

Corporate Social Responsibility and Financial Performance of the Listed Companies in the Stock Exchange of Thailand: the Study of the Resource Industry Group

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— *Review of* —
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ABSTRACT

This research aimed to study the impacts of CSR (corporate social responsibility) upon financial performance of the SET (the Stock Exchange of Thailand) listed companies in the resource industry group. Research samples included 24 companies. The data collected was secondary data. Research results showed that the CSR-employee relation impacted return on assets and CSR-environment relation impacted return on assets while CSR-community relation impacted return on equity.

Keywords: corporate social responsibility, financial performance, resource industry group

1. INTRODUCTION

Business operation is in the era of globalization when communication, data transmission and international trade can be done quickly. Free competition results in the increasing number of business competitors. Consequently, business aims are to make profit and to create added value of shares only for the benefit of shareholders and business owners. This is in line with the ideas of Friedman who believed that the sole duty of a corporate is to make the highest benefits for its shareholders. However, to use high profit as a measurement for growth and wealth of any business organization without the awareness of social and environmental impacts has led to problems of pollution, the depletion of natural resources, child labor and consumer fraud for example. These problems have partly urged the society to call for morality, ethics and social responsibility in businesses. Protests against Nike's unethical treatment of child labor and a boycott of Nestlé products due to the company's marketing campaign of powdered breast-feeding substitute product are examples of the lack of corporate social responsibility.¹² Thus, business organizations need to take on social responsibility for the good of various groups of stakeholders.⁸

The concept of Corporate Social Responsibility has thus caught the attention and become a popular trend throughout the world since the world community places importance on running business with social and environmental responsibility. CSR is the commitment to operate a business that can address the interest and welfare of each of its stakeholders who can be classified into 2 major categories: primary stakeholders and secondary stakeholders. In an attempt to fulfill expectations of its stakeholders, a company needs to recognize the significance of the improvement of its social performance which is as important as its economic and financial performance.⁷ Primarily, it is developed countries like the US

and countries in western Europe who give priority to CSR. However, in Asia, CSR is poorly taken into consideration both by government and private sectors. Thus, most empirical studies on CSR are conducted in developed countries and quite a few explore CSR in developing countries.³

In Thailand, social responsibility has become an increasingly popular trend. CSR activities have been organized in various forms, mostly charity events and donation activities. According to a research by The National Economic and Social Development Board, 97 percent of samples which were Thai companies had conducted CSR and 98.5 percent had conducted CSR by donation activities.² However, the fundamental goals of a company are not to respond to what the society truly demands, but to make profits for itself and to publicize its actions in order to create corporate reputation and good image. Critics discuss whether CSR activities are truly intended to benefit society or not. Most CSR activities lack continuing operation and a lot of companies are still hesitant and doubtfully question whether CSR activities would truly benefit their business since greater spending on environmental friendly business practices might result in higher costs and higher selling price and thus dropping competitive ability.¹⁴

Nevertheless, the review or related literature and studies of both Thai and foreigners on the relationship between social responsibility and the operational outcomes showed that the relationships can vary and most of the studies are conducted in developed countries. It is thus interesting to conduct a study in a Thai context on the influences of social responsibility on financial performance. Research population included companies in the resource industry group since they generate their profit from publicly owned resources. Moreover, the resource industry group is considered a fundamental part of the economic development at every level since it provides raw materials for the manufacturing process in almost every industry, particularly oil and gas which is regarded as the cost of every kind of business.

2. THE PURPOSE OF RESEARCH

This study aimed to explore factors influencing corporate social responsibility which have impacts on financial performance of the SET (the Stock Exchange of Thailand) listed companies in the resource industry group.

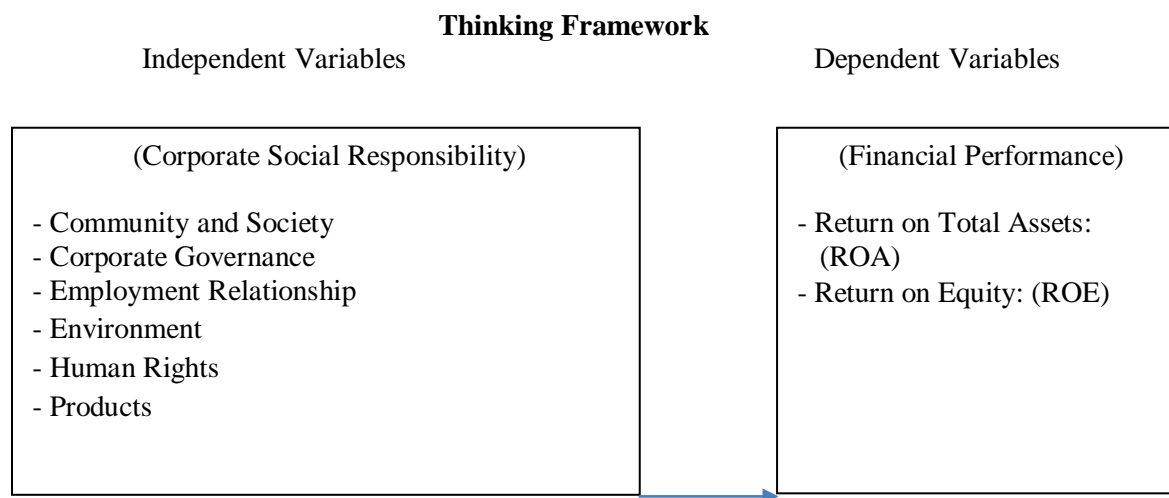


Figure I Research Framework

3. RESEARCH METHODOLOGY

3.1 Population and samples

Research population was 31 SET (the Stock Exchange of Thailand) listed companies in the resource industry group.

Research samples derived from purposive sampling were the SET (the Stock Exchange of Thailand) listed companies in the resource industry group from 1 January 2009 to 31 December 2013, 24 of which provided complete information for the study. The study of 120 sets of information was conducted in financial years 2009 to 2013.

4. TOOL CREATION AND IMPROVEMENT

The tool used for evaluating corporate social responsibility was working paper which was developed by the researchers and based on the CSR benchmarking index from KLD Database created by KLD Research & Analytics, Inc. The list of social responsibility practices was determined based on the frameworks from the studies by Kang (2010), Ribera (2010) and Lin (2011). The created working paper was then revised and its content validity verified by 2 environmental specialists and 1 expert working for a private organization concerning social responsibility. The working paper had 2 parts:

Part 1: was the collection of data CSR activities. There were 6 major aspects and 51 items placed in a checklist format. Each aspect consisted of sub-aspects covering both activities with positive effects on CSR and those with negative effects on CSR. A company would score 1 point if it practiced an activity with positive effects on CSR; on the other hand, it would receive 0 point if it practiced an activity with negative effects on CSR.

Part 2: was the analysis of corporate financial performance through the measurement of the return on assets (ROA) ratio and the return on equity (ROE) ratio.

5. DATA COLLECTION AND COMPILATION

The collection of secondary data consisted of both independent and dependent variables through the data as of each 31 December from 2009 to 2013 compiled from financial statements, annual information disclosure forms (form 56-1), annual reports and the Stock Exchange of Thailand's official website (<http://www.setsmart.com>) of the 24 SET (the Stock Exchange of Thailand) listed companies in the resource industry group.

6. DATA ANALYSIS

Multiple regression analysis was used for the analysis of each individual aspect of factors affecting CSR that influenced a company's financial performance and stepwise regression was used for independent variable selection.

7. RESEARCH RESULTS

Using the multiple linear regression to analyze factors affecting CSR that influenced a company's financial performance could be done under the condition that there was not multicollinearity problem between independent variables. The results showed that none of the variables had tolerance values approaching zero and VIF value exceeding 10. This was in accordance with assumptions of the multiple linear regression analysis and thus every variable could be used for the multiple linear regression analysis through stepwise regression procedures.

Table 1 Coefficient of Determination (R Square)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.315 ^a	.099	.084	8.66634

a. Predictors: (Constant), employees, environment

b. Dependent Variable: ROA

According to Table 1, the R Square value was 8.4% which suggested that factors affecting CSR including the employee factor and the environment factor could explain the 8.4% of changes in financial performance in terms of the ROA ratio.

Table 2 Factors Influencing CSR Which Affected the ROA Ratio

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	967.973	2	483.987	6.444	.002 ^a
	Residual	8787.345	117	75.106		
	Total	9755.318	119			

a. Predictors: (Constant), employees, environment

b. Dependent Variable: ROA

According to Table 2, factors affecting CSR including the employee factor and the environment factor had the Sig. values of .002 which suggested that factors affecting CSR in terms of the employee factor and the environment factor affected the ROA ratio with statistical significance at the 0.05 level.

Table 3 Results of the Analysis of Regression Coefficients of Factors Affecting CSR and the ROA Ratio

Factors Affecting CSR	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	6.600	7.085		.932	.354
	Employees	2.700	.884	.275	3.054	.003
	Environment	2.178	.864	-.227	-2.522	.013

a. Dependent Variable: ROA

According to Table 3, factors affecting CSR including the employee factor and the environment factor affected the ROA ratio and in a positive relationship, variables moved in the same direction.

Table 4 Coefficient of Determination (R Square)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.246 ^a	.060	.053	14.85958

a. Predictors: (Constant), society

b. Dependent Variable: ROE

According to Table 4, R square was 5.3% which suggested that the CSR factor, namely the community and society factor, could explain the 5.3% of changes in financial performance in terms of the ROE ratio.

Table 5 Factors Influencing CSR Which Affected the ROE Ratio

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1677.110	1	1677.110	7.595	.007 ^a
	Residual	26055.257	118	220.807		
	Total	27732.367	119			

a. Predictors: (Constant), society

b. Dependent Variable: ROE

According to Table 5, the CSR factor, namely the community and society factor, had the Sig. values of .007 which suggested that the CSR factor, namely the community and society factor, affected the ROE ratio with statistical significance at the 0.05 level.

Table 6 Results of the Analysis of Regression Coefficients of Factors Affecting CSR and the ROE Ratio

Factors Affecting CSR		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.506	6.820		-.807	.421
	Society	2.874	1.043	.246	2.756	.007

a. Dependent Variable: ROE

According to Table 6, the analysis of factors affecting CSR which influenced the return on equity ratio led to the conclusion that the community and society were the factors with the most influence upon the ROE ratio and in a positive relationship, these variables moved in the same direction.

8. DISCUSSION AND CONCLUSION

8.1 Discussion

Research results showed that the employment relationship factor which affected CSR had positive effects on the ROA ratio, particularly the job characteristics of companies in the resource industry group which depended upon employees with skills and proficiency required in their workplace. To decrease employees' rates of absenteeism and resignation, an organization placed the focus on the employment relationship factor which was one of the factors affecting CSR. This could foster employees' loyalty for their organization, strengthen their bond with their organization and promote their strong organizational commitment all of which, in turn, enhance performance outcomes. Similarly, the studies^{15,11} as well as concepts concerning values of CSR⁶ also acknowledged that employees' commitment and enthusiasm could be created and maintained. Moreover, the research findings showed that the environment factor which influenced CSR had negative effects on the ROA ratio. This was in line with the studies^{9,4} which explained that though CSR practices increase organizational costs, they can add value to an organization. Most people in the society expect an organization to show how it places importance upon environment through its environmental friendly policies such as reducing the use of toxic chemicals, using recycled materials in the manufacturing process and effectively using alternative energy as well as green energy. Besides, the CSR activities can reduce possible risks and costs of penalty fees for eco-harmful behaviors

which break the legal pollutant release standards. In the very beginning, an organization may need to invest a large amount of money thus it should integrate CSR policies in its business planning to assure proper budget allocation.

Research findings also showed that the community and society factor that influenced CSR had positive effects upon the ROE ratio which reflected how CSR helped an organization yield financial benefits. When an organization places an importance on CRS practices with an aim for the community well-being through strengthened relations with the community whose participation and voices of opinion are cherished, such organization will be strongly supported by the community and society and it will find less opposition and complaints from civil society and mass media. This is in line with the studies.^{1,13}

8.2 Conclusion

In this research entitled “Corporate Social Responsibility and Financial Performance of the Listed Companies in the Stock Exchange of Thailand: the Study of the Resource Industry Group,” stepwise multiple linear regression analysis was used to analyze data. The results showed that factors influencing CSR which affected organizational financial performance were the community and society factor, the environment factor and the employment relationship factor. The results supported the stakeholder theory which addresses the interdependent organization-stakeholder relationships, perceiving the impacts of organizational practices on the society and, simultaneously, the stakeholders’ vital role in the survival of the organization.¹⁰ The theory encourages an organization to widen their perspectives on stakeholders by not just involving shareholders, clients and suppliers but also pinpointing the vital role of an organization’s policy formulation and operation. Consequently, an organization has an obligation to put the stakeholders’ need first in order to minimize conflicts and to create its values which will in turn develop its sustainable competency.

9. SUGGESTIONS

9.1 Suggestions for research

1. According to the research results, the CSR practices lack continuing support. Actually, although CSR activities do benefit the society, they do not create sustainable solutions since there is no mechanism for examining the continuity of long-term CSR activities. Thus, corporate executives should highlight the importance of CSR activities, promote the understanding about CSR practices and foster CSR culture and value within an organization.

2. An organization should disclose its CSR activities and impacts on the society, either positive or negative, to publicly display its sincerity.

9.2 Suggestions for future research

1. This study emphasized 6 factors influencing CSR. In the future, there will probably be more factors included like the economic factor.

2. In this study, secondary data was collected from financial statements. Data collection procedures in future quantitative research can possibly be conducted through in-depth interviews with corporate executives, concerned employees or investors.

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