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THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM VIETNAMESE LARGE LISTED FIRMS

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ABSTRACT OF THE MASTER'S THESIS

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Abstract

Corporate social responsibility (CSR) is gradually turning into a critical issue in business management. Over the decades, both theoretical and empirical literatures were concentrated on studying the effect of CSR disclosure on corporate financial performance. However, the results have been ambiguous and inconsistent. The purpose of this master thesis is to examine the relationship between CSR disclosure and Corporate Financial Performance in Vietnamese large listed firms, both on short-term and long-term profitability for a period of three years, from 2014 to 2016. Focusing the study in Vietnam helps to enrich the existing literature and bridge the research gap in a geographic sense.

For the study purpose, different CSR theories such as economic agency, legitimacy and stakeholder theories are reviewed to provide extensive understanding towards CSR approaches. In addition, an overview of the general CSR application in developing countries is put forward to explain the differences between CSR in emerging markets and its manifestation in developed world. Current status of CSR practice in Vietnam and PESTEL analysis are also included to provide a macro analysis of Vietnamese market based on Political, Economic, Social, Technological, Environmental and Legal aspects.

In this study, we performed linear regressions on the sample data in order to investigate the effect of CSR disclosure on corporate financial performance. CSR disclosure is measured by using a disclosure index which consists of environmental, social, economic and legal aspects. Content of annual reports and stand-alone CSR reports of each firm is examined and disclosure scoring scale is constructed for the purpose of measuring the level of CSR disclosures. For corporate financial performance, Return on Assets (ROA) and Tobin's Q ratio were employed as measures of short-term and long-term profitability respectively.

The results indicate that, in the short run, there is no significant relationship between CSR disclosure and corporate financial performance. However, in the long run, the study found a positively significant relationship between CSR disclosure and firms' financial performance.
The results are encouraging since it provides an empirical evidence that Vietnamese firms can be both socially responsible and financially successful. It is expected to make Vietnamese firms become more aware of the significance of CSR practice. At the same time, strategic managers and socially responsible investors can take into account the reported results for sustainability and investment decision making processes.

Keywords
Corporate Social Responsibility, CSR, Corporate Financial Performance, ROA, Tobin's Q ratio, CSR disclosure, CSR reporting, GRI, Global Reporting Initiative, Vietnam, Vietnamese listed firms.

Additional information

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Thai Nguyen, Vietnam, 12th May 2018

Duong Thao (Christine).

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1 INTRODUCTION

1.1 Background

Corporate social responsibility (CSR) is the idea of corporations practicing socially responsible ways (Lu, Weisheng, Chau, Wang & Pan 2014). The idea is developed closely with heightened sensitivity of society towards externalities of corporate activities – both are topics with long tradition in economics (Ullmann 1985). Over the decades, the concept of CSR has been growing in significance and influence (Carroll & Shabana 2010). It is currently a very dynamic and developing field of research (Bakker, Groenewegen & Hond 2005; Lockett, Moon & Visser 2006; Crane, McWilliams, Matten, Moon & Siegel 2008). What precisely the development of CSR movement signifies remains open to debate. Some consider it as a management tendency, some view it as a 'soft regulation' framework that sets new demands on corporations, whilst others perceive it as a way for firms to support economic and social development (Sahlin-Andersson 2006).

At the same time, the demand for transparency of how firms measure, report and enhance unceasingly their CSR performance is continuously growing (Tsoutsoura 2004; Dhaliwal, Li, Tsang & Yang 2011). As a result, CSR information has been widely disclosed and received much attention from firms' stakeholders. The quality and quantity of CSR disclosure are set to become vital factors and have been considerably enhanced (Chelli, Durocher & Richard 2014). CSR disclosure is now perceived as the most applicable method to represent non-financial information while enabling business capabilities to cope with the present dynamic, global, and fast technological advancements (Beurden & Gossling 2008; Williamson & Lynch-Wood 2008).

More and more firms provide detailed information of their CSR principles, activities and performance and publish them as stand-alone CSR reports or disclose within annual reports. As of 2015, 92 percent of the world's biggest companies (G250) were perceived to report on corporate responsibility, and the reporting rate is expected to continue remaining in the foreseeable future (KPMG 2015). The question now is transformed from “Who is reporting?” to “Who is not reporting?” as CSR reporting gradually becomes a mainstream expectation among businesses (KPMG 2008: 14).

The objective of CSR disclosure is to uphold corporate financial performance. Profitability is the key factor that grants managers permission to be flexible in engaging and revealing more extensive socially responsible programs to firms’ shareholders (Heinze 1976). If enhancing CSR disclosure extent can improve financial performance, firms will not hesitate to perform it. On the contrary, if the correlation between CSR disclosure and financial performance is not a clear-cut, firms may be reluctant and cautious to disclose further information (Yang, Bui & Truong 2017).

CSR can be referred as corporate noble intentions, but apparently a profit-seeking aspiration is irresistible. A wide range of studies have been conducted in different countries, concentrated on different firm sizes, adopted different disclosure measurement techniques in order to examine the relationship between CSR disclosure and financial performance (Pava 1996; Waddock & Graves 1997; Orlitzky, Schmidt & Rynes 2003; Klerk, Villiers & Staden 2015). However, the results have been contentiously inconsistent and there is no real consensus on nature of the relationship (e.g. Cochran & Wood 1984; Patten 2002; Barth & Clinch 2009).

The primary reasons for these disparities are either from a deficiency in theoretical foundation, a lack of systematic CSR measurement, improper methodology or constraints from the sample size (Beurden & Gossling 2008). A vast majority of the empirical studies have focused only on a specific industry in order to find out conclusions. A comparative study on several industries is rare. Hence, in this study, we try to examine the association between CSR disclosure and financial performance of different industries comparatively, thereby closing the major gaps.

On another aspect, prior studies asserted that the country where the firm reports has an impact on the theme and the amount of CSR disclosures (e.g. Andrew, Gul, Guthrie & Teoh 1989; Guthrie & Parker 1990; Gray, Kouhy & Lavers 1995b; Maignan & Ralston 2002). While CSR, which regarded as a western phenomenon, has been investigated thoroughly and extensively in developed countries, the concept is still relatively new and under developed in developing countries, including Vietnam. According to the survey results from The Vietnam Business Council for Sustainable Development in 2014, more than 50% out of 150 representative Vietnamese firms do not have the legitimate knowledge about CSR.

Vietnam, akin to other developing countries, is striving with a number of difficulties on the way to initiate CSR principles. Not only the institutions, standards, appeals system but also the level of economic development which influence CSR practices are relatively weak in developing countries of Asia (Tsang 1998; Kemp 2001; Chapple & Moon 2005). Particularly, the Vietnamese market economy is socialist-oriented and is managed tightly by the government. Domestic and foreign businesses are controlled closely in order to further socialism in the country (Netherlands Enterprise Agency 2015). The extent of free press, citizen rights and government systems in Asian countries are also totally different from western systems (Rodan 2002). Therefore, it is improper to assume and generalize the results of studies carried out in developed countries to the less developed ones including Vietnam.

This research intends to unleash the association between CSR disclosure and corporate financial performance of Vietnamese large listed firms. Focusing the study in Vietnam thus helps to enrich the existing literature and bridge the research gap in a geographic sense. Emerson, Bonini & Brehm (2003) assert that the level of CSR's commitment and interpretation varies within firms and across sectors. Furthermore, Tran (2014) argues that since CSR practices and reporting are not codified in Vietnam, the adaption of socially responsible activities is highly constrained in both quantity and quality. Only the large firms engaged to CSR practice and sustainability development in Vietnam. Apart from the taxation responsibilites, Vietnamese large firms also commit and register with the government to implement CSR initiatives. Abiding by this suggestion, the research hence focuses on large listed firms of different industries.

The purpose of this content analysis study is to examine the relationship between CSR disclosure and financial performance in Vietnamese large listed firms, both on short-term and long-term profitability (i.e. future profitability) for a period of three years, from 2014 to 2016. In this study, short term is referred as a period of time that less than twelve months while long-term is perceived as a period of time that exceeds twelve months. Data is collected and examined from VN100 listed firms, which is the most advanced and significant index from HOSE (Ho Chi Minh City Stock Exchange). VN100 was firstly released in January 2014 to specify top 100 stocks with highest liquidity and market capitalization.

The results of this study are significantly valuable in several aspects. Firstly, only few prior studies have examined the aforementioned relationship in the context of Vietnamese market (e.g. Trang & Yekini 2014; Nguyen et al. 2015). This study hence will bridge the gap in the existing literature by addressing the issue in the secluded geographic area, Vietnam. Secondly, since the study performs a panel data analysis on the relationship between CSR disclosure and firms' financial performance for their industries, it will bring firmly empirical evidence for Vietnamese firms in CSR-related decision making for sustainability. Finally, this study contributes to a developing body of interdisciplinary CSR knowledge. At the same time, if it can be validated that being socially responsible contributes to firm's profitability, this would be an advocated argument for the growing CSR movement.

1.2 Research questions and thesis structure

Based on the aforementioned purposes, this study is designed to answer the following question of interest:

What is the association between CSR disclosure and corporate financial performance in Vietnamese large listed firms, if any?

The existing empirical researches on the relationship between CSR disclosure and corporate financial performance can be divided into two groups based on study methodology. The first group of studies utilizes the event study methodology for the purpose of evaluating short-run financial impact when firms implement CSR initiatives. The second set of studies investigates the relationship from the perspective of long-term financial performance. However, both groups have presented disagreements and inconsistent results (McWilliams & Siegel 2000).