Corporate Social Responsibility (CSR) and Operating Performance: An empirical comparative study of Swedish and Chinese apparel companies

Lin Lin Zhang
Abstract

This paper studies the link between Corporate Social Responsibility (CSR) and operating performance of companies between two countries in the same industry. This study analyzes the relationship between financial performance indicators ROE (return on equity), OM (operating margin) and CSD (corporate social disclosure) for five listed Swedish apparel companies on the Stockholm exchange market and five listed Chinese apparel companies on the Chinese exchange market by using both qualitative and quantitative approaches. The main findings are that there are mixed results in the relationship between CSR disclosure and operating performance for two countries’ companies. And there are some differences in this relationship between two countries’ companies.

Keywords: Corporate Social Responsibility, operating performance, Return on equity, Operating margin, Sweden, China

Table of Contents

ABREVIATIONS 1

1. INTRODUCTION 2
   1.1. Overview 2
   1.2. Background 2
   1.3. Problem statement 4
   1.4. Purpose and research question 6
   1.5. Paper structure 6

2. THEORETICAL FRAMEWORKS 6
   2.1. A review of CSR theory 7
   2.1.1. CSR concept and approaches 7
   2.2. CSR and stakeholder theory 11
   2.3. Relationship between CSR and operating performance 16

3. APPROACH AND METHODOLOGIES 19
   3.1. Research design 19
   3.2. Method and data 20
   3.2.1. CSR scale design 20
   3.2.2. Selection of data 22

4. EMPIRICAL FINDINGS 24

5. ANALYSIS 28
   5.1. Is there any relationship between CSR disclosure and operating performance 28
   5.2. Differences analysis 32
   5.2.1. Differences in the relationship 32
   5.2.2. Differences over time 35

6. CONCLUSION 37

ABBREVIATIONS

BSR Business for Social Responsibility
WBCSD World Business Council for Sustainable Development
WTO World Trade Organization
1. Introduction

1.1. Overview

The current global economy is in a transition stage. As we know, increasing awareness regarding climate change and the impact it will have on the world push the business world of today towards more sustainable alternatives. Many businesses are re-organizing their operational activities to enable a more sustainable way of production and are developing a more open attitude towards the public by involving their customers, stakeholders in their journey to improve the level of Corporate Social Responsibility (CSR). The last 15 years have seen an increase in the production of CSR reports in many developed world economies (Bebbington et al., 2008).

Many companies have proposed that their goals can be accomplished with lower employment levels and costs. Furthermore, how to increase the profitability and their operating performance efficiency is becoming another purpose for companies. Since operating performance measures are based on accounting numbers and are generally evaluated relative to an industry benchmark (Brand and John, 1995), the relationship between CSR and operating performance becomes more important.

In such empirical research, there are some difficulties when analyzing the link between CSR and operating performance: How to measure the complex CSR concept; How to apply across a wide range of industries and samples. In writing this paper, I make constructed CSR scale which is purposed to measure the CSR disclosure. Also, I think the comparability from two countries is a new way to understand more about CSR and operating performance.

1.2. Background

Nowadays, the public and companies have paid more and more attention to the environment and the damaging effects such as air pollution and an increasingly global scale (as in global
warming). Especially for the global sustainable development, companies have to face to a new challenge that how harmonizing traditional economic activity and ecosystem-dependent economic values. This will require more explicit attention from companies. However, conserving ecosystem services may come at a cost through the loss of revenue derived from another use. For example, many companies in the apparel industry have outsourced their manufacturing to developing countries like China, India, Bangladesh and Pakistan, to increase their competitiveness by lower manufacturing costs (Pretious and Love, 2006). To control the conditions for the employees in those factories is often a difficult task for the apparel companies. Poor conditions for the employees, child labor among the employees and improperly law wages are things that can impair a company’s reputation and their brand (Pretious and Love, 2006). Swedish has probably the strictest environmental regulations and the situation in Sweden is sufficiently unambiguous to force companies to provide CSR of their corporate financial performance (Saudagaran, 2001). Thus, many apparel companies in Scandinavian countries provide good CSR disclosure level because most of them try to get positive attention from the media and reduce some existed critics and complains. In Sweden, according to accounting regulations, all companies must attach CSR reporting in their annual reports since 1999.

China has for a long time been the most prominent textile and clothing manufacturing country in the world. As the world's largest textile and garment production, economic upgrading and social upgrading are two urgent issues that China’s industry should and must face to. In apparel industry, the price sensitive textile and clothing industry (TCI) is extremely dependent on reducing costs (Zhao and Gu, 2009). It is undeniable that awareness of environmental and social problems, including pollution and lack of food safety, has grown in recent years in China. As a result, attention to CSR for Chinese companies is increasing. Chinese enterprises CSR reporting number has been growing exponentially, according to the “WTO Tribune” published China Corporate Social Responsibility Report Research (2009), from 2006 to 2009, the numbers of Chinese companies which publish CSR reports are changed from 32 to 582.

In the past, according to Friedman (1999), companies have to make profit and satisfy their shareholders as for instance. Therefore, many large corporations from developing countries
were seen to be insensitive to the needs of society and caused much of the environmental
degradation of the earth (Utting 2005). However, in the world that we live today, the
situations should be changed. Many companies, whether big or small and many countries,
whether developing or developed, are increasingly acting upon the responsibility to CSR
because it helps the future.

1.3. Problem statement

There are critiques arising regarding the effects of CSR performance and its disclosure. The
main argument is the capability of the corporate structure in relation to social responsibility.
Karnani (2010) suggests the irrelevance between social welfare and corporate profits that a
company will always choose to act in shareholder interests prior to public interest if these two
interests are in direct opposition (Karnani, 2010).

Recognizing this arguments, is it clear that CSR has not just simply played the role of
corporate window dressing, CSR can create “a win-win situation – for both corporations and
the public” (Kanji and Chopra, 2010, p.122)? More recent theoretical and empirical studies
have offered some theoretical analysis for the relationship between CSR and economic
performances. Elsayed and Patton (2005) arguing that very few studies have controlled for
firm heterogeneity or considered dynamic effects in the financial/environmental performance
relationship. The similar view is pointed out by Donaldson and Preston (1995): one should
not overlook that the concept’s popularity as well as its actual interpretation in turn change
over time and differ between regions; despite the widely acknowledged normative core of
CSR, there are differences exist on smaller scales.

The practice of CSR disclosure builds on the ongoing discussion about the appropriate
definition of CSR. According to Godfrey, Merrill and Hansen (2009), CSR helps in
articulation of its mission, values, commitments, implementation, and strategy; and facilitate a
process of regulatory approvals. However, the corporate reporting is a complex topic such as
corporate governance and performance especially for narrative disclosures which are still
problematic. The research into the factors that drive corporate social disclosure decisions by corporate managements can help stakeholders to better understand how to enhance the corporate practice of financial reporting (Godfrey Merrill and Hansen, 2009). Yarrow (1986) argued that competition and managerial accountability are more important than privatization in promoting economic efficiency.

1.4. Purpose and research question

According to Bebbington et al (2008), the performance of Corporate Social Responsibility (CSR) reporting has been increased immensely in many developed world economies, in response to demands from the societies and stakeholders. In China, the awareness of environmental and social problems has grown in recent years. At the same time, CSR is to some extent an emerging phenomenon in China. However, attention and studies of CSR have grown mostly still in Western countries. Various scholars have written on CSR issues; however few of them have focused on comparison of two different countries. Remarkable, the differences of CSR between east countries and west countries have hardly been studies so far. Therefore, this paper is investigated by an interesting, timely and new topic. Also, this paper aims to help fill this gap by considering the comparative study between Sweden and China.

Moreover, this study is essentially related to the literature of CSR and corporate operating performance in the context of financial reporting and from the perspective of an industry from two different countries that have received limited attention to date in this particular research field. This is the apparel industry, where previous studies have reviewed the evolution of concept of CSR from “obligation” to “strategy” (Zhao and Gu, 2009). The apparel industry is facing to the competitions not only the high profit, but also the new technology, new products and CSR for the future business competitions.

With this in mind, the main purpose of this thesis is to explore more specifically CSR and operating performance in Sweden and China, and how the differences in these two countries
could be explained by the existing theory. In light of these reasoning, the present thesis is
guided by the following research questions:

Is there any relationship between the level of corporate social disclosure and corporate operating performance in Swedish and Chinese apparel companies?

What are the differences in the relationship between the level of corporate social disclosure and corporate operating performance in the two countries (Sweden and China)?

In order to be able to answer the research question from the scope of CSR disclosure and operating performance, the first hypothesis will therefore expect to find an association between CSR disclosure and operating performance. A CSR’s policy is beneficial not only for a corporation’s bottom line but also for its employees, stakeholders, consumers, and for environment and society at large” (Kanji and Chopra, 2010, p.120), following this, Return on equity (ROE) and operating margin (OM) are chosen as measures of operating performance because these two measures are used to gauge the general health of a company's core business or businesses. The sample in this thesis consists of major listed apparel companies in two countries (Sweden and China).

H1. There is a relationship between level of corporate social disclosure and ROE, OM.

1.5. Paper structure

1 The definition of level of corporate social disclosure is the level of company’s performance on the corporate social responsibility according to sentences mentioned about corporate social responsibility in company’s annual reports. Details refer to Appendix 1.
The thesis combines qualitative method and quantitative method to be able to answer the research question. The thesis is organized as follows: In section 2 the theoretical framework is described. It starts with a review of the current literature on the CSR and the link between CSR and stakeholder theory; and then focuses on the relationship between CSR and operating performance. Section 3 gives a review of method and data. Section 4 is empirical findings. The theoretical framework and methodologies that are presented in section 2 and 3 is used in section 5, where the analysis is explained. Finally, in section 6 some conclusions are drawn and areas for future research are discussed.

2. Theoretical Frameworks

2.1. A review of CSR theory

2.1.1. CSR concept and approaches

CSR was first used and defined as a concept by Bowen (1953): CSR refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. Falck and Heblich (2007) show that by practicing CSR strategically, a company can "do well by doing good." In other words, a company can make a move from "doing good to do good" in order to green-wash corporate image to "doing good to do well" as a strategic decision. Recent literature has suggested that CSR as corporate attitudes and responsibilities to society for social, ethical and environmental issues might lead organizations to take into complexity of external and internal factors (Adams, 2002).

European Commission defines CSR as a voluntary business contribution to sustainable development, and given that sustainable development is an overarching policy objective that has been pursued with two overarching EU strategies (i.e. the Lisbon Strategy for Growth and Jobs and the EU Sustainable Development Strategy) for a decade now (Steurer and Berger, 2011). In October 2011, the European Commission published a new policy on CSR, changing from “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”, to be “the responsibility of enterprises for their impacts on society” (European Commission, 2011). In practice, large companies claim their incentives are not solely for the profits, but also on contributing to larger social purpose. Their contribution can refer to actions as to “…produce
healthier foods or more fuel-efficient vehicles, conserve energy and other resources in their operations” (Karnani, 2010, p3).

CSR is a form of discourse intended to manage perceptions of the public and CSR reporting is the corporate response to those outside an organization and company (Bebbington et al., 2008). CSR can include benefits such as improved perceptions of the company, management of risk, building loyalty-based customers on account of distinctive ethical values, building a genuine culture of ‘doing the right thing’ within the organization, following steps to implement issues related to standards and safety policies, and so on (Kanji and Chopra, 2010). According to Bebbington et al., (2008), the performance of CSR reporting has been increased immensely in many developed world economies, in response to demands from the societies and stakeholders.

In Foster et.al (2002, p.2), the definition of CSR is "...the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time". Even in the early stage of development of the concept, the interest was huge and has drawn attentions from academics, media and investors. The evolution is still under development and is in large extent up-to-date. According to Baron (2001), CSR is a concept which refers to a profit-maximizing corporate strategy that can be regarded as socially responsible at the same time.

Moreover, Carroll (1979) defines CSR from four different areas of responsibility. CSR is fully achieved only when all areas are met. These areas are: economic responsibility, legal responsibility, ethical responsibility and unlimited liability (Carroll, 1979). Economic responsibility is to produce goods or services and sell them to generate profit to the owners. This is in relation to the applicable laws and regulations and the company has thus also a legal responsibility. The ethical responsibility includes other requirements of society picture of the company and in a further step is a voluntary responsibility that includes social responsibility beyond what is expected (Carroll, 1979). This illustration is shown in Figure1 (see below).

Fig. 1 The pyramid of corporate social responsibility (Carroll, 1991, s.42)
McGuire’s (1963) identified other paramount obligations corporations should fulfill to the society apart from their legal and economic obligations. Carroll and Buchholtz (2006) identified such an obligation as the CSR which he defined as the willingness of a corporation to seriously consider all the impacts on the society by the company’s activities. Society as well considered the company to honor certain expectations which may be categorized as legal, economic, discretionary and ethical expectations (Carroll and Buchholtz, 2006). Hence, the level of CSR should be gauged against these parameters to ensure satisfaction in the society as a result of corporations’ activities (Carroll and Buchholtz, 2006).

The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. CSR typically includes accountability activities: Accountable to Business Partners; Accountability to stakeholders groups² (e.g.,

² http://www.peterstout.com/TU874_summary/Theory.shtml
larger society, specific subsections of society, follow members, employees of the organization, customers, investors, shareholders, and others)

Kanji and Chopra (2010) mentions CSR is “a win-win situation – for both corporations and the public”. Brown and Fraser (2006) have similar views that CSR is primarily situated in the traditional context of creating values for business owners through a focus on the potential for win-win relationships. Understanding, managing and responding to stakeholders expectations is promoted as enlightened self-interest.

Companies who do not fulfill their social responsibilities will lose a source of profit creation and vitality, and even lead to companies unable to operate normally or bankruptcy; enterprises fulfill their social responsibility for the community, will help enterprises to obtain a stable, long-term even more profit (Lübcke et al., 2007).

Therefore, the basic goals of company’s should not only be to maximize economic benefits, it should also be to create as many social benefits, including tax law, conserve resources, protect the environment and provide employment opportunity to safeguard the legitimate rights and interests of employees and consumers (Zheng, 2006). CSR are the “societal expectations of corporate behavior; a behavior that is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of business” (Whetten et al., 2002, p.374). Hayek (1939) also considered much higher rate of profit would be obtainable on money spent on labor than on money invested in machinery.

Gray and Balmer (1998) identified that CSR business benefits had positive effects on company image and reputation which can influence company competitiveness. Epstein and Roy (2001) discussed the efficiency gains could result from a substitution of materials during the implementation of a sustainability strategy. In other words, they mean that higher sensitivity of investors to sustainability issues will improve access to capital. Weber (2008) summarized that business benefits from CSR can be classified into monetary and non-monetary benefits from current research. His CSR impact model shows that CSR can improve competitiveness and lead to economic success at last. CSR can increase revenue and brand value, decrease cost and risks which means bring monetary benefits. And CSR improve
access to capital, customer attraction, retention and reputation, employee recruitment, motivation, retention; secured license to operate. In this way, CSR bring no-monetary benefits.

Tinker and Carter (2002) argued that if corporations disclose accounting income achieved as a result of environmental degradation, harmful products, or abusive labor practices, these practices may come back to haunt investors in the form of litigation, consumer boycotts, union action, or even (for WTO-connected multinationals) public disorder (p.114). Furthermore, other vital parties are directly affected such as customers, employees, suppliers and the surrounding communities where the company has its operations (Williams, 1999). Debate therefore ranges to whether these companies should be held responsible in the broader social responsibility stretching beyond their primary fiduciary (Karnani, 2010).

Hence, the role of CSR has increasingly being debated especially with the current disintegration of cross border as well economic barriers with increased effects of globalization of business (Brown and Fraser, 2006). Today, the public believes that, in addition to its pursuits of profits, business should be responsible to their workers, communities and other stakeholders, even if making things better for them requires companies to sacrifice some profits (Baron, 2001). Porter and Kramer (2006) argue that the companies should identify and select CSR carefully, because no business can solve all of society’s problems or bear the costs of doing so. On the other hand, following their study, they claim that CSR can bring the competitive benefit for companies, the more closely tied a social issue is to a company’s business, the greater the opportunity to leverage the firm’s resources, and benefit society.

2.2. CSR and Stakeholder theory

In recent years there has been a marked renewal of interest in the area between CSR theory and stakeholder theory. The multidimensional measurements provide empirical research methods for stakeholder theory studies. Such as Turker (2009) introduced a scale for various
stakeholders and defined CSR as corporate behaviors that aims to affect stakeholders positively and that go beyond its economic interest.

Tinker (2002) expressed that stakeholders are those groups or individuals who can affect or are affected by the achievement of the organization's objectives or are those actors with a direct or indirect interest in the company. Foster (2002) divided the stakeholders into two levels, the first level of stakeholders included shareholders, investors, employees, customers, suppliers and government, community; the second level of stakeholders included media and other special stakeholders. Considered stakeholders should include investors, direct customers, employees, direct suppliers, governments and local communities (Carroll, 1993). And in fact, company's stakeholders, managers, labors, consumers and all participants are involved in every actions of society.

In regards to apparel firms, Christi et al., (2010) identified a number of different stakeholders: workers who take responsibility for protecting workers’ rights; the intergovernmental organizations, they ensure the welfare of citizens and workers; the advocacy organizations, they work closely with workers and other marginalized groups to improve their working and living conditions.

Also, CSR requires more performance measures and benchmarking techniques (Brown and Fraser, 2006). From stakeholder accountability theorist perspectives, CSR should increase the accountability and transparency of organizations. Stakeholders have the right to receive information and should participate in decisions and reporting. Regulation is necessary to avoid “greenwash” (Brown and Fraser, 2006). As a stakeholder concept, CSR holds that organizations exist within networks of stakeholders, face the potentially conflicting demands of these stakeholders, and translate the demands into CSR objectives and policies (Lindgreen and Swaen, 2010).

There are also other important stakeholders to impact CSR. For example, Gilbert and Rasche (2007) use economic view based by consumers. They found consumers who buy the products
give pressure to groups who are responsible for educating consumers about social issues. Consumers can wage campaigns to impact businesses. Also, financial markets and investors have the power to influence companies’ policies and corporate governance. However, they also summarize all stakeholder groups play an important role in the process.

In order to get a broader understanding, the theory of Friedman (1999) can be attributed. Friedman (1999) suggested that the management has a responsibility to stakeholders. According to Accounting Standards Steering Committee, the Corporate Report also gives strong backing to the idea that stakeholders have ‘rights’ to information. Holmes (1976) believes that corporate managers accepted the idea that CSR is important for their organizations. Watts and Zimmerman (1977) contend that managers will be acting in shareholders’ interests because of agency costs. Company annual reports offer managers the opportunity to be seen and to be acting in such a manner; accounting reports are a primary means which managers provide relevant information to shareholders. In addition, Christi et al., (2003) examined the impact of culture on the ethical attitudes of business managers by using the dimensions of Hofstede’s cultural typology (individualism, power distance, uncertainty avoidance and long-term orientation). They compared three nations - India, Korea and the United States. The results of the study indicated that culture has a significant impact on managers’ attitudes towards ethics in business, and that the managers’ attitudes are governed by personal integrity. In addition, link to Bebbington et.al.,(2008, p 349)’s work, they suggest “good quality management would entail an ability to identify current and future challenges to the successful operation of the entity (including employee, community and environmental challenges) and to ensure that the organization is well places to deal with these challenges”.

The typical theoretical research of stakeholders began in the 1970s. In 1984, Friedman published "Strategic Management: Stakeholder Method". When contrary to the question: Who should bear the social responsibility in the business activities? Friedman answered it by using the stakeholder theory. In his view, the stakeholders include everyone that can affect companies and their targets. It was a new concept compared the traditional views.
Friedman wrote "The Social Responsibility of Business is to Increase Profits". In his explanation, there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits as long as it stays within the rules of the game. On the other hand, only people can have responsibilities because they have to exist in physical reality.

Moreover, stakeholder theory is also considered one of the most important conceptual frameworks in the field of Social Accounting (Gray et al., 1995). The stakeholders have more voice in the decisions that affect the forms of corporate governance (Kato and Jens 2010). The stakeholder theory has logic connections with CSR (Friedman, 1999). In his early research, it is also rather clear that there is a strong relationship between the stakeholder perspective and CSR perspective. In this view, CSR is a concept and practice which stress non-financial aspects of company behavior (See Figure 2).

Fig2. Stakeholder theory and CSR


According to Carroll (1991), there is a natural fit between the idea of CSR and an organization's stakeholders (p. 43). Based on the stakeholder theory, the influences which diverse groups have on business and how business influences various stakeholders groups. The disclosure information should investigate both about primary and secondary stakeholders. In particular, the idea of including stakeholders’ interests is aimed at broadening management’s vision, its role as well as responsibilities to extend beyond profit maximization.
objectives. In addition, its role includes the claims and interests of non-stocking groups within the corporation (Garriga and Mele, 2004). Hence with this consideration, the long term success and survival of the corporation requires the participation and support of all its shareholders. It’s only through dialogue between all the stakeholders and corporations management that this objective is achieved. In this way, when the corporation publish CSR reporting in general, as well as in specific disclosures, has start a good point for dialogue.

Through the studies of Brown and Fraser (2006) on stakeholder accountability approach, the capability for stakeholders to both reward and impose sanctions is a key component in the accountability process. It seems the groups of stakeholders’ ‘good’ or ‘bad’ social performance can be analyzed from the company’s related financial reporting. On other side, CSR reporting can be influenced by differences in the extent of involvement of stakeholders.

Since stakeholder accountability is also increasingly viewed as a process ‘in which people and records must interact to achieve accountability (Brown and Fraser, 2006). Therefore, it is very difficult to make the conclusion that some companies in some countries are more concerned with the image rather than the substance of ‘corporate citizenship’ and ‘sustainable development’. Where the conflicts of interest are recognized, the priority of shareholder claims is taken for granted.

The operations of any corporation should be in harmony with the stakeholders’ demands within its area of jurisdiction (McGuire’s, 1988). Hence the corporation should cultivate a good relationship with these stakeholders within its operating areas. This mutual relationship has led to the stakeholder’s theory which states that stakeholders have legitimate interests in the operations of the company. The emphasis bestowed on the concept of CSR is a perfect gauge of companies’ level of sustainability (Garriga and Melé, 2004). More detailed analysis is carried out with the consideration of such issues like climate change, education and welfare of the stakeholders within the community (Gray et al., 1995).
The level of economic development of a country is likely to influence the disclosure level in business that exists in a country. Moreover, financial reporting rules and companies’ corporate financial performance are also related and should be carried out all demands. In Whetten et al., (2002, p.374), CSR is the “societal expectations of corporate behavior; a behavior that is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of business”. In this way, the stakeholder should pay more attention to CSR, as Lindgreen and Swaen (2010) point out that stakeholder engagement then becomes “CSR in action”. For example, companies’ managers have to express an active interest for their stakeholders in the field of CSR reporting. Another, The WBCSD (2003, p.15) identifies the business benefits – transparency to the stakeholders from sustainable development reporting. Thus, businesses have a responsibility to respond to the concerns of the broader society in which they operate and not only the interest of their shareholders and their responsibility towards obeying law and order (Utting, 2005).

From country to country, different culture characteristics define CSR activity within that nation’s borders. Globalization can cause powerful synergies and enormous tensions to arise within and across various elements of a society. Company managers must be attentive to such nuances, adapting their products and practices as needed. Child and Faulkner (1998) explain that national cultural differences usually can be used as a way of explaining organizations’ varied reactions to CSR reporting guidelines.

Friedman’s (1970) had well-known criticism of a firm’s corporate social responsibility initiatives. In his review, executives were taking money that would otherwise go to the firm’s owners in order to pursue objectives that the executives, under the sway of a minority of voices, selected in a manner beyond the reach of accepted democratic political processes. The stakeholder-accountability framework recognizes the significant economic, social and political power that major corporates wield in contemporary society (Brown and Fraser, 2006). They are agree with “double wins” are possible, it provides managers and others who wish to take account of the broader effects of corporate activity and make more socially efficient decisions with a commercially acceptable rationalization. Maignan and Ferrell (2000) emphasized that "these stakeholders are not the only ones who can impose responsibilities on businesses and whose welfare can be directly affected" (p. 295).
2.3. Relationship between CSR and operating performance

Many authors have chosen to analyze the association between a measure of operating performance and CSR component (e.g., corporate governance, environmental performance, or labor practices). CSR theory deals with four perspectives which are relevant to profits, political performance, social demands and ethical Values (Garriga and Melé, 2004). However, there is a main argument towards stakeholder’s perspectives of CSR. As Karnani (2010) suggests the irrelevance between social welfare and corporate profits means that a company will always choose to act in shareholder interests prior to public interest if these two interests are in direct opposition. The focus on the process of the profit for company is always on the major target for stakeholders.

The operating efficiency is becoming a more and more important dimension for companies (Vilanova et al., 2009). A number of theories about the relationship between CSR and operating performance have been proposed in the literature, Wagner et al., (2001) gave a comprehensive review of the alternative theories.

According to Vilanova et al., (2009), CSR effect five kinds of enterprise competitiveness dimensions (1) financial performance, (2) product quality, (3) business efficiency and productivity, (4) ability to innovate, (5) image. The studies mainly focus on the correlation between CSR activities and financial results, for example, between CSR and assets net profit margin, CSR and net assets income rate, CSR and sales return rate related problems (See Table 1)

Table1. Studies examining the relationship between CSR and others

<table>
<thead>
<tr>
<th>Reference studies</th>
<th>Test variables</th>
<th>Control variables</th>
<th>Sample</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander, G. J., and Rogene A. Buchholz 1978</td>
<td>Stock market performance</td>
<td>Beta</td>
<td>40</td>
<td>No relationship</td>
</tr>
<tr>
<td></td>
<td>1970-1974</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The summary study of Griffin and Mahon (1997) that in consideration of social performance and financial performance, out of the total 13 research papers, eight found positive correlations, while four indicated there is no correlation; only one indicated a negative correlation. Those firms with full social disclosure have been observed to perform brilliantly since they accept the environmental liabilities they accrue from their operations (Kato and Jens, 2010). Through their participation, they rectify these negative externalities which are beneficial to the environment as well as fostering a mutual relationship with all the stakeholders within community of their operation (Kato and Jens).

On the other hand, Siegel and Vitaliano (2007) argue that the relationship between economic performance and ecological/social performance follows an inverse U-shaped curve. That relationship could explain the mixed results found in empirical studies as CSR could have positive as well as negative effects on financial performance depending on the individual position of a company on the curve (see Stefano et al., 2005, 28).

Wagner and Schaltegger (2004) made an empirical study of the EU manufacturing Industry, where they tested the hypothesis of an inverse U-shaped relationship between environmental

| Aupperle, A. Carroll .A and John D. Hatfield, 1985 | Survey ROA (one year) ROA(five years) | No | 241 | No relationship |
| Salzmann et al., 2005 | CSR and financial performance | portfolio, event, and multiple regression | inconclusive results |
| Wagner et al., 2001 | Environmental, economic performance | meta-study | mixed results |
| McWilliams, A., and D. Siegel 2000 | Profit of accounting | Risk, Size, Industry, R&D and Advertising intensity | 524 | R&D costs included, no relationship |
and economic performance. They found that for companies pursuing an environmental strategy oriented towards shareholder value, the relationship was stronger than for firms without such a strategy.

Weber (2008) summarized that the impact of CSR on economic performance seems to be dependent on the individual company strategy. Several writers have pointed out that the relationships are generally mixed between corporate social performance and financial performance (measured by either accounting or market-based variables). The association between the two is generally weak even though many studies seem to identify a positive (Margolis et al., 2007).

3. Approach and Methodologies

3.1. Research design

Bryman and Bell (2011) argue that if a study is reliable which means that the measures devised for concepts are stable on different occasions. Bryman (2011) identifies five different types of research designs which are experimental design, cross-sectional or survey design, longitudinal design, case study design, and comparative design.

Basically, I am well aware of the fact that this type of research has several limitations. First, I only have a limited number of sample companies. However, CSR scale uses the quality research method which is based on qualitative analysis of text and documents and CSR reporting, hopefully, it can reflect the trend. Secondly, please note that there is no standard procedure for environmental or sustainable reporting and auditing, therefore, the empirical studies are concerned with investigating between CSR and economic operating performance usually required to use one profitability measure that can express the amount of net earnings after cost and taxes per unit of shareholder’s equity. Following previous studies, ROE as one of control variables to explain firm profitability, as I know the company’s operating performances is likely to effect by many control variables, they are a complex and multi-variables interactions, therefore, OM is also used as one control variable.
3.2. Method and Data

About the appropriate definition and measures of CSR, there is still an on-going discussion. A number of related CSR measurement theories have been proposed in the literature that there are two methods are mainly used, reputation index method and content analysis.

Different methods may show conflicting results as companies may be ranked differently under varying criteria. Lyon (2008, p245) said “A method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria”. Lyon (2008) also mentioned that there has been a number of measurement methods (known as the unit of analysis) used to generate a CSR score. The most common methods are counting words, sentences, paragraphs, pictures and pages. The measurement method used can have quite an impact on the overall results. Turker (2009) developed a CSR scale based on the various stakeholders. Meanwhile, Quazi and O'Brien (2000) provided a scale based on the managerial attitudes towards social responsibility. Aupperle (1985) also developed CSR scales to measure the individual CSR value according to Carroll's four-dimensional model.

3.2.1. CSR scale design

As mentioned previously, although all these difficulties of CSR measure, several methods can be find in many literatures. Most of them still have some more or less limitations. The concept of CSR is still lack of a unified and clear definition. The area of CSR is too broad and academic to operate. Therefore, there is no perfect measurement to measure CSR. So far, there is no proper framework to assess how to measure CSR between different countries. None of these methods address this study: comparison between two countries. Previous studies such as Turker (2009), a scale developed in Turkey, but the data was collected from sample which was drawn from only one country which can’t be used in this paper. Scholtens (2009) had aim at arriving at a general framework to check banks’ social responsibility, since it studied the different industry, the scale still can’t be used. Therefore, this study needs to develop a new scale which articulates CSR according to the proposed conceptual framework.
In this study, for the new scale of CSR, the content analysis method will be used for the scores of selected companies’ CSR. Content analysis method often used for the study of samples. It will provide the analysis of CSR disclosure level according to the companies’ website, annual report, CSR report, etc. Content analysis method has the advantage: Once CSR activities are selected as subjective process, remain parts will be related to the objective facts. However, Trotman & Bradley (1981) argued the disadvantage of the content analysis method is that how to determine the CSR as subjective process is subjective.

In order to develop the better comparative study and provide a reliable source of information, in order to ensure the data reliability, the Folksam index (see appendix 3) is also used in this study for Swedish companies. The Swedish insurance company Folksam released a wide covered index report where they investigated all companies (245 companies) listed at the Nasdaq OMX regarding their CSR performances and policies in areas of environment and human rights. The index report has been released five year in sequence and the results are obtained from information the companies disclosed in their annual reports, CSR reports and on their websites.

Also, in this paper, the CSR scale also is involved the corporate governance and ethics from Business for Social Responsibility (BSR) requirements, see below:

- Health and safety (See Appendix 1&2: 18)
- Environmental stewardship (See Appendix 1&2: 12, 13)
- Human rights (including core labor rights) (See Appendix 1&2: 10, 11)
- Human resource management (See Appendix 1&2: 7, 8)
- Community involvement, development and investment (See Appendix 1&2: 1, 2, 20, 21)
- Corporate philanthropy and employee volunteering (See Appendix 1&2: 16)

-------------

3http://www.bsr.org
• Customer satisfaction and adherence to principles of fair competition (See Appendix 1&2: 3, 4, 14, 15)
• Anti-bribery and anti-corruption measures ((See Appendix 1&2: 17)
• Accountability, transparency and performance reporting ((See Appendix 1&2: 19, 22)
• Supplier relations, for both domestic and international supply chains (See Appendix 1&2: 5, 6, 9)

In accordance with the above classification, the CSR scale uses the index method to measure the CSR disclosure level, the maximum score is 22 and the lowest score is 0. The scale uses five year in sequence and the results are obtained from information the companies disclosed in their annual reports, CSR reports and on their websites.

The CSR scale (see Appendix 1.1 and 1.2) wants to compare the operating performance of the companies’ with respect to their corporate social responsibility policies and activities. A content analysis is used in this study which is involved identifying and counting certain key words or phrases in a piece of writing (Bryman and Bell, 2011). When assessing an organization level of corporate social disclosure, it requires looking at 22 different key words and their related terms in the areas of ethical management and governance, workplace, marketplace, environment, community and communication and reporting. Based on these 22 categories organizations will get a score ranging from 0-22 depending on how many categories of risks they disclose in their annual reports (Appendix1.1and1.2). For each requirement, gave a score of zero, half or one point to the annual report. According to the Solomon et al., (2000), the disclosure of specific information is better than the disclosure of general information. Thus, the determine the scores as following: zero point means that the required information was not disclosed, half point was given if the information was disclosed in a general way, and one point was given if specific information was disclosed. So, the difference between zero and half point is the existence or non-existence of information, and the difference between half and one point is that it is general information or specific information for the company.

3.2.2. Selection of Data
ROE is arguably the most important in business finance. Griffin and Mahon (1997) concludes ROE is commonly used measures for operating performance and will therefore provide the most comparable results. ROE assesses the return made to the equity shareholder. The method of calculation is Net Income after tax /Total Equity expressed as a percentage. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. Calculating a company's operating margin is a great way to gain insight into these and other aspects of how well a company generates and retains money. OM can give investors deeper insight into management efficiency. The method of calculation is operating income divided by net sales.

A good figure brings success to the business - it results in a high share price and makes it easy to attract new funds (Inglis et al., 2006). These will enable the company to grow, given suitable market conditions, and this in turn leads to greater profit and so on (Inglis et al., 2006). All this leads to high value and continued growth in the wealth of its owners. At the level of the individual business, a good ROE and OM will keep in place the financial framework for a thriving, growing enterprise. At the level of the total economy, it drives industrial investment, employment and so on (Griffin and Mahon, 1997). Therefore, it is a critical feature of the overall modern market economy as well as of individual companies. In this paper, ROE and OM are calculated from relevant figures from ten companies’ annual reports in five years. For high growing companies, it should expect a higher ROE and OM. Also, averaging ROE and OM over the 5 to 10 years can give the investors a better idea.

Due to the data validity, reliability and accessible, the data for this study will be extracted from listed Swedish companies’ annual reports. Some data for the study was collected from Uppsala University’s database containing annual reports. There are only five listed apparel Swedish companies to be used and they are all on the Stockholm stock exchange market. The five Swedish apparel companies are Kappahl, H&M, MQ, Björn Borg, and RNB. For Chinese apparel companies, there are also five listed apparel on the Chinese stock exchange market. The five Chinese companies are Hongdou Group Co., Ltd, Shanshan Group Co., Ltd, Youngor Group Co., Ltd, Joeone. Co., Ltd and Meters/bonwe Co.,Ltd. All these companies’ overviews (Data from annual reports and homepages of companies) see below:
### Table 2.1 Overviews of five Swedish companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Kappahl</th>
<th>H&amp;M</th>
<th>MQ</th>
<th>Björn Borg</th>
<th>RNB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets</td>
<td>&gt;5</td>
<td>49</td>
<td>&gt;5</td>
<td>&gt;5</td>
<td>&gt;11</td>
</tr>
<tr>
<td>Shops</td>
<td>360</td>
<td>2800</td>
<td>119</td>
<td>17</td>
<td>400</td>
</tr>
<tr>
<td>Employee</td>
<td>4800</td>
<td>104,000</td>
<td>1358</td>
<td>149</td>
<td>719</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>1400MSEK</td>
<td>385470MSEK</td>
<td>527MSEK</td>
<td>900MSEK</td>
<td>474MSEK</td>
</tr>
</tbody>
</table>

### Table 2.2 Overviews of five Chinese companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Hongdou</th>
<th>Shanshan</th>
<th>Youngor</th>
<th>Joone</th>
<th>Meters/bonwe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Markets</td>
<td>&gt;20</td>
<td>&gt;4</td>
<td>&gt;2</td>
<td>&gt;1</td>
<td>&gt;3</td>
</tr>
<tr>
<td>Shops</td>
<td>&gt;10,000</td>
<td>1500</td>
<td>2000</td>
<td>2500</td>
<td>3000</td>
</tr>
<tr>
<td>Employee</td>
<td>20,000</td>
<td>12,000</td>
<td>50,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>2310MCNY=</td>
<td>5970MCNY=</td>
<td>18040MCNY=</td>
<td>9180MCNY=</td>
<td>10310MCNY=</td>
</tr>
<tr>
<td></td>
<td>2532MSEK</td>
<td>6546MSEK</td>
<td>19781MSEK</td>
<td>10065MSEK</td>
<td>11305MSEK</td>
</tr>
</tbody>
</table>

The annual reports for these ten companies are picked up from five recent years: 2008, 2009, 2010, 2011 and 2012. Data are basis on the five years in order to get the higher accuracy from cross section and it may reflect more typical economic or financial conditions. Two set of the data will collected for five years annual reports and CSR reports. The first set is the level of corporate social disclosure which is produced based on the scale (Appendix1.1and 1.2).The second set is financial information (Appendix 3).

### 4. Empirical findings

In order to answer the question 1 and check the significance of the hypothesis, this section is presented the relevant statistics summary and the corresponding results after running both Pearson’s correlation and regression model for the samples. The empirical analysis aim is to find the relationship between CSR disclosure and the measure ratios (ROE and OM) which present the operating performance and the differences in Sweden and China.
Table 3.1  Statistics summary of person’s correlation

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>ROE</th>
<th>OM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedish &amp; Chinese</td>
<td>1.00</td>
<td>0.41</td>
<td>0.41</td>
</tr>
<tr>
<td>companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>0.410</td>
<td>0.416</td>
</tr>
<tr>
<td>N</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

**Correlation is significant at 1 % level

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>ROE</th>
<th>OM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedish Companies</td>
<td>1.00</td>
<td>0.27</td>
<td>0.46</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>0.277</td>
<td>0.462</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

**Correlation is significant at 1 % level

<table>
<thead>
<tr>
<th></th>
<th>CSD</th>
<th>ROE</th>
<th>OM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Companies</td>
<td>1.00</td>
<td>0.42</td>
<td>0.54</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>1.000</td>
<td>0.424</td>
<td>0.541</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

**Correlation is significant at 1 % level

Pearson's correlation coefficient between two variables is defined as the covariance of the two variables divided by the product of their standard deviations. Strictly speaking, Pearson’s correlation requires that each dataset be normally distributed. Like other correlation coefficients, this one varies between -1 and +1 with 0 implying no correlation. Correlations of -1 or +1 imply an exact linear relationship. Positive correlations imply that as x increases, so does y. Negative correlations imply that as x increases, y decreases.

The results indicate that CSD is positively correlated with ROE and OM for both countries. The overall significant correlation 0.41 between CSD and ROE suggests that operating efficiency is positively associated with CSR disclosures. Also, the overall significant correlation 0.416 between CSD and OM suggests that operating efficiency is positively associated with CSR disclosures. Compare two countries, the relationship interested in Sweden are lower than China: ROE (0.277) < ROE (0.424); OM (0.462) < OM (0.541). The results of Chinese companies show a stronger statistical relationship between CSD and ROE and OM.
Table 3.2  Statistics summary (CN: China; SE: Sweden)

<table>
<thead>
<tr>
<th></th>
<th>SE CSR</th>
<th>SE ROE</th>
<th>SE OM</th>
<th>CN CSR</th>
<th>CN ROE</th>
<th>CN OM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summation</td>
<td>260.5</td>
<td>413.91</td>
<td>299.6</td>
<td>106</td>
<td>394.23</td>
<td>342.61</td>
</tr>
<tr>
<td>Number of observations</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Maximum</td>
<td>20</td>
<td>83.81</td>
<td>24.5</td>
<td>10</td>
<td>51.45</td>
<td>33.71</td>
</tr>
<tr>
<td>Minimum</td>
<td>2</td>
<td>-61.87</td>
<td>-1.4</td>
<td>1</td>
<td>1.33</td>
<td>2.66</td>
</tr>
<tr>
<td>Confidence level (95.1%)</td>
<td>2.4170</td>
<td>14.8887</td>
<td>3.3516</td>
<td>1.0526</td>
<td>5.9330</td>
<td>3.8939</td>
</tr>
</tbody>
</table>

Table 3.3  Statistics summary of regression results of Sweden

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients (B)</th>
<th>Unstandardized Coefficients (Std. Error)</th>
<th>t Stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>10.2157</td>
<td>1.9750</td>
<td>5.1726</td>
<td>3.47E-05</td>
</tr>
<tr>
<td>X Variable 1 ROE</td>
<td>0.0865</td>
<td>0.0351</td>
<td>2.4628</td>
<td>0.0221</td>
</tr>
<tr>
<td>X Variable 2 OM</td>
<td>-0.1025</td>
<td>0.1561</td>
<td>-0.6567</td>
<td>0.5182</td>
</tr>
</tbody>
</table>

Table 3.4  Statistics summary of regression results of China

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients (B)</th>
<th>Unstandardized Coefficients (Std. Error)</th>
<th>t Stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>1.6541</td>
<td>0.6815</td>
<td>2.4271</td>
<td>0.0239</td>
</tr>
<tr>
<td>X Variable 1 ROE</td>
<td>0.0821</td>
<td>0.0315</td>
<td>2.6107</td>
<td>0.0160</td>
</tr>
<tr>
<td>X Variable 2 OM</td>
<td>0.0942</td>
<td>0.0479</td>
<td>1.9641</td>
<td>0.0623</td>
</tr>
</tbody>
</table>

To check the significance of the hypothesis a regression analysis is done. The results of the variables of Sweden and China can be seen in Table 3.3 and 3.4. The P value for ROE is 0.0221 (0.01<P<0.05) and P value for OM is 0.5182 (0.05<p). This result suggests that for Sweden, there is association between ROE and CSD, but there is no effective relationship between CSD and OM in Sweden. For China, the P value for ROE is 0.0160(0.01<P<0.05) and P value for OM is 0.0623 (0.05<p). These results of Chinese companies suggest there is no effective relationship between CSD and OM, association between ROE and CSD in China. Compare two countries, P value in China shows much stronger than in Sweden which means the relationship in China got higher significance than in Sweden.
Since the findings show mixed results. In considering the better understanding of relationship, it is better to use individual graph of each company to try to explain the relationship.

**Graph 1  Summary of graphs**

Results in Graph1 indicate that overall correlation between CSR disclosure and ROE, OM changes over time. For example, company Björn Borg’s graph and Hongdou’s graph show both ROE and OM decrease but CSD increase. The results suggest that the correlations between CSD and ROE, OM are not clear in five years for each company. For example, company Joenoe’s graph shows when OM, CSD increase, ROE decreases. Company H&M’s graph shows CSD increases when ROE, OM decrease.
In general, in five years, the results show nine companies’ ROE decrease, only one company’s ROE increases. For OM, five companies decrease, five companies increase. However, ten companies’ CSD increase.

5. Analysis

5.1. Is there any relationship between CSR disclosure and operating performance?

Overall the empirical results provide that there is positive correlation between CSR disclosure and operating performance by running Person’s correlation for both two countries.

And the regression analysis show two results. First, there are associations between CSR disclosure and ROE for both two countries, the H1 is supported partly. Secondly, three are no effective relationship between CSR disclosure and OM for both two countries. This positive correlation for OM is not of statistical significance, H1 is not accepted.

From an economic point of view, first, both for Sweden and China, From Table 3.1, 3.3 and 3.4, there are positive interaction and connections between the level of corporate social disclosure and ROE. Positive coefficients means “there is a direct relationship: when one variable increases, the other increases” (Bryman and Bell, 2011). Higher level of corporate social disclosure will lead to higher return on equity. The operational performance is higher in those companies with higher level of corporate social disclosure. Companies who has high CSR disclosure, usually has high ROE and OM. (Graphs H&M and Joeone).

As Graph 2 shows Swedish companies have higher average CSR disclosure and at the same time, their average ROE is also higher than Chinese companies, CSR is related to operating performance in some way.
Secondly, the finding of positive linkage between CSR and ROE show the proof for the study of Vilanova’s et al., (2009) that CSR effects financial performance. Also CSR can help enterprises to obtain a stable, long-term higher profit (Lübcke et al., 2007). However, graph 1 offers different results: in the whole five years, CSR disclosure increase but ROE, OM decrease for most of the companies. Only the company Shanshan shows this positive linkage described above.

Previous researches such as Griffin and Mahon (1997) and Kanji and Chopra (2010) suggest that CSR is kind of positive tool for a win-win situation – for both corporations and the public. One of the most related study is Podony (1993)’s. He mentions that higher performance firms have usually lower cost. These can give companies incentives to enhance their reputation which means company improved the level of CSR disclosure. As a result, it may affect the corporate financial and operating performances. Therefore, CSR had positive effects on the companies’ image and reputation which can influence the companies’ competitiveness (Gray and Balmer, 1998).

Further, CSR is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of business (Whetten et al., 2002). CSR can include benefits such as improved perceptions of the company, management of risk, building loyalty-based customers on account of distinctive ethical values, building a genuine culture of ‘doing the right thing’ within the organization (Kanji and Chopra, 2010). CSR is a concept which refers to a profit-maximizing corporate strategy that can be regarded as socially responsible at the
same time (Baron, 2001). Therefore, Weber (2008) summarized business benefits from CSR can be classified into monetary and non-monetary benefits for companies.

Another, a few points should to discuss extensively. From table 3.1, it suggests that OM for both two countries is positively associated with CSR disclosures. However, table 3.3, when running by regression analysis shows there is no effective relationship between CSD and OM for both two countries.

The argument for a negative relationship follows the thinking of those such as Friedman (1970) and other economists such as Porter and Kramer (2006). According to their view, CSR has a competitive disadvantage because there is not business can solve all of society’s problems or bear the costs of doing so.

In common, once a controversy has arisen about the CSR disclosure, for example the cost of companies to carry out CSR is more than the result of benefits, companies will not improve CSR. In other words, stakeholders in the company decided the level of CSR disclosure. Carroll (1979) suggests that CSR is fully achieved only when all areas are met, economic responsibility lies at the first. Friedman (1999) analyzed the responsibilities of managers. He took focus on the duality of power and property for stakeholders’ corporate accountability. That mean the two-way communication processes between CSR and stakeholders include one key question- whether CSR disclosure is linked to operating performance positively.

Friedman (1999) argued that social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system. His view is that the free market cannot solve the social problems, the government and legislation should do the job. The CSR is to Increase Profits (Friedman, 1999). Whetten et al., 2002 argued that it might be incorrect to think that high level of CSR disclosures which constitutes by societal expectations of corporate behaviors that is alleged by a stakeholder to be expected by society or morally required. In some ways, because many other factors which might interpret additional effectiveness for enterprises can also effect the operating performance
complexity, for example, the level of economic development of a country, financial crisis, culture and policy etc. Jem (2005) makes an analysis of this situation, which is due in part to the fact that a key impetus for CSR comes from a corporation’s need to manage the risks of its reputation being damaged due to the influence of the media, consumers, investors, staff, and regulations.

In my opinion, CSR disclosure might have a relevant role for operating performance. Because the main finding of this study proposes that there is a positive linkage, since companies who has high CSR disclosure, usually has high ROE and OM. (Graphs H&M and Joeone). Moreover, CSR can become an investment tool for the company's future operating performance because Swedish companies have higher average CSR disclosure, also have higher average ROE (see graph 2).

However, it can’t neglect the fact that other factors such as stakeholders’ protection, legal enforcement etc. can also influence the CSR quality and managers behavior. Although there is a positive finding, the statistical significance still can’t describe this relationship clearly. In the previous sections, the regression analysis showed that there is no effective relationship between CSR disclosure and OM in both Sweden and China. Even though the other result about CSD and ROE show a positive correlation coefficient, they are nevertheless not statistically significant. And under long-term and short-term period, the relationship between CSR disclosure and operating performance is different. Therefore, Porter & Kramer (2006) suggest that what kind of relationship between CSR and some performance dimensions is still not clear. Also, the Kappahl’s graph and Hongdou’s graph show the result that high CSR disclosures can’t always lend the high ROE and OM.

To sum up, the same as Margolis and Walsh (2003): there are mixed results between Corporate Social Performance and Corporate Financial Performance. The relationship between CSR disclosure and operating performance is mixed. The results can be changeable due to methodological questions or different measurements. A more probable result is that CSR disclosure is related to operating performance. Generally, for different countries, CSR disclosure will not hurt the company. Mostly, it can help companies’ operating performance.
5.2. Differences analysis
5.2.1. Differences in the relationship

The results from Table 3.1 and 3.3, 3.4 shows that related coefficients which are interpreted the relationship are much higher in China, much lower in Sweden. The results of comparison are ROE SE 0.277< ROE CN0.424; OM SE0.462<OM CN0.541. Since the P value (P ROE SE0.0221> P ROE CN in regression analysis, it suggests there is a stronger positive association in China than Sweden.

In order to understand why these differences exist in these two countries, firstly, needs to notice that Swedish companies have higher average CSR disclosure level than Chinese companies (See Graph 2). The maximum of CSR disclosure of Sweden is 20, much higher than the maximum (10) of Chinese companies (See Table 3.2).

One of the reasons for Chinese companies have lower CSR disclosure is that for developing countries, the apparel industry has been frequently criticized for its abuses of labor in the form of sweatshops (usually in developing countries) (Diranbach, 2008). Another, many literatures examined CSR of developing countries are facing challenges in adopting voluntary labor standards and disclosure the CSR reporting. A study by Zhao and Gu (2009), although the situations of CSR in apparel industry in China are getting better, however, considering the heavy work load, increasing living cost, and firm’s financial difficulty caused by macroeconomic factors, the garment industry’s decent work is still a big challenge. Gupta (2012) suggested that in developing countries, apparel manufacturers lack trained personnel, information on CSR implementation and benefits, as well as face insufficient infrastructures for initiating CSR. Therefore, it is difficult to adhere to standards imposed by retailers from developed countries (Gupta, 2012).

The apparel industry is widely recognized as a truly global industry. In apparel industry, CSR has gained extensive ground; as some authors suggest that a philosophy that balances ethics/
morality with profitability, which is achieved through accountability-based business decisions and strategies and a desire for outcomes that positively affect, or do very little harm to, the world and its people (Dickson & Eckman, 2006, p. 188). However, due to more and more competitive trade environment. The trend of global apparel industry is becoming lower prices and thinner margins. Although CSR is increasing in the apparel industry, according to a 2005 European Commission report (EC, 2005), CSR activities vary considerably across countries (Gray et al., 1996). One emerging explanation for this suggested by Adams (2002), there is a need to take into account the complexity of external and internal factors that might lead organizations to report on their CSR.

With respect to the business and financial culture, there are certain differences across countries in the way business is conducted and in their supporting financial markets (Zeff, 2007). According to Gross & Rayner (1985) defined “a set of plans, instructions, rules or a means of social accounting” can represent cultures. This literature also points towards the possibilities of more diverse and varying explanations of CSR reporting and the need to reflect of social culture theory explanations.

Particularly, culture has a significant impact on managers’ attitudes towards ethics in business, and that the managers’ attitudes are governed by personal integrity (Christie, Kwon, Stoeberl & Baumhart, 2003). In considering these studies, the reason of the differences between CSR disclosures in two countries may come from different social and environmental conditions.

Another reason is that there are different stakeholders in two countries. First, an explanation informed by Bebbington et al., (2008), CSR disclosure may be possible to link particular stakeholder groups. Fact is there has been the new and complex social responsibility which is presented as the consideration of the expectations of the stakeholders and all the consequences decided by stakeholders. In developed countries such USA, CSR is a voluntary concept (Caroll, 1979).
In EU, a new policy on CSR is changing from “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”, to be “the responsibility of enterprises for their impacts on society” (European Commission, 2011). In other words, if managers have relevant knowledge on corporate social disclosures, it will help them to get information which is relevant to their benefits (Godfrey Merrill and Hansen, 2009).

Swedish companies that have high ambitions and clear guidelines in social and environmental responsibility enjoy a competitive advantage at international level.\(^4\) Evidences for above conclusion are that five Swedish companies in the paper, each one have many pages and very complete CSR reporting. On the contrary, five Chinese companies have not their own CSR reporting. Most information of CSR in the companies’ annual reports and homepages are mentioned as contributions. A 2006 survey on attitudes of 890 companies in China, both state-owned, private and multinational, found that there was awareness and activity, but also that “most of them have mistaken ideas about CSR”, including the fact that CSR is being seen as similar to charity (Qingfen, 2006, p. 11). Another, compare to Sweden, CSR disclosure in China has lower disclosure level. One reason is CSR belongs to the category of voluntary.

Secondly, the achievement of CSR disclosure like the Carroll (1979) suggests that CSR is fully achieved only when all areas are met, economic responsibility lies at the first. The company’s goal is to create profit for stakeholders, but before company can make profit, company should have the legal existence permit (Carroll, 1991). Because average CSR in Sweden is much higher than average CSR in China, according to Callroll’s pyramid theory,

Swedish companies lie higher than Chinese companies in the pyramid. Using Zheng (2006)’s studies and considering previous discussion, in my point of view, Swedish companies are not only satisfied to maximize economic benefits, but also to create as many social benefits, including tax law, conserve resources, protect the environment and provide employment opportunity to safeguard the legitimate rights and interests of employees and consumers.

Forster and Fox (2007) argue that ethical investment and social responsibility are two different things. Frost (2008), suggest that, unlike in western countries, Asian companies do not experience pressure from consumers to be socially responsible. Instead, these companies try to adhere to a code of conduct because buyers (retailers) demand it. The authors also concluded that large corporations are more easily able to overcome these obstacles, while small companies face a greater degree of difficulty in adopting socially responsible practices. Asian companies are not aware of studies suggesting that CSR does not have to limit profits and can differentiate a firm’s products within the market without compromising profit (Welford & Frost, 2008). Following these theories, one reason of differences between Chinese companies and Swedish companies can be explained by environmental responsibility. Since Chinese companies have more employees, shops and market capital than Swedish companies-except H&M (See Table2.1, 2.1), thus, for Chinese companies the economic motive of to achieve better CSR disclosure need more power to develop than the Swedish companies.

In sum, compared to China, all Swedish companies are good at CSR. That is why the relationship be interpreted is much lower in Sweden because there is no competitive advantage. On the other hand, compared to Sweden, Chinese companies have low CSR scores; therefore, CSR could be competitive advantage and raise the ROE, OM. In other words, maybe a small change on CSR disclosure can make a bigger difference on ROE or OM. This can also means Chinese companies have more development potential on the CSR performances and still has more unclear questions or problems to face to. Since the CSR level is lower, Chinese companies improve the CSR performances will be able to see more effectiveness on operating performance.
5.2.2 Differences over time

The changes over time by each company are different when compare these two countries. For five years, the ROE of five Swedish companies decrease, three Swedish companies’ OM decrease and two of them increase. For Chinese companies, one company’s ROE increase, four companies’ ROE decrease. Three Chinese companies’ OM increase and two of them decrease (see graph 1).

These differences might serve the argument that the relationship between CSR disclosure and operating performance is different under long-term. An example is KappAhl (see graph 1), even though company have high CSR disclosure, but the trend of ROE get lower.

Therefore, the relationship between CSR disclosure and operating performance can and does vary considerably. Certain factors (time and country differences) can influence this relationship. Even to analyze the association between CSR and economic performance have been chosen by many authors (Turker, 2009, McWilliams and Siegel, 2000). Still until today, there is still no unanimous and extensive conclusion even through the researchers such as Carroll (1985), McWilliams & Siegel (2000), Orlitzky (2003) (See table 1).

More recently, Siegel and Vitaliano (2007) performed an empirical investigation concerning the determinants of strategic CSR and also showed some reporting evidence of economic benefits derived from strategic CSR. However, relationship between CSR and operating performance is different under long-term and short-term period. What kind of relationship between CSR and some financial performance dimensions (McWmiams and Siegel, 2001; Porter & Kramer, 2006) is still not clear.

Further, Margolis and Walsh (2003) found mixed results in their meta-investigation of 127 multiple regression studies that analyzed the relationship between corporate social performance and corporate financial performance between year 1972 and 2002, they still
concluded that a positive relationship predominated. However, they criticized the inconsistent use of variables and methodologies used in the research (Margolis and Walsh, 2003).

To understand the link between CSR disclosure and operating performance better, it is important to know why OM between two countries did not show the evidence. The most common reason for high operating margins relative to competitors is a low-cost operating model, which means that a company can deliver merchandise or services to customers at much cheaper prices than competitors and still make money. Compare to Swedish companies, Chinese companies have higher OM may because companies are supported by low-cost operating performance. Joshua Kennon (2006) analyzed an example case of Wal-Mart, which is able to get everything from toothpaste to socks into its store at far lower prices due to the efficiency of its warehouse distribution system. He supports his arguments that low-cost operating performance is only can make money in an otherwise unattractive industry. Therefore, even though there is no evidence of the positive impact of OM and CSR disclosure in both two countries by regression analysis, the reasons why this relationship interpreted in China is much higher than Sweden is still unclear. It can also depend on other reasons, for example, low-cost operating performance cause high OM for Chinese companies.

To sum up, there are a lot of current researches which are analyzing the link between CSR and operating performance, very few believed that engaging in CSR can have a negative impact even some changes over time.

6. Conclusion

Business organizations are expected to adopt CSR both in thinking and practice in order to increase their challenges for global sustainable development (Brown and Fraser, 2006). One of the consequences of the globalization of business enterprises is that companies have stakeholders not just in their home country but also in all the countries where they operate (Saudagaran, 2001). Until now, many countries have already realized that they need to disclosure their CSR as an important part of their financial reporting package.
The present study have examined relationship between the level of corporate social disclosure and corporate operating performance in Swedish and Chinese apparel companies by analyzing the CSR scale and ROE, OM of 5 years’ data. It is difficult to draw any strong conclusions because the research questions could be addressed in various ways.

In the previous sections, between two countries, the differences cover many factors such as economic, cultural, legal, political, religion, beliefs, values and others, stakeholders’ different demands might impact the level of CSR disclose. Although the results show some positive correlation, they are nevertheless not statistically significant and it is still difficult to find the clear results.

Due to the information access limitations, this study is only focused on ten companies in the same industry (five Swedish companies and five Chinese companies which mean that it is difficult to draw any general conclusions across the different industries. It is also difficult to find reliably results with small samples.

It must be noted that the findings in this study are obviously based on a one-time analysis of only ten companies, so this would need to be extended and deepened. In order to support the generalizability of the study, it is necessary to obtain a broader insight into developments and an analysis of a larger sample, possibly covering other sectors as well. The greater amount of data available also can help to get better exploration of determinants of CSR disclosures.

According to Holder-Webb et al., (2009), the size of firm is one of the factors which caused differences in reporting. Thus, different size of firm will affect the incentives for disclosure which might affect the quality of financial reporting. Moreover, different national cultures will affect the incentives for disclosure which might affect the quality of financial reporting. Another limitation is that the way to collect the data from CSR scale table may contain some
personal judgments. This can affect the data validity negatively (Bryman and Bell, 2011). All the data for the study contains annual reports which could affect the study’s stability negatively (Bryman and Bell, 2011).

This study is also limited in that all the data are from listed companies’, under the pressure of public opinions, some companies may disclosure the good CSR information for consumers, suppliers, stakeholders, regulatory and authorities to avoid some truth. Thus, if future research should increase the credibility of the data, it could be by using interviews, surveys to get the first hand information. Also, researchers can expand to the small or medium-sized companies especially private companies if possible. Some indicators are difficult to quantify, some value is difficult to calculate and the sample size (ten companies) is not big enough, these need further study.
References

Articles:


Hayek .F. V.1939, Profits, interest and investment, First Edition 1939 (London: George Routledge & Sons Ltd.)


Karnani, A. 2010, “The Case against Corporate Social Responsibility,”


Stefano Zambon, Adele Del Bello, 2005, "Towards a stakeholder responsible approach: the constructive role of reporting," *Corporate Governance*, Vol. 5 Iss: 2, pp.5 and 130 - 141


Websites
http://www.csr-china.net/templates/node/index.aspx?nodeid=39dc8010-662b-44e2-aeb3-24957bc92b6&page=contentpage&contentid=0ba8e1d9-5a7b-4e76-b9c7-a761b64ca633
http://www.wtoguide.net
http://www.bsr.org

Database with annual reports: http://www.ar.fek.se/index.asp, 2013-05-01
Chinese companies’ annual reports http://money.163.com/stock/
http://quotes.money.163.com/0600884.html#2a02 Last accessed 18th July 2013
http://quotes.money.163.com/0601566.html#2a02 Last accessed 18th July 2013
APPENDIX 1: CSR Scale

Notes 1:
1= the company mentions specific information in their corporate social report
0.5= the company mentions general information in their corporate social report which can also use for other company
0= the company does not mention any information in their corporate social report.

After calculating the total mark comparing the scale as followings:
Level “bad” =0-5.5
It is shown that in the particular substantial report of the company, the level of CSR is bad.
Level “good” =6-11.5
It is shown that in the particular substantial report of the company, the level of CSR is good.
Level “very well”=12-17.5
It is shown that in the particular substantial report of the company, the level of CSR is very well.
Level “excellent” =18-22 It is shown that in the particular substantial report of the company, the level of CSR is excellent.

1.1 CSR Scale (Companies in Sweden)

| C | H2 | H1 | H0 | H9 | H8 | K2 | K1 | K0 | K9 | K8 | B2 | B1 | B0 | B9 | B8 | M2 | M1 | M0 | M9 | M8 | R2 | R1 | R0 | R9 | R8 |
|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| 1 | 1  | 1  | 1  | 0.5| 0.5| 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0.5| 1  | 0.5| 0.5| 0.5| 0.5| 0.5| 1  | 0.5| 0.5| 0.5| 0.5| 0.5|
| 2 | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0.5| 1  | 0.5| 0.5| 0.5| 0.5| 0.5| 0  | 0.5| 0.5| 0.5| 0.5| 0.5|
| 3 | 1  | 1  | 1  | 0.5| 0.5| 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0.5| 1  | 1  | 0  | 1  | 0  | 1  | 1  | 1  | 1  | 0  | 0  |
| 4 | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0  | 1  | 0  | 0  | 0  | 0  | 0  | 1  | 0  | 0  | 0  |
| 5 | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  |
| 6 | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 0  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 1  | 0  | 0  | 0  |
| 7 | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 1  | 0  | 1  | 1  | 1  | 0  | 0  | 0  | 1  | 0  | 1  | 1  | 1  | 1  |
| 8 | 1  | 1  | 0.5| 0.5| 0.5| 1  | 1  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 1  | 0  | 0  | 0  |
| 9 | 1  | 1  | 1  | 0  | 1  | 1  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 1  | 0  | 0  |
| 10| 1  | 1  | 1  | 1  | 1  | 0  | 1  | 1  | 1  | 1  | 0  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 1  | 1  | 1  |
| 11| 1  | 1  | 1  | 1  | 1  | 0  | 1  | 1  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  |
| 12| 1  | 1  | 1  | 1  | 1  | 0  | 1  | 1  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  |
| 13| 1  | 0  | 1  | 0  | 0  | 1  | 1  | 1  | 1  | 1  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 0  | 1  | 0  | 0  |

47
<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes 2:

C= Criteria/Company


M2=MQ2012 M1=MQ2011 M0=MQ2010 M9=MQ2009 M8=MQ2008

R2=RN2012 R1=RN2011 R0=RN2010 R9=RN2009 R8=RN2008

T=Total

1= Community-local 2= Community-global 3= Compensation-executive
4= Customer satisfaction 5= Diversity-workforce 6= Diversity-management
7= Employees-fair-pay jobs 8= Employees – profit sharing
9= Trade union relation 10= Contract workers 11= Human rights

48
12= Environment-proactive 13= Environment-reactive
14= Product-quality 15= Product-innovation 16= Marketing practices
17= Law aiding 18= Safety 19= Transparency
20= Return to shareholder
21= Growth 22= Scandal

1.2 CSR Scale (Companies in China)
|   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 |
|---|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|
| 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 0.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | 0.5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 17 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 19 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

H2=Hongdou2012 H1=Hongdou2011 H0=Hongdou2010 H9=Hongdou2009 H8=Hongdou2008
S2=Shanshan2012 S1=Shanshan2011 S0=Shanshan2010 S9=Shanshan2009 S8=Shanshan2008
Y2=Youungor2012 Y1=Youungor2011 Y0=Youungor2010 Y9=Youungor2009 Y8=Youungor2008

1= Community-local 2= Community-global 3= Compensation-executive
4= Customer satisfaction 5= Diversity-workforce 6= Diversity-management
7= Employees-fair-pay jobs 8= Employees – profit sharing
9= Trade union relation 10= Contract workers 11= Human rights
12= Environment-proactive 13= Environment-reactive
14= Product-quality 15= Product-innovation 16= Marketing practices
17= Law aiding 18= Safety 19= Transparency
20= Return to shareholder
21= Growth 22= Scandal
2.1 Yearly correlation coefficients of ROE, Operating Margin (Companies in Sweden)

<table>
<thead>
<tr>
<th>Company</th>
<th>Sample</th>
<th>CSR Scale</th>
<th>Folksam Scale</th>
<th>ROE % *1</th>
<th>Operating Margin % *3</th>
</tr>
</thead>
<tbody>
<tr>
<td>H&amp;M</td>
<td>2012</td>
<td>18.5</td>
<td>4.41</td>
<td>38.40</td>
<td>18.00</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>2011</td>
<td>16.5</td>
<td>4.27</td>
<td>35.80</td>
<td>18.50</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>2010</td>
<td>13</td>
<td>8.68</td>
<td>44.10</td>
<td>22.70</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>2009</td>
<td>12.5</td>
<td>9.38</td>
<td>42.20</td>
<td>21.30</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>2008</td>
<td>11</td>
<td>9.45</td>
<td>44.30</td>
<td>22.70</td>
</tr>
<tr>
<td>KappAhl</td>
<td>2012</td>
<td>15</td>
<td>3.82</td>
<td>(25.87)</td>
<td>(1.40)</td>
</tr>
<tr>
<td>KappAhl</td>
<td>2011</td>
<td>20</td>
<td>4.46</td>
<td>13.08</td>
<td>4.50</td>
</tr>
<tr>
<td>KappAhl</td>
<td>2010</td>
<td>20</td>
<td>8.28</td>
<td>54.13</td>
<td>10.80</td>
</tr>
<tr>
<td>KappAhl</td>
<td>2009</td>
<td>19.5</td>
<td>7.86</td>
<td>83.14</td>
<td>10.80</td>
</tr>
<tr>
<td>KappAhl</td>
<td>2008</td>
<td>19</td>
<td>7.96</td>
<td>83.81</td>
<td>14.10</td>
</tr>
<tr>
<td>Björn Borg</td>
<td>2012</td>
<td>8.5</td>
<td>3.12</td>
<td>13.72</td>
<td>12.70</td>
</tr>
<tr>
<td>Björn Borg</td>
<td>2011</td>
<td>7.5</td>
<td>0.91</td>
<td>25.23</td>
<td>15.60</td>
</tr>
<tr>
<td>Björn Borg</td>
<td>2010</td>
<td>7.5</td>
<td>4.03</td>
<td>21.24</td>
<td>23.50</td>
</tr>
<tr>
<td>Björn Borg</td>
<td>2009</td>
<td>6.5</td>
<td>3.39</td>
<td>17.55</td>
<td>21.70</td>
</tr>
<tr>
<td>Björn Borg</td>
<td>2008</td>
<td>7</td>
<td>3.27</td>
<td>23.97</td>
<td>24.50</td>
</tr>
<tr>
<td>MQ</td>
<td>2012</td>
<td>3.5</td>
<td>0.95</td>
<td>7.31</td>
<td>6.40</td>
</tr>
<tr>
<td>MQ</td>
<td>2011</td>
<td>3.5</td>
<td>0.4</td>
<td>9.31</td>
<td>8.10</td>
</tr>
<tr>
<td>MQ</td>
<td>2010</td>
<td>3</td>
<td>1.35</td>
<td>9.14</td>
<td>10.10</td>
</tr>
<tr>
<td>MQ</td>
<td>2009</td>
<td>2</td>
<td>1.07</td>
<td>12.40</td>
<td>7.30</td>
</tr>
<tr>
<td>MQ</td>
<td>2008</td>
<td>3.5</td>
<td>1.2</td>
<td>24.42</td>
<td>5.20</td>
</tr>
<tr>
<td>RNB Group</td>
<td>2012</td>
<td>10</td>
<td>2.73</td>
<td>(52.80)</td>
<td>6.40</td>
</tr>
<tr>
<td>RNB Group</td>
<td>2011</td>
<td>10</td>
<td>2.31</td>
<td>(46.40)</td>
<td>14.40</td>
</tr>
<tr>
<td>RNB Group</td>
<td>2010</td>
<td>9.5</td>
<td>5.04</td>
<td>2.10</td>
<td>1.60</td>
</tr>
</tbody>
</table>
### Financial data in SEK Values in Millions

*1 Return on Equity = Net Income / Shareholder's Equity

* 2 Gross Margin = Gross Profit: Revenue - Cost of Goods Sold / Revenue

* 3 Operating Margin = Operating Income: EBIT / Revenue

**Sample** = year of annual report  
**CSR Scale** = refer to Appendix

#### 2.2 Yearly correlation coefficients of ROE, Operating Margin (Companies in China)

<table>
<thead>
<tr>
<th>Company</th>
<th>Sample</th>
<th>CSR Scale</th>
<th>ROE% *1</th>
<th>Operating margin %*3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanshan</td>
<td>2012</td>
<td>2</td>
<td>3.84</td>
<td>4.18</td>
</tr>
<tr>
<td>Shanshan</td>
<td>2011</td>
<td>2</td>
<td>4.45</td>
<td>6.01</td>
</tr>
<tr>
<td>Shanshan</td>
<td>2010</td>
<td>1.5</td>
<td>3.86</td>
<td>4.93</td>
</tr>
<tr>
<td>Shanshan</td>
<td>2009</td>
<td>1</td>
<td>2.40</td>
<td>4.33</td>
</tr>
<tr>
<td>Shanshan</td>
<td>2008</td>
<td>2</td>
<td>2.73</td>
<td>2.66</td>
</tr>
<tr>
<td>Youngor</td>
<td>2012</td>
<td>4</td>
<td>11.18</td>
<td>19.40</td>
</tr>
<tr>
<td>Youngor</td>
<td>2011</td>
<td>4</td>
<td>13.17</td>
<td>21.13</td>
</tr>
<tr>
<td>Youngor</td>
<td>2010</td>
<td>4</td>
<td>17.57</td>
<td>23.43</td>
</tr>
<tr>
<td>Youngor</td>
<td>2009</td>
<td>2.5</td>
<td>20.96</td>
<td>33.71</td>
</tr>
<tr>
<td>Youngor</td>
<td>2008</td>
<td>3.5</td>
<td>15.98</td>
<td>20.35</td>
</tr>
<tr>
<td>Meters/bonwe</td>
<td>2012</td>
<td>6.5</td>
<td>20.56</td>
<td>9.40</td>
</tr>
<tr>
<td>Meters/bonwe</td>
<td>2011</td>
<td>4.5</td>
<td>29.23</td>
<td>14.54</td>
</tr>
<tr>
<td>Meters/bonwe</td>
<td>2010</td>
<td>4</td>
<td>22.75</td>
<td>12.84</td>
</tr>
<tr>
<td>Meters/bonwe</td>
<td>2009</td>
<td>3</td>
<td>20.2</td>
<td>10.76</td>
</tr>
<tr>
<td>Meters/bonwe</td>
<td>2008</td>
<td>3</td>
<td>22.7</td>
<td>18.63</td>
</tr>
<tr>
<td>Joeone</td>
<td>2012</td>
<td>10</td>
<td>15.22</td>
<td>29.21</td>
</tr>
<tr>
<td>Joeone</td>
<td>2011</td>
<td>9</td>
<td>13.02</td>
<td>26.50</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>8</td>
<td>39,65</td>
<td>25.06</td>
</tr>
<tr>
<td>-------</td>
<td>------</td>
<td>-----</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Joeone</td>
<td>2009</td>
<td>8</td>
<td>49,25</td>
<td>18.16</td>
</tr>
<tr>
<td>Joeone</td>
<td>2008</td>
<td>8</td>
<td>51,45</td>
<td>16.58</td>
</tr>
<tr>
<td>Hongdou</td>
<td>2012</td>
<td>3,5</td>
<td>1,33</td>
<td>3.02</td>
</tr>
<tr>
<td>Hongdou</td>
<td>2011</td>
<td>3,5</td>
<td>2,5</td>
<td>4.43</td>
</tr>
<tr>
<td>Hongdou</td>
<td>2010</td>
<td>3</td>
<td>4,8</td>
<td>4.97</td>
</tr>
<tr>
<td>Hongdou</td>
<td>2009</td>
<td>2,5</td>
<td>2,13</td>
<td>3.58</td>
</tr>
<tr>
<td>Hongdou</td>
<td>2008</td>
<td>2,5</td>
<td>3,3</td>
<td>4.80</td>
</tr>
</tbody>
</table>

* Financial data in CNY Values in Million
*1 Return on Equity = Net Income/Shareholder's Equity
* 2 Gross Margin = Gross Profit: Revenue –Cost of Goods Sold / Revenue
* 3 Operating Margin = Operating Income: EBIT / Revenue
Sample= year of annual report       CSR Scale= refer to Appendix
Appendix 3

The Folksam group index report of social responsibility

The Folksam group

The Folksam group is one of the largest insurance companies in Sweden, constituted by two mutual companies, Folksam Sak and Folksam Liv. To be mutual means that the Folksam group is owned by customers and possible profit will stay within the company instead to shareholders. The concern has its root traced back to the early 1900, by providing insurances to low-income people in the Swedish market. Today, the concern is also offering other products, e.g. savings and loans in Sweden.

Regarding social responsibilities, the concern has engaged in activities, researches and information with a goal to reach a social sustainability in long-term. (Folksam, 2012) In 2011, Folksam’s car and home insurances are recognized as the first eco-insurances in Sweden because of the high standards in their capital management, repair methods and environmental advice to their customers. (naturskyddsforeningen, 2011)

The index report of social responsibility

The index report of social responsibility released annually by Folksam is a survey of analyses regarding the corporate social responsibility reports published by Swedish listed companies, whereas the focus is on areas such as environment and human rights. According to Folksam, the objective of the report is “to inspire more companies to take greater responsibility and become more actively engaged in work on the environment and human rights” (Folksam, 2009).

The analysis is based partly on the information provided by the companies on their homepages or through published reports, mainly the companies’ financial statements and contingent CSR disclosures; and partly from the reports of GES investment services (GESIS). GESIS provide advisory services and analysis about results and preparation works of a company’s CSR engagement in the financial market. Thereafter, Folksam follows some criterion derived from principles conducted by Global Compact and guidelines for multinational companies by OECD to arrange rankings to the companies. (Folksam, 2010)
Preparation work is defined as how a company deals with risks concerning environmental and human rights issues through its business impact. Moreover, the companies are expected to perform their works for environment and human rights in accordance to the principles and guidelines. (Folksam, 2010)

The ranking system constitutes five components to be evaluated respectively into two segments. For environmental issue, it includes three components, such as environmental management and environmental performance. In the area of human rights, the analysis is based on employees, contribution to societies and suppliers with performance code and disclosures. Additionally, Folksam puts emphasize on management in order to achieve a continuous enhancement of CRS in respective company (Folksam, 2010).

In order to range, highest score with 7 points to lowest score with 0 point will be set to each company depending on how they achieve separately in these two segments with the five components. In addition, a higher score will be delivered if a company has other obvious indications with good preparation work through such as effective management, policies and programs. (Folksam, 2010)

In the report it also contains an analysis reflecting the degree of environmental efforts and human rights work companies conducted within same industry as whole. (Folksam, 2010)