

A Study on the Relationship Between Corporate Social Responsibility to Employee and Corporate Operating Performance in China: Evidence From New Era Health Industry (Group) Co., Ltd.

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As the development of economy, the corporate social responsibility (CSR) received more and more recognition from academic and business. The traditional economy with only goal of pursuing the wealth is changing rapidly. Chinese corporations realize that it is important and urgent to value the social responsibility, search for effective means to balance the relationship between CSR and COP (corporate operating performance). Meanwhile, it is helpful and meaningful for the society to build up a healthy and appropriate operating value for corporations. However, there is always a debate of how many social responsibilities a corporation should take in order to satisfy the corporate development and the relationship between CSR and profit, and previous researches on corporate social responsibility mainly focused on all stakeholders of a company. As more and more corporations are aware of the importance of their employee, this study specifically selects employee, one of the most important stakeholders, as the subject investigated. Meanwhile, it chooses New Era Health Industry (Group) Co., Ltd as the target enterprise, which is the only state-owned key enterprises in health industry and the leading corporation in directselling industry in mainland China. In order to research the relationship between corporate operating performance and the satisfaction of employees' material needs and psychological needs, this study plans to complete it by combining the theoretical and empirical study, qualitative analysis and quantitative analysis research methods. Based on a questionnaire of 200 employees in New Era, this study analyzes the situation of CSR to employees for New Era and comes to the conclusion of the relationship between the CSR and COP. According to the research result, this study may give some suggestions for Chinese corporations to fulfill their social responsibility system and to improve the situation of the lack of CSR to employees.

Keywords: corporate social responsibility, employee, corporate, operating performance

Introduction

From the middle 1950s, the discussion of the CSR has always been a popular topic for economics and

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management researchers. Recently, CSR has received more attention from not only scholars but also from the society. According to Bhattacharya, Sen, and Korschun (2008), there have been many studies embrace corporations to value CSR and engage in CSR initiatives. Many scholars believe the CSR initiatives have positive impact on both customer's satisfaction and customer's evaluations, which may provide a long-running competitive advantage for corporations. However, as corporations are not able to take social responsibilities without profit which is considered as the basis and source of it, there has always been a debate about how many social responsibilities a corporation should take and how to take the CSR, in order to satisfy the corporate development and the relationship between CSR and its profit.

According to Huang and Li (2011), CSR activities can be categorized as internal and external, based on the type of stakeholders the firm intends to satisfy. To find out the answer of the debate, extant studies have researched on the social impact of corporations on the stakeholders they serve, while much fewer research papers focused on internal aspects of corporations. Referring to Chinese researches, consumers, business partners, and government are considered as the drive of the CSR, and the consumer is the most positive and effective element of the stakeholders. Besides, the profit of corporations is shared by the shareholders, and the protection for the society and communities is supported by other stakeholders. Only employees, who are the producer of corporate profit, have remained largely neglected. Rupp, Ganapathi, Aguilera, and Williams (2006) argued that "individual employees are concerned about, contribute to, and react to an organization's evolving social consciousness, and therefore CSR should be a topic of interest to OB scholars". Besides, they proposed that employees, as members of the organization, will make judgments about their organization's CSR efforts, and their perceptions can provide evidence regarding the fulfillment of psychological needs, which may influence their attitudes and work productivity. According to the importance of employees, it is valuable to research on the relationship between CSR on employee and COP.

This research selects New Era Health Industry (Group) Co., Ltd as the target enterprise, which is the only state-owned key enterprise in health industry and the leading corporation in directselling industry in mainland China, focusing on the internal CSR efforts on employees and its impact on the corporate operating performance to find out the referential experience for building up a healthy and appropriate operating value for corporations.

Literature Review

Corporate social responsibility is an important concept which protrudes from many subject areas in the west since the 20th century. It attracted much attention from different areas such as the legal community, economics, ethics, politics, and management science, and it has spread in China and other developing countries since 1990s.

In 1924, the American scholar Sheldon (1924) proposed the concept of "corporate social responsibility" in his book *The Philosophy of Management*, it has been the first description of "corporate social responsibility" up to now. He connected the corporate social responsibility with the internal element employees and the external element stakeholders and believed that the moral factor was one of the corporate social responsibilities.

Based on the concept of corporate social responsibility and years of research, the CSR on employees mainly involves the legal responsibility, economic responsibility, moral responsibility, etc. The scholars have different understanding from different perspectives. Gouldner (1960) believed that the enterprises not only should fulfill its economic and legal responsibility, but also should take the social responsibility about the

community, the internal employees, and education. Until 1970s, the foreign scholars began to introduce the concept of “stakeholders”. Carroll (1979) put forward a generalized concept of CSR. He believed that CSR contains the society expectations about the organization in its economic, legal, ethical, and its own discretion. According to Carroll (1983):

Corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, and ethical and socially supportive. To be socially responsible means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time, and talent. (Carroll, 1983)

In 1991, after fully research, he further put forward the “pyramid” model about the concept of CSR. (Figure 1). He believed the pyramid revealed the CSR on employees, and this concept has been broadly accepted and approved.



Figure 1. The pyramid of corporate social responsibility (Carroll, 1991).

Research on the relationship between CSR and COP has been an important empirical topic in the field of social responsibility. However, it has been always a debate without a definite conclusion. Basically, it has the following three kinds of views on this subject. The first kind of view is that social responsibility paid the corresponding social responsibility cost and increased the burden of the enterprise, so there is a negative correlation between enterprises to fulfill social responsibility and to realize value creation. Ingram and Frazier (1983), Freeman and Jaggi (1986) found that the enterprise needs to pay the corresponding cost when it bears the social responsibility, it may cause a disadvantage financial situation for corporations when competing with the other enterprises. The second kind of view is that, there is no direct impact between CSR and COP. Some scholars including Ullman (1985) claimed that there were a lot of variables affect the relationship between them. Subroto and Hadi (2003) researched the companies of Malaysiam, and found no relationship between CSR and financial performance. The third kind of view is that there is a positive correlation between them. Shrivastava (1995) pointed that the essence of social responsibility is a kind of management resources which brings internal and external benefits to promote the financial performance. Frogman (1997) found that positive social responsibility performance has a positive influence on enterprise’s share price. A. P. Stanwick and D. S. Stanwick (1998) used the multiple regression method to empirically analyze the 115 enterprises and found that

the social responsibility of the enterprise performance has a positive correlation with its financial performance. Simpson and Kohem (2002) studied the relationship between CSR and corporate financial data of the American state-owned banks between 1993-1994, found that there is positive correlation relationship between them. Garriga and Mele (2004) found good corporate social responsibility performance brings the competitive advantage in long term, such as talent advantage and so on. Mohretal (2001), Sen and Bhattacharya (2001), and others, by studying the influence of social responsibility to the consumers, also proved the promoting function of social responsibility on financial performance.

Introduction of New Era Health Industry (Group) Co., Ltd.

New Era Health Industry (Group) Co., Ltd was founded in 1980, it is the only state-owned health food company within the direct marketing industry in China. It produces health product and restorative food and the vision of this company is to help people live better lives. It allows others to join the company and participate in the benefits of the expanding business and rewards employees for selling products and sponsoring others who do the same. As employees' business grows, so do the rewards.

Besides, it is a global community of caring and cooperation. It takes great pride in the principles, people, and products that enable New Era to play a positive role in many people's lives. The social responsibilities of New Era are divided into corporate, industry, and community levels, including the development of national industry, fostering talents, promoting the development of the industry, bringing the benefit to human health, promoting low-carbon economy, and building a harmonious home on six broad areas. In the growth of New Era, the company provided a large numbers of job opportunities for people who are unemployed or low-income group to find the hope of life and success. Since the company has been established, it donated tens of millions of money and materials to vulnerable groups and disaster victims by AIDSP revention Fund, the Red Cross Society, and China Youth Development Foundation. Since 2004, New Era has donated money to build Guozhen Hope School in Changping of Beijing, Yiyuan of Shandong, Jimuersa of Xinjiang, Jing'an of Jiangxi, Shifang of Sichuan, etc. to improve the local school conditions and express love and care for the children. In the future, it is aimed to continue taking the social responsibilities, improving professional capabilities and to actualize its goal of sustainable development.

Theoretical and Empirical Research

As many research papers have largely focused on the economic and legal impact of social enterprises on the communities they serve, this study intends to focus on ethical responsibilities bearing by corporations to discuss the relationship between the CSR and its performance. According to Welford (2005), the ethical responsibilities on employees are reflected by in-house education, vocational training, justice, etc. Corporations are responsible for considering the education and job satisfaction of employees to help them achieve self-actualization and self-improvement. Based on the prior theories and researches, this study analyzes the situation of CSR to employees for the company of New Era.

The Situation of CSR to Employees for New Era Co., Ltd.

An anonymous questionnaire was conducted among 200 employees in New Era, which resulted in 88% (176) valid samples return. Based on the information and data of the valid sample, this study analyzes the situation and the relationship between CSR and COP for New Era from different aspects as follows.

Career Development

According to the incentive mechanism and operating mode, the employees of New Era are divided into three categories and 11 levels, which are the first-line employees, the first network, the second network, the third network, the fourth network, the fifth network, one-star leader, two-star leader, three-star leader, four-star leader, and five-star leader. Each level has a clear incentive system and operation procedure. All the employees of New Era have four rights: preferential right, which allows them to buy productions in New Era with a employee discount; management power, which allows them to manage and sell productions of New Era as their own business; inherit right, which allows their children to inherit the business from them as a property; and national available right, which allows employees to use their preference card all over the country. The employees are passionate with their jobs by the stimulation of the inherit right, because the hardwork may not only financially support themselves but also benefit for their later generations. To employees, the company of New Era not only provides them a job opportunity, but also provides a business for them without any investment and worrying about the channel of purchase and shipping. Meanwhile, to be an employee of New Era, there is a great opportunity to study more health knowledge which is not only good for themselves but also for their families. From what have been discussed before, it is clearly to find out that, unlike the traditional business, New Era focuses more on the internal needs of employees and sets up clear promotion system for employees to help them achieve their work objectives.

Education and Training

To improve employees' professional skills and capabilities, New Era provides public education and training by Journal of Guozhen (the internal publication), distance learning, New Era business school, etc. as important means for enhancing the corecompetence for the enterprise. Many employees are well-trained with skills and the concept of health. Direct marketing is the main marketing operation method used in New Era to ensure new employees understand the procedure of running the business and be able to explain the function and healing effect of the health related productions, the employee's upline, the independent business owner who sponsored the employee into the business provides guidance, advice, support, and mentoring. For different employee level, the company has different kinds of training. For the first-line employees, there are primary training, potential develop training, outstanding leader training, etc. For the first to the fifth network, there are specialty training, market promotion training, and "from soul to paradise" training. And for one to five star leaders, besides all the training prepared for networks and leaders, there are more specialty trainings in top universities such as Beijing University and Harvard University. Based on the research of the valid sample return, the frequency of internal education and training is so high that, on average, there are at least one to two trainings per month. The way of training helps New Era build up a close and harmonious relationship between staffs and the corporation, and positively enhanced organizational cohesion.

The Relationship Between CSR and COP

As the prior studies researched, many extant papers still have different opinions about the relationship between CSR and COP, either on financial aspect or non-financial aspect. To find out the answer of it, this study researches both factors of the company of New Era.

Financial Related

According to tradition, the fundamental purpose of the company should be profit maximization, and the company considers profit as the payer of corporate social responsibility. Making profit is the foundation for

corporations carrying out its social economy function, and only great economic performance is able to ensure all the other social services. According to the incentive system of New Era, it shows that the higher is the employee's level, the more profit they will make for the company, and the higher is the employee's salary. For example, if the sales performance is up to more than 60 thousand, the employee level increases from the first-line employee to the first network, the third network must be more than 300 thousand, and the fifth network has to be more than 540 thousand, etc. As a result, the incentive system of New Era is result orientation that only the monthly performance directly decides monthly salary. For this point, there is a positive correlation between corporate social responsibility and its financial performance.

Non-financial Factors

Job satisfaction has been defined as an affective attachment to a job or an emotional state resulting from the evaluation or appraisal of his or her job experiences (Locke, 1976). According to prior researches, it is proved that job satisfaction was positively related with job performance, and it has positive impact on employees' intention to stay (Tett & Meyer, 1993). Based on the prior researches, the result of employees' job satisfaction is shown as below.

From two-star to five-star leaders, their job satisfaction is up to 100%, which shows that the employees fulfill their self-esteem and self-actualization by working in New Era. Compared to traditional business, few companies may achieve this level. The data of the Figure 2 show the positive correlation between its incentive system and job satisfaction in the company of New Era, which means is the higher salary, the higher is the job satisfaction. It also proves the same research findings of many prior scholars. However, Figure 3 shows the elements improving their job satisfaction are not only or mainly from salary and economic incentive factors but the time flexibility, the preference, and inherit rights. It reveals the new tendency of the CSR which is considering more about psychological factors rather than only economic needs.

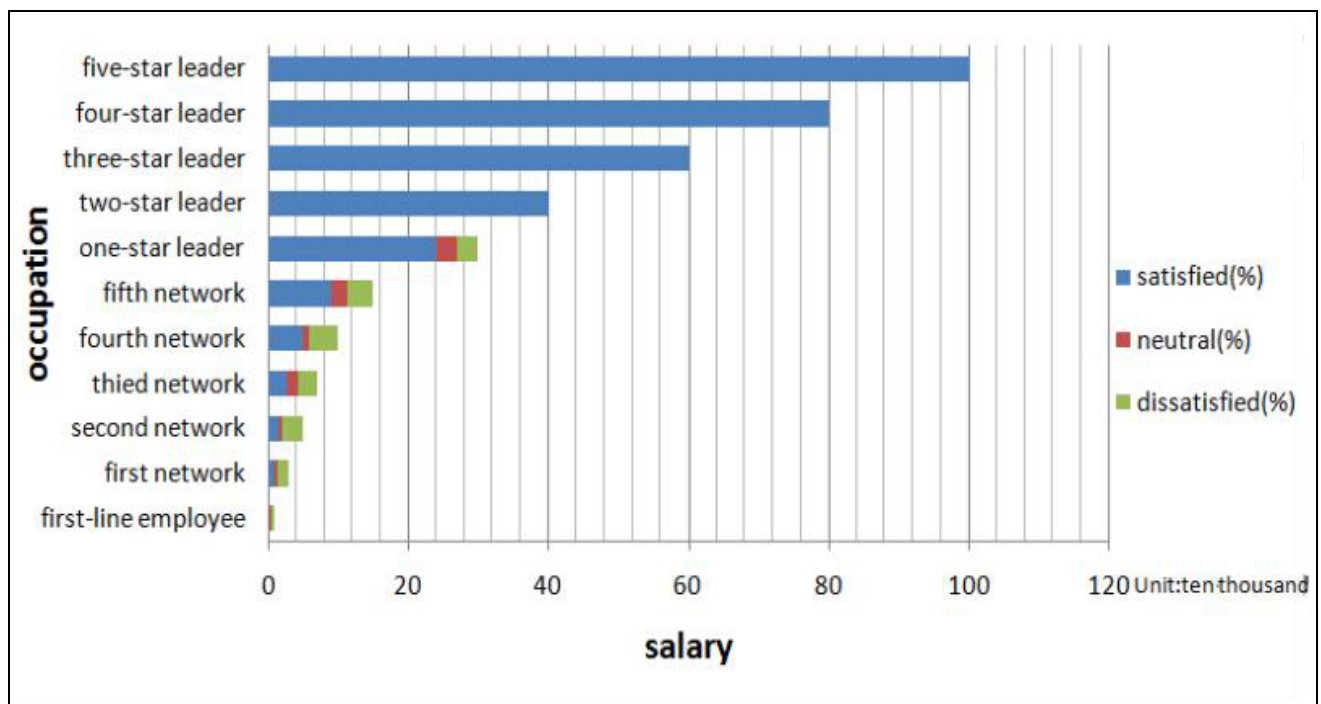


Figure 2. The relationship between salary and employees' job satisfaction.

The improvement of employees' job satisfaction can better enhance the surroundings of the enterprise and increase the approval in the whole society. It also improves their social images and may create their good brand recognition, while they service the public and bear the social responsibilities. Positive reputations are also beneficial to create loyal customers and attract long-term business partners and potential employees. Besides, the improvement of job satisfaction is a smart company promotion and advertising form in attracting customers' attention. The employee is a bridge connecting customers and the corporation, as long as the satisfied employees may stably access to a large number of customers and express the positive public image of the corporation to them.

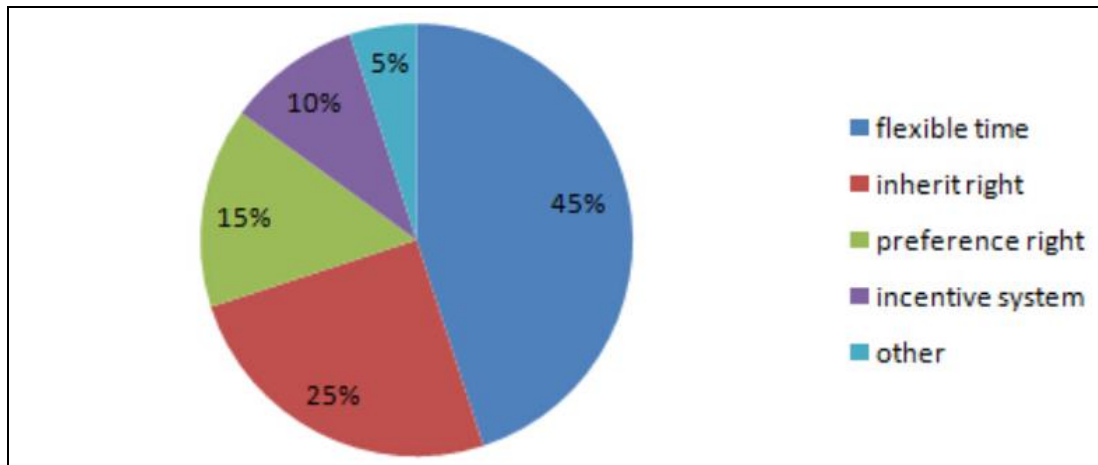


Figure 3. The sources of employees' job satisfaction.

Conclusion

As the knowledge economy era comes, knowledge and personal capability are more important for corporations, the survival and development of corporations rely more on the human capital. As a result, to ensure the passion of employees and to simulate their working enthusiasm, corporations need to pay much more attention on bearing the CSR on employees. Most companies focus on economic, responsibilities, law responsibilities, and philanthropic responsibilities while ignoring the importance of ethical responsibilities, because it is invisible and takes time to reveal the effects for corporations.

To deeply and comprehensively research this issue, this study chooses ethical responsibility as the main topic and chooses the company of New Era as the research object. Based on the research result for New Era, the situation of CSR on employees influences the labor relations of the company, and it proves the positive correlation between CSR and COP, which shows it is beneficial for corporations to take social responsibilities for employees, and it proves that profit maximization is not the aim of the corporation but only a tool used for enterprises effectively bearing the social responsibility. As one of the important parts of social organizations, the core objective of corporations is long-term stability and development, other than profit maximization. And the most important element of the long-term development is the CSR. When the company grows bigger and becomes more mature, the relationship between business and the society becomes closer and closer, that is to say, it is time for the traditional enterprise core operation value to change to the modern one which is undertaking the corporate social responsibility to make sure the long-term development of enterprises. In the modern society, it is the only effective means to make positive contribution to build up the harmonious development of the society.

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