

CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCES FOR MINING COMPANIES OF MONGOLIA

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Хураангуй: Сүүлийн жилүүдэд компаний санхүүгийн гүйцэтгэл болон компаний нийгмийн хариуцлагын тайлагналын асуудал чухлаар тавигдах болсон. Тэр тусмаа нийгмийн хариуцлага сайтай компанийн ашиг өндөр байдаг гэсэн судалгааны үр дүн гарсаар байгаа билээ. Энэ нь компанийн нийгмийн хариуцлагын тайлагнал компанийн санхүүгийн гүйцэтгэлд нөлөөлдөг гэдгийг харуулж байгаа юм. Гэвч Монгол улсад энэ төрлийн судалгаа хомс байгаа тул бид Хөрөнгийн биржид бүртгэлтэй уул уурхайн чиглэлээр үйл ажиллагаа явуулдаг 6 компанийн 2013-2017 оны мэдээллийг сонгон компанийн нийгмийн хариуцлагын тайлагнал болон компанийн санхүүгийн гүйцэтгэлийг харьцуулан судалгаа хийсэн. Бид судалгааны мэдээлээ Сангийн яам, Хөрөнгийн бирж, Олборлох үйлдвэрлэлийн ил тод байдлын санаачилга зэрэг байгууллагын сайтаас цуглуулсан. Бид судалгаанд хөрөнгийн өгөөж, зах зээлийн өгөөж зэрэг хэмжигдэхүүнүүдийг ашигласан. Судалгааны үр дүнд байгууллагын хүний нөөцийн зардал, нийгмийн хариуцлагын зардал нь компанийн зах зээлийг өгөөжид эерэг хамааралтай байсан. Харин санхүүгийн гүйцэтгэл нь байгаль хамгааллын зардалтай хамааралгүй гэсэн үр дүн гарсан. Энэ нь компанийн нийгмийн хариуцлагын асуудал компанийн ашиг болон компанийн зах зээлийн үнэд нөлөөлөлгүй байдаг гэдгийг харуулж байгаа юм.

Түлхүүр үгс: Компанийн санхүүгийн гүйцэтгэл, Компанийн нийгмийн хариуцлага, уул уурхайн компаниуд

Abstract: In recent years, there are increased empirical studies on the relationship between Corporate Financial Performance (CFP) and Corporate Social Performance (CSP). More academics perceive that the social responsibility of a business is to increase its profits. Based on the view many papers focus that how CSR has effects on CFP. The previous literatures with the relation between CSR and CFP show different results that are made in the different financial measures and different countries. There are not enough for study in case of Mongolia. Thus, the paper examines the relationship between CSR and CFP. Our study has covered 5 years' period during 2013 to 2017 for 6 mining companies listed on the MSE. The data is collected from database of Ministry of Finance Mongolia, Mongolia Stock Exchange and report for The Extractive Industries Transparency Initiative (EITI).

In this research, financial performance measures are ROA as accounting based measure and Tobin's Q as market based measure as used in the previous studies. Employee and public responsibility are significant positive impact on Tobin's Q. The result reports no significant relationship between environmental responsibility and CFP for mining companies. This suggests that CSR including environmental responsibility could not significantly influence on the profit and market value of companies. The future study relies on the different relationships between CSR and CFP.

Key words: Corporate Financial Performance, Corporate Social Performance and mining companies

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The voluntary and mandatory reporting in CSR is developing worldwide related to negative impact on society and the environment. The most studies conclude that firms low in social responsibility experienced weaker financial performance. Within the coming years, mining companies are under increasing pressure from its' stakeholders regarding the CSR. Especially in some countries which propose mandatory reporting on CSR from largest corporations in mining sectors. Under this impact, researchers started to investigate a potential linkage between CSR and financial performance. Studies results show different relation between variables which are caused by differences in selecting methodologies, approaches and selection of variables in sample of countries and sectors. Mongolia introduced reporting for EITI that mandates transparency reporting including some costs of CSR on Mongolian mining companies.

Although a large body of research has been devoted to investigating the relationship between CSR and financial performance worldwide, published research for the Mongolian companies are scarce. Therefore, it should be important to investigate the nature of the relationship between CSR and financial performance in Mongolian companies.

Corporate Social Responsibility for mining companies in Mongolia

Mining as a leading sector is important to the national economy of Mongolia. Today, Mongolia's economy is heavily dependent on the extraction of minerals. Coal, copper, and gold are the principal reserves mined in Mongolia. The extractive industries in Mongolia represented approximately 86 percent of exports by 2016. The numbers of mining companies were 2079 including no business activity by 2016 (Mongolia EITI Annual Activities Report, 2016). Mongolian companies voluntary report CSR regarding management of environmental risks and human rights issues on their annual report and corporate governance report beyond EITI reporting. The Extractive Industries Transparency Initiative (EITI) is a main factor to improve the governance of mining sectors and some social responsibility. According to the annual survey of mining and exploration companies made by Fraser Institute's 2015 the result shows The Policy Perception Index [1] that Mongolia is ranked as one of the bottom 10 in 2015. The most CSR projects focus two mains areas: the environment and social factors. In Mongolia, some CSR programs invest in infrastructure such as schools, roads and hospitals. But related information is seen not definitely.

TABLE 1. Mining companies by classification and their cost related to CSR

Industry	Company quantity	Classification*		Total companies paid cost of CSR
		II	III	
Stone and brown coal mining	12	8	4	6
Oil and natural gas production	1	1	0	0
Iron ore mining	2	0	2	0
Other mining and quarrying	2	1	1	0
mining support operations	1	0	1	0
Total	18	10	8	6

*The category classification at the Stock Exchange is at least different for market value that are MNT 1 billion for II classification companies and less than MNT 1 billion for I classification companies.

Table 1 shows general information for listed companies by sub classification on mining sectors and companies paid cost in social responsibility during 2013-2017. We use data 6 companies reported CSR during 2013-2017 or 30 data for analyses.

There are 18 mining companies listed in the Mongolian Stock exchange (Table 1). Companies paid cost in social responsibility are 6 during last 5 years. The cost for social responsibility usually includes donations to local communities, local citizens` representatives, and training and capacity costs for employees, environmental costs and, other donations on mining sectors.

The following laws are impacted to Mongolian mining sector related to the CSR.

- The Mineral Law (1997) regulates the relations between mining minerals sectors activities and environment and socio-economic sectors (stage on improving)
- Local Citizens' Representatives Meeting is entitled to a right to evaluate the implementation of the annual plan on land use and protection
- Mongolia approved the Law on Nuclear Power in 2009 and the issues related to uranium mining and processing are regulated by this law.
- The Law on "Prohibition of mining exploration and exploitation in river catchment area, water and forest reserves" on July 16, 2009 which created a legal framework to stop license issuance in ecologically sensitive areas and to cancel previously issued licenses with a provision of compensation to license holders
- Law on Development Fund of Mongolia with an aim to prevent from the

market fluctuations and to ensure sustainable development, and revenues from wind fall tax are generated in this fund

Measurement and data analyses

Scholars use different CSR performance measures such as questionnaires to CEOs or managers, entity reputation and costs related to the CSR. Reporting related to the CSR reports were first released in EITI in case of Mongolia. Therefore, we use costs related to the CSR. According to the EITI report, CSR is reports as employee responsibility including employee training cost, environmental responsibility including environmental costs and social responsibility other donations based on stakeholder theory.

Numerous empirical studies show that financial measures such as stock market returns, Tobin's Q, and accounting profits ratios such as return on assets. Therefore, we use variables both stock market-based and accounting-based measures that focus on different aspects of financial performance. The accounting-based measures emphasize the firm's historical performance. Stock market-based measures refer to investors' evaluations and expectations of firms.

ROA gives an idea as to how efficient management is at using its assets to generate earnings.

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}} \quad (1)$$

The formula for Tobin's Q ratio takes the total market value of the firm and divides it by the total asset value of the firm

$$\text{Tobin's Q ratio} = \frac{\text{Total market value of firm}}{\text{Total asset value of firm}} \quad (2)$$

$$\text{CFP}_{it} = \beta_0 + \beta_1 \text{Emp} + \beta_2 \text{Pub} + \beta_3 \text{Env} + e_{it} \quad (3)$$

i represents the firm; t refers to the period; and ε is the standard error term. Emp is CSR related to the employee cost; Pub is CSR related to the community cost; Env is CSR related to the environmental cost;

Data covered as 6 companies reported CSR during 2013-2017 or 30 data for analyses:

- 2015-2017 years' data for CSR performance cost from e-system of EITI
- 2014 and 2013 years' data for CSR performance cost from company annual report
- Information for stock price and financial statement from Mongolian Stock

Exchange

This study is not enough data for shareholder responsibility, customer and consumer rights responsibility and suppliers.

Results

TABLE 2. Descriptive statistics

	Variable	Min	Max	Mean	SD
2013	CSR	2,930,000	80,333,700	25,654,633	33,090,204
	ROA	-0.24	0.18	-0.01	0.14
	Tobins q	0.60	5.07	2.41	1.78
2014	CSR	0	115,367,900	31,014,350	45,535,881
	ROA	-0.33	0.18	-0.03	0.17
	Tobins q	0.40	4.77	1.83	1.66
2015	CSR	0	134612163	27174527	52786359
	ROA	-0.23	0.12	-0.01	0.12
	Tobins q	0.00	1.29	0.61	0.45
2016	CSR	4,000,000	116,328,882	40,217,994	44,471,839
	ROA	-0.50	0.23	-0.04	0.25
	Tobins q	0.29	1.51	0.77	0.50
2017	CSR	2,680,000	289,107,905	95,009,188	109,042,007
	ROA	-0.15	0.22	0.04	0.12
	Tobins q	0.19	2.14	0.92	0.70

Table 2 shows the descriptive statistics of each variable. The mean of the CSR is decreased in the 2015 and increases last 2 years. ROA is decreased in 2016 and increases in 2017.

TABLE 3. The relationship between CSR and CFP

Variable	ROA	Tobin's Q
Constant	-0.007	1.551
Employee Responsibility	2.432E-009	3.872E-008**
Environmental Responsibility	-2.641E-009	2.075E-008
Public Responsibility	8.917E-010	1.258E-008*
R2	-0.041	0.081
Observations	30	30

***, **, and * indicate 1%, 5%, and 10% significance levels, respectively;

Employee responsibility is significant positive on Tobin's Q at the 5% significance level and no significant impacts on ROA in the regress. Public Responsibility also has a significant positive impact on Tobin's Q. The other element of CSR doesn't have effects on CFP. This result is can't explained that the government and public have more attention on the environmental issues such as environmental mitigations relate to: the traditional livestock herding, the surface and ground water sources for mining operations, dirt ridden clouds, health hazards for people as well as to livestock.

Conclusion

Most mining companies of Mongolia are engaging in CSR programs such as a mechanism of compensation for the social costs. The result can be explained that the pressure of these stakeholder's focuses on the public responsibility on mining sector for Mongolia. This suggests that mining companies also benefit from public programs in several ways. In conclusion, financial crises such as decline in the export and public policy factors such as taxation and regulatory effected on the CSR intensive for extractive industries for Mongolia. The 6 firms are that public responsibility performance has positive effects on market value. Future study focus need to be study the duty for stakeholders in social responsibility in case of Mongolia.

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