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Corporate social responsibility reporting and firm performance: evidence from China

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Abstract A series of product safety and child labor scandals in the mid-2000s aroused global concerns over business ethics and corporate social responsibility (CSR) in China. The general public expects companies to be socially responsible and to look beyond the maximizing of profits. In this study, we examine the relationship between the issuance of CSR reports and performance, in terms of accounting income, market return, and growth by firms listed in China in 2008–2009. We find that the historical performance of firms has significant and positive effects on the issuance of standalone CSR reports. There is also a positive correlation between current CSR disclosures and subsequent performance. Finally, we find that corporate donations are positively associated with improved performance in the following year. Our results support the view that CSR is a useful business strategy even in a developing country such as China. We call for government authorities in emerging markets to advocate CSR practices and for the market participants to change their perception of and attitude towards CSR.

Keywords Corporate social responsibility · Accounting and market-based firm performance · Sustainability · China

1 Introduction

Motivated by growing research on the determinants and consequences of corporate social responsibility (CSR), we examine the relationship between issuing a CSR report and performance for Chinese firms listed in 2008–2009. China's role as a world economic driver, the global presence of Chinese firms, and the effect of corporate activities on global environmental sustainability render a study of the effects of

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Chinese CSR practices important in its own right. Over the past two decades, a number of high-profile global firms have been found to be unethical and socially irresponsible (e.g., BCCI, Enron, Lehman Brothers, Madoff, and San Lu). This has resulted in a serious loss of confidence and trust in business generally (Pietersz 2011). There is a public belief that firms have a responsibility toward society that goes beyond the maximization of profit. To meet public expectations and enhance global competitiveness, many firms have increased their CSR undertakings, and have communicated with stakeholder groups through standalone CSR reports (Dingwerth and Eichinger 2010).[1] The disclosure of CSR information is decision-useful to both internal and external stakeholders (Lynch et al. 2014). Externally, CSR reporting helps reduce information asymmetry between firms and outside stakeholders (Cho et al. 2013). It also enhances corporate image and credibility with stakeholder groups and the general public (Adams 2002; Patten and Zhao 2014). Internally, CSR reporting assists managers in strategic planning, governance, risk management, decision-making, and performance measurement (Adams 2008). CSR reports are now critical to a firm's credibility, transparency, and endurance (Craib and PwC 2010). They are expected to provide objective information, which allows different stakeholders to assess a firm's CSR performance (Gray 2006). For decades, CSR has been an important issue in developed countries, however, in emerging markets such as China, interest is much more recent.

The primary goal of a business is to maximize shareholder value. From a business perspective, CSR initiatives can be viewed as methods of achieving significant competitive advantages. Assessing the link between CSR and firm performance is essential, as it can enhance a firm's sustainability. This study aims to examine the effects of issuing CSR reports on firm performance, based on accounting and market-based measures. China has become the second largest economy in the world, and CSR awareness and implementation in China could therefore significantly affect global environmental sustainability and the international business environment. Based on a sample of 805 firms in 2008 and 813 firms in 2009, we find that good previous performance increases the likelihood that the firm will issue a standalone CSR report, and that more CSR disclosures are associated with better subsequent performance. These results are consistent with the slack resource theory, which assumes that firms with more disposable resources are more willing to issue CSR reports. They are also in line with the instrumental stakeholder theory, which suggests that a corporate image promoted via CSR disclosures can lead to higher profitability in the subsequent year. We also find that corporate donations increase future firm performance.

The concept of CSR in emerging markets is different from that in mature markets; businesses in the former struggle for survival and are reluctant to invest in CSR activities that consume firm resources. This study makes three main contributions. First, it provides insights into the development of and investment in CSR in China, the largest emerging market in the world. Given the positive effects of CSR undertakings and disclosures, our results should encourage these initiatives, and

[1] For example, 81 % of European, Japanese, and Australian firms and 40 % of American firms produced a CSR report in 2010, an increase of more than 60 % over 2008 in all four regions (Craib and PwC 2010).

provide government authorities and market participants with useful and practical information on CSR promotion and sustainable development in emerging markets. Our results also support the traditional view that CSR is an important investment and a useful business strategy for firms, even in less-developed economies. Second, we present a more complete picture of the association between CSR reports and firm performance, by incorporating the slack theory and the stakeholder instrumental theory into the study. Both of these provide useful perspectives for analyzing CSR reporting in future research. Finally, our results confirm that making donations are an essential CSR activity, which can affect corporate performance even in developing countries. There has been relatively little literature on corporate charitable giving. Our results suggest that corporate giving is a strategic tool to boost firm performance, and is worthy of future CSR research.

The structure of this paper is as follows. First, we review the development in China of CSR reporting in the late 2000s. Second, we develop a hypothesis to examine the relationship between CSR practices and firm performance. Third, we describe our sample selection and specify regression models. Fourth, we present the research results. Finally, we discuss the main findings and conclude the paper.

2 Corporate social responsibility reporting in China

CSR is a broad concept, defined as the responsibility of enterprises for the effect they have on society. To discharge their social responsibilities, enterprises must take CSR initiatives, incorporating social, environmental, ethical, human rights, and consumer concerns into their strategic plans (European Commission 2011). Firms are expected to extend their activities beyond regulatory compliance and to embrace voluntary initiatives to meet stakeholder expectations. There are two views concerning the social responsibility of a corporation. Friedman (1970) asserts that as social responsibility initiatives are designed to increase profits, firm managers should only be responsible to the stockholders, and have a fiduciary duty to maximize corporate profit. In this sense, CSR is viewed as a strategic tool to increase shareholder value. However, Freeman (1984) contends that a firm should consider the diverse needs of individuals and groups that can affect or be affected by the firm (i.e., stakeholders). The underlying rationale is that the development of a firm depends on different stakeholders who provide essential resources, which are critical to long-term success. However, some stakeholders may create barriers to success. Environmental groups, for example, may boycott products if they consider the producers to be environmentally or socially irresponsible. Extending responsibility to include different stakeholders may enable a firm to build a good relationship with them, which can lead to a change in the business environment. The stakeholders may in turn bring quality resources or advice that can contribute to a firm’s long-term performance and thus increase long-term shareholder value. The method by which a business engages with its shareholders, employees, customers, and other stakeholders is usually a key feature of CSR. Over the past two decades, the “stakeholder paradigm” has become a powerful tool in business strategic management (Solomon and Lewis 2002; Lungu et al. 2011).

The issues of child labor, food safety, and environmental pollution resulting from China's rapid economic development over the past two decades have raised concerns over CSR practices in China. Since 2005, in response to growing domestic and international pressure, the Chinese government has taken various measures to promote the awareness of CSR (LRQA 2010). In 2008, it issued guidelines encouraging state-owned enterprises (SOEs) to act responsibly towards their stakeholders and the environment. The securities regulator also issued notices and guidelines addressing the interests of stakeholders and promoting sustainable development. The "Research Report on Corporate Social Responsibility of China" (Blue Book 2009), issued in 2009, provided information on the CSR of China's top 100 enterprises in 2008, gathered from their corporate annual reports, CSR reports, and official websites. It evaluated the CSR performance of these enterprises using the four aspects of social responsibility, responsibility management, market responsibility, and environmental responsibility, and assessed the status of social responsibility management and information disclosure in those firms in 2008. The data collected were loaded in an index system with a 0–100 scale. With this maximum of 100 points, the average score of the firms was 31. While 15 % of the firms achieved 60 points, 40 % scored below 20. Approximately 20 % of the firms did not have a sound CSR system. From these results, the report concluded that Chinese firms have a low level of CSR awareness and practice, and that the development of CSR in China is at an elementary stage. However, there is increasing demand for CSR from consumers and investors. The 2009 Blue Book reported that over 96 % of surveyed customers would purchase products from socially responsible firms, and 90 % of investors indicated that they would not invest in firms with a negative CSR image. In fact, the number of Chinese firms voluntarily publishing CSR reports and setting up CSR departments in 2009 increased, with 582 CSR reports in various forms released in 2009, 3.44 times more than in 2008 (China WTO Tribune 2009). This sharp increase in the volume of disclosure may be a direct result of government pressure to increase CSR activities.

3 Corporate social responsibility and firm performance

Friedman's (1970) assertion that the social responsibility initiatives of a business are designed to increase profit has since led to much debate (Grant 1991; McAleer 2003; Cosans 2009). Friedman contends that to a large extent, profit is crucially important to any enterprise. The fundamental objectives of any organization are to survive, grow, and achieve sustainability. Sustainability is defined as the "development that meets the needs of the present without compromising the ability of future generations to meet their needs" (United Nations 1987). To attain and maintain sustainable development or sustainability, a firm must develop and implement long-term strategies to increase both economic and social and environmental performance (Elkington 1998). However, if a firm is unable to generate sufficient profit its prospects for survival are substantially affected, and CSR becomes virtually meaningless. In this sense, CSR is regarded as a strategic tool in achieving a firm's fundamental objectives (Stainer 2006). Socially responsible undertakings will improve the corporate image, attract and retain talent, and build good relationships with stakeholders, which will lead to better economic performance over time (Davis 1973; Turban and Greening 1997; Chen and Wang 2011). However, the costs of implementing CSR are high. Start-up businesses in an emerging market may not have slack resources available for CSR activities. Pfeffer and Salancik (1978) indicate that "slack" refers to extra profits or resources. Bourgeois (1981) further explains that slack resources are cushions of actual or potential resources, which allow an organization to successfully adapt, responding to internal pressures for adjustments or to external pressures for changes in policy, and to initiate changes in practice with respect to the external environment. The slack resources theory suggests that firms with slack financial resources are therefore more likely to be involved in CSR activities (Surroca et al. 2010; Julian and Ofori-Dankwa 2013). This positive relationship is confirmed by Surroca et al. (2010) based on a sample of 599 firms from 28 countries. Conversely, firms with tight resources who struggle to survive may not undertake any CSR activities if they cannot balance additional benefits against additional costs.

CSR consumes business resources and affects corporate performance. Firms today, however, commit voluntarily to a wide range of CSR activities. Donaldson and Preston (1995) use the instrumental stakeholder theory to explain the phenomenon of firms who practice stakeholder management by being involved in different activities that meet the expectations of various stakeholders, and fulfill corporate performance goals and objectives. The complex relationship between CSR and firm performance is of great interest to academics. Roman et al. (1999) review 46 papers investigating the relationship between CSR and firm performance between 1972 and 1997, and note that 63 % of the studies find a positive relationship, 10 % find a negative relationship, with the remainder inconclusive. Over the last decade, various studies have investigated the effect of CSR on firm performance. Some have argued that the implementation of CSR increases efficiency (Heal 2005); reduces social, environmental, and transaction costs (Kong et al. 2002); improves public image and increases market exposure (Turban and Greening 1997; McWilliams and Siegel 2001), and consequently enhances a firm's profitability and sustainability (Lungu et al. 2011; Chen and Wang 2011). These findings support the proposition that CSR leads to better performance (Wu and Shen 2013; Lin et al. 2009; Van der Laan et al. 2008). Based on a sample of 1,000 Taiwanese firms with substantial R&D expenditures in their long-term development plans, Lin et al. (2009) find that R&D has a strong effect on a firm's profitability and corporate value. They also find that CSR does not have a significant positive effect on short-term performance, but it does affect its long-term performance. Wu and Shen (2013) investigate the CSR of 163 banks in 22 countries. They identify three driving motives: strategic choices, altruism, and greenwashing, and report that CSR is positively associated with firm performance in terms of return on assets (ROA), return on equity (ROE), net interest income, and non-interest income. Other studies contend that CSR expenditures substantially reduce business resources in the short term, and that firms with good previous financial performance, i.e., slack resources, are more likely to initiate social activities (Scholtens 2008). McGuire et al. (1988) use ratings of social responsibility from 1983 to evaluate the relationship between

CSR and previous and subsequent financial performance. They compare the regression results before and after 1983, and find that perceptions of social responsibility are more closely associated with previous rather than with subsequent financial performance. Scholtens (2008) assesses the interactions between CSR performance and financial performance in 289 U.S. firms between 1991 and 2004, and finds that financial performance precedes social performance. From a business perspective, the CSR precedence view sees CSR as a strategic marketing tool that helps to expand a firm's market share in the short term (Qu 2007). In contrast, the performance precedence view perceives CSR as a long-term investment that increases the sustainability of a company.

Since 2008, the Chinese government's interest in CSR practices has accelerated its development. In an attempt to further evaluate the relationship between CSR and performance in China, recent CSR studies focus on Chinese corporations. Cheung et al. (2012) construct a CSR index to measure the practices of 100 major Chinese listed firms.[2] Their results show that Chinese firms, particularly those listed overseas and those that are more profitable, improved their CSR practices between 2004 and 2007, and were rewarded by the market. Tang and Li (2009) measure the extent to which Chinese and global companies convey the concept and practice of CSR to their stakeholders. They find that these companies present their CSR principles and practices differently depending on their relationships with their main stakeholders. For example, Chinese companies in the energy, raw material, and shipping industries do not have to deal with individual consumers directly, so are more likely to view CSR as part of their ethical business practice. Both Chinese and global companies that target consumers tend to adopt either an ad hoc or a strategic philanthropic approach to CSR. Global companies are more likely to emphasize product safety as part of their CSR, and are more likely to implement it through company policies and partnerships with government. Latemann et al. (2009) use data from 68 multinational firms in China and India to investigate the level of CSR communication. They note that Indian firms communicate more CSR information, as the Indian business environment is more rule-based, which they contrast with the more relation-based environment in China. Their results confirm that firm size and governance structure have a significant influence on CSR communication. The focus of Shafer et al. (2007) is the effects of nationality and personal values on the responses of managers to the perceived role of ethics and social responsibility in China. They find that although Chinese managers generally feel that efficiency and business survival take priority over ethical and socially responsible behavior, they also strongly support the argument that ethics and social responsibility are essential to the long-term survival of a business. Chen and Wang (2011) assess the association between CSR and performance, by surveying 141 Chinese firms in the 2007–2008 period. Using factor analysis, they divide CSR into the different factors of employees, customers, community, preponderant stakeholders, partners and

[2] The CSR index is developed in accordance with the third OECD Corporate Governance Principle (OECD 2004), which addresses the role of stakeholders in corporate governance and is related to the CSR of a company. The index is a measure of employee benefits, long-term employee incentive plans, staff development policy, employee safety, the firm's policies on recruitment, environmental issues, philanthropy, and relationships with other stakeholders.

managing diversity, and operators. They note that the variations in CSR toward employees, customers, community, and stakeholders and financial performance significantly influence each other, and CSR activities can improve corporate performance in both current and subsequent years. However, most academic studies of the relationship between CSR and firm performance in China use survey data that are inherently associated with non-response and sample representation problems (Qu 2007; Chen and Wang 2011). Our sample, however, includes listed firms that issued standalone CSR reports. We also investigate the effects of major CSR activities on firm performance. Philanthropic donation could be the most direct and objective measure of corporate willingness to conduct CSR activities. For example, Pyo and Lee (2013) examine the association between the level of CSR activities and earnings quality, and find that firms who make more corporate donations have lower discretionary accruals and greater accounting conservatism. Jia and Zhang (2011) observe that corporate philanthropic disaster response is more obvious in the Chinese context. Overall, however, literature on specific CSR activities and firm performance is scarce.

China is the world's fastest growing economy, and has abundant investment opportunities. However, competition is fierce and many firms struggle to survive. The fundamental economic responsibility of a firm is to its stockholders (Friedman 1970; Carroll 1979). This approach is particularly relevant in an emerging market with many start-up firms. In Western countries, CSR is perceived as the responsibility of a good corporate citizen, but in emerging markets such as China firms are more likely to regard it as a business strategy, which can be used to maximize value or protect their standing in the market. Recent studies indicate that CSR reporting and practices are still at an early stage of development in China (Blue Book 2009). In an emerging market, firms believe they need slack resources to support their ongoing CSR activities. They also expect that the disclosure of such activities will promote their corporate image, maximizing shareholder wealth in the near future. The preceding discussion leads to the following two hypotheses: H1a is established based on the instrumental stakeholder theory and H1b on the slack resource theory.

H1a Obeying government regulations in CSR disclosures and practices in the previous period is positively associated with the performance of firms in the current period.

H1b Obeying government regulations in CSR disclosures and practices in the current period is positively associated with the performance of firms in the subsequent period.

4 Research methodology

4.1 Sample selection

To measure the relationship between CSR disclosures and corporate performance in China, we select all of the non-financial firms traded on the Shanghai Stock

Exchange (SSE) in 2008 and 2009. We choose firms traded on the SSE, as in 2008 the exchange regulator issued notices and guidelines on how listed firms could reinforce their adoption of social responsibility.[3] There has since been a significant increase in the number of listed firms following the guidelines and disclosing CSR information in separate reports.[4] To be included in the sample, firms must have their financial information available on the China Stock Market and Accounting Research (CSMAR) database. Our research focuses on voluntary and separate CSR disclosures. We obtained the CSR reports from the China Sustainability Reporting Resource Center website.[5] The reports highlight corporate social achievements (e.g. establish CSR policies and raise CSR awareness among employees) and reflect the extent to which companies carry out CSR initiatives.

Table 1 provides an overview of our sample of firms, classified by the exchange regulator's industry categories, and by the different report titles they use. There are 805 (813) firms in the 2008 (2009) sample, of which 177 (21.98 %) issued a standalone report in 2008, and 198 (24.35 %) in 2009. The number of firms issuing CSR/Sustainability/Corporate Citizenship reports in 2009 is 11.56 % higher than in 2008. Firms with standalone reports are widely distributed across different business sectors. The manufacturing industry produces the greatest number of reports. There is also an increase in CSR reporting in sectors with higher environmental impacts, such as transportation and mining.

4.2 Regression models

We use three regression models to test our hypotheses. First, we estimate whether a company with good firm performance in the current year is more likely than its counterparts to issue a standalone CSR report in the following year. We use the following probit model to test this relation:

$$\begin{aligned} Issue_{t+1} = {} & \beta_0 + \beta_1 ROA_t + \beta_2 Return_t + \beta_3 TobinQ_t + \beta_4 Size_t + \beta_5 Debt_t \\ & + \beta_6 SOE_t + \beta_7 FOR_t + \beta_8 Year09 + \beta_k IND + \varepsilon_t \end{aligned} \tag{1}$$

The dependent variable, $Issue_{t+1}$, takes the value of 1 if the firm issues a standalone CSR report in the following year, and 0 otherwise. The test variables include one accounting-based performance measure (i.e. ROA_t) that captures historical performance, and two market-based measures ($Return_t$ and $TobinQ_t$) that capture future

[3] Companies traded on the Shenzhen Stock Exchange are not considered in this study, as the different regulatory rules and CSR guidelines of the two exchanges are not comparable in during the investigation period.

[4] In developed countries, CSR reports are usually classified as environmental reports, social reports, and sustainability reports. However, classification of CSR reports by function is less clear in China. Though the contents of most CSR reports are similar, management arbitrarily names these reports as corporate social responsibilities reports, sustainability reports, or corporate citizenship reports (China Sustainability Reporting Resource Center 2010).

[5] The website is maintained by the Center for Environmental Education and Communications (CEEC) of the State Environmental Protection Administration (SEPA) of China and Syn Tao. The former is a government agency that promotes environmental publicity and the latter a consulting company that cooperates with the Global Reporting Initiative (GRI) to promote CSR in China.

Table 1 Sample firms by year and industry

Industry	2008				2009			
	All firms	Number (%) of firms issued			All firms	Number (%) of firms issued		
		CSR report	Sustainability report	Corporate citizenship report		CSR report	Sustainability report	Corporate citizenship report
Manufacturing	431	87 (50.29 %)	2 (66.67 %)	0 (0 %)	432	96 (49.74 %)	2 (50.00 %)	0 (0 %)
Real property	63	12 (6.94 %)	0 (0 %)	1 (100 %)	64	14 (7.25 %)	0 (0 %)	1 (100 %)
Retail and wholesale	62	7 (4.05 %)	0 (0 %)	0 (0 %)	62	8 (4.15 %)	0 (0 %)	0 (0 %)
Transportation	44	16 (9.25 %)	0 (0 %)	0 (0 %)	44	20 (10.36 %)	0 (0 %)	0 (0 %)
Information and technology	41	9 (5.20 %)	0 (0 %)	0 (0 %)	42	10 (5.18 %)	0 (0 %)	0 (0 %)
Utilities	41	16 (9.25 %)	1 (33.33 %)	0 (0 %)	41	16 (8.29 %)	1 (25.00 %)	0 (0 %)
Conglomerate	34	6 (3.47 %)	0 (0 %)	0 (0 %)	33	8 (4.15 %)	0 (0 %)	0 (0 %)
Mineral	25	6 (3.47 %)	0 (0 %)	0 (0 %)	29	6 (3.11 %)	1 (25.00 %)	0 (0 %)
Construction	20	6 (3.47 %)	0 (0 %)	0 (0 %)	22	6 (3.11 %)	0 (0 %)	0 (0 %)
Agriculture	18	3 (1.73 %)	0 (0 %)	0 (0 %)	19	3 (1.55 %)	0 (0 %)	0 (0 %)
Social services	16	4 (2.30 %)	0 (0 %)	0 (0 %)	16	4 (2.07 %)	0 (0 %)	0 (0 %)
Cultural	10	1 (0.58 %)	0 (0 %)	0 (0 %)	9	2 (1.04 %)	0 (0 %)	0 (0 %)
Total	805	173 (100 %)	3 (100 %)	1 (100 %)	813	193 (100 %)	4 (100 %)	1 (100 %)
Issued		21.49 %	0.37 %	0.12 %		23.74 %	0.49 %	0.12 %

performance. ROA_t is the natural log transformation of pretax return on total assets in year t. $Return_t$ is the natural log transformation of market return, i.e. the annual change in share prices plus cash dividend, divided by the share price at the beginning of year t. $TobinQ_t$ is the natural log transformation of Tobin's Q ratio, i.e. total market value divided by the total asset value in year t. To retain the observations with negative values and enhance normality in the empirical tests, we add 1 to ROA_t and $Return_t$ and then apply log transformations (Kang et al. 2010). The control variables, $Size_t$, $Debt_t$, SOE_t, FOR_t, $Year09$, and IND, are used to control for firm size, leverage, state ownership, foreign ownership, year, and industry effects, respectively. $Size_t$ is the natural logarithm of total assets. $Debt_t$ is the debt-to-asset ratio. SOE_t equals 1 if the largest shareholder of the firm is a state-owned enterprise (SOE), and 0 otherwise. FOR_t equals 1 if the firm has foreign-owned shares (FOR_t) outstanding and 0 otherwise. Two other dummy variables, $Year09$ and IND, are used to control for year and industry differentials.

Second, we test whether current-year CSR disclosures are associated with future-period corporate performance, with the following regression model:

$$\begin{aligned} Perf_{t+1} = {} & \beta_0 + \beta_1 Issue_t + \beta_2 Size_t + \beta_3 Debt_t + \beta_4 SOE_t \\ & + \beta_5 FOR_t + \beta_6 IMR_t + \beta_7 Year09 + \beta_k IND + \varepsilon_t \end{aligned} \tag{2}$$

The dependent variable is firm performance in the subsequent year ($Perf_{t+1}$). The three firm performance measures are as previously defined. The test variable is $Issue_t$, which is coded 1 if a firm issues a separate CSR report in the current year, and 0 otherwise. The remaining variables are as previously defined.

The decision to issue a CSR report is voluntary (self-selective), so it is possible that improvements in firm performance could be attributed not to the issuance, but to other underlying factors. To address this, we conduct the Heckman (1979) two-step procedure to correct for potential sample selection bias in the main test. We first estimate the decision equation using a logistic model to yield the Inverse Mills Ratios (IMR), where the dependent variable equals 1 if the firm issues the CSR report, and 0 otherwise. In the second step, we add the IMR constructed in the first step to the equation estimating firm performance, conditional on the CSR report issuance. IMR is present in the performance equation, so the estimated CSR effect of concern in the performance equation should be unbiased.

In the last regression model, we examine the effects of major CSR practices on firm performance. The information disclosed in the separate CSR reports from China is divided into four categories: the amount of monetary contributions, the number of awards or honors obtained for the CSR activities, whether the CSR reports are prepared according to the Global Reporting Initiative (GRI) framework,[6] and whether

[6] The commonly used frameworks are AA1000, the Global Compact Advanced Level COP (GC COP), and the Global Reporting Initiative (GRI) guidelines. We chose the GRI framework, as it is an official collaborating center of the United Nations Environment Program, and has worked in co-operation with the Global Compact since 1997. The GRI framework helps firms prepare CSR reports with comparability, accuracy, timeliness, reliability, and clarity (GRI 2006). It not only provides standardized measures of performance for environmental, social, and economic impacts (Adams 2004), but also includes some of the principles or characteristics of AA1000 (Reynolds and Yuthas 2008). The GRI is the framework most widely used to support firms in their sustainability reporting (Menichini and Rosati 2014).

they are reviewed by external auditors. We develop the following model to measure the effects of each dimension of CSR on the future performance of a firm.

$$\begin{aligned} Perf_{t+1} = &\beta_0 + \beta_1 Donate_t + \beta_2 Award_t + \beta_3 GRI_t + \beta_4 Audit_t + \beta_5 Size_t \\ &+ \beta_6 Debt_t + \beta_7 SOE_t + \beta_8 FOR_t + \beta_9 Year09 + \beta_k IND + \varepsilon_t \end{aligned} \tag{3}$$

We use the same variables, ROA_{t+1}, $Returnt_{t+1}$, and $TobinQ_{t+1}$, to proxy for future firm performance (Perf_{t+1}).[7] The main experimental variables are proxies for CSR actions and disclosure quality. $Donate_t$ is the monetary amount (scaled by sales revenue) donated to natural disaster relief, infrastructure improvement, poverty reduction, education, charity, arts, welfare provision, environmental protection, and other causes. $Award_t$ is the number of awards or honors received by a firm in recognition of its CSR contributions. Relevant data on both $Donate_t$ and $Award_t$ are collected through the content analysis of the CSR reports.[8] We expect corporate giving and non-monetary awards to reflect corporate participation in the social issues that concern stakeholders. These actions are intended to enhance a company's reputation, which in turn increases corporate value. We use two dummy variables to measure the CSR disclosure quality. GRI_t is an indicator variable that equals 1 if the report is prepared in line with international reporting guidelines and 0 otherwise. $Audit_t$ is an indicator variable that equals 1 if the CSR report is reviewed by an external auditor and 0 otherwise. Other variables are as previously defined.

5 Empirical results

Table 2 summarizes the descriptive statistics for the main variables used in Eqs. (1) and (2). The full-sample means of *ROA*, *Return*, and *TobinQ*, all in natural log, are 0.041 (0.050), –0.049 (0.440), and 0.463 (0.727), respectively, in the current (following) year. The results show that while firm profitability (ROA_t) does not significantly change over time, the market return and firm value are substantially higher in 2009 than in 2008. The full-sample mean asset values are RMB11, 347 million, and the average gearing ratio ($Debt_t$) is 57 %. State-owned enterprises (SOE_t) are the biggest shareholders in nearly half (47.4 %) of the firms, and only 4.1 % of the firms have outstanding FOR_t.

Table 2 also compares the characteristics of firms that did or did not issue separate CSR reports. The results show that relative to their counterparts, firms that issue CSR reports report a significantly higher (mean and median) ROA but a lower (mean and median) Tobin's Q in both years. Those with CSR reports are also

[7] We also examine the effects of contemporaneous corporate actions on firm performance, and find a weak contemporaneous effect.

[8] Having agreed on the proxies for the CSR actions, one of the authors (coder) manually searched the CSR reports with words such as "charity", "donation", "gift", "contribution", "award" and "honour" in sections related to social public welfare and undertakings and community recognitions for the sample firms. With a crosscheck by another coder, we identified a total of 102 (98) firms in 2008 and 88 (96) firms in 2009 that reported monetary donations (social responsibility awards) in a firm's CSR reports. We added up the number of awards and amounts of monetary donations respectively for each firm year.

Table 2 Descriptive statistics of firm characteristics: issuance versus non-issuance of separate CSR reports

	All firms (N = 1,618)		Firms issued CSR reports (N = 375)		Firms not issued CSR reports (N = 1,243)		Test of difference	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
ROA_{t+1}	0.050	0.050	0.065	0.058	0.045	0.046	−0.020***	−0.012***
$Return_{t+1}$	0.440	0.451	0.369	0.374	0.462	0.463	0.093***	0.089
$TobinQ_{t+1}$	0.727	0.645	0.566	0.469	0.776	0.695	0.210***	0.226***
ROA_t	0.041	0.046	0.066	0.059	0.033	0.042	−0.033***	−0.017***
$Return_t$	−0.049	0.162	−0.039	0.260	−0.052	0.002	−0.013	−0.258
$TobinQ_t$	0.463	0.351	0.384	0.294	0.486	0.379	0.102***	0.085**
$Size_t$	11,347	2,588	17,758	5,130	9,413	2,226	−8,345***	−2,904***
$Debt_t$	0.570	0.541	0.518	0.533	0.586	0.543	0.068**	0.010
SOE_t	0.474	0.000	0.512	1.000	0.463	0.000		
FOR_t	0.041	0.000	0.088	0.000	0.027	0.000		

Variable definition

ROA_{t+1} = natural log transformation of pretax return on total assets in year $t+1$

$Return_{t+1}$ = natural log transformation of market return, i.e., the annual change in share prices plus cash dividend divided by the share price at the beginning of year $t+1$

$TobinQ_{t+1}$ = natural log transformation of Tobin's Q ratio, i.e., total market value divided by the total asset value in year $t+1$

ROA_t = natural log transformation of pretax return on total assets in year t

$Return_t$ = natural log transformation of market return, i.e., the annual change in share prices plus cash dividend divided by the share price at the beginning of year t

$TobinQ_t$ = natural log transformation of Tobin's Q ratio, i.e., total market value divided by the total asset value in year t

$Size_t$ = total asset value of the firm (RMB in millions)

$Debt_t$ = total debts divided by total assets

SOE_t = 1 if the firm's largest shareholder is a state-owned enterprise, 0 otherwise

FOR_t = 1 if the firm has foreign-owned shares outstanding, 0 otherwise

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively, for a t test (Wilcoxon test) of differences in means (medians)

significantly larger in terms of total assets and have a lower mean debt-to-asset ratio than their counterparts.

Table 3 shows the results of the bivariate relationship between the variables in Eq. (1). The propensity to issue CSR reports is significantly positively (negatively) correlated with firm profitability (firm value) in both current and future periods. The highest correlation among the independent variables is 0.423 ($p < 0.01$) between firm size ($Size_t$) and foreign-owned equity (FOR_t), which is much lower than 0.80, the point beyond which the threat of multicollinearity becomes a real concern (Judge et al. 1988).

Table 4 shows the probit estimates of corporate performance and other firm-level characteristics regarding the tendency of firms to issue a CSR report in the subsequent year. The coefficients on ROA_t are positive and significant, consistent with our

Table 3 Correlation matrix (N = 1,618)

Variables	1	2	3	4	5	6	7	8	9	10
$Issue_t$										
ROA_t	0.083***									
ROA_{t+1}	0.076***	0.138***								
$Return_t$	0.006	0.021	0.131***							
$Return_{t+1}$	−0.077***	−0.045*	−0.052**	−0.757***						
$TobinQ_t$	−0.084***	0.084***	0.145***	0.549***	−0.391***					
$TobinQ_{t+1}$	−0.161***	0.086***	0.075***	0.053**	0.212***	0.683***				
$Size_t$	0.280***	0.054**	0.091***	−0.010	−0.208***	−0.449***	−0.622***			
$Debt_t$	−0.051**	0.022	0.083***	−0.019	0.001	0.191***	0.197***	−0.113***		
SOE_t	0.042*	0.005	0.014	−0.274***	0.159***	−0.369***	−0.227***	0.214***	−0.039	
FOR_t	0.128***	0.000	0.020	−0.034	−0.093***	−0.130***	−0.190***	0.423***	−0.002	0.095***

Variable definition

$Issue_t$ = 1 if a sample firm issued the standalone CSR report in year t, 0 otherwise

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively

(Definitions of other variables are as in Table 2)

Table 4 The effect of current-year firm performance on the propensity to issue CSR reports in the subsequent year

	Estimate	Standard error	Significance
ROA_t	1.312	0.324	4.050***
$Return_t$	0.028	0.112	0.250
$TobinQ_t$	−0.003	0.120	−0.030
$Size_t$	0.339	0.038	8.970***
$Debt_t$	−0.771	0.204	−3.770***
SOE_t	−0.034	0.080	−0.420
FOR_t	−0.054	0.179	−0.300
Year09	−0.026	0.208	0.130
Conglomerate	−0.104	0.299	−0.350
Cultural	−0.174	0.452	−0.390
Social services	0.036	0.349	0.100
Real properties	−0.074	0.281	−0.260
Retails and wholesales	−0.374	0.290	−1.290
Information technology	0.096	0.294	0.330
Transportation	0.125	0.283	0.440
Construction	−0.024	0.335	0.070
Utilities	0.414	0.288	1.440
Manufacturing	0.004	0.251	0.020
Mineral	−0.658	0.329	−2.000**
Constant	−7.813	−0.845	−9.24***
N	1,618		
Chi squared	186.86***		
Pseudo R^2	0.107		

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively

(Definitions of other variables are as in Tables 2 and 3)

expectation that firms with higher current earnings are more likely to issue a standalone CSR report in the subsequent year. For the control variables, the results show that firms with higher asset values ($Size_t$) and lower debt levels ($Debt_t$) are more likely to issue a CSR report in the following year than firms with the opposite characteristics. The mining industry is shown to be less likely to issue reports than the agriculture industry, as it has recently been associated with water toxicity and pollution scandals.

Table 5 shows the effect of issuing current-period CSR reports on corporate performance in the next year. As a firm's decision to conduct CSR activities and issue the resulting reports may not be random, but rather a deliberate action by managers, we follow Heckman's two-step procedure to control for sample selection bias. The first step estimates a decision model to yield the IMR, where the dependent variable is a binary number (issuance or non-issuance of CSR reports). The second step incorporates the generated IMR as a control variable in the performance equation. The results show that after adjusting for the self-selection effect, the experimental variable $Issue_t$ is significantly and positively associated with

Table 5 The effect of issuing current-year CSR reports on firm performance next year

	Dependent variables					
	Accounting profit (ROA_{t+1})		Market return ($Return_{t+1}$)		Tobin's Q ($TobinQ_{t+1}$)	
	Coef.	*t* value	Coef.	*t* value	Coef.	*t* value
$Issue_t$	0.015**	2.200	−0.003	−0.170	0.021	0.850
$Size_t$	−0.010**	−2.190	−0.044***	−3.520	−0.294***	−17.480
$Debt_t$	0.062***	5.470	−0.070**	−2.240	0.248***	5.880
SOE_t	0.006	1.020	−0.024	−1.490	−0.104***	−4.790
FOR_t	−0.015	−0.960	−0.045	−1.070	0.184***	3.260
IMR	−0.059***	−4.150	0.060	1.540	−0.156***	−2.960
Constant	0.290***	2.610	1.591***	5.190	7.256***	17.560
Year dummy	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
N	1,618		1,618		1,618	
F value	5.200***		173.510***		80.080***	
Adjusted R^2	0.045		0.658		0.468	

Variable definition

IMR = Inverse Mills Ratios (to correct for sample selection bias)

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively

(Definitions of other variables are as in Tables 2 and 3)

Table 6 Descriptive statistics for CSR initiatives by sample firms (N = 375)

Variables	Definition	Minimum	Maximum	Mean	Std. dev.
Donation	The monetary amount the firm donates to or spends on different social activities, including disaster relief, infrastructure improvements, poverty reduction, education, charity, art, environment, employees, and other areas, divided by the sales in the year	0	0.065	0.002	0.007
Award	Number of awards received by the firm for its significant contributions to different areas, including environment, charity, employees, and other social contributions	0	12	1.269	1.926
GRI	Dummy variable equal to 1 if the firm follows the GRI guidelines to prepare its separate CSR report, and 0 otherwise	0	1	0.037	0.199
Audit	Dummy variable equal to 1 if the standalone CSR report has been audited, and 0 otherwise	0	1	0.024	0.153

the accounting-based performance measure, one-year-ahead ROA (ROA_{t+1}). This suggests that firms can earn more in the year following the issuance of a CSR report.

Table 6 reports the descriptive statistics for the major CSR practices or achievements of firms (Eq. 3). The average donation amount reported by the sample

Table 7 Contemporaneous effects of conducting CSR activities on firm performance

	Dependent variables					
	Accounting profit (ROA_t)		Market return ($Return_t$)		Tobin's Q ($TobinQ_t$)	
	Coef.	*t* value	Coef.	*t* value	Coef.	*t* value
$Donation_t$	0.535	1.440)	2.198	0.770	3.243	1.320
$Award_t$	−0.000	−0.090)	−0.006	−0.610	−0.014	−1.520
$Size_t$	0.004*	1.900)	−0.046***	−2.580	−0.088***	−5.650
$Debt_t$	−0.101***	−6.480)	0.203*	1.690	−0.444***	−4.270
SOE_t	−0.016***	−3.100)	−0.014	−0.340	−0.130***	−3.760
FOR_t	−0.004	−0.430)	−0.101	−1.400	−0.042	−0.670
Constant	0.023	0.460	−0.095	−0.240	2.540***	7.480
Year dummy	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
N	375		375		375	
F value	5.320***		112.860***		20.570***	
Adjusted R^2	0.172		0.843		0.485	

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively

(Definitions of variables are as in Tables 2 and 6)

firms is only 0.2 % of the total sales, and the maximum is 6.5 %. The average number of CSR awards or honors received by the sample firms is 1.269, and the maximum is 12. Many firms have issued CSR reports since 2008, but only 3.7 % of the reports follow the GRI guidelines, and only 2.4 % are verified by external auditors.

Table 7 displays the results of the contemporaneous effects of CSR activities on firm performance in terms of accounting profit, market return, and Tobin's Q. The results show that none of the coefficients on $Donation_t$ or $Award_t$ are statistically significant. This suggests that the messages contained in the firms' CSR activities are insufficiently disseminated in the current year. To examine the possible delayed effect of undertaking CSR activities, we regress one-year-ahead firm performance on current year corporate giving and award recipients. The results shown in Table 8 suggest that current year corporate donations ($Donation_t$) are associated with improved corporate pretax earnings, market return, and firm value in the following year.

6 Discussion

Since the mid-2000s, CSR in China has been under close scrutiny from the public and the media. The Chinese government has responded by formulating various CSR rules and guidelines to raise awareness and interest among public firms. This study finds that the number of Chinese firms undertaking CSR activities and issuing standalone CSR reports increased in 2008 and 2009. It is likely that many firms are engaging in CSR activities as a response to tough government requirements and

Table 8 The effect of conducting CSR activities on future firm performance

	Dependent variables					
	Accounting profit (ROA_{t+1})		Market return ($Return_{t+1}$)		Tobin's Q ($TobinQ_{t+1}$)	
	Coef.	*t* value	Coef.	*t* value	Coef.	*t* value
$Donation_t$	0.738 *	1.950	4.411*	1.880	5.875**	2.170
$Award_t$	0.001	0.520	0.003	0.340	−0.011	−1.080
GRI_t	−0.001	−0.330	−0.009	−0.380	−0.036	−1.380
$Audit_t$	0.014	0.870	−0.028	−0.270	−0.003	0.030
$Size_t$	0.002	1.000	−0.093***	−6.220	−0.152***	−8.780
$Debt_t$	−0.068***	−4.220	0.169*	1.700	−0.521***	−4.530
SOE_t	−0.014***	−2.680	−0.040	−1.230	−0.123***	−3.230
FOR_t	0.001	0.120	0.032	0.540	−0.003	−0.050
Constant	0.027	0.500	2.603***	7.950	4.477***	11.850
Year dummy	Yes		Yes		Yes	
Industry dummies	Yes		Yes		Yes	
N	375		375		375	
F value	2.790***		34.850***		16.160***	
Adjusted R^2	0.087		0.6442		0.448	

***, **, * statistically significant at the 0.01, 0.05, and 0.1 levels (two-tailed), respectively

(Definitions of variables are as in Tables 2 and 6)

higher expectations from stakeholders. However, a sharp increase in "form" may not necessarily indicate an improvement in "substance." Our results show that only 3.7 % of the CSR reports follow the international framework, and only 2.4 % are reviewed by auditors, indicating that CSR reporting in China is far below the international standard, which may warrant government attention.

A stakeholder approach views social responsibility as an essential strategy to meet and balance the expectations of different stakeholders. Nevertheless, the main objective of every business organization is to survive and grow. If a firm does not make sufficient profit, it cannot prosper, nor implement CSR activities. The results of this study, in line with those by Scholtens (2008), Surroca et al. (2010) and Wu and Shen (2013), suggest that there is a significant, positive relationship between CSR reporting and financial performance. Our findings are also consistent with those of McGuire et al. (1988): the perceptions of standalone CSR reports are positively associated with both previous and subsequent firm performance. Our results also align with the slack resource theory, which suggests that firms with more disposable resources can afford CSR activities and are thus more willing to issue standalone reports. Similar to the findings by Turban and Greening (1997) and McWilliams and Siegel (2001), our results suggest that compliance with government regulations in CSR disclosures and practices in the current year is positively associated with subsequent firm performance. These findings indicate that profitability is a firm's greatest concern with respect to its CSR decision. A business must earn sufficient profit to cover its costs and provide funds for its growth (Friedman 1970). Our results are also in line with the instrumental stakeholder theory, which suggests that to maximize profits, a business must satisfy stakeholders' needs, and particularly its customers (Jones and Wicks 1999). In this sense, the ultimate purpose of any business activity, including CSR, is to make a profit.

Philanthropic giving in response to disasters is common in China (Jia and Zhang 2011). Corporate giving may influence the emotions of stakeholders, particularly customers and employees, increase sales and decrease costs and, as a result, promote firm value. Our results further show that firm donations significantly promote performance, in terms of corporate pretax earnings, capital market returns, and corporate value in the following (rather than the current) year. This suggests that the messages communicated through CSR contributions have lagged effects. To have an immediate effect on corporate performance, we recommend that firms publicize their CSR practices and achievements through different channels in the current year.

Stakeholder perceptions of CSR in emerging markets are different than those in mature markets. Many small and medium-sized businesses, in the context of emerging markets in particular, struggle with limited resources for survival and are reluctant to invest in CSR activities, as CSR is usually regarded as expenditure rather than investment (Vives 2006). Our results have implications for the development of and investment in CSR in China and other emerging markets. The important role of China as a world economic driver, the increasing share of foreign direct investment, and the global presence of Chinese firms warrant such a study. Our results support the view that CSR is a useful business strategy even in a developing country such as China. Given its positive association with firm performance, we call for government authorities in emerging markets to advocate CSR practices and for the market participants to change their perception of and attitude towards CSR. Our study provides a basis for exploring CSR-related issues in emerging economies.

7 Concluding remarks

In response to global concerns over CSR scandals in the mid-2000s, the Chinese government took stronger measures and issued new guidelines to encourage businesses to be more socially responsible. A growing number of Chinese firms have since voluntarily published standalone reports, which communicate their CSR principles and activities to their stakeholders. In this study, we examine the relationship between the issuance of CSR reports and the performance of firms listed in China during 2008 and 2009. The results show that performance in the previous period has a significant and positive effect on the issuance of standalone CSR reports, and that current CSR disclosures are associated with performance in the subsequent period. The study also confirms that corporate donating is positively associated with improved performance. To develop sustainably, China must simultaneously improve its economic, social, and environmental performance. It is expected that the information in the study and its results will help to promote greater CSR disclosure and encourage socially responsible practices in emerging markets.

Our study has certain limitations that also serve opportunities for future research. First, our analysis is limited by the content of the CSR reports. The actual practices may deviate from what is reported, so to this extent our results may be biased. Second, we are not able to control for all the possible factors that may affect performance in our analysis. Third, the limited time period of our study may inhibit the generalizability of the results to other periods. CSR initiatives often take time before they have a real effect in the marketplace, so future research may determine whether our findings can be generalized to a timeframe of several years. Fourth, we acknowledge that while it is interesting to examine the association of firm performance and compliance costs with the government regulation of CSR practices and disclosures, we are unable to ascertain the actual costs, due to data limitations. We leave these issues for future research. Finally, to the extent that our results provide supporting evidence for the positive association between CSR reporting and firm performance, we acknowledge that there is still scope for future research to expand on our study. For example, future research can explore the mechanism or channel through which performance is improved via CSR disclosures.

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