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Corporate Social Responsibilities and Financial Performance: The Role of Chief Executive Officer'S Power

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Abstract: This study investigates the influence of CEO power in moderating the link between CSR and financial performance drawing on a sample of 418 Vietnamese-listed firms from 2016-2020. The results reveal that in companies with powerful CEOs, higher levels of social responsibility disclosure dampen financial performance measured through return on assets. The findings contradict conventional wisdom that CSR bolsters the bottom line, suggesting that executive incentives to conserve resources may curb voluntary CSR spending in emerging markets if profit goals take priority. By highlighting this boundary condition, practical implications are offered regarding overcoming short-term profit motivations to unlock CSR's potential for long-term value

Keywords: Corporate social responsibility, financial performance, emerging economy country, Vietnam

1. Introduction

At a time when the world.is facing an economic and social crisis caused by the COVID-19 pandemic (Hassan et al., 2021), the greater the international concern for environmental sustainability should encourage companies to disclose more information about corporate social responsibility (Chen et al., 2018) Companies are increasingly aware of the importance of CSR and participate in CSR implementation more and more (Mark-Herbert & Von Schantz, 2007). The trend of CSR disclosure requirements is increasing concern by regulators, investors, and stakeholders, especially in emerging economies (Chen et al. al., 2018) and now, social responsibility information is also a positive and important factor in determining business performance and success of an enterprise (Kao et al., 2018). At the same time, the issue of CSR disclosure has also received great attention from experts and researchers (Herrera Madueño et al., 2016). Because of the increasing interest in CSR on an international scale, business development is no longer simply a solution in the present, but an overall development strategy is required: looking to the future, caring about environmental issues, corporate responsibility to society... to increase the business efficiency of the unit.

Currently, several experimental studies are studying the impact of CSR on organizational performance, but the results are difficult to convince (Al-Malkawi & Javaid, 2018) because the results of the studies are not similar. According to (Jones, 1995) companies with superior social performance will have many ways to perform better financially such as: attracting socially responsible consumers (Orlitzky et al., 2003); assuage concerns from activists and non-governmental organizations (Baron, 2001). In the same vein, studies acknowledge that CSR disclosure increases financial performance (Choi et al., 2010); (Wu & Shen, 2013) (Chen & Wang, 2011); (Wang et al., 2016). Contrary to the above point of view, several studies have acknowledged that the responsiveness of enterprises to the requirements of stakeholders can lead to inefficient use of resources, increasing costs and efficiency, and poor financial performance (Aupperle & Carroll, 1985); (Aupperle & Carroll, 1985); (Nguyen et al., 2022). But (Wang et al., 2016) argue that in developed markets, CSR has the most beneficial impact on financial performance. In contrast, there is a view that the impact between CSR and financial performance cannot be determined (Fombrun & Shanley, 1990). Although a lot of research has been done on this issue, the overall picture of CSR impact on financial performance is incomplete because there is very little research done in the context of emerging markets (Al-Malkawi & Javaid, 2018; Oh & Park, 2015). (Wang et al., 2016; Cui et al., 2015) found that in developing countries with undeveloped institutional systems, inefficient market mechanisms, and different CSR concerns than developed countries, the impact of CSR's effectiveness in the context of emerging markets may be different (Nguyen et al., 2022).

Furthermore, the upper echelons theory posits that CEOs have an impact on CSR activities (Carpenter et al., 2004). The CEO is the most powerful person in any organization, who makes strategic decisions and chooses policy policies (Li et al., 2016; Li et al., 2018). At the same time, the CEO also plays an important role in improving the company's CSR arrangements. Li et al (2018) believe that more research is needed to evaluate the role of CEOs in CSR arrangements although there are many studies across CEO activities in CSR activities in development economy (Carpenter et al., 2004; Li et al., 2018; Jiraporn & Chintrakarn, 2013; Sheikh, 2019), research on this issue in emerging fields is still limited. Vietnam is a country with a developing economy, so its political institutions and governance mechanisms are different from those of developed countries, so research on the impact of CSR on financial performance is quite important issue. At the same time, up to now, there has been no research evaluating the role of CEO power in the relationship between CSR and financial performance except in the study of Nguyen et al (2022). However Nguyen et al (2022) only studied the impact of CSR aspects on financial performance. Therefore, this study wants to contribute to the empirical literature on the following issues: firstly, the article studies how the social responsibility aspect of CSR in companies with powerful chief executive officers (CEO) affects efficiency and financial performance; secondly, the study uses data of non-financial firms in Vietnam, an emerging market to provide more evidence on the social responsibility aspect with regulation of CEO power on financial performance; thirdly through the analysis of this study, we can gain a deeper understanding of the relevance of the background theories to the context of emerging markets like Vietnam.

In addition to the overview mentioned above, the next section deals with an overview of empirical research and related background theories, which are the basis for building research hypotheses. The third part presents the research model data sample, measuring the independent variables, and the dependent variables in the research model. Section 4 reports the experimental results and discussion issues. Finally, the last part is the conclusion.

2. Theoretical Background and Hypotheses Development

The empirical literature on the relationship between corporate social responsibility and financial performance has a long history and is explained based on several underlying theories. Stakeholder theory (Freeman, 1984) hypothesizes that CSR can help businesses strengthen and build trust with employees, customers, investors, and suppliers. (Wang et al., 2016) acknowledges that when businesses meet the expectations of their stakeholders, resource-related risks are reduced, harm is reduced, and appropriate CSR practices also build and maintain kindness, a strong image should increase satisfaction for stakeholders (Franco et al., 2019). Meanwhile, the theory of legitimacy suggests that society always expects business units must meet its expectations (Suchman, 1995) and, if it fails to meet the requirements of society, the entity risks losing the legitimacy necessary to continue in business. This can be understood that if a unit performs poorly on CSR, it can be considered illegal, whereas companies with a strong commitment to CSR implementation will gain legitimacy so business efficiency is achieved. Based on these perspectives, quite a few empirical studies have found a positive association between CSR activities and financial performance.

(Orlitzky et al., 2003) through a study of empirical documents, it has been recognized that CSR tends to have a positive impact on firm performance in many different contexts and even within the industry. (Qiu et al., 2021); (Al-Malkawi & Javaid, 2018) found a positive impact of CSR on firm performance. Specifically, (Al-Malkawi & Javaid, 2018) through data of 107 companies in the period 2004 - 2013 in Saudi Arabia, it was recognized that CSR had a positive impact on the financial performance of enterprises. At the same time, research in the context of the Covid-19 pandemic, by Qiu et al. (2021) found that CSR has a fairly large role in preserving corporate value, and improving stock returns, especially in the public aspect. responsibility towards society. Simultaneously with the above view (Choi et al., 2010); (Wu & Shen, 2013); (Chen & Wang, 2011); (Wang et al., 2016); (Nguyen et al., 2022) also acknowledged that the implementation of CSR also has a positive impact on financial performance and that corporate social responsibility had a better impact on financial performance (Nguyen et al., 2022).

Disagree with the above when some studies suggested that social responsibility did not have any relationship with performance (Lee et al., 2013); (Aras et al., 2010). Typically, in Turkey (Aras et al., 2010) in the period 2005-2007 admitted that they did not find any relationship between social responsibility and financial performance.

Although the study of (Qiu et al., 2021); (Feng et al., 2018) also agree that CSR also improves long-term financial performance but (Qiu et al., 2021) also raises the question of whether it is necessary to invest more in CSR in times of difficulty because businesses are not to implement CSR, the unit had to spend a huge amount of money and negatively affect welfare. However, (Qiu et al., 2021) find that units with a lot of community action (social responsibility) in the context of the covid 19 pandemic will be prioritized and have a positive impact on stock returns. Therefore, managers should consider different aspects of CSR (aspects of economic responsibility, environmental responsibility, and social responsibility) for business operations. In Vietnam, businesses face more resource constraints (Nguyen et al., 2022) with many factors such as employees, and customers that can have negative effects on business operations (Qiu et al., 2021). At the same time, in developing countries, firms do not receive as many incentives as those in developed countries (Wang et al., 2016). When enterprises have to disclose more information, it will inevitably consume more resources and increase costs, which can affect financial performance (Chen et al., 2018) Vietnam is also a country that has been severely affected by the COVID-19 pandemic and also agrees with (Chen et al., 2018) that the more corporate social responsibility is implemented, the negative impact on financial performance.

At the same time, the CEO is the most powerful person in an organization, they are the ones who make decisions and policies that have a great impact on performance (Li et al., 2016, Li et al., 2018) as well as influence the degree of social responsibility disclosure (Rasid et al., 2020). Harper & Sun (2019); Chu et al (2022) found that more powerful CEOs are less likely to engage in CSR activities because they are more likely to take actions to maintain or increase their power at the expense of stakeholders. Research in developed markets has provided evidence that powerful CEOs influence the disclosure of more information about CSR (Sheikh, 2019); (Li et al, 2018). At the same time, there is little evidence to show the impact of CEO power on CSR in emerging economies (Rashid et al., 2020). Rashid et al (2020) indicate that CEO power is negatively associated with the level of CSR disclosure because powerful CEOs prefer to invest in profit-making activities and are not interested in disclosing CSR information also mentioned in their study that the CEO's power in emerging economies may not pay too much attention to CSR disclosure because CSR disclosure requires more resources, increases costs, and reduces operational efficiency. Therefore, this study with the context of Vietnam - an emerging economy is expected that the level of disclosure CSR at companies with a powerful CEO manager has a negative impact on financial performance:

From the above discussion, the author proposes a hypothesis as follows: CSR disclosure in terms of corporate social responsibility with regulation by a powerful CEO has a negative impact on financial performance.

3. Research Methods

3.1. Data sample

The author collects information on all companies listed on HOSE (Ho Chi Minh Stock Exchange, 2021) and HNX (Hanoi Stock Exchange, 2021) in the period 2016 to 2020 with a total of 706 companies. The author chose 2016 because this was the time when Circular 155[1] took effect and 2020 was the last time at which information could be collected during the study. After excluding companies operating in the sectors: of banks, insurance, securities companies, investment funds, real estate, and companies with negative income, the final sample used in this paper included 418 listed companies with a total of 2.090 observations. The data collected is as follows:

- For dependent variable (CSR): Information on a CSR variable is found in the annual reports.of listed companies. Therefore, we had to manually collect them by downloading the annual reports of each listed company and collecting each criterion of social responsibility on the annual report with the principle: each published criterion is scored as 1 otherwise 0.

[1] *In Vietnam, with the introduction of Circular 155/2015/TT-BTC on guidance about information disclosure on the stock market, regulations on the presentation of annual reports state general standards on CSR. Therefore, within the scope of the study, the author bases the CSR disclosure rules prescribed by the Ministry of Finance for listed companies as the basis for calculating and measuring CSR. At the end of 2020, the Ministry of Finance issued Circular 96/2020/TT -BTC on instructions for information disclosure on the stock market, effective from January 1, 2021, to replace Circular 155/2015/TT -BTC. Compared to Circular 155, Circular 96 changes the scope and time of corporate information disclosure, but it does not change the content of CSR information that needs to be disclosed. Therefore, in this study, the author decided based on the criteria in circular 155 to measure CSR*

- For the CEOPOWER moderator variable: Information on a CEOPOWER variable is collected based on the annual report of listed companies with two pieces of information: expertise in finance, accounting, and being the respective founder of each company over each year.
- For the variables such as FP, LEV, and SIZE, the author collected this information based on audited financial reports through the information sites cophieu68.vn and vietstock. vn.

3.2. Research models

To achieve the research objective, this study evaluates the impact of social responsibility aspect on financial performance according to the following model:

$$ROA_{t} = \alpha_{0} + \beta_{1} CSR + \beta 2\ CSR*CEOPOWER + \beta\ 3\ SIZE_{it} + \beta\ 4\ LEV_{it} + £_{it}$$

Where:

- ROA: dependent variable reflecting the financial performance, measured by return on assets.
- CSR: is the level of social responsibility information
- CSR* CEOPOWER is the level of social responsibility information disclosure with the regulation of CEO power. Where: CSR core obtained from Circular 155 issued by the Ministry of Finance
- α_0 is the intercept term;
- β_1, β_2, β_3 are coefficients of regression;
- ε_{it}: is the error term.

3.3. Measure independent variable, dependent variable, and control variables

Independent variable

Firstly, the study determines the CSR variable: the CSR variable is measured according to the unweighted principle (Choi et al., 2010) and measures social responsibility according to the information disclosure requirements of the Ministry of Finance. According to Circular 155, 20 standards include environmental activities, staff activities, and community-related activities. We use each company's annual report or sustainability report (if available) to find information on 20 criteria from 3 different aspects: 12 environmental criteria, 4 criteria related to employees, and 4 criteria about community service activities (attached in Appendix 1). If the company mentions the content that conforms to the standard, it will receive a score of 1 for that standard, and vice versa if that standard has not been published, it will receive the value 0. After determining each point for each criterion standard for each company in each year, the social responsibility index of the company i in year t is calculated as follows:

$$CSR_i = \frac{\sum_1^n SCORE_i}{\text{n}}$$

CSRi is calculated from 20 criteria with the highest total score being 20 (n = 20), and the lowest being 0 (if all 20 criteria are not announced). Then, CSR will be averaged according to the formula above (Cavaco & Crifo, 2014).

Secondly, the variable CEOPOWER must be calculated. The variable CEOPOWER is a dummy variable that receives the value of 1 if the company's CEO is both a founder and has expertise in finance and accounting, otherwise, it has a value of 0

Finally, CSR variable information and CEOPOWER variable information were determined for each business in the period 2016 - 2020. The variable CSR * CEOPOWER is the product between the variable CSR and the variable CEOPOWER.

Dependent variable: Financial performance is measured based on accounting through return on total assets (ROA) (Choi et al., 2010), (Al-Malkawi & Javaid, 2018); (Nguyen et al., 2022). ROA is used because it captures the full historical dimensions of financial performance and is widely used (Cavaco

& Crifo, 2014). In this study, the author uses a market-based financial performance index because the Vietnamese market is a developing market, the market is still small and can be manipulated or dominated as in the study of Nguyen et al. (2022)

Control variables: control variables include firm size and financial leverage. With the view that large-sized companies will have more potential to generate profits than small ones, financial performance at large companies will be better (Al-Malkawi & Javaid, 2018); (Nguyen et al., 2022), (Qiu et al., 2021) and this indicator is calculated as the natural logarithm of total assets and at the same time the debt coefficient is also another control variable and is measured as the ratio between total debt to total assets.

4. Empirical Results and Discussions

4.1. Descriptive statistics of variables

Based on the statistical results shown in Table 1, the study shows that companies have the highest efficiency with a profit of about 0.6 VND per one VND of assets, with the lowest level of less than 1 VND per 10.000 VND of investment property. This shows that there is a big difference in the performance of listed companies. At the same time, the level of CSR performance of listed companies with CEOs having power in the period 2016 to 2020 also differs between companies, with some companies announcing 95% of the criteria but some companies do not publish any information about CSR.

Table 1: Descriptive statistics of quantitative variables

Variable	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
ROA	2.090	0.0802	0.0729	0.0001	0.60187
CSR	2.090	0.066	0.2100	0.05	0.95
CSR*CEOPOWER	2.090	0,0472	0,1873	0.00	0.95
LEV	2.090	0.4967	0.2214	0.013	0.965
SIZE	2.090	11.9379	0.7046	10.1999	14.6258

*Note: Where in Table 1, ROA is a Return on Assets;CSR is the corporate social responsibilities; CSR*CEOPOWER is corporate social responsibilities with regulation by a powerful CEO; Lev is financial leverage, Size is company size.*

Source: Results from Stata 16

4.2. Correlation Analysis

Table 2: Pearson Correlations and VIF Value

	ROA	CSR	CSR*CEOPOWER	LEV	SIZE
ROA	1				
CSR	-0.0329	1			
CSR*CEOPOWER	-0,0672	0.3162	1		
LEV	-0,3777	-0.048	0,0088	1	
SIZE	-0,05	0.079	-0,002	0,3725	1

Source: Results from Stata 16

According to the correlation results shown in Table 2, the correlation coefficients between variables in the regression model are all less than 0.4. This shows that there is no strong correlation between the independent variables and between the dependent and independent variables. However, the article also tests multicollinearity through the variance inflation factor (VIF). Table 2 results show that the VIF coefficients are very small (less than 2), meaning the model does not have multicollinearity. This proves that the model is valid enough for prediction.

4.3. Multiple Regression Analysis

Table 3: Estimating regression using POOL, FEM, REM, FGLS

ROA	Pool OLS		FEM		REM		FGLS	
	Coef.	P>t	Coef.	P>t	Coef.	P>t	Coef.	P>t
CSR	-0.016	0.03**	-0.0323	0.000***	-0.0285	0.000***	-0.016	0.03**
CSR*CEOPOWER	-0.019	0.022**	-0.0131	0.08*	-0.0138	0.049**	-0.019	0.022**
SIZE	0.0114	0.000***	0,019	0,047**	0.0124	0.002***	0.0114	0.000***
LEV	-0.1384	0.000***	-0.129	0.000***	-0.1311	0.000***	-0.1384	0.000***
CONS	0.0222	0,657	-0,067	0,540	0.0122	0.791	0.0222	0,657
Statistics F/Waldchi2	F (4, 2085)=97,89***		F (417,1668) = 13.18 ***		Wald chi2(4) = 223.83***		Wald chi2(4) = 392.49***	

*Note: Statistical significance: ***; **;* de note significance at the 1%, 5%, 10% levels, respectively*

Source: Results from Stata 16

Regression results (Table 3) show that all 3 models POOL, FEM, and REM have F-statistics, and Wald has a Prob value < 1%, so they are all evaluated as appropriate. After performing the F test (Prob >F = 0.000), LM test (Prob >chibar2 = 0.000). The study must continue to perform the Hausman test to choose between FEM and REM with Prob>Chi2 = 0.6359, so the REM is the most suitable model.

The study continues to perform two tests of heteroscedasticity and autocorrelation by the White test and the Woolridge test with the results at respectively two models with Chibar2 value have Prob>chi2 less than 5% and Prob>F value also less than 5%. This means that the REM model is not suitable for prediction. Therefore, the feasible generalized least squares (FGLS) estimation method is a suitable choice for the research results. The study was unbiased and efficient (Beck & Katz, 1995).

Based on the FGLS regression results in Table 3, it shows that the level of social responsibility has a negative impact on performance at the 5% significance level. This acknowledges the view that listed companies, when fully implementing information disclosure requirements on social responsibility, will reduce operational efficiency. Furthermore, the research results also confirm that the moderating variable of CEO power increases the impact of CSR on financial performance. This means that when listed companies are run by powerful executives, the negative impact on financial performance is greater. At the same time, this result is consistent with the argument of (Aupperle & Carroll, 1985) and (Nguyen et al., 2022) that the disclosure of more information satisfies stakeholders and increases costs. Vietnam is an emerging economy, so businesses face many resource constraints (Nguyen et al., 2022), so when more information is released on social responsibility, it is certain will certainly consume a lot of resources and increase costs, which can negatively affect financial performance (Chen et al., 2018; Rasid et al, 2020). Meanwhile, stakeholder theory and legitimacy theory believe that a company that publishes a lot of information about CSR shows responsibility to the public, increases compliance with regulations, and therefore increases operational efficiency. Therefore, the results of this research are not consistent with the views of the above two theories and this also means that the theory of stakeholders and the theory of legitimacy have a view on the aspect of information disclosure CSR is not appropriate in Vietnam's emerging market. This result can also be explained that, in developing countries, powerful CEOs clearly understand the current requirements of the unit to prioritize resources to build staff, invest in infrastructure, investing in technology lines increases costs and that certainly reduces operational efficiency.

In addition, in the conclusion of the study by (Nguyen et al., 2022), CSR disclosure in terms of social responsibility has a positive impact on financial performance, while in this study the author found the evidence shows a negative correlation between CSR in terms of social responsibility and financial performance. The reason for this difference may be that in this study, we used the CEO power role as a moderator for the CSR variable in terms of social responsibility, so CEOs will use their power to reduce CSR disclosure because compensation is assessed purely on profit (Rashid et al., 2020) and in emerging markets CEOs will save resources to increase shareholder returns. Therefore, this result is consistent with the emerging market, which assumes that companies run by powerful CEOs who disclose CSR information in terms of social responsibility have a negative impact on financial performance.

The research results in Table 3 also show that the variable SIZE has a positive correlation with ROA and the variable LEV has a negative correlation with ROA at the 1% significance level. The experimental results in this study show that the larger the listed companies in Vietnam, the more efficient they can take advantage of all resources in business, access good-priced raw materials, and attract good human resources. The higher the efficiency, the higher the financial leverage, but the use of financial leverage also negatively affects financial performance.

5. Conclusion

In closing, this timely study provides a nuanced perspective on CSR's financial impacts, revealing that CEO interests likely aligned with shareholders may backfire by quelling voluntary CSR investment needed for future-proofing. Mandatory sustainability disclosure policies could help overcome this profitability roadblock. Additionally, shifting executive incentives towards longer-term horizons beyond narrow annual financials may remedy the dampening effect on CSR rendered by CEO power.

According to the above research results, with the desire to improve business efficiency as well as improve social responsibility information disclosure to increase investors' confidence in the business, we recommend the following points to the listed companies:

- Openly and transparently transparency of financial information and related information about CSR.
- Estimating the cost of implementing CSR so that the cost of implementing CSR is the lowest to avoid impacting the FP of the unit.
- Invest in the development of information systems in enterprises,
- Building an effective internal control system and perfecting the corporate governance mechanism according to international practices

To improve CSR to protect the interest of investors, the Ministry of Finance and the Securities Commission need to: (1) Improve the legal system in general and the sanction system to handle violations of CSR disclosure; (2) Improve financial institutions, create a favorable business environment so that enterprises can use appropriate resources in implementing CSR disclosure without affecting business performance.

The limitation of this study is that it only focuses on CSR research in terms of social responsibility in the Vietnamese market and has not yet explored the implementation of social responsibility with the other characteristics of CEO or corporate governance as well as has not explored the differences in CSR performance of different institutional markets. Therefore, this limitation is a new research direction in the future to provide meaningful empirical evidence in improving CSR implementation.

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Appendix 1

Criteria	Criteria name	Measure
1	Total direct and indirect greenhouse gas emissions	receives a value of 1 if the company discloses this information, otherwise it receives a value of 0
2	Initiatives and measures to reduce greenhouse gas emissions	
3	Total amount of raw materials used to produce and package products and services	
4	Report the percentage of recycled materials used to produce products and services	
5	Recycled materials are used to produce and provide services	
6	Direct and indirect energy consumption	
7	Energy is saved through energy efficiency initiatives	
8	Energy saving initiative reports	
9	Water supply and water usage	
10	Total amount of water recycled and reused	
11	Number of times punished for violating environmental protection laws	
12	Total amount of fines due to non-compliance with environmental laws and regulations	
13	Number of employees and average salary	
14	Average annual training hours by employee classification	
15	Health, safety and welfare policies for employees	
16	Skills development and continuous learning programs to ensure career growth	
17	Organize charity activities and support disadvantaged people.	
18	Develop local facilities and infrastructure	
19	Create jobs for local people	
20	Fulfill all tax and local legal obligations	