Tianxu Jiang[1], Min Zhu[2]

THE IMPACT OF SOCIAL RESPONSIBILITY ON CHINESE STATE-OWNED ENTERPRISES PERFORMANCE

This paper contributes to the literature of corporate social responsibility (CSR) affects the enterprises performance by providing empirical evidence from China. Based on stakeholder theory, constructs a uniquely combined data set of 317 Chinese state-owned listed companies in Shanghai and Shenzhen stock exchange from 2013 to 2017, and explore the effects of CSR on Chinese state-owned enterprises financial performance and market value. According to various stakeholders, divides CSR into internal CSR and external CSR, uses ROA and Tobin's q as measure of enterprise performance separately. Adopts fixed effect econometric models, and estimates by generalized least squares (GLS) and quantile regression. The results show that the external CSR of current year significantly negative affects enterprises financial performance and market value; the external CSR with one and two years lagged significantly positive affects enterprises financial performance and market value, and the impact strength with increase trend. The internal CSR of current year has no significant impact on enterprises financial performance, but significantly negative affects market value; the internal CSR with one and two years lagged significantly negative affect enterprises financial performance and market value. These findings imply that enterprises should enhance their awareness of fulfill CSR and improve institutional guarantee.

Keywords: Chinese enterprises, internal CSR, external CSR, financial performance, market value.

Forml. 2. Fig. 1. Table. 6. Lit. 38.

***Peer-reviewed, approved and placed:** 11.11.2019.*

DOI

Тяньсу Цзян, Мін Чжу

ВПЛИВ СОЦІАЛЬНОЇ ВІДПОВІДАЛЬНОСТІ НА РЕЗУЛЬТАТИ ДІЯЛЬНОСТІ КИТАЙСЬКИХ ДЕРЖАВНИХ ПІДПРИЄМСТВ

У статті досліджено документ який сприяє корпоративної соціальної відповідальності (КСВ), яка впливає на результати діяльності підприємств, надаючи емпіричні дані з Китаю. Спираючись на теорію зацікавлених сторін, будується унікально поєднаний набір даних 317 китайських державних компаній, що котируються в Шанхаї та Шеньчжень на біржі з 2013 по 2017 рік, та досліджувати вплив КСВ на фінансові показники та ринкову вартість китайських державних підприємств. За даними різних зацікавлених сторін, ділить КСВ на внутрішні та зовнішні КСВ, використовуючи ROA та q Тобіна як міру ефективності діяльності підприємства. Приймає економетричні моделі з фіксованим ефектом та оцінки за допомогою узагальнених найменших квадратів (GLS) та квантильної регресії. Результати показують, що зовнішня КСВ поточного року суттєво негативно впливає на фінансові показники підприємств та ринкову вартість; зовнішня КСВ з відставанням від одного та двох років суттєво позитивно впливає на фінансові показники підприємств та ринкову вартість, а також на силу впливу з ростом тенденції. Внутрішня КСВ поточного року не робить істотного впливу на фінансові показники підприємств, але суттєво негативно впливає на ринкову вартість; внутрішня КСВ з відставанням від одного та двох років суттєво негативно впливає на фінансові показники підприємств та ринкову вартість. Ці висновки означають, що підприємства повинні підвищити рівень обізнаності щодо виконання КСВ та покращити інституційну гарантію.

***Ключові слова:** китайські підприємства, внутрішня КСВ, зовнішня КСВ, фінансові показники, ринкова вартість.*

[1] School of Business Administration, Southwestern University of Finance and Economics. China.
[1] School of Business Administration, Southwestern University of Finance and Economics. China.

Тяньсу Цзян, Мин Чжу

ВЛИЯНИЕ СОЦИАЛЬНОЙ ОТВЕТСТВЕННОСТИ НА РЕЗУЛЬТАТЫ ДЕЯТЕЛЬНОСТИ ГОСУДАРСТВЕННЫХ ПРЕДПРИЯТИЙ КИТАЯ

В статье исследованы документы корпоративной социальной ответственности (CSR), влияет на производительность предприятий, предоставляя эмпирические данные из Китая. Основываясь на теории заинтересованных сторон, строит уникально объединенный набор данных из 317 китайских государственных компаний, зарегистрированных на бирже в Шанхае и Шэньчжэне, с 2013 по 2017 год, и исследует влияние КСО на финансовые показатели и рыночную стоимость государственных предприятий Китая. По мнению различных заинтересованных сторон, делит КСО на внутреннюю КСО и внешнюю КСО, использует ROA и q Тобина в качестве меры эффективности предприятия отдельно. Принимает эконометрические модели с фиксированным эффектом и оценки по обобщенным методам наименьших квадратов (GLS) и квантильной регрессии. Результаты показывают, что внешний КСО текущего года существенно негативно влияет на финансовые показатели предприятий и рыночную стоимость; Внешняя КСО с отставанием на один и два года значительно положительно влияет на финансовые показатели предприятий и рыночную стоимость, а также на силу воздействия с тенденцией роста. Внутренняя КСО текущего года не оказывает существенного влияния на финансовые показатели предприятий, но существенно негативно влияет на рыночную стоимость; Внутренняя КСО с отставанием на один и два года существенно негативно отразится на финансовых показателях предприятий и рыночной стоимости. Эти выводы подразумевают, что предприятия должны повышать свою осведомленность о выполнении КСО и улучшать институциональные гарантии.

Ключевые слова: *китайские предприятия, внутренняя КСО, внешняя КСО, финансовые показатели, рыночная стоимость.*

1. Introduction. Enterprises are engaged in production and operation for profit gains, and their primary responsibility is to create value increment in economic life. In addition, the most important consideration is to fulfill social responsibilities (Besser and Miller, 2001). From the perspective of management, enterprises should attach importance to the social environment for their survival and development. Firms' operation and growing are constrained by social conditions, meanwhile, firm entities also affect the social environment (Johnson, 2003). Therefore, companies and the society are actually in a symbiotic relationship, companies should actively participate in donations, philanthropy, volunteer activities, and environmental protection, improve the occupational safety and employee welfare.

At present, the sources of China's social security fund comes from the state, enterprises and individuals. Among them, the state-owned enterprises are the main body in the social security system (Watson, 2009). China State Council has implemented transferring some state-owned capital to enrich the social security fund in nationwide, and the transfer proportion of state-owned shares is 10%. On the one hand, the state-owned capital is used to protect and improve people's livelihood reflects the respecting for the rights of the national shareholders, and make the state-owned enterprises are beneficial to the people by fulfilling social responsibilities. On the other hand, enterprises participating in CSR activities i.e., transfer state-owned capital, philanthropy, education, and improve employee welfare may bring extra operational cost, which in turn will affect enterprises financial performance and market value. Despite myriad studies on CSR affects enterprises performance in China, but hardly any divide the CSR into internal CSR and external CSR based on various stakeholders. In addition, analyzing the effects of CSR on Chinese state-owned enterprises will verify the rationality of the transfer state-owned capital policy and promote executives or managers to improve business management.

The existing literature on the relationship between CSR and companies' performance offers mixed views. Some have found that the impact of CSR on firm's performance is not significant (McWilliams et al., 2001). Others have reported that CSR have positive impact on firm's profitability (Brammer and Millington, 2005), while others suggested that CSR negatively impact firm's profitability (Lee and Park, 2009). Some studies also believe that there are significant hysteresis effects between CSR and firm performance. For instance, Jo and Harjoto (2012) demonstrates that the CSR of previous year positively affect the financial performance of current year, and the current years' financial performance positively affect CSR of the same time.

In general, the theoretical ambiguities lies in the selection of research methods and the indicators for measuring CSR and performance. Corporate strategy and performance are influenced by various stakeholders, therefore CSR is composed of multi-dimensional stakeholder activities. However, most studies have used aggregated CSR practices, which mask the effects of various stakeholders' interests and needs in CSR practices (Wang et al., 2018). Hence, this paper using a separated measure of CSR, respectively verifying the impact of CSR on companies' performance and market value.

This paper contribute to the literature of CSR affects the enterprises financial performance and market value by providing empirical evidence from China. First, according to the influence of different stakeholders on the company, divides CSR into two types: internal CSR and external CSR, rather than using a single and aggregated CSR measure. Second, constructs a uniquely combined data set of state-owned listed companies in Shanghai and Shenzhen stock exchange for empirical analysis, instead of focus on industry level. Finally, most of previous researches construct CSR evaluation index artificially. In contrary, this study adopts professional database to avoid the omissions and subjectivity that human factors may cause in CSR evaluation.

The remainder of this paper is organized as follows. The second section reviews the relevant literature and propose hypotheses. The third section describes the dataset, variables and methodology. The fourth section presents and discusses the empirical findings of CSR affects enterprises financial performance and market value in China. The final section concludes, management implications and future research direction.

2. Literature and hypotheses

2.1. The role of stakeholder in CSR. CSR composed of a series firm's activities that required by laws or regulations, these activities benefit society and go beyond the profit motive of the firm (Brown and Dacin, 1997). Scholars suggest several classification that matter in CSR activities. For example, CSR can be divided into four dimensions: economic, legal, ethical, and philanthropic (Carroll, 1991). Alternatively, CSR can be divided into self-service motivation and public-service motivation, where self-service motivation represents the self-interested objective of the company i.e., profit gains and sale growth; public-service motivation represents bring welfare to the public i.e., promote social construction and participate in social security (Ruf et al., 2001).

Stakeholders are specific groups and organizations that are affected by the strategies and operations of the company, and they can reversely influence the operations and decision-making of the company (Wood and Jones, 1995). They are composed of internal stakeholders i.e., employees, managers, and external stakeholders i.e., environment, community, society. And stakeholders always assess the decisions of the company, hence, corporate executives must face the appeals and expectations of each stakeholder group for the purpose of increasing corporate value (Russo and Perrini, 2010).

As the more important CSR is to a firm, the more likely the stakeholders of the firm can wield power and influence over the firm's decision-making (Gedajlovic and Shapiro, 2002). Some scholars have proposed that CSR for enterprises should be divided into internal CSR and external CSR, which correspond to internal and external stakeholders (Verdeyen and Buggenhout, 2004).

Internal CSR indicates that the company formulates policies and implements them to enhance the well-being of employees and management teams, which including employee safety and health, equal opportunities, diversity and corporate governance. Companies adopt a CSR strategy that focus on the well-being of their internal stakeholders will increase employee productivity and loyalty, which could in turn, improve the financial performance of the company (Frank and Obloj, 2014). Meanwhile, external CSR includes supporting philanthropy, helping community construction and environmental protection. In the short run, CSR strategies focus on external stakeholders do not directly affect firm's profitability and efficiency. However, these measures provide better social protection for external stakeholders, which helps companies build a better reputation, improve customer satisfaction, and ultimately enhance the value of the company's intangible assets, thereby increasing market value (Waddock and Graves, 1997).

Most studies do not distinguish CSR following above rule. And this paper studies CSR from the perspective of stakeholders, which will provide a better understanding of how internal and external stakeholders influence Chinese state-owned enterprises performance respectively.

2.2. CSR and corporate performance. Despite many studies on CSR activities, the question of the effects on enterprises is still open in the literature. On the one hand, the investment in CSR is regarded as extra cost, and it will lead to the misallocation of corporate resources, which will affect the profit of the enterprise (Friedman, 2007). On the other hand, although there is no correlation between CSR and companies' financial performance, such as sales revenue and operational quality, CSR is directly related to organizational reputation (Pharoah, 2003). Companies that actively fulfill their CSR and contribute to social security will create better financial performance via the organizational reputation gains (Orlitzky et al., 2003).

Some scholars believe that the theoretical ambiguities on CSR affects enterprise performance lies in the use of a single and aggregated CSR measure and the adoption of distinct corporate performance measurement indicators. Therefore, researchers have been attempted to improve from these aspects. Some scholars divided the dimensions of CSR into two categories based on whether related to the operation of the company or not (Lee et al., 2013). While others have divided the dimensions of

CSR into positive and negative to verify the changes in shareholder wealth (Kim and Kim, 2014). In order to accurately estimate the impact of CSR on corporate value, these stakeholders involved in CSR must be examined separately. However, the current literature has not further explored the relationship between CSR and corporate performance through separated CSR dimensions.

In addition, the relationship between CSR and financial performance is depends on the measure of financial indicators. Some scholars have found that CSR positively affects companies' performance when using Tobin's q as the financial indicator; but when adopting Return on total assets, the impact of CSR is not significant or leads to a decline in corporate performance (Dyck et al., 2019). Different financial indicators represent different aspects of corporate value, and reflect the different impacts of CSR. Accounting indicators such as ROA and ROE represent the short-term profitability or efficiency of an enterprise, characterize the current year or short-term profit of the enterprise caused by resource allocation. And the market value such as Tobin's q or the growth of stock price is how investors assess companies' ability to create intangible profits in the future (Harjoto, 2011).

In order to further reveal the relationship between CSR and corporate performance, this paper proposes to divide CSR into internal CSR and external CSR, and measure the impact on profitability and market value separately.

2.3. Hypotheses. Companies focus on employee relationship maintenance, provide employees with equal opportunities, safety and health protection, and encourage them to participate in corporate governance, which will improve productivity (Donaldson, 1999). Employee-centered CSR can motivate employees, thereby increasing sales performance and improving profitability (Chand and Katou, 2007). CSR encourages diversity and ethical constraints, which attract elites in the labor market to join the enterprise. A diversified workforce not only encourages problem solving with innovation and efficient but also saving enterprise costs, enhancing production capacity and improving operational efficiency (Carter et al., 2003).

Employment that highlight social responsibility can improve employee morale, and then reduce the occurrence of absenteeism and mistakes, which enables companies to save new employees recruitment and training costs, achieve higher productivity, and ultimately have a positive impact on financial performance. Hence, we hypothesize:

H1: Internal CSR activities positively affect enterprises profitability.

Companies involve in environmental protection, philanthropy and community construction will not be associated with cost savings or increasing financial efficiency. In contrast, external CSR increases the cost of the business and thus reduce the profitability (Jensen, 2002). However, if the company attach importance to the relationship with the customer and then improves the product quality, it will increase the sales performance and positively affect the long-term profitability (Inoue and Lee, 2011).

External stakeholders have fewer responsibilities and obligations in influencing the business and resources of the company. Current accounting standards expense enterprises' social responsibility, which cause the positive impact of CSR on financial performance is weakened. Therefore, the external CSR of the company constrain short-term financial performance. In the long run, the implementation of CSR can generate positive information that is beneficial to enterprises, improve corporate reputation and competitiveness. Therefore, the positive impact of social responsibility on financial performance with hysteresis (Schnietz and Epstein, 2005). Accordingly, we present the following base hypothesis:

H2: Increased external CSR activities drive enterprises profitability drop first and then rise.

Strong and positive human resource management has a positive impact on corporate financial performance which is measured by Tobin's q (Becker and Gerhart, 1996). For the labor-intensive industry, the solid and good human capital is often seen as one of the core competencies of the company, which will improve the enterprise reputation and increase business income, therefore, CSR is positively related to the market value (Blodgett, 2014).

From the organization behavior perspective, the diversity of MNEs in employment can better recognize different market and increase creativity. Investors in the market view the internal CSR of the company as a potential quality of the management team, which will lead to an increase in their valuation of the company (Campbell and Minguez, 2008). Therefore, internal CSR will increase the future market value of the company. Accordingly, we predict:

H3: Internal CSR activities positively affect enterprises market value.

Companies that take on more social responsibilities for external stakeholders will obtain public awareness and satisfaction, and increase market value (Luo and Bhattacharya, 2009). As the positive behavior of enterprises in the natural environment and community-related fields is positively related to market value, companies that respond to external stakeholder appeals and actively fulfill their social responsibilities can achieve higher market value (Kacperczyk, 2009).

As the imperfect of market mechanism, there are many irrational factors that make it difficult for stakeholders to perception the social responsibility of enterprises in a timely and accurate manner (Barnett and Salomon, 2006). The fulfillment of social responsibility by enterprises will lead to an increase in short-term operating costs, and the incompleteness and hysteresis of social responsibility information release will also make the positive effect of CSR on market value with lag. Hence, we hypothesize:

H4: Increased external CSR activities drive enterprises market value drop first and then rise.

3. Data, variables and methodology

3.1. Data. This paper constructs a longitudinal data set of 317 Chinese state-owned listed companies in Shanghai and Shenzhen stock exchange from 2013 to 2017 by combining two different data sources. The first source is CSMAR database, which contains 3589 listed companies' financial data in China. Among them, there are 1148 state-owned enterprises. Based on variables setting, this paper keep the stock code only when all the dependent variables and control variables have value from 2013 to 2017 for the purpose of obtaining strongly balanced panel data. The data will be filtered out if any of the financial fields are missing, and any data with large or minimal outliers will be excluded either. Ultimately, the remaining state-owned enterprises in this study reduced to 847 items. The second source is China Research Data Service Platform (CNRDS), which contains internal CSR and external CSR data of Chinese state-owned listed enterprises. Through the matching of internal CSR, external CSR and companies' financial data by unique stock code, a uniquely combined data set of Chinese state-owned listed companies over the period 2013-2017 were constructed.

Based on the above screening process, this study finally compiled 1585 strongly balanced panel data of 317 Chinese state-owned listed companies that engaged in social responsibility activities from 2013 to 2017.

3.2. Variables. Comply with the research direction indicated in the literature, this study divides CSR into internal CSR and external CSR. Internal CSR refers to measures that directly affect the operation and management of the company, such as employee welfare and diversity. External CSR directly determines the improvement of the welfare of external stakeholders, such as community governance, social charity and social security. In the meanwhile, this paper measures the performance of the company by profitability and market value. Profitability reflects the company's management efficiency and corporate short-term profitability caused by corporate strategy; while market value represents the assessment of company's ability to create future profitability from investors or creditors.

(1) External and internal CSR. The CSR scores for Chinese state-owned enterprises are calculated from CNRDS database. Each CSR dimension in CNRDS database represents companies' CSR activities for a specific stakeholder. The contribution of the company in different CSR dimensions are rated, and this paper divides the CSR into two categories: external CSR and internal CSR. As shown in Table 1, external CSR is related to external stakeholders which contains three primary indicators, i.e., philanthropy, volunteer activities, social disputes, environment and products. Each primary indicator includes several secondary indicators respectively.

Table 1. **External CSR evaluation indicators,** *author's*

Dimension	Primary indicator	Secondary indicator
External CSR	1. Philanthropy, volunteer activities & social disputes	1.1. Total donation 1.2. Support education 1.3. Support charity 1.4. Volunteer activities 1.5. International assistance 1.6. Drive employment 1.7. Promote local economy 1.8. Financing dispute
	2. Environment	2.1. Environmentally beneficial products 2.2. Measures to reduce emissions 2.3. Circular economy 2.4. Energy saving 2.5. Green office 2.6. Environmental certification 2.7. Environmental commendation 2.8. Environmental punishment 2.9. Emissions
	3. Products	3.1. Quality system 3.2. After sales service 3.3. Customer satisfaction 3.4. Quality honor 3.5. Anti-corruption measures 3.6. Strategic sharing 3.7. Integrity management concept 3.8. Product dispute

As shown in Table 2, internal CSR is related to internal stakeholders which also contains three primary indicators, i.e., employee relations, corporate governance, and diversity. Each primary indicator includes several secondary indicators respectively.

Table 2. **Internal CSR evaluation indicators,** *author's*

Dimension	Primary indicator	Secondary indicator
Internal CSR	1. Employee relations	1.1. Employee shareholding 1.2. Employee welfare 1.3. Safety management system 1.4. Safety production training 1.5. Occupation safety certification 1.6. Vocational Training 1.7. Employee communication channel 1.8. Employee security dispute 1.9. Layoffs
	2. Corporate governance	2.1. CSR report comprehensiveness 2.2. CSR report pages 2.3. CSR column 2.4. CSR leadership 2.5. CSR vision 2.6. CSR training 2.7. Social contribution per share 2.8. Reliability guarantee 2.9. Accounting violation
	3. Diversity	3.1. Female executives 3.2. Female director seat 3.3. Innovative HR Project 3.4. No female executives

In CNRDS database, the CSR ratings provide a binary value for each secondary indicator as either a "Strength" or a "Concern". The "Strength" category represent the positive impact of CSR, each strength scores positive values, whereas the "Concern" category represent the negative impact of CSR, and each concern scores negative values. The score of each secondary indicator is obtained by summing "Strength" and "Concern" scores respectively. And the score of each primary indicator is obtained by summing all the belonging secondary indicator scores.

Therefore, company's internal CSR activities are measured by the summation of three sub-categories, including employee relations, corporate governance, and diversity; whereas company's external CSR activities are measured by the summation of other sub-categories, including philanthropy, volunteer activities, social disputes, environment and products.

This paper makes special treatment for the value of non-binary variables in CNRDS database. First, the total donations is rounded up after the natural logarithm. If the data is blank, it is recorded as 0, and if the value after the natural logarithm is negative, it is taken as 1. This indicates that the company's contribution to social donations is lower than other companies, just reach the minimum contribution value. Second, round the social contribution per share. If the data represents an interval format, take the mean values of the interval, and if the data is blank, record it as 0. Finally, take natural logarithm of the CSR report pages. If the data is blank, record it as 0, and the negative value after taking the natural logarithm is recorded as 1, it indicates the minimum score of the CSR report pages. Then rounded to get the score of the CSR report pages.

(2) Financial performance and market value

The dependent variables included in our research are ROA and Tobin's q, which are used to measure enterprise performance from different perspectives. ROA represents the financial efficiency of an enterprise's asset operations, that is, its short-term profitability. Tobin's q represents the enterprise's future market value and long-term profitability, which can reflects investors' perception of the future value of the company. This paper assumes that there is no interaction between Tobin's q and ROA, and the impact of social responsibility on these two variables are different. If the ROA value is negative, add 1 to its value, this can improve the normality of the distribution, then take the natural logarithm of ROA value. And Tobin's q calculated from the ratio of market value to book value.

(3) Control variables

This paper adopts firm size, asset liability ratio and quick ratio as control variables, as they all have a correlation with corporate performance. Specifically, large companies are more prone to fulfill their social responsibilities, because the economies of scale bring cost advantages and a strong sales network, which make them become more efficient. The higher the proportion of state-owned shares, the higher the actual tax rate. Chinese state-owned listed companies have always been principal taxpayers in economic life, hence, the firm size of this paper is measured by total tax revenue, and taken as a natural logarithm. And in order to reflect the impact of the capital structure of enterprises on performance, this paper adopts asset-liability ratio as a control variable. From the perspective of business operations, a slightly higher asset-liability ratio is conducive to expanding production scale, developing new markets and obtaining higher profits. Meanwhile, in order to reflect the impact of corporate repayment of short-term debt on performance, this paper uses the quick ratio as a control variable to reflect the liquidity of the enterprise.

3.3. Method. This paper adopts panel data set of Chinese state-owned listed companies. Because each independent variable varies at different time points and among entities, for the purpose of reflecting the heterogeneity among companies and the characteristic that varies timely, the time and entity fixed effects regression model should be adopted. In order to verify the rationality of the model setting, we implement Hausman test. And the results show that $\chi^2=65$, $p=0.0000$, which indicate that the null hypothesis should be rejected, means the fixed effect model should be adopted (Wooldridge, 2010). Therefore, the following two fixed-effect econometric models (Equation 1 and Equation 2) are established:

$$ROA_{it} = \alpha + \beta_1 INT_{it} + \beta_2 EXT_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 LIQ_{it} + \varepsilon_{it} \quad (1)$$

$$TQ_{it} = \alpha + \beta_1 INT_{it} + \beta_2 EXT_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 LIQ_{it} + \varepsilon_{it} \quad (2)$$

In the above two equations, α is a random variable which means there are *i* different intercept terms for *i* individuals; ε_{it} is the stochastic error; *ROAit* is the return on total assets of enterprise *i* in year *t*; *TQit* is Tobin's q of enterprise *i* in year *t*; *INTit* is the internal CSR score of enterprise *i* in year *t*, which are measured by the summation of three sub-categories, including employee relations, corporate governance, and diversity; *EXTit* is the external CSR score of enterprise *i* in year *t*, which are measured by the summation of other sub-categories, including philanthropy, volunteer activities, social disputes, environment and products; *SIZEit* is the firm size of enterprise *i* in year *t*, which is obtained by taking the natural logarithm of tax contribution; *LEVit* is the asset-liability ratio of enterprise *i* in year *t*, which can be obtained from the ratio of total assets to total liabilities; *LIQit* is the quick ratio of enterprise *i* in year *t*, which represents the liquidity of the company's assets, and can be obtained from the ratio of quick assets to current liabilities.

To verify the hypotheses, we implement GLS regression for analyzing CSR affects companies' ROA and Tobin's q respectively. The independent variables include internal CSR and external CSR, and control variables include firm size, asset liability ratio and quick ratio. For testing the hysteresis of CSR impact on financial performance and market value, we also adopt one and two years lagged form of internal CSR and external CSR for estimation. Because in a dynamic model, the lag term of the independent variables can satisfy the integrity of the information as long as lagged for two years (Wintoki et al., 2012).

4. Empirical results

4.1. Descriptive statistics and correlation analysis. The descriptive statistics of the variables are listed in Table 3. The mean value of Tobin's q is 1.285, which indicates that the market value of Chinese state-owned listed companies is about 1.3 times of the asset replacement cost. The development prospects of Chinese state-owned listed companies are promising, there is still a need to increase investment, and it is profitable for companies to make low-cost financing by issuing stocks. The mean value of ROA is 0.032, while the minimum value is -0.58599 and the maximum value is 0.339913, which indicate that the profitability of Chinese state-owned listed companies at a normal level. The Standard Deviation of External CSR is 5.143 and for Internal CSR is 3.831, which indicate that the Chinese state-owned listed companies have great differences in fulfilling their social responsibilities.

Table 3. **Descriptive statistics,** *author's*

Variables	Obs	Mean	Std.Dev.	Min	Max
ROA	1,585	0.032	0.058	-0.58599	0.339913
TQ	1,585	1.285	1.233	0.0893	11.29
EXT	1,585	11.97	5.143	1	31
INT	1,585	11.88	3.831	4	32
SIZE	1,585	20.13	1.633	15.64	26.73
LEV	1,585	0.523	0.200	0.0370	1.112
LIQ	1,585	1.192	1.562	0.0813	22.34

The Pearson correlation coefficient represents the linear correlation between variables. The correlation between the independent variables, dependent variables and control variables are listed in Table 4. There is a significantly negative correlation between companies' performance and CSR, which is consistent with the hypotheses to a certain degree, and indicate that it is feasible to use ROA and Tobin's q to represent enterprises financial performance. The correlation coefficients of all control variables pass the significance test, indicating that the control variables setting are reasonable and necessary. Among them, the correlation coefficients between External CSR and Internal CSR as well as tax revenue are relatively higher, which indicate the longitudinal data set may violate the classical assumption. Before the estimation of the panel model, it is necessary to test for Co-integration, Heteroscedasticity and Autocorrelation.

Table 4. **Correlation matrix,** *author's*

	ROA	TQ	EXT	INT	SIZE	LEV	LIQ
ROA	1						
TQ	0.003	1					
EXT	-0.112***	-0.203***	1				
INT	-0.098***	-0.173***	0.604***	1			
SIZE	-0.134***	-0.409***	0.543***	0.389***	1		
LEV	0.112***	-0.580***	0.111***	0.074***	0.291***	1	
LIQ	-0.049**	0.484***	-0.118***	-0.093***	-0.205***	-0.547***	1

Notes: The signs *, **, and *** mean significance at 0.1, 0.05, and 0.01, respectively.

4.2. Panel data analysis. In a longitudinal data set, the assumption that independence between individuals is usually satisfied, but each individual is often exist Serial Correlation and there may exist Heteroscedasticity. In order to overcome these two factors, this paper conducts Serial Test. The results show that χ^2 (317) = 2.4e+06, p =0.0000, indicating that the null hypothesis should be rejected and the existence of Heteroscedasticity. Therefore, a GLS approach is used in panel data estimation to eliminate the effects of Heteroscedasticity as well as Serial Correlation.

This paper use STATA15.1 to proceed GLS estimation. Using STATA's lagged period function can get independent variables of one and two years lagged, hence this study get three sample sets. Each sample set contains dependent variables of current year, the control variables of current year, and the independent variables of current year or specific lagged years. We implement GLS regression for analyzing CSR affects companies' ROA and Tobin's q respectively. Through multiple rounds estimation, we obtain the impact of CSR on financial performance and market value in the current year and lagged years. The estimation results are listed in Table 5. In the variables column, L1 and L2 represent the values of one year lagged and two years lagged of the explanatory variables, respectively.

(1) The effects of external CSR

First, the regression coefficient of current year external CSR for the ROA is significant negative (β_2=-0.00376, P<0.05) in model 1, and the regression coefficient for Tobin's q is also significant negative (β_2=-0.00358, P<0.05) in model 1. Second, the regression coefficient of one year lagged external CSR for the ROA is significant positive (β_2=0.00723, P<0.01) in model 2, and the regression coefficient for Tobin's q is also significant positive (β_2=0.00397, P<0.05) in model 2. Finally, the regression coefficient of two years lagged external CSR for the ROA is significant positive (β_2=0.0115, P<0.01) in model 3, and the regression coefficient for Tobin's q is also significantly positive (β_2=0.00412, P<0.01) in model 3.

Table 5. **GLS regression for CSR implementation,** *author's*

Variables	TQ	TQ	TQ	ROA	ROA	ROA
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
EXT	-0.00358**			-0.00376**		
	(-3.08)			(-2.70)		
INT	-0.0125***			0.00212		
	(-7.11)			(-1.11)		
SIZE	-0.132***	-0.177***	-0.234***	0.0121	-0.0129	-0.0136*
	(-21.23)	(-24.88)	(-50.76)	(-1.15)	(-1.31)	(-2.02)
LEV	-2.242***	-2.274***	-2.590***	-1.228***	-1.048***	-0.918***
	(-37.80)	(-37.97)	(-100.76)	(-14.66)	(-14.87)	(-13.67)
LIQ	0.129***	0.120***	0.113***	0.00124	-0.000373	-0.00713
	(-9)	(-11.56)	(-26.17)	(-0.14)	(-0.04)	(-1.01)
L1.EXT		0.00397**			0.00723***	
		(-3.05)			(-3.41)	
L1.INT		-0.0122***			-0.00533*	
		(-6.32)			(-2.20)	
L2.EXT			0.00412***			0.0115***
			(-6.77)			(-14.34)
L2.INT			-0.0181***			-0.00529*
			(-35.57)			(-2.53)
_cons	5.029***	5.953***	7.451***	-2.844***	-2.478***	-2.591***
	(-41.03)	(-42.51)	(-74.85)	(-14.68)	(-13.68)	(-21.05)
N	1585	1268	951	1585	1268	951

Notes: The signs *, **, and *** mean significance at 0.1, 0.05, and 0.01, respectively. The numbers in the parentheses are t values.

Therefore, the external CSR of current year has a significantly negative impact on financial performance and market value, but the external CSR with one and two years lagged have a significant positive impact on financial performance and market value, and the impact strength with increase trend. Hence, hypothesis H2 and H4 are proved.

(2) The effects of internal CSR

First, the regression coefficient of current year internal CSR for ROA is not significant in model 1, and the regression coefficient for Tobin's q is significantly negative (β_1=-0.0125, P<0.01) in model 1. Second, the regression coefficient of one year lagged internal CSR for the ROA is significant negative (β_1=-0.00533, P<0.1) in model 2, and the regression coefficient for Tobin's q is also significant negative (β_1=-0.0122, P<0.01) in model 2. Finally, the regression coefficient of two years lagged internal CSR for the ROA is significantly negative ($\beta_1$1=-0.00529, P<0.1) in model 3, and the regression coefficient for Tobin's q is also significantly negative (β_1=-0.0181, P<0.01) in model 3.

Therefore, the internal CSR of current year has no significant impact on financial performance, but has a significant negative impact on market value. And the internal CSR with one and two years lagged have a significant negative impact on financial performance and market value. Hence, hypothesis H1 and H3 are not proved, this indicate that Chinese state-owned enterprises have their own heterogeneity, which can't be fully explained by the current literature, and should be analyzed combine with China's national conditions.

Initially, the political costs and agency costs associated with state ownership may lead to inefficiencies in Chinese state-owned enterprises. Government officials may use state-owned enterprises to expand employment rather than maximize social welfare. And the redundant employees will reduce the incentives of senior executives, resulting in an increase in agency costs, which will affect the improvement of productivity and employee morale, and ultimately affect the performance of state-owned enterprises.

Further, in order to cope with the overheating of China's foreign investment and the consequent reduction of foreign exchange reserves, Chinese government has strengthened the control over capital flows, which makes state-owned enterprises affected by the lack of diversity. Because the degree of state-owned enterprises' employment diversity is closely related to the degree of internationalization and foreign direct investment.

Moreover, this study selected a sample of state-owned listed companies, and did not distinguish between capital-intensive industries and labor-intensive industries, which made the role of human capital not fully utilized. In addition, some state-owned companies in the sample are in a monopoly position, and monopoly can maintain a high profitability. This makes the insufficient motivation of companies to increase business income through improve their internal social responsibilities.

(3) Trend analysis of CSR effects

In order to explore the trend of CSR effects on financial performance and market value after companies fulfilling internal and external social responsibilities, this study summarizes the regression coefficients of External CSR and Internal CSR for clearly demonstrate the effects of CSR on Chinese state-owned enterprises.

As illustrated in Figure 1, the effects of External CSR on ROA and Tobin's q is negative in the current year T0, however, the External CSR of one year lagged T1 and two years lagged T2 have a positive impact on both ROA and Tobin's q, and the impact strength with increase trend. Meanwhile, in the current year T0, the effect of Internal CSR on Tobin's q is negative, but has no significant impact on ROA. And the Internal CSR of one year lagged T1 and two years lagged T2 have a negative impact on both ROA and Tobin's q.

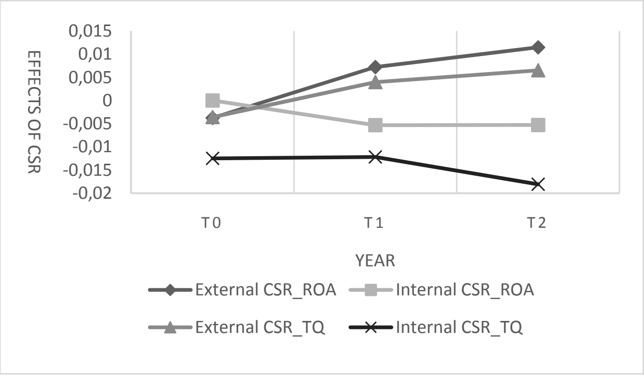

Figure 1. **Trend of CSR effects,** *author's*

This trend indicate that although the fulfilling of external CSR will bring extra cost for Chinese state-owned enterprises in the short run, and result in the decrease of ROA and Tobin's q. But in the long run, enterprises implement external CSR will increasing ROA and Tobin's q, and the impact strength with increase trend.

4.3. Robustness check. The previous estimation is a mean reversion which based on conditional expectation, reflecting the impact of internal CSR and external CSR on the mean value of financial performance and market value. If the distribution of financial performance or market value is not normality, then the mean reversion cannot fully describe the whole situation of the dependent variables. In contrast, quantile regression is more robust to outliers, no strong assumptions are required for the stochastic error, and it can more accurately describe the influence of independent variables on dependent variables' variation and conditional distribution.

In order to verify the reliability of the conclusions in this study, we adopt quantile regression for robustness checking. Take 25%, 50% and 75% as the quantiles respectively, and verify the impact of internal CSR and external CSR on financial performance and market value in the current year. Table 6 lists the estimation results, which indicate the effects of CSR on Chinese state-owned enterprises financial performance and market value is robust.

Table 6. **Quantile regression result,** *author's*

Variables	TQ q(25)	TQ q(50)	TQ q(75)	ROA q(25)	ROA q(50)	ROA q(75)
EXT	-0.0139*	-0.0346***	-0.0555**	-0.0990***	-0.0300	-0.0267**
	(-2.40)	(-4.46)	(-2.99)	(-5.13)	(-1.54)	(-2.99)
INT	-0.0127	-0.0217*	-0.0779**	0.0671**	0.00168	0.00910
	(-1.49)	(-2.00)	(-2.85)	(2.65)	(0.09)	(0.65)
SIZE	-1.01e-12***	-1.44e-12***	-1.28e-12	3.95e-12**	5.27e-13	-6.88e-14
	(-4.83)	(-4.43)	(-1.12)	(3.13)	(0.59)	(-0.12)
LEV	-2.264***	-3.267***	-4.577***	-0.402	-1.870***	-1.923***
	(-14.65)	(-14.99)	(-10.32)	(-0.40)	(-4.16)	(-10.16)
LIQ	0.112***	0.138***	0.254***	0.531*	0.271*	0.154*
	(5.99)	(3.55)	(4.45)	(2.12)	(2.50)	(2.02)
_cons	2.373***	3.715***	6.077***	-3.566***	-1.904***	-1.521***
	(15.16)	(15.37)	(11.88)	(-3.97)	(-4.95)	(-5.05)
N	1585	1585	1585	1585	1585	1585
pseudo R^2	0.1921	0.2030	0.2338	0.0930	0.1080	0.1834

Notes: The signs *, **, and *** mean significance at 0.1, 0.05, and 0.01, respectively. The numbers in the parentheses are t values.

For Tobin's q, the impact of external CSR is significantly negative under the 25% quantile, and the impact of internal CSR is not significant at the same quantile. Meanwhile, the impact of external CSR and internal CSR are both significantly negative under the 50% and 75% quantiles. This indicates that when the Tobin's q of current year is at a low level, the negative effect of external CSR is weak, and the impact of internal CSR is not significant. And when the Tobin's q of current year gradually transitions to a higher level, the negative impact of external CSR and internal CSR gradually increase and become more and more powerful.

For the ROA, the impact of external CSR is significantly negative under the 25% quantile, and the impact of internal CSR is significantly positive at the same quantile; the impact of external CSR and internal CSR are not significant under the 50% quantile. Meanwhile, the impact of external CSR is significantly negative, and the impact of internal CSR is not significant under the 75% quantile. This indicates that when the ROA of current year is at a low level, the external CSR has a strong negative impact, the internal CSR has a strong positive impact. And when the ROA of current year gradually transitions to a higher level, the negative impact of external CSR gradually decrease, while the impact of internal CSR become not significant.

5. Discussion and conclusion. This paper based on stakeholder theory, and constructs a uniquely combined data set of 317 Chinese state-owned listed companies in Shanghai and Shenzhen stock exchange from 2013 to 2017, explore the effects of CSR on financial performance and market value. Research conclusion show that the external CSR of the current year has a significant negative impact on enterprises financial performance and market value; the external CSR with one and two years lagged have a significant positive impact on enterprises financial performance and market value, and the impact strength with increase trend. Meanwhile, the internal CSR of current year has no significant impact on enterprises financial performance, but has a significant negative impact on market value; the internal CSR with one and two years lagged has a significant negative impact on enterprises financial performance and market value. These findings have important managerial implications:

First, companies should recognize that there are many internal and external stakeholders in the economic life, proactively taking social responsibilities to meet the needs of various stakeholders can improve competitiveness. Improving social welfare will not impose a business burden on enterprises, in the long run, it will generate a positive impact on the performance and market value of the company. Hence, enterprises should establish a correct view of CSR, attach importance to charitable activities and social activities, by which to achieve sustainable development and grow together with the society. Meanwhile, state-owned shares should become an important part of social security. Through improving the social performance evaluation system of Chinese state-owned enterprises, it enables them to achieve the optimization of social welfare while pursuing profit maximization. And finally make the social responsibility information being accepted by the international community, thus enhancing companies' international competitiveness.

Second, the empirical results indicate that the internal CSR significantly negative impact enterprises financial performance and market value. On the one hand, Chinese state-owned enterprises bear a heavy social burden to meet the demands of internal stakeholders, some redundant social functions have not been separated. Therefore, the state should continue to promote the reform of unemployment, medical care, old-age care, and other social security systems, strive to complete the separation and transfer of companies' redundant social functions, gradually promote the social management of state-owned enterprise retirees. And companies should improve the management and reduce operation cost while ensuring presentable work for employees. On the other hand, the empirical results indicate that the internal human resources management mechanism of Chinese state-owned enterprises is weak, the level of income and social welfare are relatively low, which failure to generate effective incentives for employees. Therefore, enterprises should further improve the incentive mechanism of material rewards to mobilize the enthusiasm of employees. Through improving working conditions and building a good corporate culture to achieve the coordination between company's performance and employee's contribution.

Finally, the empirical results of this paper show that in the long run, corporate external CSR has a significant positive correlation with financial performance and market value. This because the improvement of corporate reputation lead to the enhancing of competitiveness, which gives the company a premium. However, the existing CSR system is imperfect, so that the implementation of CSR cannot get the attention of various stakeholders in a timely manner, which reduce the efficiency of the transformation to corporate capital and competitive advantage. Therefore, companies should carry out strategic management of social responsibility and release accounting information of social responsibility in a timely manner. Meanwhile, the government should pay attention to integrating these social forces that promote CSR, improve the relevant laws and regulations which can motivate firms to fulfill social responsibility. And strengthen the corresponding institutional system to reasonably define its own impact on CSR activities, which will guiding enterprises to continuously fulfill their social responsibility and improve the multi-level social security system in China.

Future studies can extend this research in several ways. First, endogeneity may cause by the interaction effect between independent and dependent variables, therefore, future studies can use instrumental variable to isolate the exogenous effects of CSR on enterprises performance. Further, other factors should be considered as moderator variables, such as industry competition. When the CSR affects enterprises performance, consider the influence of the moderator variables simultaneously. Moreover, the characteristics of different industries should be distinguished, future studies could establish a multi-level model, and verify the effects of CSR on enterprises according to industries.

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