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A Study of the Effect of Social Responsibility on Cost of Capital and Reputation of a Retailing Company

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Abstract

The emerging ideology of social responsibility in past years results in many enterprises actively investing in corporate social responsibility related policies, expecting to promote people's positive image through the improvement of living environment and the care of the public. Although the practice of corporate social responsibility would not necessarily bring in significant benefits in short period, it, in long period, could achieve the vision of sustainable development and promote corporate reputation through external benefits to acquire more supporters and further enhance the profits, promote the international competitive advantage, and reduce the market opinions of corporate business risk of the company to acquire lower cost of capital. In this study, the owners and senior executives of the Shenzhen Stock Exchange's listed in retail industry were investigated. A total of 300 copies of questionnaire are distributed for this study, and 227 valid copies are retrieved, with the retrieval rate 76%. According to the results, suggestions are proposed, expecting to induce retailing managers' new motives and incentives to execute corporate social responsibility related policies and effectively inhibit the increase in cost of capital and the decrease in corporate reputation.

Keywords: retailing, corporate social responsibility, cost of capital, reputation, social policies.

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Introduction

Under the economic globalization, transnational investment of retailing in advanced industrial nations is increasing. A lot of large transnational retailing enterprises positively expand the market and business through alliance, merger, and acquisition. Among various consumer markets, hypermarkets selling daily necessities are largely related to general people. According to consumer purchasing behavior survey, about 70% consumers visit hypermarkets once a month; apparently, they play the critical role in people's life. Along with increasing price indices in past years, consumers have to be economical that hypermarkets which stress on low prices receive the attention of consumers to increase the visit frequency or amount. On the contrary, traditional channels, including groceries and wet markets, obviously reduce the focus of consumers. Due to the emerging ideology of social responsibility in past years, a lot of enterprises actively invest in corporate social responsibility related policies, expecting to promote people's positive image through the improvement of living environment and the care of the public. The vision of corporate social responsibility policies seems to be fulfilled, but more true objectives of enterprises are hidden. Corporate social responsibility policies therefore become the tactic of managers covering the immoral and malfeasant profit making. The effect of salary structure has managers' pay performance hook up with current profits and stock prices in most companies; earnings management therefore becomes the operation tool for managers increasing personal benefits. It not only damages the benefit of companies, but would also result in negative effects on the employees, customers, investors, and stakeholders.

People consider that a company working hard on the practice of corporate social responsibility is not simply for making profits, but positively provides care and concerns about the surrounding living environment. It is generally considered as moral, and investors would regard it as the long-term target with development potential. The practice of corporate social responsibility might not result in notable benefits for a company in short period, but it, in long period, would achieve the vision of sustainable development and promote corporate reputation through external benefits to acquire more supporters and enhance the growth of profits, promote international competitive advantage, and reduce the market opinions about corporate business risks for lower cost of capital. An enterprise practicing corporate social responsibility is based on the morality to protect surrounding living environment and related stakeholders, establish good interaction, and further promote corporate value. Nonetheless, it would pay certain resources and costs for the practice of corporate social responsibility, the future reward is uncertain, and not every company is able and willing to practice. Companies with worse business conditions show relatively incomplete financial structure and limited resources and ability to restrict the ability to practice social responsibility policies. The effect of corporate social responsibility on cost of capital and reputation of a company is therefore discussed in this study. It is expected to provide retailing managers with new motives and incentives for executing corporate social responsibility related policies and effectively inhibit the increase in cost of capital and the decrease in corporate reputation.

Literature review

Lin & Liu (2019) explained corporate social responsibility as an enterprise enhancing the relationship with customers, suppliers, employees, and neighborhood through the formulation and practice of environmental protection and human rights related policies to support the society. A company practicing corporate social responsibility was appreciated, as it created positive externality exceeding legal requirements. According to stakeholder theory, Zalata, Tauringana, & Tingbani (2018) mentioned that enterprises with the practice of corporate social responsibility would present consistent goal to other stakeholder groups to create the precious intangible assets and help the company implement long-term stability and further growth. Company performance often relied on the interaction among various tangible and intangible assets, the competitive advantage of more valuable, rare or specific assets than competitors, and effective organization and allocation of such resources in the industry. Altunbas, Binici, & Gambacorta (2017) revealed that a company practicing social environment action might reduce the long-term business risk to decrease the cost of capital. Green & Homroy (2018) indicated that a company with good practice of corporate social responsibility would significantly reduce the cost of capital so that investors and the market considered the company not being fragile and more reliable to relatively reduce the system risk. Donia, Sirsly, & Ronen (2017) mentioned that the evaluation of corporate social responsibility was gradually regarded as an important investment indicator; in spite that past research pointed out KLD index not being properly calculated with open information to result in future environmental pollution and major violation of firms. Since most corporate social responsibility investment strategies were rated based on open data, companies with high evaluation of corporate social responsibility could receive more investment to reduce the cost of capital and enhance the financial advantage. The following hypothesis is therefore proposed in this study.

H1: Corporate social responsibility presents positive effects on reputation.

Hung *et al*. (2017) pointed out cost of capital as enterprises paying for raising and using funds. Ward & Forker (2017) considered that cost of capital contained fundraising cost and fund occupation cost. Fundraising cost referred to various expenses paid in the fundraising process, such as printing cost, attorney's fee, notary fee, guarantee fee, and advertising and publicity expenses for stock issue and bond issue. Fund occupation cost, on the other hand, referred to occupying others' funds for paying expenses, or fund owners, with the fund ownership, asking fund occupiers for rewards, e.g. shareholders' dividend, bond, and interests of banks' load support. Badawi & AlQudah (2019) stated that a company with better reputation could increase the opportunities of fund acquisition in the capital market and more easily attract large investors. An organization with better reputation could more easily acquire resources with lower cost of capital. Reguera-Alvarado & Bravo (2017) considered that enterprises investing in social responsibility could obviously benefit the reputation; most investors would support enterprises investing in social responsibility. In this case, enterprises with high reputation would reduce cost of capital. Gond *et al*. (2017) indicated that positive corporate social responsibility policies could enhance the support and legitimacy of regulation agencies and stakeholders, hinder interest groups' radicalism and intervention, enhance job satisfaction and customer loyalty, and develop customer loyalty and corporate reputation in the positive stake to reflect higher market share, profits, and long-term financial stability as well as reduce corporate cost of capital. Accordingly, the following hypothesis is proposed.

H2: Corporate social responsibility shows negative effects on cost of capital.

Chen, Leung, & Goergen (2017) considered that enterprises investing in social responsibility could obviously benefit corporate reputation; most investors supported enterprises investing in social responsibility, and enterprises participating in social responsibility could further improve social perception. Saeed & Sameer (2017) stated that positive corporate social responsibility policies could enhance the support and legitimacy of regulation agencies and stakeholders, hinder interest groups' radicalism and intervention, enhance job satisfaction and customer loyalty, and develop customer loyalty and corporate reputation in the stake to reflect higher market share, profits, and long-term financial stability. Conyon & He (2017) indicated that, in order to enhance or maintain corporate reputation, corporate social responsibility policies were regarded as the strategic investment for success business. According to stakeholder theory, the support of different stakeholders and interest groups could help improve the financial stability and long-term performance of a company, and stakeholders' loyalty and long-term support could reinforce and improve valuable assets of the company. McGuinness, Paulo, & Wang (2017) proposed that reliable corporate social responsibility policies could improve the company image of consumers, suppliers, investors, and market. El-Kassar, Messarra, & El-Khalil (2017) revealed the positive effect of corporate social responsibility on reputation and pointed out the most remarkable effect of corporate social responsibility on corporate reputation. Consequently, the following hypothesis is proposed.

H3: Reputation reveals notably negative effects on management innovation of cost of capital.

Methodology

Measurement of research variable

Corporate social responsibility. Several dimensions should be taken into account for the measurement of corporate social responsibility, and policies which are implemented or carried out, especially issues related to social and environmental protection, are primary. Referring to Chen, Hung, & Wang (2018), corporate social responsibility reports announced in Stock Exchange are used for rating corporate social responsibility in this study.

Reputation. Generally speaking, an enterprise in the red reveals the bad business performance and the overall image would be reduced to result in lower reputation. By referring to Chen & Chen (2018), the operating loss of a company is regarded as the proxy variable of reputation to catch corporate reputation.

Cost of capital. Cost of capital refers to a company paying for fundraising, i.e. giving the minimal rewards to investors as requested. Referring to Kim, Kim, & Qian (2018), the weighted average cost of capital is used in this study. Cost of equity capital and cost of debt capital are weighted and averaged according to the book value of an enterprise for the cost of capital considered in the overall business.

Research object and sampling data

In this study, the owners and senior executives of the Shenzhen Stock Exchange's listed in retail industry were investigated. A total of 300 copies of questionnaire are distributed for this study, and 227valid copies are retrieved, with the retrieval rate 76%. The retrieved questionnaire data are analyzed with SPSS, and regression analysis and analysis of variance are used for testing various hypotheses.

Analysis method

Analysis of variance is applied to discuss the difference of corporate social responsibility in reputation and cost of capital, and regression analysis is further utilized for understanding the relationship between reputation and cost of capital.

Results

Effects of corporate social responsibility on reputation and cost of capital

Difference analysis of corporate social responsibility in reputation. Analysis of variance is applied to discuss the difference of corporate social responsibility in reputation in this study. From *Table 1*, high corporate social responsibility shows notably higher reputation than low corporate social responsibility that H1 is supported.

Table 1. Difference analysis of corporate social responsibility in reputation

variable	F	P	Scheffe posteriori test
reputation	37.533	0.000**	high>low

Note: * stands for p<0.05 and ** for p<0.01.

Difference analysis of corporate social responsibility in cost of capital. According to analysis of variance, the difference of corporate social responsibility in cost of capital is discussed in this study. From *Table 2*, low corporate social responsibility presents significantly higher cost of capital than high corporate social responsibility that H2 is partially supported.

Table 2. Difference analysis of corporate social responsibility in cost of capital

variable	F	P	Scheffe posteriori test
cost of capital	46.175	0.000**	low>high

Note: * stands for p<0.05 and ** for p<0.01.

Correlation analysis of reputation and cost of capital

Correlation analysis of reputation and management innovation. To test H3, the analysis results, *Table 3*, reveals remarkably negative effects of reputation (t=-2.458**) on cost of capital that H3 is supported.

Table 3. Analysis of reputation to cost of capital

	Dependent variable: cost of capital	
Independent variable	Beta	t
reputation	-0.237	-2.458**
F	34.286	
significance	0.000***	
R2	0.388	
Adjusted R2	0.351	

*Note: * stands for p<0.05 and ** for p<0.01.*

Data source: self-organized in this study.

Conclusion

The research results reveal that retailing companies promoting corporate social responsibility, on one hand, implements the self-discipline and leaves good moral image and, on the other hand, reveals the better development prospects. A retailing company practicing corporate social responsibility could obviously reduce the overall cost of capital to enhance the reputation. Apparently, general investors are aware of the objective of the company practicing corporate social responsibility that the company would be affirmed in the market to effectively reduce the overall cost of capital and leave positive image. The promotion of corporate social responsibility in retailing does not simply assist the enterprises in building good image, but credit rating institutions would give better credit rating to retailing enterprises with higher participation in social responsibility. It would directly reflect on the difficulty in an enterprise's fundraising and cost of capital. For retailing enterprises, establishing the image of high participation in social responsibility could enhance employees' centripetal force and customer satisfaction, indirectly influence investors' confidence, and directly affect cost of capital of the enterprises. In this case, the participation in social responsibility could be regarded as a primary management strategy for retailing enterprises.

Recommendations

Aiming at above research results, the following suggestions are proposed in this study.

1. Along with the accounting policies and moral behaviors of a company being gradually emphasized, controlling shareholders in retailing could actively release information about social responsibility and present the investment in social responsibility through the information disclosure right, expecting to receive good image of small shareholders and stakeholders and slow down the proxy conflict with small shareholders to reduce the cost of capital and promote the reputation.

2. Social responsibility is the core of sustainable development of a retailing enterprise and the key issue in the operation process. All retailing companies therefore are suggested to balance the cost and benefit of information disclosure and provide social responsibility related information as much as possible for the stakeholders deeply understanding the contents of policies related to environmental security and labor rights in the operation process.

3. The competent authority is suggested to continuously promote the comprehensive compilation of corporate social responsibility reports as well as reinforce the third-party assurance (verification) mechanism to ensure the quality and reliability of corporate social responsibility reports and provide investors and creditors with full and reliable information for investment and credit decision-making. Overall speaking, it would assist retailing enterprises in the sustainable development and the promotion of international competitiveness.

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