Available online at https://ijmras.com/

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH AND STUDIES

ISSN: 2640 7272

Volume:06; Issue:02(2023)

Doi: 10.33826/ijmras/v06i02.1

EXAMINING THE EFFECT OF CSR ON FINANCIAL PERFORMANCE IN CHINA

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ABSTRACT

This study focuses on the relationship between CSR and corporate financial performance, mainly discussing the relationship between CSR and ROA, using a sample of listed companies in China to conduct the study and provide relevant suggestions for the subsequent development of the company.

KEYWORDS: CSR, financial performance, Chinese firms

INTRODUCTION

Enterprises play an important role in economic growth in both developing and developed countries. Enterprises help to achieve national and regional sustainable development goals by stimulating sustainable development and innovation, creating job prospects, reducing income inequality in developing countries and promoting sustainable industrial development. Enterprises are growing rapidly and becoming increasingly important, and are becoming one

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of the main tools for driving a country's political, economic, social and financial growth, while there are also many economically disadvantaged regions in developing countries, and enterprises are then a major component of poverty reduction and wealth creation in these regions.

Several studies point out that CSR not only provides companies with a competitive advantage over other companies, but also that by focusing on financial success and social growth, companies can rapidly improve their performance over their competitors. CSR can help companies build their corporate image, increase their market share, resist various threats and challenges from

society, maximize their profits and promote their long-term development [1]. It also creates a high reputation for these companies in the minds of their customers and stakeholders, many of whom are more concerned about this aspect. It also boosts the self-confidence of employees and increases their productivity, which will lead to better business development [2]. However, also some studies have investigated the relationship between CSR and financial performance and the literature has produced mixed results, including some researchers who argue that the relationship between the two is positive, and some others argue that they are negative [3]. Meanwhile some researchers did not find any significant relationship between the two concepts [4], this study is a new perspective for the study of these two variables in the context of a sample on firms in China.

An important issue in corporate development is the impact of CSR on financial performance. The traditional view is that CSR comes at a cost, as some social actions incur additional costs. Examples of socially responsible behavior include contributions to employee welfare programs, donations and sponsorships to communities and environmental investments, to name but a few. Many tend to argue that these costs reduce profitability and thus lead to a competitive disadvantage and not develop healthily [5]. Some scholars argue that CSR has a positive effect on financial performance. For example, Kim studied that CSR and corporate financial performance have a vital impact [6].

LITERATURE REVIEW

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The CSR was rooted in the pre-World War II era (CEBC, 2010; Spector, 2008;).Husted explains that in the nineteenth century companies placed more emphasis on CSR, which at the time was referred to as 'citizenship' and 'service'. Ahen and Zetting state that due to the evolution of the concept, CSR is being defined separately by companies , an emerging concept of practice [7]. The source of CSR is noted in the 4,000 year old Code of Hammurabi, which sets out detailed protections for the common laborer and the common worker.

It has also been noted by researchers that as CSR is gradually embraced by society, companies are contributing to society while increasing their profitability and market share [10]. The above literature establishes a foundational understanding of CSR; based on this, the literature lists many sub-categories on CSR [11].

Some current research has not agreed on a definition of financial performance, but there is a wealth of research on financial performance, including strategic business management, organizational behavior and corporate governance. Venkatraman and Ramanujam (1986) studied corporate performance and how it is measured, and they concluded that corporate performance can be divided into three areas: corporate effectiveness, operational performance and financial performance. Business effectiveness is the broadest concept, taking into account the internal factors of the business as well as the various impacts of stakeholders. Operational performance is non-financial and is the antithesis of financial performance. Operational performance includes indicators such as product quality, market share and new product development rates that reflect the company's production operations and technology development, which ultimately affect the company's financial performance to some extent. Some scholars have also pointed out that in the field of CSR, the financial performance of enterprises is often confused with corporate performance, but strictly speaking, the scope of corporate performance is larger than that of financial performance, which refers specifically to the achievement of economic goals [12].

Berle and Means (1932) pointed out that the separation of powers is an inevitable product of economic development and the inevitable result of the progress of the times. Shareholders entrust the management of the enterprise to the management with the expectation that the management's professional advantage can achieve the corporate management objective of maximizing shareholder value, but this objective may be contrary to the management's objective of maximizing

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its own interests, thus giving rise to agency Agency costs. Agency costs arise as a result of principal-agent problems and include the additional expense of self-interested behavior by management that is beneficial to itself but not to the company, the conservative strategy of management in foregoing opportunities that may bring high returns to the company, and the time, effort and actual cost to shareholders of monitoring management's behavior. Agency costs are incurred by resolving the conflicts of interest between bondholders, shareholders and managers of a company. Agency costs are incurred to monitor management by maximizing the shareholders' wealth and protecting bondholders [13].

METHDOLOG

CSR has grown rapidly in recent years and has become a common phenomenon worldwide, gaining increasing recognition and attention from academics, business and the general public [14]. For decades, researchers have been actively exploring the relationship between CSR and financial performance [15]. The relationship between CSR and financial performance has attracted the attention and controversy of researchers and has been explored and discussed in depth by many researchers, but there is no consensus on the relationship between CSR and FP [16]. Many studies point out that the findings on CSR and financial performance are inconsistent, so many are contradictory and highly misleading [14]. Although many studies show that the relationship between CSR and financial performance is positive and there is a significant positive impact there are also scholars who point out the negative relationship and the absence of any statistical relationship between the two [19]. For example, Griffin, Mahon, Margolis and Walsh, who conducted a study on CSR and financial performance, argue for a relationship between them while questioning the research methodology, suggesting that there may be other factors that influence the relationship and that their relationship will not be fixed and uniform [16].

CSR not only provides enterprises with competitive advantages, but also increases their market share by improving their social image. Therefore, some researchers believe that CSR and financial performance are integrally correlated. Although enterprises will pay some economic expenditure, they can grow and develop faster than their competitors, thus rapidly improving their own financial performance. However, Kapoor argued that there was no significant relationship between CSR and

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financial performance [4]. To sum up, there is no conclusion on the relationship between CSR and financial performance. Therefore, it is necessary to carry out this study.

In this study, the researcher used quantitative analysis to explore the relationship between the independent variable and the dependent variable, to reflect how the independent variable affect the dependent variable, and in turn, how to improve the financial performance of firms in China. And the research hypothesis:

H: CSR has a positive relationship with financial performance.

On this basis, this chapter selects listed companies in China's Shanghai and Shenzhen stock markets from 2010-2021 as the research sample, and the data for the study is obtained from Hexun database and CSMAR database. The data collected were processed as follows: (1) exclude financial companies such as banks, securities and insurance; (2) exclude listed companies that were ST/PT during the period; (3) exclude companies that may have undergone mergers based on the growth rate of total assets greater than 100%; (4) exclude companies with abnormal data such as dividend payout ratio, owner's equity and negative balance sheet ratio; (5) conduct a continuous variable analysis at the 1% and 99% quartiles. Finally, a total of 19,032 sample data from 3,376 listed companies were retained. The software stata16.0 was used for statistical analysis.

FINDING AND DISCUSSION

CSR is the independent variable and is expressed as CSR. The social responsibility ratings of the sample for 2010-2021 were downloaded from the HEXUN CSR rating website. The HEXUN social responsibility rating system has several indicators under it, including shareholder responsibility, employee responsibility, supplier, customer and consumer rights responsibility, environmental responsibility and social responsibility at five levels.

Firm performance is the explanatory variable in this chapter. Variables that measure firm performance typically include return on total assets (ROA) and return on net assets (ROE), etc. ROA and ROE generally refer to the financial performance of the firm, i.e. the firm's operating performance, independent of investor and stock market influences. As this paper examines the impact of dividend policy and CSR on firm performance through agency problems. Therefore, the choice of financial performance is more in line with the research objectives of this study. Therefore,

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total net asset margin will be used as the dependent variable in this study and is denoted as ROA. The descriptive statistical analysis of CSR in this study is shown in Table 1. The mean CSR value is 27.58, the standard deviation is 14.76, the minimum value is -6.580 and the maximum value is 90.87, which indicates that there is a great difference in the fulfillment of social responsibility among enterprises, and the social responsibility of Chinese enterprises needs to be improved.

Table 1 The descriptive statistical analysis of CSR

This research also included control variables mainly include: firm size (Size), growth (Growth), shareholding of the largest shareholder (Top1), capital structure (Lev) and year (Year

VARIABLES	N	Mean	Sd	Min	Max
CSR	19,032	27.58	14.76	-6.580	90.87
Size	19,032	22.30	1.321	19.20	28.64
Lev	19,032	0.404	0.195	0.00708	0.953
Growth	19,032	1.125	108.7	-0.882	14,883
Top1	19,032	0.355	0.150	0.0220	0.894
Year	19,032	2,016	3.060	2,010	2,021
ROA	19,032	0.0594	0.047	1.90	0.880
ROE	19,032	0.101	0.073	4.10	1.280

). Considering the characteristics of the selected dependent variable, the financial performance of the firm, including ROA, and the characteristics of the independent variable, the Logit model was selected for the validation of CSR and financial performance. Based on the study of the impact of CSR on the financial performance of firms, the following model was constructed: ROA=$\alpha_0 CSR + \sum_{n=5}^{n} cv$+ε. ROA represents the financial performance of the companies studied in this paper, CSR is Corporate Social Responsibility, divided into internal CSR and external CSR, cv is a control variable.

Tables 2 show the results of the regression analysis of corporate finance and CSR, where the table below analyses the results of the regression analysis representing the total CSR as the independent variable and the financial performance represented by ROA, from which it can be seen that ROA, an indicator reflecting corporate social responsibility (CSR) and corporate finance, is significantly positively correlated at the 1% level of significance. The regression results indicate that the

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improvement of CSR can enhance the total net profit ratio (ROA) of listed companies and improve the level of financial performance.

Table 2 The results of the regression analysis of financial performance and CSR

VARIABLES	ROA
CSR	0.001***
	(28.66)
Size	0.019***
	(10.84)
Lev	-0.188***
	(-20.59)
Growth	0.000***
	(10.58)
Top1	0.077***
	(7.60)
Year	-0.001**
	(-2.35)
Constant	1.454*
	(1.94)
Observations	26,406
Number of stkcd	3,611
R-squared	0.239
Company FE	YES
Year FE	YES

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The robustness of the findings will be verified in terms of sample self selection, the persistence of

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the financial performance of the firm is re-measured by ROE and regression analysis is conducted again. Table 3 reports the results of the correlation regression analysis. CSR and ROE of the firm are significantly correlated at the 1% significance level, indicating that the CSR of the firm can increase the level of ROE of the firm. Therefore, the above study proves that the previous findings on ROA are robust.

Table 3 The results of the mediation effect analysis for CSR and ROE

VARIABLES	ROE
CSR	0.001***
	(16.70)
year	-0.001**
	(-2.26)
Size	0.012***
	(4.90)
Lev	0.018*
	(1.77)
Growth	0.000***
	(10.62)
Top1	0.040***
	(2.86)
Constant	2.794**
	(2.15)
Observations	19,032
Number of stkcd	3,376
R-squared	0.085
Company FE	YES
Year FE	YES

Robust t-statistics in parentheses

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*** p<0.01, ** p<0.05, * p<0.1

Test of hypothesis: The total and internal external scores of CSR have a significant positive impact on financial performance. From the table above, it can be concluded that the total score of CSR and the financial performance of the company have a significant impact, and the improvement of CSR can promote the financial performance of the company, therefore, the test hypothesis holds. In the table, it can be concluded that there is a significant influence between the scores of the internal indicators of CSR and the financial performance of the company.

CONCLUSION

The researcher points out that researchers are called upon to focus their research on the relationship between CSR and financial performance on multiple industries in order for scholars to identify the issues and treatment of the entire corporate quotient. Although each industry is independent, it is important to plan and manage the research for overall control and issues in a unified manner. This is so that internal and external pressures, such as government regulations and consumer issues, can be addressed that may be similar in a business. Scholars should concentrate on the link between CSR and corporate financial performance because of the uniqueness of internal capabilities or external pressures, the degree of public visibility, the different configurations of stakeholders and their different levels of activism on particular issues. The types of socially responsible activities that firms choose to engage in are uniquely related to the nature of their stakeholders' needs, the firm's capabilities and the industry environment. Researchers should focus their research on the relationship between CSR and financial performance across multiple industries in order to understand the relationship between CSR and financial performance in a region or country, as well as the issues that arise and the next steps to take to address them [20]. Therefore, as economic agents, enterprises should actively fulfil their internal social responsibility and strengthen the maintenance of relationships with internal stakeholders such as employees, shareholders, suppliers and customers. As for external social responsibility, the government, the media, the public and corporate governance should strengthen the reporting and monitoring of external social responsibility and establish a multi-governance monitoring system. Companies should be restrained from fulfilling external social responsibility as a way of giving back to society without

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compensation, and should not aim to win the market through speculation or malicious collusion, otherwise it will hinder their long-term development and become a double-edged sword.

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