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## Construction of performance evaluation index system of building enterprise based on social responsibility

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### ABSTRACT

Social responsibility theory of enterprise has always been the important issue concerned by the academic circles for a long time. Social responsibility theory of Chinese enterprises started relatively late with relatively weak social responsibility awareness. This study, starting from the social responsibility concept of enterprises, elaborates the significance of social responsibility to the enterprise development and introduces the establishment of social responsibility model of building enterprise based on the social responsibility as well as construction of performance evaluation mode and index system, which makes corresponding contribution to promoting the development of social responsibility of building enterprises in China and building of a harmonious society.

### KEYWORDS

Enterprise performance evaluation; Social responsibility; Building enterprise; Ability of handling social relations; Performance evaluation index.



## INTRODUCTION

The concept of “Enterprise’s Social Responsibility” was first proposed by Shelton of United States in 1924<sup>[1]</sup>. In accordance with the western classical economic theory<sup>[2]</sup>, enterprises are founded based on the precondition of profit maximization and cost minimization, which thereby leads to blind pursuit of profit and causes a series of social problems, and therefore the enterprises adopts the disregardful attitudes toward the stakeholders of enterprises and environmental impact. With the appearance of capitalist economic crisis, people became aware that the benefits of enterprises’ stakeholders shall also be guaranteed. Therefore, the amending clause of Company Law of Pennsylvania, United States came into being and required the company operator to be responsible for the enterprises’ stakeholders rather than only responsible for the benefits of one-party benefits of shareholders). Nowadays, enterprises’ social responsibility has become a hotspot issue concerned by various countries in the world. In the United States and European Union, social responsibility has been considered as an important index in performance evaluation of enterprises. The Fortune and Forbes Magazines have added the social responsibility standard into ranking of enterprises. Thus it can be seen that social responsibility is drawing more and more attentions.

Chinese building enterprises have undertaken too many social functions with heavy burdens before reform and opening-up. With the establishment of modern enterprise system, separation of government functions from enterprise management and sudden emergence of private enterprises as well as influx of large amount of international capitals after reform and opening-up, the ideas of pursuing capital gain as well as enterprise management philosophy with the objective of profit maximization and cost minimization are accepted by many enterprises, which cause many enterprises to ignore environmental protection and relevant benefits of stakeholders and leads to serious deficiency of social responsibility of enterprises. With the posing of scientific outlook on development and establishment of the concept of building a harmonious society, social responsibility management of building enterprises has become the real demands of the sustainable development strategy, transforming the external pressure to internal motivation.

## GENERAL DESCRIPTION OF SOCIAL RESPONSIBILITY THEORY OF ENTERPRISES

Enterprises’ social responsibility is the requirement of building enterprise and sustainable social development and performance of social responsibility by the building enterprises will have positive effects on the enterprises’ performance, so it is necessary for the building enterprises to perform the social responsibility.

### Proposal and Development of Social Responsibility Theory of Enterprises

The social responsibility theory of enterprises was proposed<sup>[3]</sup> in the period of rapid growth and expansion of enterprises in the western developed countries. At that time, enterprise products were in short supply, enterprises gradually changed from small scale to large scale with purchase and annexation of others. On the one hand, profit determines the destiny of enterprises due to rapid expansion, so enterprises attached much importance to profits; but on the other hand, enterprise development has also brought serious social problems, which thereby causes a reflection of society on profits-seeking behavior of enterprises and promotes the generation of social responsibility theory of enterprises. The generation of social responsibility theory of enterprises causes enterprises to be aware of their responsibility for the stakeholders of society and therefore undertake more social responsibilities, which can promote the healthy development of enterprises and society. The current situation of China is similar to the rapid-growing period of western enterprises. The government emphasizes economy development and strongly encourages enterprise development, and enterprises enter the growth stage and develop rapidly with the trend of large scale. On the one hand, numerous enterprises, rapid growth and more intensive competition show a trend of centralization; on the other hand, most enterprises pay too much attention to the economic benefits and ignore social benefits and social ethics, so the enterprise’s credit worthiness and reputation are relatively low. With economy development and fierce competition, the development of Chinese enterprises will certainly experience a purchasing, merging and expanding process like ware against sand, as well as a process from quantity to quality. Whether the enterprises can be developed continuously, change of concept will be the critical point. In the future, enterprise competition will be more reflected as relationship competition, then implementation of enterprises’ social responsibility, establishment of enterprises’ social credibility and reputation, and cultivation of loyalty of staff, customers and all social parties will be the powerful means for competition and development of enterprises.

### Benefits from enhancement and implementation of enterprises’ social responsibility

- 1) Implementation of enterprises’ social responsibility itself is the reflection of enterprises’ strength and greatness. As a socially responsible enterprise, it will obtain more social identities and lay foundation for gaining more future benefits. The enterprise participating in social responsibility activities must have a certain economic strength, which can make people understand the strength of enterprise and will offer opportunities for the enterprise to obtain financing and talents.
- 2) The advertising effect obtained from fulfillment of obligations can also help to establish a good social image for the enterprises, which will be favorable to obtaining more projects and improving the brand publicity and reputation.
- 3) Enterprises may get more recognition and support from the government and establish a good relation with government which is also conducive to the development of enterprises.

- 4) Price is not exactly all for the owners in selection of building enterprises, and moreover, the enterprise's reputation and brand are also important factors in owners' decision-making.
- 5) The competitiveness of enterprises is not entirely relying on prices. So the situation that enterprises are at a disadvantage due to undertaking social responsibility is just temporary, and enterprises should pursue long-term development.

### ESTABLISHMENT OF ENTERPRISES' SOCIAL RESPONSIBILITY MODEL

We can use the enterprises' social responsibility driven model proposed by Mark S. Schwartz (2003) for analysis<sup>[4]</sup>. Mark proposed to describe the cause and mechanism of enterprise for undertaking social responsibility with three intersecting circles in 2003 (Figure 1). He believed that the motivation of enterprises undertaking social responsibility is from three aspects: economy, system and morality, and divided the enterprises' social responsibility into four different types according to the difference of intersections of three motivations, namely, economic factor oriented type, institutional factor oriented type, moral factor oriented type and balanced type.

There are four intersections in dimension division of enterprises' social responsibility by Mark enterprises' social motivation model. Ju Fanghui (2005) believed that it is usually difficult to distinguish between the moral and economic motives, as there are many moral motives which can be interpreted as the long-term economy benefits. In fact, from an economic point of view, the economic, moral and institutional motives can be interpreted as the demands of sustainable development strategy for enterprises. Analyzing from the point of view of economic ethics, benefit and fairness are demands of sustainable development of enterprises. Taking account of long-term benefits, enterprises will certainly focus on the reasonable appeals of enterprises' stakeholders and transform the environmental and ecological protection to internal behaviors after developing to a certain scale. Analyzing from the point of view of New Institutional Economics, enterprises will certainly adopt the form of contract to undertake the resource occupation or compensation cost to the environmental, ecological and public benefit losses in order to reduce transaction cost in case that property rights of various resources are clearly defined, so as to create conditions for surviving and sustainable development of enterprises. Analyzing from the point of view of microeconomics, Neoclassical Economics believes that maximization of enterprises' benefits or maximization of shareholders value is the only responsibility to be undertaken by the enterprises in business operation. Undertaking social responsibility by enterprises will increase the social responsibility costs and enterprises' cost, and make the enterprises lose competitive strength, so enterprises shall only undertake the economic responsibility to follow the basic social rules. However, the social welfare economics thinks that enterprise is not only the economic man but also the social man, so it shall not only focus on the sole objective of maximization shareholders benefits but also maximally enhance all social welfares including the shareholders benefits. This will include the social benefits of enterprises' stakeholders, namely, the benefits of staff, owner, creditor, environment, etc. The difference between them is that the former focuses on the short-term interests, while the latter emphasizes the long-term interests, namely the sustainable development of enterprises.

### CONSTRUCTION OF PERFORMANCE EVALUATION MODEL FRAMEWORK OF BUILDING ENTERPRISES

In construction of harmonious society, the building enterprises undertake important mission and play an important rule. What responsibilities the building enterprises shall undertaken and how to get along with surrounding environment will be the two major aspects involved in the performance evaluation framework of China building enterprises.

#### Social responsibility to be undertaken by building enterprises

There is no uniform definition on the social responsibility of building enterprises, and the similar definitions include the building enterprise ethics, building enterprise citizenship, social response of building enterprise, and sustainable development of building enterprise, etc. From the point of view of connotation, it generally means that the building enterprise shall undertake the responsibilities for the staffs, owners, suppliers of material and equipment, residents, natural environment and other stakeholders, including production security, occupational health, protection of workers' lawful benefits, provision of safety products and services, abiding by professional ethics, support for act of charity, contribution to social benefit, protection of natural environment, etc. Carroll thought that a really socially responsible enterprise shall pursue the profits, abide by laws, emphasize ethics and offer charity widely. Therefore, the social responsibility of building enterprises actually includes the following aspects:

- 1) Economic responsibility. The economic responsibility is the basic responsibility of building enterprises, and its main connotation is that the building enterprises must produce the socially necessary products for purpose of profit. The building enterprises can take into account of social responsibilities in other aspects only after realizing profits. However, the building enterprises shall not give up other responsibilities only for realizing the economic responsibilities; otherwise it will become the naked capital accumulation, which is incompatible with China's national situation. At present, most of Chinese building enterprises pay too much attention to the economic responsibilities without drawing adequate attention to other social responsibilities.
- 2) Legal responsibility. The legal responsibility means that the production and operation activities of building enterprises must abide by the rules of law and must pursue economic benefits within the permitted scope of laws. Law is guaranteed by the coercive force of state and is the inflexible ruling over the building enterprises; the

government is obligated to perfect the laws and regulations continuously and achieve the objective that “There must be laws to go by, the laws must be observed and strictly enforced, and lawbreakers must be prosecuted”; but this still cannot supervise and push the building enterprises to consciously undertake the legal responsibilities fundamentally. In case of conflict between the building enterprises’ benefits and legal regulations, the building enterprises will have the motive to go beyond the law or make use of the legal loopholes.

- 3) Moral obligation. The moral obligation means that the building enterprises shall follow the socially advocated ethics and moral rules in the market economy, mainly including the independence of sovereignty, fair trade, honesty, environmental protection and other basic contents. Public opinions and industrial supervision will have a certain binding force over the undertaking of social responsibilities by the building enterprises, but relevant mechanisms in China are still immature, for example, the construction of social credit system is still in initial stage and cannot exert a soft binding force adequately.
- 4) Voluntary responsibility. The voluntary responsibility is also called the responsibility of act of charity, which mainly originates in voluntary choice of the building enterprises and organizations, and it is also the social obligations voluntarily undertaken by the building enterprises, such as contribution, support of education, voluntary acts, etc. Currently, there is a small number of building enterprises undertaking the voluntary responsibility, and quite a few of which are for the purpose of tax avoidance, etc.

More and more practices of building enterprises and many research results sufficiently state that there is positive correlation between the social responsibility and performance of building enterprises. Improvement of enterprises’ social responsibility is helpful to improve the performance of building enterprises, reduce operating costs, improve efficiency, and gain more market opportunities. Only regarding the performance evaluation as one of the key elements of social responsibility, can the building enterprises obtain a long-term development.

Four indexes, namely, economic responsibility, legal liability, environmental responsibility and ethical responsibility, shall be selected in evaluating the social responsibilities undertaken by the building enterprises, because these four indexes have the characteristics of representativeness, independence, availability and relative completeness. The so-called representativeness means that the indexes shall not only reflect the common requirements of numerous “codes of production” in the building enterprises’ social responsibility movement currently in the world on the fulfillment of social responsibilities by the building enterprises, but also inherit the essence of Chinese fine cultural traditions, is mostly close to the current situation of Chinese building enterprises and reflect the common objective requirements on the social responsibilities of building enterprises in the special environment, so as to make the domestic or international measure index have a better comparability. The so-called independence refers to relative independence of measure indexes among which the compatibility or repeat is not allowed and self correlation is strictly forbidden. The availability contains two meanings, in which the first meaning is that the selected index shall be compatible with the current evaluation tools of Chinese building enterprises as much as possible, and various public statistical information and data shall be fully applied; the second meaning is that the selected index shall be favorable to quantify disposal; considering the reality of complexity of building enterprises’ social responsibility, multi-dimension of evaluation perspective, and equal attention to the objectivity and subjectivity of evaluation standards, although it is not emphasized to make use of the quantitative target completely, the qualitative target is generally required to be visual, simple and easy to judge and have extensive social common understanding, otherwise it is difficult to obtain the availability. Therefore, though with a certain evaluative meaning to the individuals, the index with many difficulties in obtaining evaluation information objectively will be unsuitable to incorporate into the evaluation index system. The so-called relative completeness means that the selected index shall be unified in one system, including the multiple layers of index factor, sub factor, index, etc, to form a relatively complete index system.

### **Ability of building enterprise in handling the social relationships**

The building enterprises live in society and do not exist independently, and cannot reach the expected objective only through their own efforts and own development. Since society is a large environment and formed through interaction of government, building enterprise, and public, etc., the building enterprises shall put themselves into one large environment for considering when they fulfill the social responsibilities. For example, how their competitors treat them, what’s the public’s attitudes toward the building enterprises, etc. The enterprises’ performance will be affected to a certain degree when the building enterprises deal with such issues. These factors shall be considered in evaluation of performance of the building enterprises, so as to not to cause improper evaluation.

The building enterprises’ performance evaluation shall be the evaluation on their performance made by the external stakeholders to complete their own management, especially the management of stakeholders. The social impact of management of stakeholder of the building enterprises shall be taken into more consideration, because such social impact is the expression of the building enterprises’ ability in dealing with the social relationship. These expressions can not only make the building enterprises understand the position of their performance in the same industry, know the image of the building enterprise in the public and also promote the communication between the manager of building enterprises and various stakeholders.

The ability of building enterprises in dealing with the social relationship shall be considered from following three aspects, namely: handling of relationship with the public; handling of relationship with other building enterprise; and handling of relation with government.

## CONSTRUCTION OF BUILDING ENTERPRISES' PERFORMANCE EVALUATION INDEX SYSTEM

After entering into the 21st century, a massive wave of enterprise social responsibility movement was raised in the world, and the enterprise performance standard is no longer just a nice slogan. Some multinational enterprises and international organizations actively promote the standardization of enterprise performance, and many European countries even started to adopt international standards (including SA8000) for certification of enterprise performance. Standardization is a management approach, a management philosophy and is a management paradigm revolution in essence. We do not advocate copying the foreign business performance evaluation standards (eg SA8000) without "digest", but advocate deep research of enterprise performance standard, combine the spirit of international standards for enterprise performance with the characteristics of tradition Chinese culture and follow two basic principles to form a building enterprise performance evaluation index system consistent with China situation as soon as possible. This system shall meet the following two principles:

(1) Difference recognition principle. The social responsibility act and targeted value orientation of different building enterprises are objectively different due to the impact of different concepts of values, national cultures and political and economic systems. Sometimes it is very important to retain such difference of the value targets of building enterprises.

(2) Principle of generality. The standardization of building enterprise performance evaluation based on the building enterprise' social responsibility emphasizes the principle of generality, mainly because that different building enterprise cannot achieve the common sense in all fields due to a large scope of social responsibility and different social backgrounds. Therefore, the performance standards for building enterprises shall be applicable to the common requirements of different enterprises, levels, ethnics and subject of liability of different systems of ownership, so such principle is also called as the principle of generality.

### Social responsibility fulfillment index of building enterprise

Building enterprises' social responsibilities mainly include the economic, legal responsibility, environmental responsibility and ethical responsibility of building enterprises. So how to quantify these indexes?

References in the past are based on the accounting index to measure the performance of building enterprises, which often only makes evaluations on the economic responsibility of building enterprises, but neglect the evaluation on other aspects of building enterprises' social responsibility. This neglect not only causes unscientific decision making to the stakeholders who depend on the financial evaluation results in decision-making, and makes the building enterprises face a huge risk of discontinued operations due to the social responsibilities unnecessary to be fulfilled. Therefore, it is not enough to only rely on evaluation of the financial indexes of economic efficiency in the social responsibilities of building enterprises. It is very necessary to introduce other relevant financial indexes into evaluation.

It is found from referring to extensive literatures that the evaluation on the social responsibility of building enterprise is based on the financial indexes of building enterprise. The indexes to be considered in comprehensive evaluation of enterprises' social responsibilities are determined as follows through mining of financial data and relevant information in combination with the complete analysis evaluation on the social responsibilities of building enterprises by the information tabling technique and after asking for opinions from the workers engaged in financial theory and practice

In which, the indexes reflecting the economic responsibilities mainly include the liquidity ratio, asset-liability ratio, accounts receivable turnover rate, material turnover, profit rate, return on net asset, return on total assets, and capital maintenance and increment ratio.

The indexes of legal responsibility mainly include the hourly wage rate, extraction rate of social security, social security payment rate, asset tax rate and expenditure rate of penalty items.

The indexes of environmental responsibility mainly include the consumption of non-renewable resource for unit income, consumption of unit rate, environmental protection investment rate, proportion of environmental protection expenditure in sales revenue, and growth rate of environmental funds.

The indexes of ethical responsibility mainly include the employment contribution rate, donation income ratio, workers income rate, government income rate, stockholder income rate and social contribution rate.

### Index of ability of building enterprise in handling the social relationships

Ability of building enterprises to handle social relations are divided into three parts, but the building enterprises will result in crossing in dealing with the relationship between these three relations, for example, one certain act of the building enterprise is not only for the publics but also for the government. There will be bias in case of singly classifying a certain act of building enterprise into one type. For example, the definition of benefits of building enterprises not only can reflect the building enterprises' attitudes toward the public but also reflect the attitudes of other building enterprises as well as the credibility of government. There will be ambiguity in case of classifying it into any type. Therefore, the index of ability of building enterprise in handling the social relationships is not classified into any of above three types, but gives a simple evaluation on the ability of building enterprises to handle social relations in a form of unity.

On the basis of referring to previous literatures and through analysis on social sensitive index of Sonnenfeld<sup>[5]</sup> – this paper makes revisions to seven dimensions of Sonnenfeld according to the current situation of China building enterprises and establishes the new dimensions. Regarding to the ability of building enterprises in dealing with social relations, this paper establishes the indexes in the comments from the society, public and other building enterprises, so as to reflect the ability of

building enterprises in dealing with the social relations in a complete and intensive manner. It is generally divided into following seven indexes, namely: (1) accessibility of outsiders; (2) readiness to public affairs; (3) expressiveness in public activity; (4) creditability of external comments; (5) praise of companion; (6) attention to external important issue; (7) definition of building enterprises' benefits.

### Performance evaluation index system of building enterprise

Through above elaboration and according to the principle of completeness, systematicness, operational simplicity, and combination of quantitative analysis and qualitative analysis, a complete index system is designed, namely, the index system for performance evaluation of building enterprises composed of 2 first-level indexes, 11 second-level indexes and 24 third-level indexes. In which, the fulfillment status of social responsibilities of building enterprises include the first, second and third-level indexes, while the indexes of the building enterprises' ability in dealing with the social relations only includes the first and second-level indexes. Specific such as TABLE 1 shows:

**TABLE 1 : Performance evaluation index system of building enterprise**

Performance Evaluation Index System of Building Enterprise	Social Responsibility Fulfillment Index	the economic responsibilities	the liquidity ratio	
			asset-liability ratio	
			accounts receivable turnover rate	
			material turnover	
			profit rate	
			return on net asset	
			return on total assets	
			capital maintenance and increment ratio	
			the hourly wage rate	
			extraction rate of social security	
			social security payment rate	
	Index of Ability of Building Enterprise in handling the Social Relationships	legal responsibility	asset tax rate	
			expenditure rate of penalty items	
			the consumption of non-renewable resource for unit income	
			consumption of unit rate	
			ethical responsibility	environmental protection investment rate
				proportion of environmental protection expenditure in sales revenue
				growth rate of environmental funds
				the employment contribution rate
				donation income ratio
				workers income rate
				government income rate
	stockholder income rate			
	social contribution rate			
accessibility of outsiders				
readiness to public affairs				
expressiveness in public activity				
creditability of external comments				
praise of companion				
attention to external important issue				
definition of building enterprises' benefits				

## MISTAKES OF BUILDING ENTERPRISES IN SOCIAL RESPONSIBILITY MANAGEMENT

Strengthening the social responsibility management will lead to lower economic benefits of building enterprises. This idea which is mainly affected by the traditional economics believes that strengthening the social responsibility management will increase the social cost and price of products and services and thereby causes the building enterprises lose competition advantages. However, in fact, strengthening the social responsibility management can enhance the social image of building enterprises and improve the relationship with the building enterprise, government, public and stakeholders with increasing of cost in a short period. From a long term, it will be able to promote the management innovation of building enterprises, improve the staffs' loyalty and sense of belonging; and the long-term costs will not be increased, and in contrast, will be decreased to some extent, so the long-term economic benefits can be presented gradually.

Strengthening the social responsibility of management should not be included in the objectives of strategic management of building enterprises. This idea is mainly affected by the traditional strategic management thinking. The traditional strategic management believes that the strategic management objective of building enterprises mainly includes the economic objective, human resource objective, financial management objective, enterprise organization and building objective, enterprise's technical innovation objective, enterprise's cultural building objective, enterprise's information building objective, etc of building enterprise. This concept does not consider the critical elements in sustainable development of enterprise, not consider the sustainable development ability and profitability of enterprise, not consider the sustainable development, impact factors of social environment and ecology, development of regional economy, transform of enterprise's growth patters, etc. Therefore, the social responsibility management shall be incorporated into the scope of strategic management objective in preparation of the sustainable development strategy for building enterprises.

## CONCLUSIONS

More and more facts have proven that the practices of enterprise's social responsibility have a broad prospect. With the trend that the maintenance of sustainable development of economy and society has become the common consensus of various countries in the world, the government, industry and public all require the building enterprise to abide by the assumption of ethical operation and harmonize the self interests with other person's benefits, social benefits and ecological and environmental benefits to strengthen the urgency of enterprise in fulfilling the social responsibility. The demonstrations and appeals urging the enterprises to fulfill the social responsibility are often seen in newspaper headlines, and the enterprise's reputation investigation, ranking of the best enterprises, etc all show the trend and sign of using the social responsibility standard to evaluate the enterprise. From the point of view of era development, the information society greatly strengthens the supervision on the public opinions, the public have started to boycott the products and service of the enterprises not being socially responsible, and more and more investors hope to choose the socially responsible enterprises in selecting the investee. For the enterprise, undertaking of social responsibility can increase the future benefits rather than cost. Accepting the social responsibility concept and acting consciously and coordinating the social responsibility objective and profit target, will surely bring long-term returns and realize the sustainable development of economy and society.

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