How Corporate Social Responsibility Influence Enterprise Value: The Mediating Effect of Trust

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\textbf{Abstract.} The empirical results of the correlation between corporate social responsibility and firm value are diverse, which is originally due to the lack of deep research on their action mechanism. This paper thinks that corporate social performance can build stakeholders’ trust, analyzes that trust helps reduce the corporate transaction costs and puts forward that social responsibility affects enterprise value through the mediating effect of trust. Therefore, enterprises need to fulfill their social responsibility, so as to establish a trust relationship with different stakeholders, and ultimately enhance the value of the enterprise.

\textbf{Introduction}

With the progress of social civilization and the awakening of corporate citizenship, enterprises pay more attention to food safety, pollution prevention, charitable donations and other issues involving the public interest. Scholars have studied the corporate social performance for decades, and a large number of studies have explored the concept of corporate social responsibility \cite{1,2,3,4}, the motivation of corporate social responsibility \cite{5,6,7,8} and the results of corporate social responsibility \cite{9,10,11}. Based on the literature review, it can be found that before 2006, the academic research on the results of corporate social responsibility was less, and most of them were the qualitative analysis. Since 2006, scholars have conducted extensive empirical research on the results of corporate social responsibility. Some of them studied the correlation between corporate social responsibility and enterprise value, but the results were diverse. Therefore, clarifying how corporate social responsibility affects enterprise value can help to explain the positive correlation between them. At the same time, only by clarifying the mechanism can we provide a sustainable basis for enterprises to fulfill their social responsibility. Based on the research at home and abroad, this paper explores the mechanism of corporate social responsibility influencing enterprise value by introducing the mediator of trust, and reveals the ”black box” of the relationship between them.

\textbf{Literature Review}

\textbf{The Correlation between Social Responsibility and Enterprise Value}

The empirical results can be roughly divided into three types: positive correlation, negative correlation and no obvious correlation.

Wang Xiaowei, Chen Hui (2011) took 328 listed companies in Shanghai and Shenzhen from 2008 to 2010 as samples, showed a positive correlation between social responsibility and corporate value, and found that different stakeholders had different abilities to influence the enterprise value \cite{12}. Yu Xiaohong, Wu Wenjing (2014) empirically studied the relationship among corporate social responsibility, corporate governance and firm value, and found that the continuous implementation of social responsibility was helpful to enhance the long-term value of enterprise \cite{13}. Jia Xingping, Liu Yi and Liao Yonghai (2016) studied the relationship among the pressure of stakeholders, corporate social responsibility and corporate value, and their empirical results showed that the
pressure of stakeholders would encourage enterprises to actively fulfill their social responsibility so corporate social responsibility would help enterprises increase the enterprise value [14].

Li Zheng (2006), taking 521 listed companies of Shanghai stock exchange of China in 2003 for example, carried on the first empirical study of the correlation between corporate social responsibility and corporate value. The results showed that, viewing from current period, the more social responsibility the enterprise bore, the lower the value of the enterprise was [15]. Chen Xuijiang (2009) found that the comprehensive value in the current period and the first order lag value of corporate social responsibility were both negatively related to corporate value [16]. In addition, some scholars have studied the correlation between social responsibility and corporate value from the perspective of stakeholder theory. Zhu Yaqin and Yao Haixin (2010) found that corporate social responsibility and corporate value was significantly negatively related, and the correlation between corporate social responsibility to the suppliers and corporate value was not statistically significant [17]. Li Qin (2012) used Tobin Q value to measure enterprise value, found that there was a significantly negative correlation between Tobin Q and social responsibility [18].

To sum up, the relationship between corporate social responsibility and firm value is uncertain. This paper argues that it is scholars’ failing to clarify the logic process and transmission mechanism between social responsibility and enterprise value that leads to the diversity of research results.

Trust and Transaction Cost

**Definition and Connotation of Trust.** The concept of trust is not the same in different disciplines. From the perspective of general interpersonal behavior and interpersonal relationship, trust is defined as individual psychological events, personality characteristics and personal behavior. Then, sociology integrates trust into its research paradigm, and believes that trust is the product of social relations and cultural norms, and is a social phenomenon based on laws, regulations, and ethics. Management learns from sociology and psychology, extends interpersonal trust to the cooperation between individuals and organizations, and that between organizations and organizations. In 1976, the new classical economist Gary Becker published "economic analysis of human behavior", which extended the scope of economy theory from studying the production and consumption of material and money exchange relations to researching all behaviors of human and all related decisions, "economic analysis provides a unified method for valuable understanding of all human behavior" [19]. Since then, economics has begun to explain the issue of trust with rational choice theory. The new institutional economics regards trust as the basis of social economic order, and emphasizes the rational basis and institutional foundation of trust. However, few people define trust. In this paper, the definitions of trust in the above subjects are briefly summarized, as shown in the table 1.

<table>
<thead>
<tr>
<th>Psychology</th>
<th>Sociology</th>
<th>Management</th>
<th>Economics</th>
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<td>Trust is a general expectation of the reliability of an individual's statements, commitments, and verbal or written statements [20].</td>
<td>Trust is that a person judges that another person or behavior group will take a specific action by a given subjective probability level. When we say that we trust someone, our implicit implication is that he has a high probability of taking advantage of actions good for us or at least harmless to us, which is enough to make</td>
<td>Trust refers to a status that one party in the ability to monitor or control the other side of the case, but they would rather give up this ability so it makes them in weakness, and interests may be damaged by others [23].</td>
<td>Trust is the lubricant of economic exchange, is the most effective mechanism to control the contract, is implicit contract, and is a unique commodity not easy to buy [25].</td>
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Table 1. Summary of Different Definition of Trust.
us think about cooperation with him [21].

- Wrightsman (1974)
- Fukuyama (1995)
- Sako, Helper (1998)
- Sable (1993)

Trust is an individual belief in the common reliability of good faith, kindness, and trust of others [20].

- Wrightsman (1974)
- Fukuyama (1995)
- Sako, Helper (1998)
- Sable (1993)

Trust is a kind of expectation that comes from a community of behavioral norm, and honest cooperation, depending on the rules that people follow and the quality of the group members [22].

- Wrightsman (1974)
- Fukuyama (1995)
- Sako, Helper (1998)
- Sable (1993)

Trust is a kind of expectation of agent for its trading partners: trading partners will act in a mutually acceptable manner (including the expectations that any party will not take advantage of the weakness of the other) [24].

- Wrightsman (1974)
- Fukuyama (1995)
- Sako, Helper (1998)
- Sable (1993)

One side convinces that the other side will not use his weakness to gain the benefit [20].

It can be seen that scholars have different emphases on the definition of trust, and they can be summarized as follows:

First, trust is a belief or expectation formed by an individual or a group which believes that the other party can be trusted. This belief and expectation are mainly manifested in the fact that one party voluntarily gives up the control of the other party when he has the ability to implement supervision.

Second, trust occurs in an uncertain, complex and risky environment, so it is a result of weighing risks and benefits.

Based on the above two points, this paper defines trust as a belief that both sides believe that the goals can be achieved, so they voluntarily give up the control of each other.

The Relationship between Trust and Transaction Cost. The transaction cost was put forward by Coase in 1937, but he did not give a clear definition of transaction costs. Later, he pointed out that transaction cost was the cost of using the price mechanism, which in the enumerative way included measurement, definition and protection fees of property rights; the access fees to get market information; the fees to find the objects and price of the transaction; negotiation and contract costs and the cost of maintaining trading order [26]. Subsequently, many economists have put forward their research on transaction costs. Williamson (1985) expanded Coase’s definition, put forward that the transaction cost could be divided into anticipation transaction costs and transaction cost after contract. Anticipation transaction costs include drafting contracts costs, negotiating costs etc. Transaction costs after contracts include the cost of deviation from the cooperation after the transaction, the cost to correct the non cooperation after the transaction, the cost of establishing the governance structure and the guarantee cost etc [27].

Most of the new institutional economists acknowledge the existence of trust in the market and its role of lubricant in reducing transaction costs. But when Williamson talked about trust, he believed that opportunism was self-interested, and trust was very fragile even irrational, so he advocated that "institutional arrangements" instead of "trust" was the key to regulate economic order and reduce transaction costs. But is trust really an irrational choice? Coleman (1992) pointed out that trust was the key to the rational choice theory, and that according to game theory and transaction cost theory, single game of trust was irrational, but if the scope of income was expanded, trust would still be the results of rational choice [28]. Nude haven (1994) analyzed the role of trust in the transaction costs, he opposed the rational choice theory that trust was irrational, instead, he put forward that the trust was the result of rational choice, was a necessary foundation to engage in economic transactions, and also was an important factor determining the transaction costs. Therefore, when the environment changes, trust still makes the transaction trustworthy and reliable and its effect on the transaction cost is more obvious [29].
The Mechanism Analysis of Social Responsibility Influencing Enterprise Value from the Perspective of Stakeholders

Figure 1. Model of Corporate Social Responsibility Influencing Enterprises Value.

Stakeholder theory expands the study of corporate social responsibility. It goes that the specific corporate social responsibility activities have a different influence on the specific object of action, and emphasizes that enterprises should undertake specific social responsibility to different stakeholders, such as fund providers, suppliers, employees and customers. As figure 1 shows, corporate social responsibility is conducive to build the stakeholders’ trust, which can reduce transaction costs. And transaction costs influence the enterprise value, so corporate social responsibility could influence social responsibility results ultimately. This paper makes a detailed analysis of enterprise’s trust relationship with the fund provider, the upstream and downstream enterprises, employees and customers, and then points out that trust can reduce transaction costs and eventually increase enterprise value.

Corporate Social Responsibility Builds Trust

Corporate Social Responsibility Builds Fund Providers Trust. Investors and creditors are the providers of the working capital of enterprises, and they are the significant components of stakeholders as well. When the shareholders invest in the enterprise, the mainly concern is on capital appreciation and dividend distribution, while the creditors pay more attention to the creditor’s rights and debts of the enterprise, so as to make sure the enterprise can repay the debts and pay interest on time. To fulfill their social responsibility to capital providers, enterprises ought to steadily improve their operating efficiency, ensure the safety of investment funds while keeping high capital returns. Furthermore, enterprise should maintain a sound financial structure and constantly improve the solvency of enterprises. The true and voluntary disclosure of information by enterprises is also a manifestation of fulfilling social responsibilities. Enterprise investing in social responsibilities are expected as low risk to capital providers, as a result, they gain more trust. This trust is mainly manifested in investors’ preference to buy shares from above enterprises, creditors being more willing to provide long-term financial support for them.

Corporate Social Responsibility Builds Upstream and Downstream Enterprises Trust. To build a trustworthy reputation and image, enterprises are supposed to actively fulfill their social
responsibilities, consciously abide by legal and moral principles, and strictly complete their business contract. Not only could it enhance business negotiations ability, but also build trust and solid business relationships with upstream and downstream enterprises. This kind of trust can be reflected in commercial credit. Commercial credit happens between the upstream and downstream enterprises and enterprises in the process of purchasing and selling goods or services using deferred payment or advance payment. Its existence based on mutual trust between both sides. This trust relationship plays an important guarantee function in the business credit decision, and it will affect the cost of business credit through the choice and arrangement of different credit models [30].

**Corporate Social Responsibility Builds Employee Trust.** Enterprises’ recruitment process needs to be open and transparent, and it has to make sure there is no discrimination in employment and also admits the legal rights of labor and management to negotiate wage issues. Facing economic downturn, industry slump and other tough situation, enterprises should stabilize employees’ heart and not lay employees off at random. Abiding by laws and regulations, enterprises should provide good working environment, eliminate forced labor, protect the dignity of employees and guarantee workers’ welfare expenses such as living difficulties allowance, medical expenses and transportation subsidies. That corporate fulfill social responsibility in above respects can establish the employee trust, which ensure their loyalty and satisfaction to the organization. It is corporate social responsibility that not only significantly improves the staff’s work enthusiasm and performance, but also helps promote the reputation of the enterprise, so that enterprises can attract more talents.

**Corporate Social Responsibility Builds Customer Trust.** The representation of enterprises' social responsibility in the product market includes the following aspects: the products they provide need to cater the customers’ psychological needs, the production process should strictly abide by the quality standard, the marketing is not over publicized or false propaganda, and the after-sale service can satisfy the customers. The charity activities of enterprises are able to expand the influence and reputation of enterprises to a certain extent, and good reputation can improve the image and recognition of a brand or products. Enterprises fulfill their social responsibilities actively, produce products that meet consumers’ psychological expectations, which can establish a good product image and corporate image, and obtain consumer trust. When consumers face homogeneous goods, they will spend less time in choosing the satisfied products they bought in the past; in addition, they will give priority to the products produced by the companies with good corporate image.

**Trust Increases Enterprise Value by Reducing Transaction Costs**

Economists believe that society can reduce transaction costs due to good faith and thus bring economic benefits; we can also increase our income and benefit a lot from social relations. Trust plays an important role in the trading activities, which reduces transaction costs, improves enterprise performance, and finally impact enterprise value.

In the above, we decompose the trust brought by corporate social responsibility from the perspective of stakeholders, and divide it into the trust of fund providers, the trust of upstream and downstream enterprises, the trust of employees and the trust of consumers. Next, this paper will analyze that how different stakeholders trust help to reduce transaction costs, and ultimately affect the value of the enterprise.

First, trust reduces anticipation transaction costs.

Banks and other creditors want to get the whole of the picture before they decide to invest in companies, so enterprises need to prepare a large number of proof materials, and creditors will spend a lot of effort to judge the authenticity and reliability of this information. When the enterprise and the fund provider establish the trust relationship, this kind of trust is essentially a judgment to the enterprise. Investor preference brought by the trust can reduce the information asymmetric, leading to the accessibility and convenience of corporate financing. So the corporate with a good social responsibility performance can save the transaction cost that is for the evaluation of credit risk, and a steady supply of funds helps reduce the cost of equity capital.
Suppliers and enterprises, enterprises and downstream distributors & retailers should provide qualified products and services to each other. During the negotiations, they will develop manufacturing requirements, technical and quality standards for special products etc. When the upstream and downstream enterprises build trust based on the past transaction or the industry reputation, they will spend less time and less cost to complete transactions. Besides, the benefits of trust are also reflected in commercial credit. The supplier will enable enterprises with a higher degree of trust to use cost-saved credit model so corporate can reduce the transaction costs.

Customers need to pay certain information searching cost in the purchase of goods, for example, they will buy a product not only by the past purchasing experience but also the comparison to its main competitors, and they will consider if the brand could meet their psychological satisfaction. Of course, the lower this part of the cost is, the better is for the corporate. Therefore, if enterprises establish customer trust, when they choose from the abundance, they tend to give a priority to the products which satisfied them already, and they will pay more attention to the brand with a good reputation if they want to take some for a try. This trust relationship can reduce the information searching cost of the target customers, and make the products more competitive in the market. At the same time customer trust also allows enterprises to take aggressive pricing strategies (such as skimming pricing) to get more profit, because this trust make customers not to bargain with the enterprise.

Employee trust can reduce the cost of delivering information, supervision and management. Besides, it can also save the cost of changing the institutional structure.

Secondly, trust reduces the transaction costs after the contract.

Trust is considered to be negatively related to the costs of supervision and execution after the transactions [24].

Fund providers worry about if the enterprise would stick by its commitments, so they will supervise the implementation, but excessive supervision will not only increase the cost of fund providers, but also increase the enterprise’s transaction costs after the contract. Trust can reduce enterprise’s supervision cost with fund providers and upstream and downstream enterprises, thus reducing the transaction costs. Employee trust makes them have higher loyalty and satisfaction to the enterprise so the enterprise does not need to prevent them from demission, which leads to the less resources for supervision.

When unforeseen events happen, because of the investors trust and the upstream & downstream enterprises trust, they can considerably understand the business, and think the enterprise would solve the problem, so the two sides can reach an agreement quickly. Obviously trust makes time saved, efficiency improved, thus reduce transaction costs. When enterprises suffered negative news, consumer trust enables the enterprise in crisis to restore corporate image faster and more effectively, thus reduce losses and enhance the value of enterprises.

North (1990) and Williamson (1991) pointed out that enterprises which effectively reduced transaction costs would show better performance [26]. It can be said that transaction costs are directly related to the economic benefits and affect the value of enterprises. Therefore, enterprises with good social responsibility performance can establish a higher degree of trust, reduce the transaction costs and eventually promote enterprise value.

Summary

Based on trust theory and the theory of transaction, combined with the academic thoughts of stakeholder theory and other disciplines, this paper build a model of corporate social responsibility, stakeholder trust, transaction cost and enterprise value to explore the mechanism of social responsibility influencing corporate value. For the enterprises pursuing the maximization of enterprise value, the model provides a theoretical basis for them to fulfill the social responsibility. They will continually fulfill social responsibility, establish and strengthen the trust relationship with the trading partners, and ultimately enhance the value of the enterprise. In addition, the research on corporate social responsibility and enterprise value, which combines trust theory and transaction cost theory is conducive to the disciplines communication among sociology, economics and
management, and provides a new way to study how corporate social responsibility influence enterprise value.

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References


