

Original Paper

Research on the Impact of Social Responsibility of Foreign-funded Enterprises in China on Profitability

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Abstract

This article uses the “China Corporate Social Responsibility Research Report” issued by the Chinese Academy of Social Sciences, and selects 36 Chinese foreign-funded enterprises that have been continuously selected as the top 100 Chinese foreign-funded enterprises during the ten years from 2009 to 2018. The impact of social responsibility on profitability. The research results show that under the condition of controlling the influence of enterprise scale, corporate social responsibility has a positive effect on profitability. Suggestions are made for this: enterprises should establish a sound information disclosure system, countries and regions should strengthen the construction of a socially responsible environment, and enterprises and governments should establish a good communication mechanism.

Keywords

Chinese foreign-funded enterprises, social corporate responsibility, profitability

1. Introduction

With the progress of China’s reform and opening up and the advancement of global economic integration, the corporate social responsibility of foreign-funded enterprises in China has kept pace with the times, and whole society has put forward higher requirements for enterprises to fulfill their social responsibility. Corporate Social Responsibility (CSR) which means an enterprise comprehensively considers economic, social and environmental goals in the process of production and operation, and takes the initiative to take responsibility for other stakeholders while being responsible to shareholders and obtaining economic benefits (Chen, 2007). Corporate social responsibility is an important part of corporate global business strategy. Its practice and performance are often described as the balance between profitability and social responsibility (Isaksson et al., 2014). Thomsen (2008) believes that the CSR statement represents a goal-oriented approach to CSR management, but the relationship between profitability and social responsibility is not as clear and simple as it is usually described based on the descriptions of qualitative case studies; Instead, CSR should be viewed as a process of constant consultation between companies and stakeholders. Therefore, to create a constructive link between profitability and social responsibility, there should be an effort to explore stakeholder concerns for the company while embracing changes. Corporate social responsibility plays an important role in the management and development of an enterprise. Also, by analyzing

international construction companies, Lu et al. (2018) found that corporate social responsibility programs may be detrimental to corporate financial performance in the short term, but beneficial to improve corporate financial performance in the long run. Huang et al. (2017) surveyed 238 participants in 36 construction companies, and the implementation of corporate social responsibility has a significant impact on regulating employees' unethical behavior. Further adopting the purposeful sampling method and establishing a multiple regression model, Purwanto (2017) takes the standard manufacturing companies listed on the Indonesian Stock Exchange as a sample to analyze the impact of corporate social responsibility information disclosure on corporate value, and whether corporate profitability is affected by corporate social responsibility and corporate social responsibility. The impact of enterprise value. Finally, the study shows that the CSR environment and social variables have a significant impact on corporate profitability. Similarly, Khojastehpour (2014), through computational analysis, also believes that corporate social responsibility has a positive impact on corporate profitability.

Compared with foreign countries, the research on corporate social responsibility in China started relatively late. From a corporate, social and responsibility perspective, Wu (1989) has earlier sorted out the concept and content of corporate social responsibility, the conditions for enterprises to undertake, and the impact of other theoretical issues. And laid a theoretical foundation for the follow-up research. Yu et al. (1990) explored the relationship between corporate social responsibility and society. Studies have shown that corporate social responsibility has an impact on ecology, economic order, social morality and other aspects. Subsequently, the research on corporate social responsibility gradually entered the related aspects of profitability. Sun (2006) proposed to balance the relationship between corporate profit goals and social responsibility, and properly handle the relationship between corporate shareholders and other stakeholders to maximize the benefits. In the China's economic transition, Li et al. (2009) started from this period and studied the impact of social responsibility on corporate financial capacity and its dialectical relationship, highlighting the importance of the macro-awareness of the financial capacity analysis system of corporate social responsibility. Later research on CSR began to distinguish the heterogeneity of industries. For the textile industry and the chemical industry, Du et al. (2012) analyzed the correlation between corporate social responsibility and profitability in these two industries, and the results showed that the differences in the industry will lead to differences in financial performance due to social responsibility. Focusing on my country's power industry, Liu (2013) conducted research on the relationship between corporate internal governance, corporate social responsibility and profitability. The results show that there is a significant positive correlation between corporate profitability and corporate social responsibility. In order to further explore the relationship between the two, Wu et al. (2018) selected 251 companies supported by private equity investment funds on the New Third Board as a sample, and believed that different stakeholder responsibilities have different impacts on corporate profitability.

2. Theoretical Analyses

While Chinese foreign-funded enterprises bring economic benefits, the concepts of corporate social responsibility has been widely disseminated. At the same time, scholars' research on corporate social responsibility has also appeared on the stage. At first, most studies focus on the influencing factors of corporate social responsibility. From the continuous improvement of the concept of CSR to the continuous exploration and interpretation of the influencing factors of that one, people gradually realize that the implementation of CSR by enterprises plays an indispensable role in the healthy development of enterprises. In order to establish a good social responsibility feedback and self-adjustment mechanism and standardize the performance of corporate social responsibility, it is worth further exploring the internal relationship between corporate social responsibility and enterprises.

The research content of the existing literature clarifies the concepts of social corporate responsibility and profitability, and summarizes the factors that affect corporate social responsibility, such as corporate size, financial performance, financial leverage, etc. It also tells that corporate social responsibility is related to corporate stakeholders and different industries. The current research of corporate social responsibility takes domestic listed companies as the object, while ignoring the importance of foreign-funded enterprises in China. But compare with the domestic companies, the foreign-funded enterprises are faced with different countries, economic environments, market policies, etc. which means the relationship between CSR and profitability is more complicated. However, it can enrich the scope of corporate social responsibility research to a certain extent and improve the theory of influence on the profitability of Chinese foreign-funded enterprises.

A successful enterprise will create its own social value while creating economic value. In theory, corporate social responsibility is a system that includes a more comprehensive responsibility induction system, usually including responsibility management, social responsibility, and environmental responsibility. In reality, the social responsibility reports usually contain employees, society, and energy, such as "responsible management, responsible actions, and responsible performance" that are often disclosed publicly. Therefore, this paper reasonably assumes that the fulfillment of corporate social responsibility can motivate Chinese foreign-funded enterprises to achieve economic success, and actively give back to Chinese society in the process, which is expected to form a virtuous circle and contribute to the harmonious development of Chinese society. Therefore, this paper puts forward the corresponding research hypotheses:

Hypothesis 1: There is a positive correlation between the social responsibility of foreign-funded enterprises in China and their profitability, that is, the better the performance of corporate social responsibility, the higher the profitability of the enterprise.

3. Empirical Methodology

3.1 Variable Selection and Model Construction

In this paper, the data of explanatory variables come from the "Research Report on Social Responsibility of Foreign-funded Enterprises in China", which was released by the Chinese Academy of Social Sciences. The report summarizes the social responsibility management level of the top 100 foreign-funded enterprises and the public disclosure of corporate social responsibility information every year. Furthermore, the data source of this article is the foreign-funded enterprises that have been selected as the top 100 foreign-funded enterprises in China in the ten years from 2009 to 2018. A total of 36 Chinese foreign-funded enterprises were screened. The data source of this article is the

foreign-funded enterprises that have been selected as the top 100 foreign-funded enterprises in China in the ten years from 2009 to 2018. A total of 36 Chinese foreign-funded enterprises were screened. Finally, this paper studies the possible impact of Chinese foreign-funded enterprises' fulfillment of social responsibility on their profitability.

The data of the explained variables in this paper mainly come from the Wind financial terminal, in which the relevant financial data and information of the corresponding 36 foreign-funded enterprises are found, and their balance sheets, net profit statements and other information are sorted out. Secondly, combined with the information published by the public media, the statistical information of the statistical agencies, the corporate social responsibility annual report on the company's official website, the company's annual financial statement and other multi-faceted data information, it is generated after screening and comparison.

Therefore, considering operational feasibility, data availability and representativeness, the following choices are made for explanatory variables and explained variables:

(1) Explained variables. According to the basic indicators given in the "Implementation Rules for the Evaluation of Enterprise Operational Performance", meanwhile, it is widely accepted in the existing research to use the return on equity to measure the profitability of enterprises. Finally, this paper selects ROE as the explained variable.

(2) Explanatory variables. The explanatory variable of this paper is corporate social responsibility. As mentioned above, this paper adopts the scoring results of the top 100 Chinese foreign-funded enterprises selected in the "China Foreign-funded Social Responsibility Research Report".

(3) Control variables. After comprehensive consideration, the control variable of this paper selects the scale of the enterprise, because there is no direct causal relationship between the scale of the enterprise and the profitability of the enterprise; It is not rigorous to determine the size of profitability according to the size of the surveyed enterprise. In other words, it is not that the profitability of a large enterprise is positively correlated or negatively correlated. The size of the enterprise is often related to the costs and benefits of the operator. According to Coase's point of view, the emergence of enterprises is to reduce or even eliminate transaction costs; therefore, larger enterprises, especially multinational enterprises, will save a lot of transaction costs; but on the other hand, the more complex the organizational structure of enterprises, the more management costs, employee salaries have also risen accordingly. Therefore, the size of the enterprise will undoubtedly be linked to the profitability of the enterprise.

At the same time, the larger enterprises tend to have a more famous reputation, which is often concerned both in the enterprise and in the public view. Therefore, the larger enterprises bear more corporate social responsibility. To sum up, this paper selects enterprise scale as the control variable. And this paper takes the "net value of fixed assets" of enterprises as an index to measure the scale of enterprises.

Therefore, this paper constructs a multivariate panel data model as follows:

$$Roe = \alpha + \beta_1 Csr + \beta_2 Scale + \varepsilon \quad (1)$$

4. Empirical Results and Analysis

4.1 Descriptive Statistics

Table 1. Descriptive Statistics of Explanatory Variables

Year	Sample	Maximum	Minimum	Median	Mean	Standard	Deviation	Skewness
2018	36	93.0	3.0	21.6	29.9	24.6	1.5	1.5
2017	36	92.0	0.0	29.2	35.8	28.6	0.8	-0.4
2016	36	91.3	2.1	22.6	37.1	29.5	0.6	-1.2
2015	36	87.5	1.4	19.6	27.3	22.3	1.5	2.0
2014	36	80.2	1.0	23.5	28.2	21.3	1.0	0.6
2013	36	70.5	4.5	18.9	25.3	17.8	1.0	0.1
2012	36	68.5	-2.0	13.3	19.0	16.5	1.6	2.3
2011	36	53.8	0.0	12.8	16.4	13.0	1.2	1.9
2010	36	38.0	0.0	9.0	12.0	10.4	1.2	0.8
2009	36	43.5	0.0	18.8	19.5	12.2	0.4	-0.8

Referring to the existing research, this paper selects the median and the mean maximum and minimum values for statistical analysis of variable data, and explains how the results of statistical analysis affect the regression equation numerically. As shown in Table 1: From the 36 Chinese foreign-funded enterprises that have been listed in the “China Foreign-funded Social Responsibility Research Report” for 10 consecutive years, the sample corporate social responsibility index generally shows an upward trend, and the maximum value, median value and average value all show an upward trend; Skewed distribution, in addition, the kurtosis coefficient does not exceed three, and most of them are less than two, the shape of the peak is relatively stable, which also means that there are fewer extreme differences that are greater than or less than the average at low frequencies.

4.2 Regression Analysis

When dealing with panel data, the first key is to decide whether to choose a fixed-effects model or a random-effects model. Therefore, this paper uses the Hausman test to select random effects and solid effects to ensure the accuracy of the model. The test results are as follows in Table 2:

Table 2. Hausman Test Results

Variable name	Fixed effect coefficient	Random effect coefficient
Csr	27.745	30.412
Scale	0.0006	0.0005

According to the Hausman test results in Table 2: Prob>chi2=0.4631, and its P value is significantly greater than 0.05, indicating that random effects should be selected.

After it is determined that the random effect model should be selected for this panel data, the corporate social responsibility and corporate profitability are regressed according to Model 1 with the scale of the enterprise as the control variable. The results of the regression analysis are shown in Table 3:

Table 3. Regression Analysis Results

Roe	coefficient	standard	Zvalue	P> z
Csr	30.412	12.429	2.45	0.014
Scale	0.0005	0.0001	3.72	0.000
ε Constant	1982.305	998.779	1.98	0.047

The panel data regression model results show that there is a positive relationship between corporate ROE and CSR, which means that with the increase of corporate social responsibility, the profitability of corporate responsibility increases. Table 3 shows the empirical test results of the regression model. From the P value of the test results, the P value is significantly small, indicating that the relationship between corporate social responsibility and corporate scale and corporate profitability exists objectively.

Specifically, the regression results show that there is a relatively strong positive correlation between ROE and CSR, and the significance passes the conventional confidence level test. For every 1 unit increase in corporate social responsibility, ROE will increase by 30.4 units. Comparatively speaking, the relationship between ROE and SCALE is weak, but it is confirmed that the two are positively related. For every unit increase of SCALE as a control variable, ROE will increase by 0.0005 units. Thus, there is a significant positive correlation between CSR and ROE at the 5% level, so Hypothesis 1 is validated.

4.3 Robustness Test

In order to further enhance the reliability of this research conclusion, different methods are used to test the robustness of the empirical results. Firstly, the estimation method is changed and the Maximum Likelihood Estimation method (MLE) is used to replace the random effect for regression analysis. The results are shown in Table 4:

Table 4. Test Results of MLE

Roe	coefficient	standard	Zvalue	P> z
Csr	30.548	12.400	2.46	0.014
Scale	0.0005	0.0001	3.76	0.000
ε Constant	1984.312	975.5887	2.03	0.042

Comparing the two groups of coefficients in Table 3 and Table 4, it is found that the test of the relationship between CSR and roe is also consistent with the previous regression results. For every increase of corporate social responsibility by 1 unit, roe will increase by 30.5 units, which is almost no difference from the coefficient of 30.4 in table 1. The two still maintain a very strong positive correlation. At the same time, in the regression of maximum likelihood estimation method, $\text{prob}>=\text{chibar}2=0.00$, indicating that there is individual random effect, and mixed regression should not be carried out, which is consistent with Hausmann's results above.

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Furthermore, to further determine the robustness of the model, Lagrange Multiplier test (LM) is used to further test the model. The test results are shown in Table 5:

Table 5. Test Results of LM

Test: $\text{Var}(u)=0$
$\text{chibar}2(01)=493.44$
$\text{Prob}>\text{chibar}2=0.00$

The results show that LM Test strongly rejects the original hypothesis, that is, between "random effect" and "mixed regression", the "random effect" should be selected for regression analysis of the model, which is consistent with the previous Hausmann test results.

To sum up, based on the robustness test results of this paper, the conclusions obtained by using different test methods are the same as the previous regression results. Therefore, this paper reasonably believes that the model research results are reliable.

5. Conclusion

To explore the current situation of Chinese foreign-funded enterprises and the performance of corporate social responsibility, this paper selects the specific data of 36 Chinese foreign-funded enterprises during ten years for empirical regression analysis.

The following conclusions can be drawn from this paper: The number of foreign-funded enterprises in China and the investment introduced by foreign businessmen have shown a steady growth trend over the years, and their profitability has gradually increased with the continuous deepening of the Chinese market and the continuous optimization of the business environment. What's more, the social responsibility of foreign-funded enterprises in China has a positive impact on their profitability. A good track of corporate social responsibility fulfillment will help enterprises achieve economic success while building social value, promoting corporate reputation and the formation of economic wealth. Therefore, Hypothesis 1 of this paper is supported. Also, there is a positive correlation between firm size and firm profitability; there is a weak relationship between firm size and firm profitability; but it is certain that the effect is positive. With the fluctuation of the size of the enterprise and the fact that the size of the enterprise can fulfill its social responsibility by mobilizing and disposing of available resources, the two together positively affect the profitability of foreign-funded enterprises.

Closure brings backwardness, and world globalization and trade globalization are irreversible. Trade exchanges have always played a key role in driving economic growth. While China's foreign-funded enterprises increase the vitality of market competition, they avoid the inefficient allocation of resources or the imbalance of productivity caused by the excessive monopoly of state-owned enterprises. Chinese foreign-funded enterprises insist on improving the foreign investment environment, creating a good market atmosphere, and building a reputation in the Chinese market, adding impetus and opportunities to the Chinese economy entering a new era. Co-construction, sharing, co-governance and then win-win results are the direction we should strive for. To this end, the following suggestions are put forward: First, enterprises should establish a sound information disclosure system, because the measurement and evaluation of corporate social responsibility must be based on the company's sound information disclosure. Secondly, countries and regions should strengthen the construction of a social responsibility environment; using the environment to subtly enhance people's awareness of corporate responsibility can continuously encourage companies to perform CSR and make it commonplace. Finally, the government and enterprises should establish a good communication mechanism; smooth the channels for foreign-funded enterprises to express and appeal, and optimize the environment for foreign-funded enterprises to operate in China, which will ensure that more enterprises will participate in the fulfillment of social responsibilities, and the government will also rely on the communication mechanism to timely Feedback and put all policy notices into place.

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