The Relationship between Corporate Social Responsibility and Financial Performance: Evidence of Vietnam Textile and Garment Industry

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Abstract
The direct relationship between corporate social responsibility (CSR) and financial performance has been investigated by many researchers, but direct testing seems to be inaccurate as it is difficult to explain why there are these results. Because there are many factors indirectly affect this relationship. This study examines corporate reputation, customer loyalty, and employee engagement as mediate variables in the relationship between CSR and financial performance. The sample is 389 garment enterprises in Vietnam show that the link between CSR and financial efficiency is the intermediate relationship. The positive effect of CSR on financial performance is due to the positive impact of CSR on the company's reputation, customer satisfaction, and employee engagement.

Keywords: Corporate social responsibility, financial performance, textile and garment industry, Vietnam

1. Introduction

The recognition of the direct relationship between CSR and financial performance has attracted researchers’ attention in recent times. These findings are rather inconclusive and misleading (Margolis & Walsh, 2003). Some researchers propounded a statistically positive relationship between CSR and financial performance, while others showed statistically negative one, even some concluded that there was no statistical relationship between CSR and financial performance.

That some scholars such as Alafi & Hasoneh (2012), Galbreath & Shum (2012), gave questions on the applying method used in most studies has examined the direct relationship between CSR and financial performance. They said that the positive, negative or neutral result obtained by examining the direct relationship between CSR and financial performance was not completely reliable of 100%, as this link might be affected by some other intervening factors overlooked in many studies.

Finally, it can be concluded that the relationship between CSR and financial performance is more complex than the results of many previous studies. Accordingly, this study attempts to be further study of previous ones on the relationship between CSR and financial performance. In doing this, a new question will be given in this study, that is “Do reputation, employee commitment and customer satisfaction have an effect on the relationship between CSR and financial performance?”

Previous studies in various fields have made a prediction that customer satisfaction, reputation, and employee commitment is the three consequences of CSR (for example, Mulki & Jaramillo, 2011; Salnomes et al., 2009). Financial performance is also positively influenced by these three dependent variables (Mulki & Jaramillo, 2011).

Some authors have attempted to identify the role of these variables as the main intervening variables in the relationship between CSR and financial performance (Alafi & Hasonen, 2012; Galbreath & Shum, 2012). This study suggests that the relationship between corporate CSR and Financial performance (FP) is much more complicated than previously published research. Therefore, this study examines and develops a more complex relationship between CSR and financial performance through three intermediaries (customer loyalty, reputation and employee commitment) as three benefits of CSR.

It is necessary to be noted that most studies on CSR and financial performance have been conducted in developed countries basing on European and American data. Hence, a sample from Vietnam which is a developing country may be useful in proving CSR results in a global context. This is really important because CSR has never been adequately solved in Vietnamese textile and garment enterprises in terms of practicality and academic aspect.

2. Literature review

2.1. Corporate Social Responsibility (CSR)

In the last few decades, CSR has become a prominent concept in managerial economics (Dobers, 2009; Nejati & Ghasemi, 2012). Apart from theoretical aspects, enterprises are also more concerned with CSR in reality (Dahlsrud, 2008). The driving force behind this is the need of consumers sensitive to the market requiring more sustainable and environmentally friendly products and services (Van Beurden & Gössling, 2008). Although most documents are about
CSR, there has not still been a unified and accurate definition (Wood, 2010). Therefore, CSR does not have a similar meaning for everyone (Van Marrewijk, 2003). Wood (2010) argues that this is simply because it is difficult for CSR to be conceptualized. Talaei and Nejati (2008) also claim that the lack of explicit conceptual boundaries has led to these diverse definitions. Van Beurden & Gössling, (2008) believes that the lack of a clear definition makes it difficult to conduct empirical research on CSR. According to Carroll (1979), CSR is the corporate social responsibility that encompasses the economic, legal, ethical, and philanthropic expectations of a business at a given time. In the well-known definition by Mishra (2010), CSR is the voluntary fulfillment of obligations to stakeholders (clients, suppliers, employees, investors, business environment, communities) in based on the business’s resources. Mishra’s definition (2010) is the clearest concept on CSR because of its theoretical approach of stakeholders, and the evidence is that many authors have used this statement in their research: Galbreath & Shum, 2012; Shum & Yam, 2011; Nejati & Ghasemi, 2012... This study examines aspects of CSR as presented by Mishra, (2010).

2.2. Social Responsibility and Financial Performance

In the history of economic development, CSR has been considered as a key element in achieving economic goals and making wealth (Garriga & Mele, 2004). Consequently, many studies have attempted to find a global link between CSR and financial performance (e.g., Alafi & Hasonneh, 2012; Galbreath & Shum, 2012). Galbreath & Shum, (2012) have shown a positive relation between CSR and financial performance, they evaluated all 52 previous surveys on the relation between CSR and FP, with the result that firms with more Social Responsibility also has better FP. Subsequently, survey data from 280 companies in the UAE by Rettab (2009) showed that CSR has a positive link with all three determinants of financial performance: profitability, growth and market value. The impact of CSR on corporate financial performance among the 1000 cases in Taiwan was also examined, and a positive association between CSR and financial performance was identified (Lin et al., 2009). Galbreath (2008) also found strong, active links between CSR and financial performance in Australian companies. Previous studies have shown that most studies were conducted in developed European or American countries (Galbreath & Shum, 2012). Despite the lack of research on CSR and financial performance in developing countries, especially in the context of Vietnam, we expect that similar results from Western countries will be found in Vietnam, a developing Asian country. It should be noted that the main viewpoint of the present study is based on the indirect impact of CSR on financial performance. Since the Baron and Kenny (1986) procedures are used in this study to test hypotheses, the direct relationship between CSR and financial performance is in the first stage. The latter is the relationship through intermediate variables.

2.3. Reputation, customer loyalty, and employee commitment

Margolis and Walsh (2003) make a comment that many studies focus only on examining the direct relationship between CSR and financial performance, while some scholars (e.g., Alafi & Hasonneh, 2012; Wood, 2010) argue that testing the direct relationship between CSR and financial performance is intended to obscure many factors having an influence on this relationship and the final result will be unreliable. Therefore, in order to obtain reliable results, neglected and neglecting variables need to be considered and empirically tested. The three involving variables, customer loyalty, reputation, and staff commitment, will be included in this study as variables need to be included in order to obtain reliable results. The current literature shows that customer loyalty, reputation and employee engagement have a positive relationship with financial performance. Helm (2007) considers that a company with a good reputation is considered "less risky than companies with similar FP." From the viewpoint of financial advantage, Roberts and Dowling (2002) find that firms with higher reputation have higher revenue growth and higher return on assets. To confirm such studies, Shamsie (2003) has found a positive relationship between reputation and financial performance. Carroll (2004) believes that improving product quality as a socially responsible practice increases the level of satisfaction. In another study by Alafi and Hasoneh (2012), customer satisfaction is positively influenced by CSR. In the rise of customer loyalty, financial benefits will increase through escaping from lower customers and more repeat, thereby reducing costs, increasing profits, and generating more revenue. (Galbreath, 2002), Clarkson (1995) also claim that the possibility of building a positive reputation followed by increased customer satisfaction is critical to the existence and effectiveness of a company.

According to Pham Viet Thang (2018), CSR has a direct impact on employee commitment. The engagement of employees plays a crucial role in the survival and development of enterprises, especially the improvement of financial efficiency.

3. Research methodology

3.1. Sample

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The research sample used was 109 garment and textile enterprises in the textile and garment enterprises' directories published by the Textile and Garment Association in 2015. The research team sent letters, emails, phone calls and had face-to-face meetings with businesses at annual conferences of the Textile and Garment Association. Respondents to the survey questionnaire should be the manager, general director, or connecting response from departments such as personnel, accountant, social responsibility, union.

3.2. Research model

![Research model diagram]

The variables in the model are explained as follows:
CSR: Mishra (2010) has been frequently cited in many studies using primary data. CSR covers six key aspects (employees, business environment, community, customers, suppliers, and investors) to determine the current state of enterprise CSR. The CSR including 61 indicators of Mishra (2010) was edited by the author's group after consulting CSR specialists at National Economics University and 19 enterprises. At the end of the study, there are remaining 39 indicators which match the characteristics of Vietnamese garment and textile enterprises, and when running on research model, only 28 indicators are measured by the 5-point likert scale from strongly disagree to agree strongly.

CL: (Customer Loyalty) is the customer loyalty which is measured by the customer turnover ratio, customer ratio and the impact of CSR on customer satisfaction.

CR: (Corporate Reputation) is the reputation of a business measured by the 5-point likert scale.

ES: (Employee Satisfaction) is the employee commitment measured by employee rotation ratio, the ratio of newly introduced employees through current employees of the business.

FP: (Financial Performance) is the financial effectiveness measured on two aspects, namely profitability and growth rate, according to Santos (2012). Financial performance is the only dependent variable in this study based on the Balanced Scorecard (BSC). The Balanced Scorecard method is a holistic method analyzing the overall performance of an organization in four ways. Measuring the financial perspective of businesses’ activities is one of the aspects of this approach. Respondents were asked to compare their financial performance over the past three years with the average of the industry by a 5-point likert scale from much lower to much higher.

Research hypotheses

H₁: CSR has a positive direct relationship with financial performance
H₂: CSR has a positive relationship with intermediate variables
H₃: Intermediate variables have a positive relationship with financial efficiency

3.3. Data analysis
The PLS - SEM (Partial Least Squares - Structural Equation Modelling) is used to study the relationship among vendors’ CSR, company reputation, and overall business performance. I am studying through PLS-SEM with predictive not deterministic model and non-normative assumptions (Sarstedt et al., 2011). PLS-SEM is also more accurate for small sample sizes (Hair et al., 2013). SEM is a multivariate analysis method used to simultaneously examine and estimate the complex causal relationship between variables, even when the relationships are hypothesized or cannot be directly observed (Williams et al., 2009).

4. Analysis and results
The results of Cronbach’s Alpha, total variable correlation, Exploratory Factor Analysis (EFA), and Confirmatory Factor Analysis (CFA) are statistically significant, but some items have been removed from the formal verification model as shown in Figure 2 below.

According to Galbreath and Shum (2012), the structural equation model (SEM) is more suitable than traditional regression analysis in CSR studies. Iacobucci et al. (2007) argue that SEM is a superior method on the basis of theoretical and empirical statistics. Urbach and Ahlemann (2010) explain that SEM - a superior statistical technique simultaneously examining the causal relationship between many dependent and independent variables is opposite to first generation techniques such as kernel analysis, discriminant analysis, and regression analysis. They also claim that SEM is considered to be superior to traditional regression because it can reduce bias by identifying measurement errors. In addition, Iacobucci et al. (2007) have proved that SEM with consistent approaching is stronger in detecting causal relation rather than regression. Therefore, SEM was found as a suitable statistical analysis technique for this study. To test the hypothesis, the procedures of Baron and Kenny (1986) are used. They discussed four steps in establishing a relationship. First, a significant relationship between independent variables and dependent on es is required. Second, a significant relationship between independent variables with intermediate variables is required. Third, the intermediate variable must be significantly related to the dependent one.

Following these three steps, the results gained from the first model (the relationship between CSR and FP) show a positive and significant relationship between CSR and FP with the path coefficient of 0.15 (P <0.001) and basically suitable (CFI = 0.921; GFI = 0.951; RMR = 0.035). Therefore, the next step is to meet the requirement of the first condition in establishing the relationship, the H1 hypothesis is accepted.

After getting into mediating and running the second model to test H2 and H3, the results show that there is a significant relationship between CSR and intermediate variables, and between intermediate variables and FP. However, there is no significant relationship between CSR and FP (CFI = 0.908; GFI = 0.939; RMR = 0.031). It can be shown that CSR and FP is a mediated relationship absolutely via CSR’s contribution through better reputation, higher customer loyalty, and last higher employee commitment. Accordingly, H2 and H3 are also acceptable. The results of the SEM model are shown in Figure 2 below.
Intermediate variables can be caused by dependent ones, commonly known as the feedback model. According to Baron and Kenny (1986), the feedback model would also converge conditions to be mediated and be qualified as the “reverse mediator.” In contrast, the partial correlation between dependent and independent variables will be zero when statistically controlling their relationships with a mediator. After running the reverse mediated model (dependent → mediated → independent), the appropriate model is as follows: CFI = 0.886; GFI = 0.918; RMR = 0.052. Although the two indicators are close to each other, there is still a small advantage in the classic mediated model (CFI = 0.908; GFI = 0.939; RMR = 0.031) because it has a better consistency than the reverse model. Hence, the classic path model is preferred to the reverse path model in this study.

5. Discussion and conclusion
The research results show that CSR has a positive relationship to FP that means the implementation of CSR will positively affect the FP of Vietnamese garment and textile enterprises. This finding is in line with previous studies in Vietnam such as those of Ho Thi Van Anh (2018); Chau Thi Le Duyen (2018). It encourages businesses to implement CSR and consider CSR as their business culture as well as their business development strategy.

The relationship between CSR and CL is also emphasized in this study. CSR - CL relationship is of the same direction that is the more successful CSR is, the more satisfied the customer is, leading to an increase in repurchase potential, increased revenue and expansion of market share. This is particularly relevant in the context of Vietnamese garment and textile enterprises, as Vietnamese garment and textile enterprises are mostly processing for export and the conditions for that is to ensure the CSR standards required by customers according to ISO 26000 or SA 8000.

Furthermore, CSR has a positive relationship with the reputation of the business. When implementing CSR, enterprises have made their own identity. For example, when Hoang Phuc international garment company implemented the “meals on highland” program that made many domestic and foreign customers know about the company and led to a sharp increase in revenue in the following months (Hoang Phuc, 2017).

CSR has a positive relationship with employee commitment. When CSR is implemented in a business, the conditions of welfare, health, development of employees are respected, association freedom rights, as well as employees’ ideas being listened in the enterprises’ decisions, are also paid much attention, leading to the fact that workers believe, feel satisfied and are committed to long-term serving for the enterprise.

Financial performance cannot naturally exist; it must be a long-term process of implementing strategies and measures by the business. Once customers are satisfied, repurchase behavior increases, resulting in increased revenue and increased financial efficiency for the business. Employee commitment leads to the attracting and retaining employees as well as reducing the costs for recruiting and staff rotation so increases the business’s financial performance. Finally, a good reputation is an extremely valuable invisible asset. When reputation is highly appreciated, it creates trust from customers, attracts talented people, investors ... and thus reduces the wasteful expenses for training, recruitment, advertising and leads to an increase in financial performance.

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