062	.386	7.698	.000		
	ZCSR 2017	.112	.051	.125	2.356	.019	.19	.02
Dependent Variable Z ROI 2017								

Finally, as a more rigorous test of the hypothesis, the continuous version of the CSR variable was used as a predictor of current period productivity in a regression equation where previous productivity could be controlled for. As expected, a firm's productivity 2016 was a significant predictor of productivity for 2017 (see Table 4), but the CSR variable was also significant and added additional explained variance even after controlling for past productivity. As can be seen in this analysis, if two firms are equally as productive in 2016 the firms who have made a commitment to CSR will be more productive by .20 (using a normal distribution) than those firms without such a commitment. Taken together with the correlation and group comparison results, this indicates that Hypothesis 2 is supported.

Table 4. CSR and Productivity Regression

Model	Unstandardized Coefficients		Standardized Coefficients			Change Statistics			
	B	Std. Error	Beta	t	Sig.	R-Square	R-Square Change	F	Sig. F Change
(Constant)	-.011	.051		-.25	.86				
ZProductivity 2016	.128	.026	268	5.89	.00	.083	.090	36.03	.00
(Constant)	-.006	.039		-.08	.89				
ZProductivity 2016	.119	.028	.283	5.61	.00				
ZCSR 2017	.210	.056	.192	4.23	.00	.123	.036	16.38	.00

Mediation

Hypothesis 3 predicts that productivity mediates the relationship between CSR and firm financial performance. Thus, attention was turned to mediation analysis following the procedure outlined by Baron & Kenny (1986). This analysis consists of four steps: step 1 suggests that the researcher shows that the initial variable is correlated with the outcome; step 2 must indicate that the initial variable is correlated with the mediator; in step 3 the researcher must regress the independent variable on the outcome and show the effect; step 4 requires the researcher to confirm the mediating influence by showing that the effect (beta value) of the predictor variable on the criterion variable is less (or has become insignificant), when the intervening (mediating) variable is included. Following this procedure, we find support for hypothesis 3.

Step 1 began with correlation matrix analysis. As seen in Table 1, the correlation matrix shows that the initial variable representing a firms commitment to CSR 2017 is significantly correlated with the outcome variable, firm financial performance (ROI 2017). Specifically the correlation is $\rho = 0.26$, $p < 0.01$. Step 2, also examined through both the correlation matrix and the regression testing Hypothesis 2, shows the variable representing a firms commitment to CSR is significantly related with the mediator variable Z Productivity 2017. Step 3, was addressed in the regression testing of Hypothesis 1, where CSR was shown to have a significant positive relationship with firm financial performance even after controlling for past firm performance. In that equation, CSR had a standardized beta of 0.115 and explained an additional 2% of the variance after controlling for past profitability. Step 4 is the final determination of mediation. In this step, mediation is demonstrated if entering the mediating variable (productivity) into the regression equation before the predictor variable (CSR) results in a reduction of the effect of the predictor variable (partial mediation) or it becomes insignificant (full mediation). As can be seen in Table 5, the application of this approach revealed that productivity fully mediated the influence of CSR on firm financial performance. Model 1 and 2 of the regression are both significant, and together explain about 45% of the variation in firm performance. While CSR had shown a significant positive relationship with firm financial performance when entered on its own (see Hypothesis 1 above), entering CSR into this equation did not result in a significant change in the variance explained nor was the beta for CSR significant. According to Barron & Kenny (1986), when the mediating variable is placed in the equation, and it absorbs the explained variance of the predictor variable, it suggests that the influence of the predictor variable (CSR) on the outcome (firm financial performance) is being enacted through the mediated variable (productivity). Thus, Hypothesis 3 is fully supported

Table 5. Mediation of CSR and Performance Relationship by Productivity

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.096	.045		2.419	.015
	Z ROI 2016	.455	.058	.451	8.778	.000
2	(Constant)	.086	.038		2.232	.026
	ZROI 2016	.388	.052	.356	7.682	.000
	Z Productivity 2017	.269	.041	.309	6.909	.000
3	(Constant)	.086	.039		2.212	.028
	Z ROI 2016	.379	.049	.340	7.286	.000
	Z Productivity 2017	.269	.041	.314	6.612	.000
	Z CSR 2017	.038	.040	.052	.936	.350

5. Discussion

In a recent comprehensive review of the CSR literature, Aquinis and Glavas (2012) noted that very few studies had examined potential mediators of the relationship between CSR and financial performance of the firm. Specifically, they noted, "the need to conduct research that can help us understand the processes and underlying mechanisms through which CSR actions and policies lead to particular outcomes" (Aguinis and Glavas, 2012; 953). Heeding this call, the present study examined the interrelationships between CSR, productivity, and profit and developed a logic for why the positive relationship between CSR and financial performance would be mediated by productivity. The findings presented are supportive of this logic. While a significant positive relationship was found between CSR and firm financial performance even when past financial performance was controlled for, this relationship was found to be nonsignificant when productivity was entered into the regression before CSR. This suggests that while CSR does an influence firm financial performance, it does so primarily through its influence on firm productivity. As noted, the link from CSR to productivity to financial performance does appear to go against the view of productivity gains coming as a result of the exploitation of workers (c.f., Broad, 2011). For a number of years now, though, operations researchers have been encouraging a broader view of operations generally, and productivity specifically, suggesting that good operations practices serve strategic needs and get productivity as a byproduct rather than focusing on productivity as a singular goal

(Skinner, 1986). In this vein, the productivity measure utilized here is a broader view of the productivity of the organization rather than narrow labor to output measure.

Further, previous research has found consistent positive relationships between CSR and the attraction and retention of quality workers. Having a high quality workforce is often viewed as a key to the achievement of productivity levels that are superior to competitors and capable of producing a superior financial performance. To the degree that CSR practices can improve the workforce, then, the impact of CSR on financial performance may well be through productivity. It was perhaps a bit surprising, however, to find that productivity fully mediated the relationship. CSR has also been found to relate positively to such outcomes as product quality and customer loyalty, outcomes that are often associated with profitability and thus themselves might serve as other potential mediators of the CSR/firm financial performance relationship. Said differently, CSR's influence on profitability may well be felt through other mechanisms in addition to productivity. While the inclusion of these other potential mechanisms was beyond the scope of the current study, future work may want to consider several of these intervening variables at once in relation to CSR in an effort to more fully disentangle the nature of the relationships.

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