

Song, Yuan; Wang, Hongwei; Zhu, Maoran

## Article

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# Sustainable strategy for corporate governance based on the sentiment analysis of financial reports with CSR

Yuan Song, Hongwei Wang\* and Maoran Zhu

\* Correspondence: [hwwang@tongji.edu.cn](mailto:hwwang@tongji.edu.cn)

School of Economics and Management, Tongji University, Shanghai 200092, China

## Abstract

Focusing only on shareholders' financial return is not consistent with the concept of sustainable corporate governance. In contrast to financial performance, corporate social responsibility (CSR) is a non-financial performance index. Financial reports consist of both financial and non-financial disclosures. These disclosures help investors make decisions. This paper characterizes the interaction between the sentiment analysis of financial reports and CSR scores. The classification accuracy through SVM exceeds 86%. The empirical study shows that the financial report sentiment based on the PESTEL model, Porter's Five Forces model, and Value Chain (Primary and Support Activities) significantly correlates to the CSR score.

**Keywords:** Financial report, CSR score, Sentiment analysis, Object library

## Background

Lawlor (2001) warned that even if an organization is "as pure as the driven snow in its own operations, it should expect public scrutiny of the practices of suppliers and associates". Bad news about companies such as Nike, GAP, Reebok, and Hennes & Mauritz (H&M) attracted negative media attention in the late 1990s. In 2012, Apple became a high-profile target for non-government organizations concerned about working conditions in multinational supply chains. These concerns were related to the China-based Foxconn organization, where the vast majority of its 1.2 million employees were involved in assembling Apple products (according to Reuter's reports). At the request of 250,000 petitioners, Apple was persuaded to ask the Fair Labor Association to investigate the working conditions at the Foxconn factory in China. Walmart was heavily criticized for its workplace practices in the US. In 2012, the National Employment Law Project (NELP) published the "Chain of Greed" report (Cho et al., 2012) about Walmart's worker exploitation in the US. Some responsibility for the conditions of the poorly paid garment makers in Bangladesh has also been placed on the western retailers who sold the garments made by these oppressed workers after the collapse of the Rana Plaza building caused international outrage.

Since the Global Financial Crisis (GFC), and amid a lingering recession that has intensified pressure from shareholders, companies are devising new corporate social responsibility (CSR) models that are more aligned with their core business goals and

services. For example, blue-chip companies, such as Visa and Unilever, are creating new markets in the developing world by closely aligning social causes with their overarching corporate strategies. CSR has a strong role to play in the provision of information for risk management purposes. The Carbon Disclosure Project (CDP) was formed in 2000. Based in New York and London, the CDP focuses on the implications of climate change for shareholder value and commercial operations. CDP believes that carbon emissions and climate change represent significant business risks and, therefore, an organization's policies and performance in relation to climate change should be factored into investment decisions. The decision to report information (whether it be CSR or financial information) is the concept of "accountability". It is defined as the duty to provide a report, or an account, of the actions and decisions made about those areas of activity for which an organization is deemed to be responsible. The Commission of European Communities (CEC) states that CSR is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment, and the relations with stakeholders" (CEC 2001), p. 6. The above definition is also consistent with the definition of CSR provided by the World Business Council on Sustainable Development: "The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life" (Holme & Watts, 2000), p. 10.

The 3 main pillars of sustainability include environmental, social, and economic sustainability. Social and environmental performance can affect an organization's future reputation, brands, and its ability to attract talented staff and maintain consumer and public support (CPA Australia, 2015a). Based on the Stakeholder Theory, corporate governance includes both financial performance and CSR. CSR refers to a wide range of activities that an organization undertakes, from charity donations to the management of carbon emissions. Based on the Signaling Theory, a financial report (FR) is the fundamental tool investors use to make decisions. It contains financial ratios as well as textual notes. Through this textual information, investors can learn about the firm's social responsibility. Sentiment analysis is a relatively mature technique. However, China's capital market is growing and Chinese is a complex language. We developed a sustainable strategy for corporate governance based on the sentiment analysis of Chinese financial reports with CSR. We solved 3 main problems: (1) Identifying the subjective object description in financial reports, (2) building an object library based on strategic models, and (3) characterizing the interaction between the CSR score and financial report sentiment categories.

### Literature review

Sustainability is widely recognized as one of the most important challenges facing the world today (Wan, Arief, & Rajagopalan, 2014). For most of the world's largest companies, reporting on non-financial information appears to be a continuing trend. The communication of the social and environmental dimensions of a company plays a key

role in the sustainable development of an organization, and therefore should be investigated in depth (Enrique & Michaela, 2015).

Multinational corporations play a prominent role in shaping the environmental trajectory of the planet. The integration of environmental costs and benefits into corporate decision-making has an enormous, but as yet unfulfilled, potential to promote sustainable development. Now is the time to take advantage of an explosion of sustainability commitments from business leaders and expanding pressure for sustainable practices from shareholders, financial institutions, and consumers (Kareiva, McNally, & McCormick Steve et al., 2015). CSR initiatives are crucial for achieving part of an inclusive growth vision. Organizations that are proactive rather than reactive may help achieve a sustainable inclusive growth via various CSR initiatives (Radhakrishnan, Chitrao & Nagendra, 2014). Research on CSR disclosure points to an increasing lack of completeness and decreasing amount of credibility in the information reported, as well as concerns about overall reporting practices. The evidence supports increasing skepticism about the use of CSR reporting practices as tools used to enhance perceived accountability (Giovanna, Silvia, & Federica, 2015). Standalone CSR reporting by retail companies appears to positively influence perceptions of a company's reputation and may lead to increased appeal for socially responsible investors (Dennis & Na, 2014). Disclose CSR could increase transparency and non-financial accountability in capital markets. The empirical study reveals that family ownership reduces the level of CSR disclosure (Safae M & M S Gerayli, 2017). Combining stakeholder theory with CSR research is a historic accomplishment (Zhang, Liang, & Yin, 2012). Chinese empirical data showed that CSR behavior is one of the key factors influencing consumers' purchasing decisions (Ma, 2011). Data from listed Chinese companies in Shanghai demonstrated that the previous years' CSR positively affects the current year's corporate financial performance (CFP), and the current year's CFP positively affects the CSR (Zhang, Jin, & Li, 2013). An empirical analysis showed that, assuming CSR is exogenous, the current CSR plays a significant positive role in promoting the current CFP, and vice versa (Yin, Liu, & Chen, 2014).

There is a vast amount of financial information on companies' financial performance available to investors in electronic form (Salahuddin & Gow, 2016; Loughran & McDonald, 2011; Robert, Schumaker, & Hsinchun, 2009; Kloptchenko et al., 2004). While the automatic analysis of financial figures is common, it has been difficult to automatically extract information from the textual part of financial reports. The textual part contains more information than numerical part in an annual report (Chen et al., 2012; Hobson, Mayew, & Venkatachalam, 2012; Chan & Franklin, 2011; Feng, 2010; Feng, 2006; Kloptchenko et al., 2004). In recent decades, and with the advent of the eXtensible Business Reporting Language (XBRL), financial reports have experienced a great change in terms of the unified reporting process. Nevertheless, the unstructured part of financial reports, the footnotes, remains a barrier to accurate automatic and real-time financial analysis (Heidari & Felden, 2015). Currently, the application of data mining to auditing is at an early stage of development and researchers typically take a scatter-shot approach to it, investigating patterns in financial statement disclosures, text in annual reports and MD&As, and journal entries without the appropriate guidance, such as the lessons drawn from investigations on known fraud patterns (Gray & Debreceeny, 2014). The sentiment (tone, opinion) has been assessed using several categorization schemes

in order to explore the various aspects of language used in the annual reports of US companies. The results indicated that the sentiment information is an important forecasting determinant of financial performance and, thus, can be used to support the decision-making process of corporate stakeholders (Hajek, Olej, & Myskova, 2014). (Wang et al. 2016) investigated the correlation between mutual funds' scale and return in China by text mining a large volume of online financial reports. They further employed *K*-means clustering for fund categorization, which enables the reliable examination of correlations between the fund's scale and return. The findings highlighted the uniqueness of emerging markets while providing interesting guidelines for exploiting big data analytics for financial studies.

Corporate social responsibility is crucial for sustainable corporate governance. Researchers have realized the potential value of the textual analysis of financial reports for detecting fraud, managing risk, and forecasting future performance. However, few researchers have performed empirical studies on the sentiment analysis of financial reports based on strategic factors and CSR. This paper will illustrate how to perform an effective sentiment analysis of financial reports.

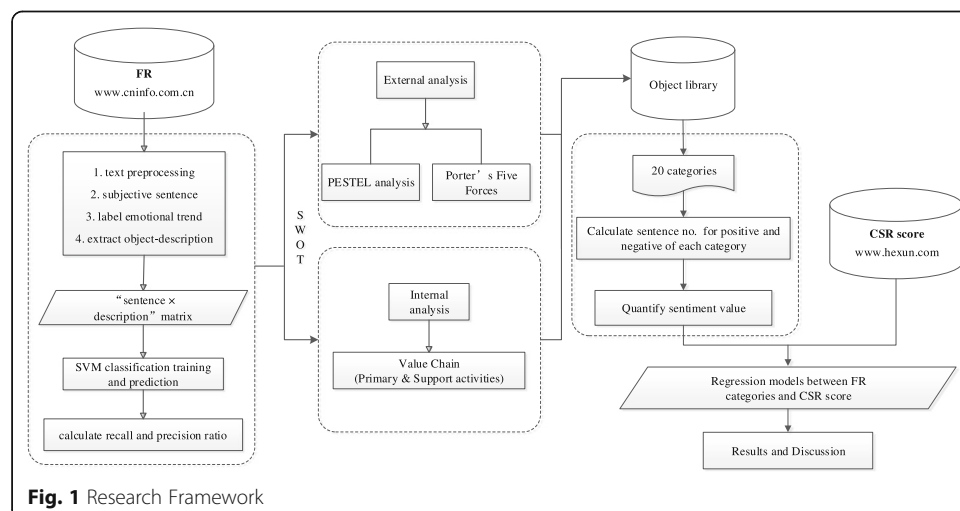
## Methods

### Research framework

The research framework is shown in Fig. 1 and includes 4 steps: (1) data collection and preprocessing, (2) subjective sentence identification, emotional trend classification, and object description extraction, (3) the object library of the financial reports, and (4) empirical analysis.

### Data collection and preprocessing

To develop the sample for the transferrable object library, we used firm-year observations from different industries, including real estate, automobile, medicine, electric, communications, and energy. The final sample contained 50 financial reports from 2008 to 2013. The data came from [www.cninfo.com.cn](http://www.cninfo.com.cn), which is the designated disclosure website of the China Securities Regulatory Commission. To distinguish our work



**Fig. 1** Research Framework

from existing quantitative (financial ratios) research and mine the potential information contained in the textual content of the financial reports, we did not extract common words like “we” or “company” or industry-specific words and pure financial terminology such as “automobile”, “real estate”, or “asset-liability ratio”. The classification precision based on the sentence corpus was higher than that of the paragraph or document (Zheng, 2014); we extracted 32,767 sentences from the textual part of the financial reports based on the full-stop punctuation.

### Identification of the object description

Using the approach found in (Bao and Datta’s 2014) work, we recruited 10 graduate students to label the sample sentences. Each student labels around 4000 sentences, among which 800 sentences are repetitive. Before labeling, they are briefed on the definition and trained on a number of real labeled examples. We keep communication and discussion during the whole process. The consistency of repetitive sentences reaches 80%. We only retain the subjective sentences whose labels are agreed upon by other annotators. The final sample set contained 2001 subjective sentences with a general emotional tendency and 4181 groups of related object descriptions. The expression of the subjective emotion was very complicated, and each sentence may not only have described the situation and emotional expression of a single aspect of the company. Although the variety of sentences means that some sentences will tend to approve some aspects of the company while others tend to criticize aspects of the company, a sentence’s general emotional tendency can be identified. The emotion tendency of the internal parts of 1 sentence can be different from the whole emotional tendency of the sentence. Therefore, we labeled the whole emotional tendency, related object description of each sentence, and emotional tendency of each object description (shown in Table 1).

Let us use the first sentence to illustrate this process of identification. Even though there is only one sentence (divided by full stop punctuation), the subjective expression involves 4 groups of the object description, which should be listed separately. Among them, 2 groups of emotional expression are negative descriptions about the company’s external environment, but the whole emotional tendency of this sentence is positive. Therefore, the general emotion of this sentence should be labeled as positive, while its constituent parts are labeled as having different emotional tendencies. We obtained a set of 1724 positive sentences and 277 negative sentences. Among the object description groups, there were 3482 expressing positive emotions and 699 expressing negative emotions. For both the sentence level and object description level, around 85% of this sample expressed positive emotions and only 15% expressed negative emotions. After removing the repeated items, there were 2637 objects and 1728 descriptions. The difference in these results may be explained by the fact that the describing objects in financial reports can differ in thousands of ways, while the emotional tendency is mainly expressed as either “good” or “bad”.

### SVM testing

Text consists of characters and punctuation, constituting words, phrases, sentences, paragraphs, sections, chapters, and documents. Before the computer could

**Table 1** Examples of object description identification

Sentence emotion	Sentence	Object	Description	Description emotion
+ 1	2013 年,面对复杂的外部环境和日益激烈的行业竞争,公司坚持“有质量的增长”,规模稳步增长,经营效率不断提升。 (Faced with complicated external environment and increasingly fierce industry competition in 2013, the company adheres to the growth of quality, makes a steady rise in scale, and constantly improves operational efficiency.)	external environment industry competition scale operational efficiency	complicated increasingly fierce steady rise constantly improve	-1 -1 + 1 + 1
+ 1	公司稳健的经营风格、审慎的财务管理以及良好的信用积累获得国际投资者认可,为拓展海外融资渠道创造了良好条件。 (The firm's stable operation style, prudent financial management and good credit accumulation are approved by international investors, which help create favorable conditions to expand overseas financing channels.)	operation style financial management credit accumulation	Stable Prudent Good	+ 1 + 1 + 1
-1	受市场形势变化以及公司积极进行产品结构的调整,主动关停部分老车型的影响,报告期内,公司产销规模出现了下滑。 (The company's production and marketing scale have declined during the reporting period, due to the influence of changes in market conditions and active close of partly old models in order to adjust product structure.)	production and marketing scale	Decline	-1
-1	主要归因于化工产品价格同比下跌幅度较大,化工板块业绩同比下降。(The performance of chemical sector decreased due to price fall of chemical products.)	product price	Decrease	-1
-1	这些都可能会对本公司生产经营和效益带来较大的影响。(All of these could lead to a large influence on the company's product operation and efficiency.)	product operation and efficiency	large influence	-1

*Note:* the original corpus is in Chinese, and the contents in brackets are corresponding translation. Similarly hereinafter

automatically deal with textual content, we needed to find an idealized method of formal representation that reflected the potential content of the text and then help it to identify different texts. The Support Vector Machine (SVM), a supervised learning method, is a prominent method for text classification (Pang et al., 2002; Mullen & Collier, 2004; Whitelaw et al., 2005; Ni et al., 2007). The basic idea of the SVM is to use a training set to find the hyperplane in vector space and then separate the data points into as many different categories as possible. Through a trained SVM model, the emotional tendency of the testing data could be automatically predicted.

We labeled the subjective sentences of financial reports from different industries. After removing the data with missing values, we obtained a matrix of 1966\*1728 (sentence\*description). Based on the proportion of 3:1, we divided the data into a training set and a testing set.

Table 2 shows the SVM classification result. The precision ratio was 97.36% and recall ratio was 88.04% when identifying a positive emotional tendency. The precision

**Table 2** Testing result of the SVM

	Human label as + 1	Human label as - 1
Machine label as + 1	405	11
Machine label as - 1	55	30



ratio was 35.29% and recall ratio was 73.17% when identifying a negative emotional tendency. The total precision ratio reached 86.83% and the F-measure value was 51.81%. The positive precision was much higher than that for the negative identification, which can be explained by the aforementioned statistical results. When preparing financial reports, managers usually have a positive attitude or mood (instead of a negative or adverse emotional tendency) towards the company's financial position, operation results, and cash flow. Thus, most sentences in the sample set expressed positive emotion and few were negative. This tendency was also reflected in the calculation of "the precision ratio of identifying the negative emotional tendency". The denominator contained a large number of misjudged samples that the machine recognized as  $-1$  while the human label was  $+1$ , which led to the lower precision ratio for negative expressions.

### **Object library of the financial reports**

SWOT strategic analysis is a common method for evaluating corporate performance, which contains an analysis of the internal environment and external environment. In the above section, we divided the financial reports into sentences based on full stop punctuation, then identified the emotional tendency of the sentences, and finally extracted the related object description. These objects were words or phrases that we wanted to classify. Our process was as follows.

First, we labeled these objects as internal or external.

If the text described the company's external information, it belonged to the external strategic analysis. The strategic analysis of the external environment is usually subdivided into the macro environment analysis and industry environment analysis. The former analyzes the whole environment, which can influence all kinds of industries, so we used the PESTEL model for these data. The latter aims at the strategic factors in a specific industry outside of a company that affect the company being analyzed as well as all the other companies engaged in similar economic and operational activities in the same industry; for these data, we adopted Porter's Five Forces model.

If the sentence described the company's internal situation, it belonged to the internal strategic analysis. Companies cannot control external environment factors. The strategic analysis of the internal environment relates to controllable factors, which can be improved by management and other control measures. The Value Chain includes the Primary and Support Activities and is used for corporate internal analysis.

There were 11 (6 + 5) external object categories, shown in Table 3. After removing the repeated items, the statistical results indicated that, among the factors in the corporate external environment, companies were concerned about the economic factor, industry rivalry, and power of the buyer the most, which are issues related to company earnings.

Table 4 shows that the internal objects are more related to a firm's infrastructure, marketing and sales, and operations and technology development than human resource management and services. The factors of least importance are inbound logistics, outbound logistics, and procurement.

There were 345 sentences describing the external environment and 859 related groups of the object descriptions. There were 1656 sentences describing the internal environment and 3322 related groups of object descriptions, which were 4.8 times and



**Table 3** External object library of financial reports

Object category	Examples	count
Political	政策措施(policy measure)、宏观调控(macro-control)、监管政策(supervision policy)、利好政策(beneficial policy)	37
Economic	资金状况(capital position)、供需关系(supply and demand)、市场走势(market trend)、融资环境(financing environment)	200
Social	人口老龄化(population aging)、居民收入(resident income)、消费方式(consumption pattern)、消费意愿(consumption intention)	31
Technological	产品研发(R&D)、技术水平(technological level)、创新能力(innovation ability)、研发耗资(R&D cost)	16
Environment	安全事件(security affair)、环境污染(environment pollution)、自然灾害(natural disaster)、能源生产(energy production)	18
Legal	行业标准(industry standard)、价格管制(price control)、质量标准(quality standard)、限购措施(restriction measure)	11
Threat of new entrant	新兴市场(emerging market)、新产能扩展(new productivity extension)、跨界竞争(cross-border competition)、垄断性(monopoly)	5
Threat of substitute	外部刺激(external stimulus)、业务竞争(business competition)、产品更新(product update)、替代品价格(price of substitute)	11
Industry rivalry	市场分化(market segmentation)、行业竞争(industry competition)、经营压力(operation pressure)、市场规模(market size)	115
Power of supplier	原料价格(material price)、生产成本(production cost)、物价上涨(price increase)、市场供应(market supply)	45
Power of buyer	市场需求(market demand)、消费水平(consumption level)、潜在需求(potential demand)、下游监控(downstream monitor)	69
Subtotal:		558

3.9 times as great, respectively, as the results from the external analysis. Among the related descriptions of the external environment, 41.68% described positive emotions and 58.32% described negative emotions. In contrast, 94.04% described positive emotions regarding the internal environment and 5.96% described negative emotions regarding the internal environment. These results demonstrated that the main sentiment

**Table 4** Internal object library of financial reports

Object category	Examples	count
Inbound logistics	资金成本(capital cost)、资源投入(resource investment)、原料基地(material base)、能源损耗(energy consumption)	39
Operations	运作效率(operation efficiency)、产品结构(product structure)、经营效果(management achievements)、业务流程(business process)	372
Outbound logistics	库存结构(inventory structure)、配送能力(logistics ability)、订单(order)、物流结构(logistics structure)	73
Marketing & Sales	销售结构(sales structure)、营销能力(marketing ability)、品牌影响力(brand influence)、渠道管理(channel management)	438
Service	服务能力(service ability)、资源保障(resource guarantee)、增值服务(value-added service)、售后故障率(failure after sale)	128
Procurement	采购流程(purchasing process)、采购成本(purchase cost)、原料采购(material purchase)、原料成本(material cost)	73
Technology development	研制水平(technological level)、技术垄断(monopoly)、创新体系(innovation system)、新产品开发(R&D)	252
Human resource management	薪酬分配(salary distribution)、绩效考核(performance assessment)、招聘渠道(recruitment channel)、培训环境(training condition)	146
Firm infrastructure	经营策略(business strategy)、公司治理(corporate governance)、管理效率(management efficiency)、财务结构(financial structure)	558
Subtotal:		2079

expressed in these financial reports was about internal information disclosure, mainly good news about corporate performance. Compared with the internal disclosure, the description of the external environment revealed much more emotion that is negative.

## Results and discussion

We developed a regression model for the CSR score and financial report sentiment, shown below:

$$\text{Log}(\text{CSR}_{it}) = \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta \cdot \text{Control\_variables}_{it} + \gamma \cdot \text{FR\_categories}_{it} + \varepsilon$$

The CSR score data was taken from [www.hexun.com](http://www.hexun.com). Control variables included the ROE, BM ratio, and company size, which were obtained from the China Stock Market & Accounting Research (CSMAR) database. The empirical data set consisted of 16 companies (000002 Vanke, 600050 China Unicom, 600028 SINOPEC, 601857 CNPC, 600104 SAIC Motor, 000800 FAW CAR, 000927 TJ FAW, 000572 HaiMa Motor, 601607 Shanghai Pharma, 000538 Yunnan Baiyao, 000423 DEEJ, 600085 TongRenTang, 000651 GREE, 600690 Haier, 600839 Sichuan Changhong, and 000016 KONKA A) in various industries over a period of 2 years, 2012 and 2013. Based on the object library we built and emotional tendencies classified in the above sections, we calculated the financial reports' sentiment value of each category using Models 1–6.

Model 1:

$$\text{Log}(\text{CSR}_{it}) = \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) + \varepsilon$$

Model 2:

$$\text{Log}(\text{CSR}_{it}) = \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) + \gamma_{11} \cdot \text{FR}_{it} + \varepsilon$$

Model 3:

$$\begin{aligned} \text{Log}(\text{CSR}_{it}) = & \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) \\ & + \gamma_{21} \cdot \text{External}_{it} + \gamma_{22} \cdot \text{Internal}_{it} + \varepsilon \end{aligned}$$

Model 4:

$$\begin{aligned} \text{Log}(\text{CSR}_{it}) = & \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) \\ & + \gamma_{31} \cdot \text{PESTEL}_{it} + \gamma_{32} \cdot \text{Porter}_{it} + \gamma_{33} \cdot \text{ValueChain}_{it} + \varepsilon \end{aligned}$$

Model 5:

$$\begin{aligned} \text{Log}(\text{CSR}_{it}) = & \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) \\ & + \gamma_{41} \cdot \text{PESTEL}_{it} + \gamma_{42} \cdot \text{Porter}_{it} + \gamma_{43} \cdot \text{Primary}_{it} \\ & + \gamma_{44} \cdot \text{Support}_{it} + \varepsilon \end{aligned}$$

Model 6:

$$\begin{aligned} \text{Log}(\text{CSR}_{it}) = & \alpha \cdot \text{Log}(\text{CSR}_{it-1}) + \beta_{11} \cdot \text{ROE}_{it} + \beta_{12} \cdot \text{BM}_{it} + \beta_{13} \cdot \text{Log}(\text{Size}_{it}) + \gamma_{51} \cdot \text{Political}_{it} \\ & + \gamma_{52} \cdot \text{Economic}_{it} + \gamma_{53} \cdot \text{Social}_{it} + \gamma_{54} \cdot \text{Technological}_{it} + \gamma_{55} \cdot \text{Environment}_{it} \\ & + \gamma_{56} \cdot \text{Legal}_{it} + \gamma_{57} \cdot \text{Entrant}_{it} + \gamma_{58} \cdot \text{Substitute}_{it} + \gamma_{59} \cdot \text{Rivalry}_{it} \\ & + \gamma_{60} \cdot \text{Supplier}_{it} + \gamma_{61} \cdot \text{Buyer}_{it} + \gamma_{62} \cdot \text{Inbound}_{it} + \gamma_{63} \cdot \text{Operations}_{it} + \varepsilon \end{aligned}$$

$$+ \gamma_{64}. Outbound_{it} + \gamma_{65}. Marketing_{it} + \gamma_{66}. Service_{it} + \gamma_{67}. Procurement_{it} \\ + \gamma_{68}. Technology_{it} + \gamma_{69}. Human_{it} + \gamma_{70}. Infrastructure_{it} + \varepsilon$$

Table 5 presents the descriptive statistics for our sample. The units of the CSR and Size are obviously different from the other variables, so we used the log value of these 2 variables for the regression.

Table 6 shows the experiment results, among which Model 5 demonstrates a statistical significance between the CSR score and financial report sentiment based on the categories of the PESTEL, and Porter's Five Forces, Primary Activities and Support Activities. It outperformed the other models. The signs of the 4 variables' coefficients were consistent with the aforementioned statistical results. When

**Table 5** Summary statistics of the sample data

Variable	Min	Max	Mean	Standard Deviation
CSR	0.61	86.66	59.00	23.27
Control Variables				
ROE	−0.10	0.31	0.11	0.11
BM	0.17	1.46	0.83	0.35
Size	14.74	21.10	17.51	1.60
FR Categories				
FR	−0.09	1.00	0.71	0.27
External	−1.00	1.00	−0.10	0.57
Internal	0.42	1.00	0.90	0.16
PESTEL	−1.00	1.00	0.11	0.68
Porter	−1.00	1.00	−0.40	0.60
Primary	0.29	1.00	0.88	0.20
Support	0.40	1.25	1.00	0.17
Political	−1.00	1.00	0.00	0.76
Economic	−1.00	1.00	0.09	0.54
Social	0.00	1.00	0.26	0.44
Technological	−1.00	1.00	0.13	0.42
Environment	−1.00	1.00	0.03	0.47
Legal	−1.00	1.00	−0.13	0.49
Entrant	−1.00	1.00	0.00	0.25
Substitute	−1.00	1.00	−0.06	0.44
Rivalry	−1.00	1.00	−0.45	0.57
Supplier	−1.00	1.00	−0.39	0.56
Buyer	−1.00	1.00	0.03	0.64
Inbound	−1.00	1.00	0.37	0.60
Operation	0.00	1.00	0.88	0.27
Outbound	0.00	1.00	0.64	0.48
Marketing	0.00	1.00	0.85	0.27
Service	−1.00	1.00	0.78	0.47
Procurement	0.00	1.00	0.58	0.48
Technology	0.00	1.00	0.83	0.35
Human	0.00	1.00	0.80	0.39
Infrastructure	−0.33	1.00	0.87	0.31

**Table 6** Regression results of different models

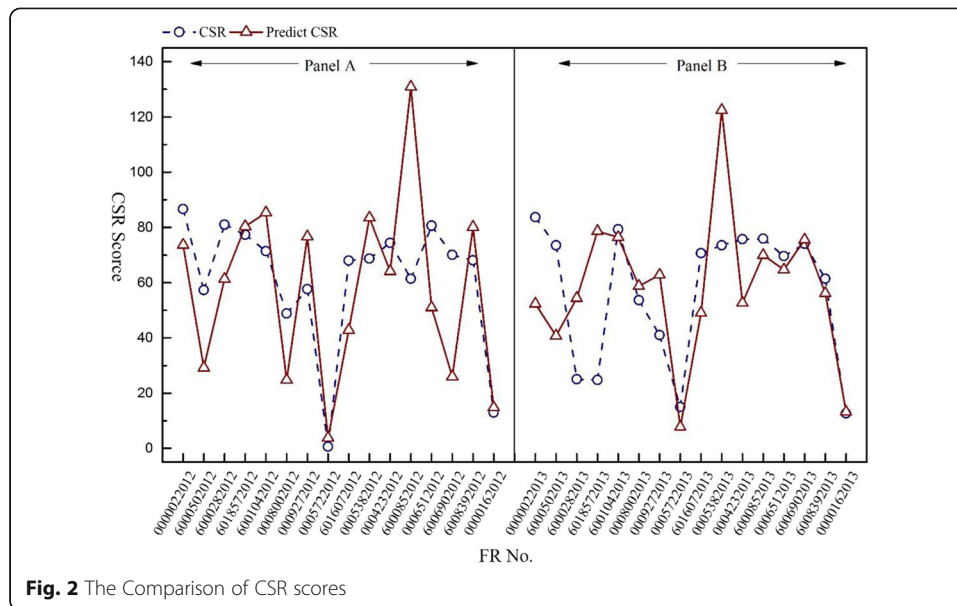
Variable category	Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept		-1.4860	-1.4306	-1.5804	-1.0108	-0.9943	0.5900
Control variables	Log(CSR <sub>t-1</sub> )	0.3392	0.3174	0.3250	0.3378	0.2761	0.3483
	ROE	-0.2841	-0.1069	0.0012	0.1019	-0.7234	-0.2213
	BM	-0.4080	-0.3889	-0.3698	-0.4782	-0.7948**	-0.7326
	Log(Size <sub>t-1</sub> )	2.3923	2.4235	2.4579	2.1105	2.1349	0.7702
FR categories	FR		-0.1311				
	External			-0.1072			
	Internal			-0.0406	-0.0598		
	PESTEL				-0.1812	-0.2689*	
	Porter				0.0825	0.2839*	
	Primary					-1.1081*	
	Support					1.4174**	
	Political						-0.1021
	Economic						0.0174
	Social						-0.0595
	Technological						-0.0220
	Environment						0.0359
	Legal						0.1794
	Entrant						0.0997
	Substitute						0.1795
	Rivalry						0.2797
	Supplier						0.0553
	Buyer						-0.1574
	Inbound						-0.1462
	Operation						0.3617
	Outbound						-0.1118
	Marketing						0.1446
	Service						-0.0820
	Procurement						0.3196
	Technology						0.4783
	Human						-0.2218
	Infrastructure						-0.3058
Adjusted R <sup>2</sup>		0.3660	0.3484	0.3386	0.3608	0.5203	0.0283

Variable "Internal" in Model 3 is actually "ValueChain" in model 4, their value are the same

\* and \*\* indicate  $p < 10\%$ ,  $p < 5\%$  and  $1\%$  respectively

preparing a financial report, managers express positive emotions in accordance with Porter's Five Forces and Support Activities, which show the company's opportunities and strengths. Managers may also complain about the threat from the macro environment and weakness of the Primary Activities.

Based on Model 5, we calculated the predicted values for the CSR scores. The comparison between predicted values and true values of the CSR scores is plotted as Fig. 2, which shows a consistent trend.



### Managerial implications

Milton Friedman, the noted economist, argued that the primary responsibility of managers is to maximize shareholder wealth. However, any director or senior manager who believes that acting for the exclusive benefit of its shareholders will lead to long-term success and satisfactory corporate governance is mistaken. It is often forgotten that Friedman also mentioned that this pursuit of shareholder wealth should be “within the rules”.

In the real world, ignoring stakeholders’ interests will result in poor performance and could even result in corporate bankruptcy. Based on the Stakeholder Theory, an organization’s success depends on the successful management of all the relationships that the organization has with its stakeholders. These stakeholders include not just shareholders (for corporate entities), but also other parties who could be affected by the operations of an entity, such as its employees, competitors, customers, suppliers, lenders, government, community, and environment. Paying attention to a broad range of stakeholders is important from a moral or ethical perspective and the survival of a firm depends on the management of a range of relationships.

This research contributes to stakeholders’ comprehensive decision-making ability in regards to corporate accountability. The attitude of a manager towards CSR interacts with the emotional tendency expressed in the financial report. Stakeholders can learn more about a company’s sustainable accountability through the sentiment analysis of its financial report. Companies can also do better by paying attention to CSR and by pursuing sustainable corporate governance.

### Conclusion

We developed an object library for financial reports that consisted of 20 categories based on strategic analysis. Regression models of the CSR score and financial report sentiment of different categories demonstrate that when financial report sentiment is classified into 4 categories based on the PESTEL model, Porter’s Five Forces model, the Primary Activities and Support Activities, it adds statistically significant explanatory

power to the CSR score. The result is transferrable to different industries. In the future, we can apply the method for creating an object library of financial reports to other financial disclosures.

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#### Authors' contributions

Yuan Song collected data and wrote the main paper. Hongwei Wang gave the main idea and improvement suggestions. Maoran Zhu contributed to the experiment analysis. All the authors read and approved the final manuscript.

#### Authors' information

Yuan Song is a PhD candidate at School of Economics and Management, Tongji University, Shanghai 200092, China. Her research interests include corporate governance, auditing and textual analysis. Hongwei Wang is currently a professor of Information Systems in the School of Economics and Management at Tongji University, China. His research interests include sentiment analysis, social media, and business intelligence. Maoran Zhu is an associate professor of Management Science in the School of Economics and Management at Tongji University, China. His research interests include E-commerce and business intelligence.

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