

# INFLUENCES OF SOCIAL TIES ON FIRMS' PERFORMANCE A STUDY IN VIETNAM ON CORPORATE SOCIAL RESPONSIBILITY PRACTICES

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## ABSTRACT

Social ties and their influences on firm's performance are still issues of many debates. The reason is that previous studies gave different findings about the effects of social ties on firm's performance. This study, therefore, focuses on finding what managers in construction firms perceive of social ties in their business and how these ties affect corporate social responsibility (CSR) practices – an aspect of firm's performance. To address these research objectives, qualitative approach is employed and in-depth interview with managers in construction firms is conducted to collect the data. Furthermore, the study also explores how managers think of CSR changes in the near future. The research findings show that interviewees strongly believe in CSR changes including both internal and external changes. In terms of social ties, the research also identifies government authorities and professional associations; and business partners as political and business ties, respectively. The findings show that managers easily realize business ties and their effects on CSR practices. Meanwhile, only some managers with years of seniority can perceive of political ties and their effects. The research findings also suggest some noteworthy issues for the authorities of the industry to consider including lack of information among managers about firm's aspects and relationships, and the significance of professional associations (a type of political ties) although these ties currently have no influences on CSR practices of construction businesses.

**Keywords:** Corporate social responsibility (CSR); developing countries; influence; social ties; Vietnam.

## 1. Introduction

Achievement of operational targets always challenges firms to better the performance of their organization. Therefore, firms have been trying to use all resources and capabilities to build synergies to achieve higher performance. In a recent study, Dong, Li et al. (2013) confirmed that firms are increasingly using social ties – a type of internal capability to contribute to firm's performance. That is why firms are always trying to build up connections with other firms and government authorities in the process of running their business. These connections are called social ties. Social ties can be defined as a connection of a firm's internal resources and operations with external networks, which in turn affects the

effectiveness with which a firm can leverage capabilities for superior performance (Dong, et al., 2013; Sheng, Zhou, & Li, 2011).

Corporate social responsibility (CSR) practice is one aspect of firm's performances. In Vietnam, CSR is still a new concept to businesses and difficult to implement (Long, 2015). According to a study in 2008, some business people have never heard about this, while some others have never been trained in CSR (Thang, 2008). CSR practice in business organizations has not yet been a priority issue in business strategy; or it is simply regarded as charity activities (Long, 2015). This originates from the unawareness of this concept and of how to put it into practice. This fact drives to the necessity of exploring how CSR is evaluated in firms by real

managers and how they think of CSR changes in the near future.

In emerging economies, the effects of social ties (ST) on firm's performance are discussed in recent studies (Luo and Chen 1997, Davies et al 1995, Tsang 1998, Yeung and Tung 1996 cited in Dong, et al., 2013; Peng & Luo, 2000; Sheng, et al., 2011). However, the influences of ST are still under debate because some other scholars argue that these effects are now decreasing (Lau, Tse and Zhou 2002 cited in Dong, et al., 2013). That leads to the need of finding more evidence of whether ST has any impacts on the aspects of firm's performance.

Because of the possible influences of ST on CSR practice, it is really necessary to explore how ST impacts CSR practices. Accordingly, this paper aims to investigate real managers' view on (1) How do CSR practices change in the construction industry and in their construction firms within the next five years?; (2) What does ST mean in construction business?; and (2) How do these ST impact CSR practices in the studied firms?

The research findings show that Vietnamese managers do not have enough information to depict all aspects of CSR practice in their company. However, they have quite a clear view on CSR changes in the near future. Despite the obvious impact of social ties on CSR practice and business performance, the managers, especially young ones, found political ties more incomprehensible than business ties. The next part respectively reviews the literature of ST and CSR.

## 2. Research background

Through economic activities, social ties are very pivotal and can be considered as the informal governance for coordinating exchanges of interpersonal relations (Sheng, et al., 2011). Social ties are a bridge between organizational members and external institutions (Kemper, Engelen, and Brettel 2011; Li, Zhou, and Shao 2009; Zhou and Poppo 2010, cited in Dong, et al., 2013). In

particular, Granovetter (1985), in his study, points out that social ties emerge as important mechanisms in coordinating channel activities through informal social mechanisms in emerging economies (Dong, et al., 2013). This bridge enables firms to secure resources and deal with uncertainties from the business environment. They do great help in overcoming challenges in doing business. On the other hand, social ties can be seen as *managers' boundary-spanning activities and their associated interaction with external entities* (Geletkanycz and Hambrick 1997, cited in Dong, et al., 2013). In particular, managers' social ties have positive impacts on market and financial performance, not only in advanced economies but also in emerging ones (Dong, et al., 2013; Peng & Luo, 2000; Sheng, et al., 2011). Based on business operation, business managers build their social ties not only with business partners, but also with government's officials (Sheng, et al., 2011).

According to the literature, there are two components in social ties including business ties and political ties (Dong, et al., 2013; Sheng, et al., 2011). Business ties are firm's informal, interpersonal relationships to its market, such as connectedness with competitors, buyer, customers, and business partners (Dong, et al., 2013; Sheng, et al., 2011). That connectedness helps managers to access and get information about the market and its changes. In a review conducted by Sheng, et al. (2011), scholars found that business ties provide firms with (a) crucial market information that may not available in the open market and information about trustworthy and untrustworthy partners; (b) facilitating knowledge transfer and acquisition, which can be integrated with existing knowledge to increase their absorptive capacity and knowledge utilization; (c) obtaining network legitimacy in a business community, that may attract business partner, facilitate transactions, and offers economic benefits.

Relationships with government officials at different levels of administration will assist managers in getting information about policies, or getting advantages by favorable policies in order to prepare for their firm operations (Peng & Luo, 2000). Such relationships are called political ties, which help firms obtain key regulatory resources (Dong, et al., 2013; Peng & Luo, 2000). Sheng, et al. (2011) summarized important points relating to benefits from political ties. They are (a) crucial access to policy and aggregate industrial information; (b) offering shorter way to approach scarce resources; and (c) improved political legitimacy which then helps firms get exclusive government endorsements and favorable treatments. Fernandez and Underwood (2006, cited in Dong, et al., 2013) pointed out that political ties are used to decode policies and regulations as well as future development plans and priorities.

The term ‘social ties’ is defined rather clearly while the term ‘corporate social responsibility’ is not. There is no clear definitions of CSR (Balasubramanian, Kimber, & Siemensma, 2005; Dahlsrud, 2006; Moir, 2001; Wan-Jan, 2006). Scholars are still debating over a shared definition. However, among CSR definitions, the one developed by Carroll (1979) is most widely accepted and employed in many empirical studies (Nalband & Kelabi, 2014; Wood, 2010). In his paper, Carroll (1979) documented and integrated the existing aspects in previous definitions into a definition which completely explains what CSR is.

*‘The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.’* (Carroll 1979, p. 500)

Carroll’s definition recommends 04 types of responsibilities: economic, legal, ethical and discretionary. Economic responsibility is about making profit, maximizing earning per share and maintaining a strong competition. Legal responsibility demands that business

operation should be conducted under laws and regulations. Ethical responsibility derived from ‘newly emerging values and norms’ and are not documented in laws or requirements. Finally, discretionary responsibility is optional, neither framed into law nor considered as ethical activities; it is what a business does to be a good citizen (Carroll, 1979)

Although CSR is not a new research topic in many developed countries, there is little scholarly and policy literature about CSR in developing countries like Vietnam. The pioneering study on CSR in Vietnam was undertaken in 2004. The report was performed by Ministry of Labor, Invalids and Social Affairs followed the program of technical assistance “CSR in Vietnam,” and financially and technically supported by the World Bank (Institute of Labour Science and Social Affairs, 2004). After this report, a series of studies conducted by Centre Franco – Vietnamien de Formation A la Gestion was published in 2008.

These studies obviously have limited their research to workforce issues, labor relations, and environmental concerns (Chinh, 2008; B. T. L. Huong, 2008; N. Huong, 2008; Nhu, 2008). Owing to these studies, the issue of CSR in Vietnam has been better understood as it raised awareness of such concerns. Additionally, the comprehension of CSR provided by “Vietnam Forum on CSR” is noted in terms of the relationship between corporate and multi-stakeholders, the focus on labor and environment issues, and the role of corporations in economic and social benefits of stakeholders. Unlike the research proposed here, those studies had one feature in common: there was a survey targeting management students in order to assess their perception about the CSR concept and CSR activities (Thang, 2008). The study findings asserted that CSR “is a nearly unknown concept in Vietnam” and CSR is not taught or introduced to business students. According to the survey results, corporate donations are considered as the main activity of CSR.

Also, researchers cannot find many studies on the relations between ST and firm's performance during their literature review. Indeed, there are only some studies focusing on ST (including business ties and political ties) and firm's performance. Studies which focus on the effect of ST on business performance found some significant issues. First, the value of channel capability is conditional social ties (Dong, et al., 2013). Second, both business and political ties have some effects on business performance; however, business ties have more positive effects on performance than political ties (Sheng, et al., 2011). Last, these ties were necessary but not good enough for effective performance, traditional business strategies play an important role in enhancing performance (Peng & Luo, 2000). Besides, the researchers cannot find any studies investigating ST and the relations between ST and corporate performance or CSR in Vietnamese business context. Therefore, this study helps to enrich the literature on this issue in an emerging economy.

### 3. Methodology

The main purpose of this study is to investigate what Vietnamese managers are aware of the existing social ties and how such ties impact CSR practices in their firm. Qualitative approach seems appropriate to help address proposed research objectives. A

series of semi-structured questions is used as a guideline in in-depth interviews. By this data collection method, respondents are allowed to expand on their answers (Miles & Huberman, 1994). Generally, the interviews were flexible with the intention to collect more comprehensive expressions from research participants (Minichiello, Aroni, & Hays, 2008). It helps to define their perceptions about ST and the influences of ST on CSR practices in their corporations. The sampling of this study is selected on purpose. The suitable informants are middle managers in corporations because they have much information about the firm's operation and relationships.

This study focuses on construction companies, especially on contractor corporations whose operations have a great impact on the society. The informants are middle managers, such as project managers, heads of project department or managers of sub-companies of nine construction companies (see table 1 and 2). Of these companies, there are seven contractors, one designing company and one producing construction material company. Businesses in the sample, large or small, are from different types of ownership, such as state-owned, joint stock and private ones (see table 2). All needed data was collected in the last six months of 2011.

**Table 1**  
Demographic information of interviewees

Manager	Position	Age	Gender	Years in management position
Manager A2	Head of subsidiary	1956	Male	16
Manager B2	Head of project department	1975	Male	4
Manager C2	Project manager	1982	Male	2
Manager E2	Head of HR department	1975	Female	<1
Manager F1	Project manager	1979	Male	5
Manager G1	Joint-stock	1980	Male	3
Manager H2	Head of subsidiary	1956	Male	18
Manager J1	Project manager	1982	Male	6
Manager K2	Head of Project department	1975	Male	6

**Table 2**

Main activities, size and ownership of studied companies

Company	Ownership	Main activities	No. of employees
Company A	Joint-stock	Design and consultant	213
Company B	Joint-stock	Contractor	150
Company C	Joint-stock	Contractor	3,200
Company E	State-owned	Contractor	1,500
Company F	Private	Contractor	3,000
Company G	Joint-stock	Contractor	50
Company H	Private	Construction manufacturer	>1,000
Company J	Joint-stock	Contractor	250
Company K	Joint-stock	contractor	94

#### 4. Research findings

The question “How do you think CSR has changed in the construction industry and in your company within the next five years?” is used in discussion with the respondents. The research findings show that Vietnamese managers do not get enough information to depict all aspects of CSR practice in their company. Yet, the managers are very clear about changes of CSR in the near future. It can be summarized in five themes to describe how CSR may change in the next 5 years from the respondents’ answers, namely: *becoming requirements, changes from the government’s policies, changes in people awareness, changes in business, and other changes.*

For the first two changes of CSR, interviewees think that CSR may become mandatory requirements, not only from customers and business partners but also from the government. The managers said CSR probably becomes a social trend so that every stakeholder could ask for CSR in business cooperation. For example, a head in a joint-stock corporation affirms that

*“It will definitely change because it is social trend...” (Research interview)*

Or a Deputy General Director explains

*“...investors will evaluate CSR practices of contractors, they will pay more attention. Currently, investors carefully examine the projects performed by contractors. However, the government will direct them by the laws*

*or rules to help them choose the right contractors. For example, in Singapore, the government requires that the investors follow the instruction for choosing contractors ... There are such requirements!” (Research interview)*

In particular, one manager highlights that CSR changes come from education. He explains that

*“...Therefore, there must be lessons in university curriculum teaching what all students who start working for a company must know. As they know, they can apply it in their jobs to clarify what is right or wrong.” (Research interview).*

However, two of the managers think that there would be no change in the near future. The explained that the education level and living standards in Vietnam are still low; importantly, CSR changes should accompany with those in the social life. This comment is given by a manager in a state-owned corporation.

*“...In my opinion ... I think ... it will not change, it will be the same as it is now. Why? This is because ... I realize that society is sluggish due to its mechanism.” (Research interview).*

It is difficult for managers, especially young ones, to answer the question ‘What is ST in your construction firm?’ and to give a comprehensive explanation about social ties in their firm. Particularly, only two aged interviewees with over-16-year working

experience could identify what political ties are. (See table 1). A young project manager bursts into laugh when answering this question, he said.

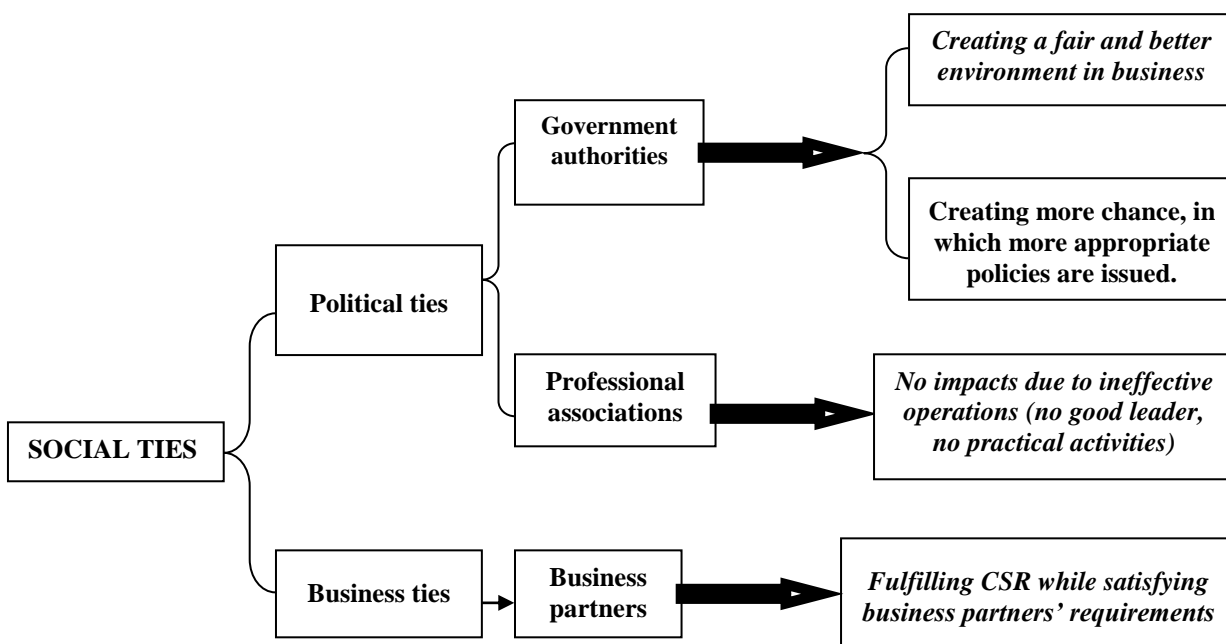
*“Political ties? How do I know? It is only my big boss who knows ...  
Business ties? I only know some as they are related to my duty ...”*  
(Research interview)

Apparently, lack of information can be regarded as the main reason why they are not aware of all ST exists in their corporation. However, they can recognize some political ties such as government authorities and professional associations; and business ties like business partners (e.g. investors, suppliers and sub-contractors) in CSR practice of their firm.

In terms of ST influences on CSR

practices in Vietnamese firms, participants are easy to realize and affirm the importance of business ties and their influence on CSR activities. Especially, they highlight that requirements from business partners can be satisfied by fulfilling CSR. For example, a young manager of a state-owned corporation explains the relationship between understanding CSR and meeting requirements of business ties as follows

*“... It is because investors coming here will ask us many requirements, such and such issues, such as green environment. What happens ... if we don't understand what CSR is ... Therefore, we have to learn from our investors, suppliers, and so on”*  
(Research interview).



**Figure 1.** Impacts of social ties on CSR practices

Apart from influences of business ties, respondents also highlight some significant impacts of political ties (government authorities and professional associations). First, a good relationship with government authorities help to *create a fair and better environment in business*, what business organizations can get from political ties is perceived as a very crucial issue in practicing CSR, especially in the context of ambiguous legitimacy in Vietnam.

*“I think, government authorities are significantly cardinal because it can foster or inhibit the development ... For example, creating a competitive environment which is fair and healthy is very pivotal, right?”* (Research interview)

Second, the relations with government authorities also help to create more chance, in which *more appropriate policies are issued*.

Regarding professional associations,

managers mentioned that activities proposed by those associations are not effective and seemingly, there is no impact of those associations on their operations. The reason for this argument is that those associations do not have good leaders and their activities are not practical to firms.

*However, professional associations' operations are so limited and their members are not good in occupation ... (Research interview)*

Participants also pointed out that the trend of involving CSR practices is just like a festivity, not from the firms' need. According to interviewed managers, those ties have no effect either on their operation or on CSR practice. Some interviewees even did not realize any effect of professional associations on their operations. For example, a project manager in a private contractor said

*"...Only top managers could know and participate in these associations; I do not know anything about them or their effects on our business or CSR practices ..." (Research interview).*

Identified social ties (political ties and business ties) and their impacts on CSR practice are summarized in Figure 1.

### **5. Discussion and concluding remarks**

From the research findings, changes in CSR practices can be categorized into *internal and external changes*. Internal changes are those from awareness, in business and in education. External changes include those from government, and CSR becoming requirements from customers, investors and the society. These external changes can be considered as a force of internal changes. However, some managers are not optimistic about CSR changes in the next 5 years. The root of CSR changes should originate from required living standards, therefore, the whole society needs changing together.

*Lacking information* seems to be the most important factor making managers properly aware of all the ties exist in their firm, especially political ties. This study suggests that only managers with years of seniority can realize their firms' political ties. It can be concluded that, the dissemination of corporate

information is not smooth, free and easy within firms. And, this proves the assumption that *"the longer you work, the more information you can get"* (Research interview).

Regardless of the impacts of social ties on CSR practices, all of interviewed managers can point out those from business ties. They can list many types of business ties (as analyzed in previous session), and explain in detail how each impacts their CSR performance. It can be concluded that business ties obviously have direct effects on firms' operations and CSR practices.

As for political ties, the pivot relations with government authorities are perceived. Respondents indicate the impact of relationship with government authorities on CSR practice and business performance. However, those with professional associations do not exist in interviewees' perspectives. This shows that the existence of professional associations is really significant to firms although they currently have no influences on firms' CSR practices. This issue becomes a serious question to the governance of the construction industry.

The research findings make two remarkable contributions. First, they help to enlarge the limited CSR literature in developing countries (Amaeshi, Adi, Ogbechie, & Amao, 2006; Gao, 2011; Lichtenstein, Badu, De-Graft, Edwards, & Holt, 2013; Mzembe & Downs, 2014). Second, they imply that both business ties and political ties have direct impacts on Vietnamese firms' operation. These findings differ from those from previous studies conducted by Dong, et al. (2013) and Sheng, et al (2011). Of the two political ties identified in the study, the tie with government officials has stronger influence on business life and CSR practices. Unlike previous studies, this study also finds that tie with professional associations considered as a pivotal impact, has not played their actual roles. The research findings provide us with more evidence for clarifying the effects of ST on firm's performance, particularly on CSR practice, which is still a controversial issue in recent studies■

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