Chapter 2
Managing CSR Inside China

Yuanhui Li and Check Teck Foo

Abstract In this chapter, the authors attempt to investigate the possible connection between corporate social responsibility (CSR) performance and corporate financial performance in China. In the process, we utilize data on corporate social responsibility performance (proxied using CSR report ratings) and corporate financial performance (proxied using ROA&ROE and Tobin's *q*). The overarching hypothesis may be phrased simply as: Is the company rewarded by its CSR activities from profitability perspective? The results suggest that there is significant link that indicates positive correlation between corporate social responsibility performance and corporate financial performance both in short term and long term. Most intriguingly is our finding of sharp contrast between the CSR mandatory corporations and voluntary corporations. The financial performances of corporations that are mandated (under obligation) to report on CSR activities are significantly higher than those of firms that volunteered (but not required by policy) such information. Good corporate social responsibility activities have impacts on both short- and long-term financial performances of the China firms. Corporations may achieve twin goals of earning profits and serving society. Industry executives and managers should embed CSR as part of overall corporate strategy as this will lead to improving short-term profitability and enhancing long-term competitive advantage. On the basis of our empirical finding of CSR activities to impact on profitability, we suggest a new body of thinking to be developed: there are strong financial dimensions to being socially responsible. Both investors and debt providers of companies ought to keenly emphasize good CSR practices especially in enhanced, quality reporting. Practically, it means that from a financial, fund-raising perspective, it pays for top management to emphasize a higher CSR performance.

This article is sponsored by the Humanity and Social Science Research Youth Foundation of Ministry of Education in China (Approval No. 12YJCZH118).

Y. Li (✉)
School of Economics and Management, Beijing Jiaotong University, Beijing, China
e-mail: yhli@bjtu.edu.cn

C.T. Foo
School of Management, Harbin Institute of Technology, Harbin, Heilongjiang, China
e-mail: cmseditorinchief@gmail.com

C.T. Foo (ed.), *Diversity of Managerial Perspectives from Inside China*,
Managing the Asian Century, DOI 10.1007/978-981-287-555-6_2

Keywords Corporate social responsibility • Corporate social responsibility performance • Corporate financial performance • Competitive advantage

2.1 Introduction

In the recent years, CSR (corporate social responsibility) has emerged as a corporate philosophy for integrating twin goals of profit making and being socially responsible. It is a concept whereby companies take responsibility for the impact of their activities beyond shareholders to multi-stakeholders: customers, suppliers, employees, communities, and the environment. Indeed, it is seen as a source of competitive advantage. Corporate social responsibility can be turned into a proactive business strategy. For example, CSR may be utilized as an effective marketing tool for creating and sustaining a competitive advantage (Maignan and Ferrell 2001; Drumwright 1994). Given the hypercompetitive, global markets, corporations realized to survive; they must evolve from simply "doing well" to "doing better" (Stroup et al. 1987) and to be "doing [their] best" by contributing strongly in adding societal value. To promote sustainable development of enterprises and for building a harmonious society, governments in many countries have encouraged their enterprises to disclose their CSR activities through annual reporting.

Since 2008, Chinese governmental regulatory agencies, namely, Shenzhen Stock Exchange (SZSE), Shanghai Stock Exchange (SSE), State-owned Assets Supervision and Administration Commission of the State Council (SASAC), China, and Ministry of Environmental Protection (MEP) of PRC, have issued guidelines. In China, such policy instructions when adopted by firms, enterprises, and companies often result in their reporting of social responsibility activities. Publicly listed corporations in particular are influenced by the presence of these guidelines to report on their CSR. Since December 2008, listed corporations, including Shenzhen 100 index, Shanghai governance, Shanghai overseas, and Shanghai finance, have been required (mandated) to issue CSR report together with their annual reports; others are encouraged to disclose CSR report voluntarily.

Clearly, these requirements mark a significant milestone of mandatory CSR disclosures in China among the major listed corporations. These developments lead in China to a rapid dynamic growth of CSR reports in listed companies. This may be seen in the rising trend of CSR reporting during the follow-up period of 2009–2013, as shown in Fig. 2.1.

However, senior managers in some of the listed companies have resisted: they raised the counterargument that the additional CSR activities are inconsistent with corporate efforts major responsibility of maximizing profits, a line of protest that is consistent with Milton Friedman's monetarist school of thinking. That is, the social responsibility of any business (we may add, especially listed corporations) is to maximize profits for shareholders. This disagreement has prompted researchers to examine the relationship between CSR and corporate financial performance (CFP)

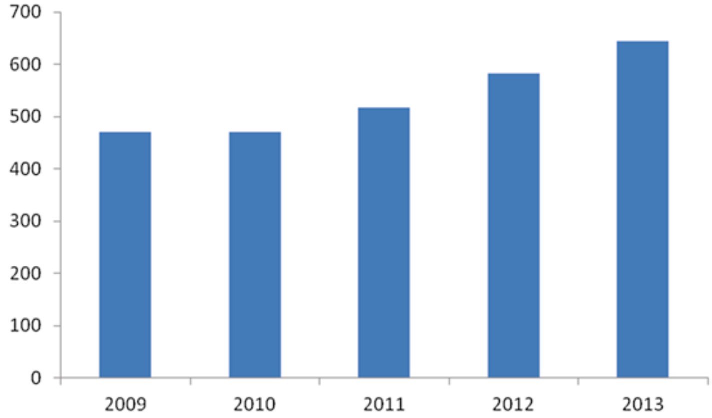

Fig. 2.1 Number of CSR reports of listed companies in China

in an effort to assess the validity of these concerns. To help shape CSR policy development in China, we decided here to investigate the following research questions:

- Whether CSR of companies has an effect on their profitability or not?
- Can corporate social responsibility of companies be integrated to become part of their competitive advantage?
- Does CSR simply drive up costs to the detriment of corporate profitability?
- What are the impacts of mandatory CSR policy (in part) for listed companies?

The remainder of this chapter proceeds as follows. The second section emphasizes the diversity of perspectives. The third section provides the conceptual overview. The fourth section explains why it concerns management. The fifth section presents our key statistical insights, and the sixth section summarizes and concludes.

2.2 Diversity of Perspectives

In embarking our study in these directions, we hope to contribute to the extant literature in several aspects. First, we seek to provide deeper insights to the relationship between corporate social responsibility performance and financial performance (as measured from short-term as well as long-term perspectives). These insights may be useful to governmental authority in formulating future CSR policies and in further refinement of guidelines.

Second, the public and investors concerned about the social responsibility by listed corporations may make better, more informed investment decisions. For example, in July 2009, Shanghai Stock Exchange released SSE social responsibility index, which has 100 composition samples selected from Shanghai governance sector according to the ranking of their CSR contribution per share.

Third, while other studies merely demonstrated the relationship between corporate social responsibility and financial performance, our approach is by far, much more insightful. We considered the contextual factors of whether CSR disclosure is mandatory or voluntary.

Fourth, we conduct our analyses in the context of China, a fast-emerging capital market within the world's largest developing market. Prior studies in this field are primarily conducted in advanced economy, where pressures for corporations to meet societal/stakeholders' expectations are arguably much stronger than emerging markets. Insights from our studies thus provide a useful contrast to the current extant literature based.

2.3 A Conceptual Overview

Researchers have investigated on the impacts of CSR on corporate profitability by focusing on the analyses of costs and benefits that resulted from the implementation of socially responsible initiatives. The key is to observe whether such initiatives have entailed economic and financial losses. Or on the contrary, such initiatives had led to realization of competitive advantages. So far, the results of empirical studies of the relationship between CSRP and CFP have been inconclusive.

High CSR involvement enables firms to improve short-term profitability through reduced operational costs and/or increased revenues (Brammer and Millington 2008). Berman et al. (1999) found that corporate activity promoting employee relations has a positive effect on firm efficiency. This is because the implementation of advanced human resource practices can make firms achieve high productivity, low turnover, decreased absenteeism, and/or increased organizational commitment among employees (Berman et al. 1999). Positive consumer perceptions of product quality probably help firms to achieve increased sales, finally improving firm profitability (Waddock and Graves 1997).

Environmentally proactive firms are expected to enjoy greater profitability on account of reduced costs for abiding by environmental regulations and improvement of operational efficiencies (Russo and Fouts 1997). Corporate attention to community relations may lead to favorable tax legislation or reduced local regulations, which can allow firms to decrease their operational costs (Waddock and Graves 1997), while corporate support for women and minorities would contribute to profitability through the expansion of its market, enhanced productivity, and increased cost savings (Robinson and Dechant 1997).

Moskowitz (1972), Parket and Eilbirt (1975), and Sturdivant and Ginter (1997) found that social responsibility is positively related to an organization's stock market performance. Their findings include improved relationships with important stakeholders such as banks, investors, and government agencies. These improved relationships can increase investments in these firms by shareholders (Moussavi and Evans 1986), elevate employee morale, increase customer goodwill (Solomon and Hanson 1985), and improve relationships with government agencies that might reduce regulatory costs (McGuire et al. 1988). Sen and Bhattacharya (2001), Backhaus et al. (2002), and Brammer and Millington (2005) found that CSR initiatives help to create heterogeneous and immobile resources, such as highly qualified job seekers, firm reputation, and consumers' positive evaluations of firms.

In turn, the creation of these intangible resources leads to investors' high expectations for a firm's future profitability, which can create high market value (Luo and Bhattacharya 2006). Brammer and Millington (2005) demonstrated that high community involvement results in greater market value. Kacperczyk (2009) indicated that corporate initiatives in the areas of the natural environment, diversity, and community relations had positive influences on long-term market-based financial performance.

A firm that attempts to decrease its implicit costs by socially irresponsible behavior, for example, in neglecting to take measures against pollution will in the end incur higher explicit costs. Socially responsible companies have less risk of negative outcomes. It is less likely for these companies to pay heavy fines for excessive pollution, to have costly lawsuits against them, or to experience socially negative events that would be destructive to their reputation. Theoretically, if there could be two identical companies, where the one is socially responsible and the other is not, it should be expected that the former would have less downside risk for value and encounter fewer events which would be detrimental to its line of profit. Since the actual costs of CSR are covered by the benefits, there is a positive linkage between CSR and corporate financial performance. Based on the above theoretical analysis, we'll make the following two assumptions:

Hypothesis 1: There is a positive correlation between corporate social responsibility performance and corporate short-term financial performance.

Hypothesis 2: There is a positive correlation between corporate social responsibility performance and corporate long-term financial performance.

Compared to developed western countries, China adopts a dual-track system on CSR information disclosures: mandatorily and voluntarily. As mentioned previously, regulators have gradually required some listed companies to disclose their independent CSR together with annual report. Since mandatory disclosure system is implemented, only a handful of companies required to do so fail to report in a timely manner. Many of those not required to report, published their CSR report voluntarily. In other words, such a mandatory requirement by authorities had a wider effect of generating corporate interest in publishing their CSR as well. According to statistics, a total of 598 listed companies disclose their independent CSR report voluntarily between 2009 and 2013.

CSR could help to improve the company's reputation and image and enhance enterprise value (Mendes-Da-Silva and de Lira Alves 2004). But compared to mandatory companies, the average CSR performance is relatively lower. So we think the mandatory companies may get a higher reputation premium. Our hypothesis 3 is as follows:

Hypothesis 3: Compared to voluntary companies, CSR performance has a bigger effect on financial performance for those mandatory ones.

After setting out our hypotheses, we will discuss the sample and methodology in the next section.

2.4 Why It Concerns Management

Now, CSR is emerging internationally as a management practice. More companies including those in China are becoming involved in the global community: for example, the established Alibaba and emerging Xiaomi. The top management of these Chinese corporations too desire to be seen as part of the global community. To be socially responsible means to be acting in a manner where one remains accountable for what is being done. And only through contributing positively to the communities where they operate can these corporations be accepted by the society. This means working closely not just with the employees but their families and the wider, local community. A fundamental principle of social responsibility is to become a responsible neighbor at least to our customers, shareholders, employees, suppliers, and network of stakeholders. CSR reporting can help stakeholders appreciate how the company is performing socially.

Nowadays in China, the pressure on firms to engage in CSR has increased. Many managers have responded positively to these pressures, but some too have resisted. As discussed earlier, those who resist typically invoke the fact that there is necessarily a trade-off between socially responsible behavior and profitability. Here, we try to unmask the link between corporate social responsibility activities and the related corporate financial performances based on data drawn from Chinese corporations. We are also investigating the overall impacts of CSR policies as initiated by government regulators. Our research should help senior management to view the implementation of CSR as an integral part of strategic planning. The goal of management should be in the short term to achieve profitability and in the long run to gain on competitive advantages.

Companies should not just focus on immediate profitability – even though we recognize that it is important for survival – but also on long-term aspect of enhancing socially their corporate value. For example, in China, people are now far more environmentally aware. Thus, Chinese customers may be far more supportive of companies that are known to be geared toward reducing pollution. So CSR reporting of listed corporations ought to matter. Through these CSR reports, enterprises in China become better known for their social contributions. It is thus conducive for Chinese enterprises and organizations to further improve the quality of their CSR reporting.

2.5 Key Statistical Insights

2.5.1 Sample Description

For investigating the relationship between CSR and corporate profitability, we retain in our sample only listed corporate cases (or firms). Our database is sufficiently large for us to institute controls in testing our hypotheses. This procedure yields a final sample of 2,114 observations between years 2009 and 2013, with

1,461 in the Shanghai Stock Exchange and 653 in the Shenzhen Stock Exchange. The CSR reports are obtained from the websites of Shenzhen Stock Exchange and Shanghai Stock Exchange. CSR report quality scores are gathered by hand from the website of HEXUN. Financial and stock market data are sourced from the China Stock Market and Accounting Research (CSMAR) database. The database is then set up specifically to meet our empirical research goals. This required a reworking of the variables and next we describe in detail our sample.

Table 2.1 shows the sample distribution by industry: our sample is skewed highly toward manufacturing (51.99 %) with 34.89 % represented by transportation (7.28 %), IT (6.34 %), finance (5.72 %), real estate (5.53 %), utilities (5.01 %), and mining (5.01 %), and the remaining corporations comprising of only 13.12 % are from trade (3.97 %), construction (2.74 %), conglomerates (2.65 %), travel (1.61 %), agriculture (1.32 %), and publishing and media (0.83 %). Ranking by report number, the top five industries are manufacturing (1,099), transportation (154), IT (134), finance (121), and real estate (117).

Table 2.2 summarizes the sample by year. We can find the CSR reports increasing over the years. Table 2.3 shows 71.33 % CSR report is from mandatory company's disclosure and both mandatory and voluntary company's disclosures of CSR increase by year. But voluntary companies have a relatively higher rate of growth.

Table 2.1 Total sample breakdown by industry

Industry	No.	%	CSR
Manufacturing	1,099	51.99	33.41
Transportation	154	7.28	38.53
IT	134	6.34	32.52
Finance	121	5.72	52.86
Real estate	117	5.53	29.33
Utilities	106	5.01	36.34
Mining	106	5.01	44.95
Trade	84	3.97	36.44
Construction	58	2.74	39.78
Conglomerates	56	2.65	30.12
Travel	34	1.61	34.91
Agriculture	28	1.32	33.09
Publishing and media	17	0.83	29.61
Total	2,114	100	35.54

Table 2.2 Total sample breakdown by year

Year	No.	%	CSR
2009	252	11.92	29.98
2010	352	16.65	32.64
2011	404	19.11	35.01
2012	505	23.89	36.81
2013	601	28.43	38.85
Total	2,114	100	35.54

Table 2.3 CSR sample breakdown by initiative

Year	Mandatory	%	CSR	Voluntary	%	CSR
2009	221	87.70	30.30	31	12.30	27.66
2010	269	76.43	33.86	83	23.58	28.73
2011	309	76.49	36.21	95	23.51	31.09
2012	345	68.32	37.66	160	31.68	34.98
2013	364	60.57	40.39	237	39.43	36.49
Total	1,508	71.33	36.27	606	28.67	33.73

2.5.2 Empirical Models and Variable Definitions

2.5.2.1 Corporate Social Responsibility Performance

CSRP denotes corporate social responsibility performance. To specify our proxy for CSR performance, we utilize rankings corporate CSR reporting ratings divided by 100 for indicating CSR performance of the listed corporations. This is a measure widely utilized in China for determining CSR (Cui 2009; Shi 2010; Zhu 2011). Briefly, the system utilizes the expert scoring methodology (overall, macro 30 points, content 50, and technology 20) with the maximum obtainable score being 100.

2.5.2.2 Corporate Financial Performance

CFP denotes corporate financial performance. ROE and Tobin's *q* are used to measure the two dimensions of CFP: short-term profitability and long-term profitability. ROE is an accounting-based measure that represents a firm's return on equity during a given fiscal year, capturing corporate short-term profitability. ROE is measured as net income scaled by total equity at the end of each year.

Tobin's *q* is the ratio between a physical asset's market value and its replacement value. To measure the long-term profitability of the firm, this study uses Tobin's *q* to proxy it. Research shows that this ratio has considerable macroeconomic significance and usefulness as the nexus between financial markets and markets for goods and services, which can represent investors' perceptions of a firm's market value relative to its book value. It has become common practice in the finance literature to calculate Tobin's *q* by comparing the market value of a company's equity and liabilities with its corresponding book values as the replacement values of a company's assets that are hard to estimate.

2.5.2.3 Control Variables

There are three variables in the regression analyses to control their possible effects on the CSR&CFP link: SIZE, LEV, and GROW. Substantial research has also certified that firm size influences CFP measures significantly although there appears to be no agreement in the direction of its effects (e.g., Hillman and Keim 2001; Kang et al. 2010; Waddock and Graves 1997). Just as the previous literature (e.g., Hillman and Keim 2001; Lee and Park 2009; Waddock and Graves 1997), we use SIZE as the natural log of annual assets. LEV represents a firm's capital structure measured by debt to asset ratio. LEV probably affects this link because high-risk-tolerant firms (firms with high leverage) may behave differently than low-risk-tolerant firms in terms of CSR investment on account of different levels of risks involved in CSR investment (Waddock and Graves 1997). According to Burke et al. (1986), as they grow, firms attract more attention from stakeholders. During different development stages (we use GROW as the growth rate of annual sales), firms tend to perform better (worse). Such correlation may confound the relationship between corporate social responsibility performance and corporate financial performance and is, therefore, controlled in the model.

2.5.3 Models

We present the following regression Eqs. 2.1 and 2.2 for analyzing the possible connection between corporate social responsibility performance and corporate financial performance.

$$\mathrm{ROE}_{it+1} = \beta_0 + \beta_1\mathrm{CSRP}_{it} + \beta_2\mathrm{SIZE}_{it\,it} + \beta_3\mathrm{LEV}_{it} + \beta_4\mathrm{GROW}_{it} + \varepsilon_{it} \quad (2.1)$$

$$\text{Tobin's } q_{it+1} = \beta_0 + \beta_1\mathrm{CSRP}_{it} + \beta_2\mathrm{SIZE}_{it\,it} + \beta_3\mathrm{LEV}_{it} + \beta_4\mathrm{GROW}_{it} + \varepsilon_{it} \quad (2.2)$$

Then we present regression Eqs. 2.3 and 2.4 to investigate the effect of CSR disclosure initiative on the relation between CSR performance and corporate financial performance.

$$\begin{aligned}\mathrm{ROE}_{it+1} = {} & \beta_0 + \beta_1\mathrm{CSRP}_{it} + \beta_2\mathrm{INITIATIVE}_{it} + \beta_3\mathrm{INITIATIVE}_{it} * \mathrm{CSRP}_{it} + \beta_4 \\ & \mathrm{SIZE}_{it} + \beta_5\mathrm{LEV}_{it} + \beta_6\mathrm{GROW}_{it} + \varepsilon_{it}\end{aligned} \quad (2.3)$$

$$\begin{aligned}\text{Tobin's}\, q_{it+1} = {} & \beta_0 + \beta_1\mathrm{CSRP}_{it} + \beta_2\mathrm{INITIATIVE}_{it} + \beta_3\mathrm{INITIATIVE}_{it} * \mathrm{CSRP}_{it} \\ & + \beta_4\,\mathrm{SIZE}_{it} + \beta_5\mathrm{LEV}_{it} + \beta_6\mathrm{GROW}_{it} + \varepsilon_{it}\end{aligned} \quad (2.4)$$

where INITIATIVE, dummy variable, 1 indicates the company discloses their CSR report by mandatory and 0 indicates the company discloses their CSR report by voluntary.

Next, we look at the results of our analysis.

2.5.4 Descriptive Statistical Analysis

Table 2.4 provides descriptive statistics. The average ROE is 0.095 with lowest −0.047 and highest 0.235, and the average value of Tobin's q is 1.683 with lowest 0.947 and highest 3.836, consistent with relative research. 71.3 % of sample corporations are mandated to issue their CSR report.

The corporate social responsibility performance, CSRP, is on the average 0.355 with lowest 0.117 and highest 0.84. Clearly, this suggests that in China, there is a huge gap in terms of performance of corporate social responsibility between corporations. The mean of SIZE is 22.92; average LEV is 0.513. The mean of GROW is 0.166.

2.5.5 The Correlation Analysis

Table 2.5 provides the correlation coefficients of the variables in equations; the correlation matrix indicates that ROE and Tobin's q are positively related to CSR significantly, which is consistent with the statements above. And this reveals that firms with a higher CSR performance probably enjoy a higher financial performance. We used VIF to test for multicollinearity and found that the value of VIF is not more than 2. This suggests that potential multicollinearity is not a major concern.

Table 2.4 The main variables of the descriptive statistics

	N	Min	Max	Mean	Standard deviation
ROE	2,114	−0.047	0.235	0.095	0.072
Tobin's q	2,114	0.947	3.836	1.683	0.785
CSRP	2,114	0.117	0.840	0.355	0.131
INITIATIVE	2,114	0	1	0.713	0.452
SIZE	2,114	19.541	30.496	22.918	1.751
LEV	2,114	0.014	1.513	0.513	0.205
GROW	2,114	−0.256	0.690	0.166	0.243

Table 2.5 Sample of the correlative analysis of the relevant variables' enterprise

	ROE	Tobin's q	CSRP	SIZE	LEV	GROW
ROE	1					
Tobin's q	0.2551***	1				
CSRP	0.1367***	0.2224***	1			
SIZE	0.1827***	−0.4956***	0.5530***	1		
LEV	−0.0395*	−0.4246***	0.1743***	0.5562***	1	
GROW	0.2222***	0.0054**	0.0439*	0.0773***	0.0603***	1

Note: *, **, and *** indicate statistical significance at 10 %, 5 %, and 1 % levels, respectively.

To control the effect of different variance on the empirical test, this paper adopts robust regression analysis using Stata 13.1.

2.5.6 Regression Analysis

For hypothesis 1 and hypothesis 2, we will examine what relationship exists between CSRP and CFP. CFP will be taken by ROE and Tobin's *q* in the models. Empirical regression results are shown in Table 2.6. Table 2.6 presents the regression results of Eqs. 2.1 and 2.2; the coefficients of CSRP on ROE in Eq. 2.1 are significantly positive at 1 % level, indicating the higher corporate social responsibility performance, the better short-term performance of the company has. The results are consistent with hypothesis 1, which verifies that the CSRP has a significant impact on the short-term profitability of the firms. The coefficients of CSRP on Tobin's *q* in Eq. 2.2 are significantly positive at 10 % level, indicating that corporate social responsibility activities can be beneficial to the long-term profitability of firms; the hypothesis 2 is also verified. SIZE has a positive relationship with ROE and negative relationship with Tobin's *q*, LEV shows a negative relationship with ROE and Tobin's *q*, and GROW shows a positive relationship with ROE and Tobin's *q*. Based on this discovery, it is suggested that CSR activities drive to improve not only the short-term accounting interests but also the long-term market value. CSRP-CFP relationships are kept consistent among short-term and long-term profitability measures.

Table 2.7 presents the regression results of Eqs. 2.3 and 2.4, the estimated coefficients of CSRP on ROE and Tobin's *q* are also positive and statistically significant at 1 % level, and the estimated coefficient of INITIATIVE is positive and statisti-

Table 2.6 Regression results of Eqs. 2.1 and 2.2

	Regression (2.1)	Regression (2.2)
Variables	Dependent variable: ROE	Dependent variable: Tobin's *q*
CSRP	0.039***	0.204*
	(2.97)	(1.71)
SIZE	0.006***	–0.180***
	(4.29)	(–14.60)
LEV	–0.020**	–0.804***
	(–2.12)	(–7.94)
GROW	0.063***	0.154**
	(9.63)	(2.48)
Constant	–0.061**	6.120***
	(–2.15)	(25.71)
Observations	2,114	2,114
Adjust R^2	0.074	0.281

Note: *T* statistics in parentheses; *, **, and *** indicate statistical significance at 10 %, 5 %, and 1 % levels, respectively.

Table 2.7 Regression results of Eqs. 2.3 and 2.4

	Regression (2.3)	Regression (2.4)
Variables	Dependent variable: ROE	Dependent variable: Tobin's *q*
CSRP	0.043***	0.321***
	(3.23)	(2.66)
INITIATIVE	0.008**	0.202***
	(2.19)	(5.63)
INITIATIVE *CSRP	0.0002**	0.008***
	(2.13)	(9.88)
SIZE	0.005***	−0.206***
	(3.21)	(−15.62)
LEV	−0.020**	−0.802***
	(−2.14)	(−7.96)
GROW	0.063***	0.166**
	(9.59)	(2.71)
Constant	−0.040***	6.535***
	(−3.82)	(25.92)
Observations	2,114	2,114
Adjust R^2	0.084	0.293

Note: *T* statistics in parentheses; *, **, and *** indicate statistical significance at 10 %, 5 %, and 1 % levels, respectively.

cally significant at 5 % level, which means that firms with mandatory CSR disclosure have significant differences in the financial performance compared to firms with voluntary CSR disclosure. The estimated coefficients of INITIATIVE *CSRP are positive and statistically significant at 5 % level, which provides the evidence that the mandatory companies get a higher reputation premium. CSR performance of mandatory companies has a bigger effect on financial performance than voluntary ones. The results support H3.

2.6 Concluding Remarks

Using China listed companies in 2009–2013 financial data, CSRP rating, and financial performance measures (short and long terms), we make multiple regressions to examine the relation between corporate social responsibility performance (CSRP) and corporate financial performance (CFP). We found through empirical tests that there is a strong positive correlation between the corporate social responsibility performance and corporate financial performance for both short and long terms. Moreover, the results revealed positive correlation between the level of CSR information disclosure and corporate profitability.

Clearly, at the current stage of development within China, good corporate social responsibility activities have impacts on both short- and long-term financial performances of the firms. This also means that good CSR reporting likely leads to enhanced, future market value of corporations. Chinese top management should seriously consider in their strategic decision-making to implement and report CSR activities. The empirical evidence provides justification for such a decision given the positive relationship between CSRP and CFP. By our empirical research, a China listed company should embed CSR as part of overall corporate strategy as this will lead to improving short-term profitability and enhancing long-term competitive advantage.

Most intriguingly, our statistical results (regression analyses) show that the financial performances of corporations that are mandated (under obligation) to report on CSR activities are significantly higher than those firms that volunteered (but not required by policy) such information. Perhaps we can even argue that such compulsion is beneficial for listed corporations, for by being compelled to improve upon CSR performances, these efforts of improvements at the same time also led to a greater rate of increase in corporate financial performance. The same may not be said for listed corporations that are volunteering CSR information.

The findings of this study have implications for practicing managers. Depending upon their individual values and beliefs, managers may choose to avoid or be engaged in socially responsible activities. What this research on CSR suggests to managers is a strong underlying economic rationale for corporate acting in socially responsible ways. Corporations may achieve twin goals of earning profits and serving society. Thus, industry executives and managers ought to incorporate CSR activities when developing their corporate strategy. Possibly, managers may embed CSR efforts as part of their investments and in so doing will help maximize returns in both the short and long terms. For example, managers may choose to invest in products that are beneficial for the community.

Since mandatory disclosures of CSR appear to benefit corporations, more firms ought to be compelled to report on the social aspects of their activities. Thus, stock exchanges in Shenzhen and Shanghai should gradually expand the scope of compulsory CSR disclosure for listed companies. From our analyses, the regulating CSR reporting by governmental authorities appears to enhance both CSR and corporate financial performances. Managers ought to continue to take initiatives in disclosing more of their social responsibility activities. In so doing, managers should improve the quality of their reports.

In conclusion, we return to where we began: conceptualization of corporate social responsibility (CSR) as embodying corporate conscience, corporate citizenship and social performance, and long-term sustainability. What our research clearly suggests is that there are strong financial dimensions to being socially responsible. Both investors (shareholders) and debt providers (bondholders) of publicly listed ought to keenly emphasize good CSR practices especially in enhanced, quality reporting. Practically, it means from a financial, fund-raising perspective that it pays for top management to emphasize a higher CSR performance.

References

Backhaus KB, Stone BA, Heiner K (2002) Exploring the relationship between corporate social performance and employer attractiveness. Bus Soc 41:292–318

Berman SL, Wicks AC, Jones TM (1999) Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. Acad Manag J 42:488–506

Brammer S, Millington A (2005) Corporate reputation and philanthropy: an empirical analysis. J Bus Ethics 61:29–44

Brammer S, Millington A (2008) Does it pay to be different? An analysis of the relationship between corporate social and financial performance. Strateg Manag J 29:1325–1343

Burke L, Logsdon JM, Mitchell W, Reiner M, Vogel D (1986) Corporate community involvement in the San Francisco Bay Area. Calif Manag Rev 28:122–141

Cui XM (2009) On the influencing factors for enterprise releasing social responsibility report-evidence from enterprise social responsibility reports by listed firms in 2008. J Nanjing Agric Uni (Social Science Edition) 9(4):40–46

Drumwright M (1994) Socially responsible organizational buying: environmental concern as a non-economic buying criterion. J Mark 58(3):1–19

Hillman AJ, Keim GD (2001) Shareholder value, stakeholder management, and social issues: what's the bottom line? Strateg Manag J 22:125–139

Kacperczyk A (2009) With greater power comes greater responsibility? Takeover protection and corporate attention to stakeholders. Strateg Manag J 30:261–285

Kang KH, Lee S, Huh C (2010) Impacts of positive and negative corporate social responsibility activities on company performance in the tourism industry. Int J Hosp Manag 29(1):72–82

Lee S, Park S (2009) Do socially responsible activities help hotels and casinos achieve their financial goals? Int J Hosp Manag 28:105–112

Luo X, Bhattacharya CB (2006) Corporate social responsibility, customer satisfaction, and market value. J Mark 70:1–18

Maignan I, Ferrell OC (2001) Antecedents and benefits of corporate citizenship: an investigation of French businesses. J Bus Res 51(1):37–51

McGuire JB, Sundgren A, Schneeweis T (1988) Corporate social responsibility and firm financial performance. Acad Manag J 31(6):854–872

Mendes-Da-Silva W, de Lira Alves LA (2004) The voluntary disclosure of financial information on the internet and the firm value effect in companies across Latin America. In: Universidad Navarra Barcelona, 13th International Symposium on Ethics, Business and Society

Moskowitz MR (1972) Choosing socially responsible stocks. Bus Soc Rev 1(1):71–75

Moussavi F, Evans D (1986) An attributional approach to measuring corporate social performance. Paper presented at the academy of management meetings, San Diego, CA

Parket IR, Eilbirt H (1975) Social responsibility: the underlying factors. Bus Horiz 18(4):5–10

Robinson G, Dechant K (1997) Building a business case for diversity. Acad Manag Exec 11(3):21–31

Russo MV, Fouts PA (1997) A resource-based perspective on corporate environmental performance and profitability. Acad Manag J 40(3):534–559

Sen S, Bhattacharya B (2001) Does doing good always lead to doing better? Consumer reactions to corporate social responsibility. J Mark Res 38(2):225–243

Shi P (2010) Corporate social responsibility report and corporate value. Jianghai Acad J 53(6):99–103

Solomon R, Hanson K (1985) It's good business. Atheneum, New York

Stroup M, Neubert RL, Anderson JW (1987) Doing good, doing better: two views of social responsibility. Bus Horiz 30(2):22–25

Sturdivant FD, Ginter JL (1997) Corporate social responsiveness: management attitudes and economic performance. Calif Manag Rev 19(3):30–39

Waddock SA, Graves SB (1997) The corporate social performance-financial performance link. Strateg Manag J 18(4):303–310

Zhu S (2011) Corporate social responsibility, market evaluation and earnings information content. Account Res 11:27–34

Springer

http://www.springer.com/978-981-287-554-9

Diversity of Managerial Perspectives from Inside China
Foo, C.-T. (Ed.)
2016, XVII, 221 p. 41 illus., 14 illus. in color., Hardcover
ISBN: 978-981-287-554-9