Article

Examining the Role of Stakeholder-Oriented Corporate Governance in Achieving Sustainable Development: Evidence from the SME CSR in the Context of China

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Abstract: Corporate governance (CG) has been experiencing a shift from the antecedent shareholder-oriented system toward the recent more popular stakeholder-oriented system. To better serve the aim of sustainable development, more and more companies have initiated stakeholder-oriented practices. Increasing social responsibility behaviours demonstrate the prioritisation of stakeholders' interests. Nevertheless, most extant research on stakeholder-oriented CG focuses on MNEs and large listed companies. Limited attention has been paid to the small and medium-sized enterprises (SMEs) sector. This study aims to fill this gap by providing empirical evidence of Chinese SME corporate social responsibility (CSR). We develop and test two hypotheses by using samples of 172 Chinese listed SMEs. Our result is distinct from most of the extant SME CG literature, given that the stakeholder-oriented CSR types have a negative impact on short-term operational profitability and expansion over a fixed period. Additionally, the government subsidy, as one of the most significant national institutions, partially moderates the relationship between stakeholder-oriented CSR and firm performance. The outcomes of this research make both theoretical and managerial contributions to SMEs' CG systems. In the context of Chinese SME CSR, managerial stakeholder theory is a more pragmatic means to guide firms toward sustainable development than ethical stakeholder theory.

Keywords: stakeholder-oriented corporate governance; sustainable development; CSR; SMEs

1. Introduction

The shareholder value model and stakeholder value model dominate current CG systems [1]. There has always been an ongoing debate on which system is superior [1–3]. The shareholder model implies the primacy of shareholders’ interests, regarding stakeholders as added burdens [4]. The advocates of shareholder value believe that instead of gaining benefits and profits for the company, the attention on stakeholders requires additional expenditure, and would thus impair the interests of shareholders [5]. Meanwhile, for the advocates of the stakeholder value model, striking the balance between stakeholders and making profits is more important [3]. Better balancing of interests and engaging with various stakeholders allow the enterprise to create overall value on a long-term basis.

For countries that are in the Anglo-Saxon system, e.g., the US and the UK, shareholder-oriented CG is more prevailing given where it originated [1]. Adding to the fact that it became the teaching principle in management and business schools in the late 19th century, scholars and institutional investors praised the shareholder primacy system highly [6,7]. By contrast, most EU countries, e.g., Germany and France, adopt the stakeholder-oriented model [1,8–10]. Additionally, most Asian countries, which have a different legal environment and cultural environment to the US and the UK, tend to internalise the maximisation...
of stakeholder valuations in codes and practices [11]. Since the Asian financial crash, countries including Japan [12,13], Korea [14], India [15–17], Indonesia [15,18], Nepal [19], Pakistan [20], Philippines [15] and Thailand [15] have successively recognised the role of stakeholders in codes and guidelines through laws or agreements [11]. Laws and regulations explicitly provide obligations to stakeholders and society. Meanwhile, business principles generated from Islam require organisations to be compatible with stakeholders [11]. Nevertheless, compared to shareholder-primacy governance, the stress on stakeholders requires additional expenses to maintain healthy relationships with stakeholders beyond profit maximisation. Apart from Japan and Korea, most other Asian countries are developing countries. Therefore, the lack of sufficient economic support raises questions about the stakeholder-oriented governance model [21].

According to Hannsman and Kraakman’s [22] prediction, there will be a convergence toward the shareholder-oriented governance system with more and more written rules regarding shareholder superiority. Firms will choose the most efficient method to manage their businesses, thus demonstrating the superiority of the shareholder-oriented system [23,24]. Nevertheless, twenty years after its publication, this hypothesis has apparently proven to be wrong, and is far from being accepted. There is a conspicuously growing tendency that firms are adopting stakeholder-oriented models to attain sustainable development [3]. Corporate scandals and the great pressure from stakeholders force managers to abandon the conventional approaches that only focus on maximising profits [25,26]. CSR practices and long-term strategies are thus more favourable to CEOs.

Even in the US, firms have been shifting their attitudes to embrace more stakeholder-oriented practices. This is evident from not only the standpoints of influential CEOs of US corporations, but also from recent empirical research [6,10]. In 1997, the Business Roundtable, comprising 200 CEOs of US large companies, declared that the only purpose of the management team and board of directors is to serve shareholders’ interests [6]. However, in 2019, this prominent association revised its statement, by making commitments to all stakeholder groups, including communities, employees, customers, and suppliers [6,10]. Bottenberg et al. [1] argued that a number of firms would follow the stakeholder or shareholder model in contrast with their national CG system, taking the example of the US. Shin et al.’s [6] research also demonstrated the changes in stakeholder orientation in US companies from the perspective of CEO dismissal. They found that CEOs of large companies across the US would be penalised if there were limited CSR practices, which was completely contrary to the situation before the collapse of Enron [6].

Despite the increasing research on the stakeholder-oriented model, there is extremely limited research investigating the CG system of SMEs. The research objectives of most studies are either MNEs or large listed companies [1,6,27]. Few studies have identified which system SMEs align with. Additionally, the question of whether stakeholder-oriented CSR activities could influence the sustainable development of firms remains unclear. According to Camilleri [27,28], there are ongoing debates on the link between CSR and firm performance, given that mixed results have always existed. Doubts on whether closer ties with stakeholders could bring benefits to firms are unresolved. Furthermore, the CG system is strongly influenced by the institutional environment where it is contextualised [29]. Even the same stakeholder-oriented systems vary in institutions, judicial systems, social norms, and cultural environments [29,30]. China’s CG system is a mixture of the shareholder and stakeholder value models, which is distinct from other Asian countries [31]. As one of the world’s largest economies, its influence on the direction of the global economy is more significant than other small Asian countries, such as Singapore or Bhutan [11]. However, whether SMEs adhere to the shareholder perspective or the stakeholder perspective of the CG system remains unsolved in China.

To fill the above gaps and to respond to the call for contextualised research on the possible advantages and disadvantages of the stakeholder-oriented CG system [10], this article aims to investigate whether the stakeholder-oriented CG system promotes the sustainable development of SMEs, by taking as an example Chinese SME CSR.
probing into the research question allows us to answer whether the stakeholder approach enhances or damages shareholders’ and stockholders’ interests. Since a great number of studies have proved that there is a business case for CSR [27,32], whether SMEs and their internal and external stakeholders both benefit from CSR engagement is as yet undiscovered. Moreover, stakeholder theory has been questioned regarding its value creation, including for whom value should be created and to what extent stakeholders should be treated well [15]. Our research outcomes offer fruitful empirical evidence for these ongoing debates.

This article is structured as follows. First, we reviewed the close relationship between SME CSR and stakeholder-oriented CG systems, and rationally linked sustainable development with firm performance. Afterwards, we reviewed the extant literature on CSR, SME CSR and firm performance, and then we developed hypotheses based on the literature. Thereafter, we presented our methodology, containing the sample pool and data collection, measures adopted in this research, followed by the clarification and discussion of research results. We concluded our paper by summarising key points, presenting our theoretical and managerial contributions, highlighting policy implications, and suggesting future research agendas.

2. Theoretical Background and Hypotheses Development

2.1. SME CSR and Stakeholder-Oriented CG

SME CSR is closely tied to the CG system, and more specifically, the stakeholder-oriented CG system rather than the shareholder-primacy CG model. First, according to the definition of the World Business Council for Sustainable Development (WBCSD), CSR is defined as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” [33], which requires the company to take stakeholders into consideration beyond making profits. Similarly, Carroll conceived CSR as a pyramid that includes four elements: economic, legal, ethical and philanthropic responsibilities [34]. Despite fundamental economic responsibility and legal responsibility that requires companies to be profitable and to meet the minimal legal requirements, ethical responsibility and philanthropic responsibility embrace the higher standards, social norms and public expectations that government, consumers, employees, the community, and other stakeholders wish the company to achieve. Better stakeholder engagement has become a prerequisite for companies to mitigate risks and achieve virtuous circles [35]. Following these interpretations, it can be concluded that CSR is well-integrated with stakeholder management and consolidates a comprehensive stakeholder-oriented strategic framework [36].

Second, compared to MNEs and large companies, SMEs are more proximate to their stakeholders [37]. The different sizes and business structures of SMEs lead to close firm–stakeholder relationships and stakeholder-perspective CSR strategies [38–40]. Thus, it is reasonable to believe that CSR performance could be one of the major components of the stakeholder-centred approach to CG of SMEs, as the convergence of CSR and stakeholder-oriented CG has already been tested [41].

2.2. Sustainable Development and Firm Performance

The rationale for linking sustainable development and firm performance is that both have centred on more than economic growth. In light of firm performance, it is distinct from financial performance, given its added determinants, e.g., reputation, firm value, and employee commitments [42,43]. In terms of sustainable development, the United Nations (UN) has proposed the 17 SDGs with 169 targets, which are referred to as the most universally accepted objectives of sustainable development [44]. They demarcate more concrete objectives for companies who wish to achieve sustainable development [45,46]. Additionally, these goals are highly correlated with improving firm performance.

For instance, “economic growth” [46] is the fundamental financial performance that stakeholders wish the company to demonstrate. “Good health of employees”, “quality
education for employees”, “gender equality” regarding internal CG, and “decent work” [46] are within the context of building and maintaining employee loyalty. Similarly, “clean water and sanitation”, “clean energy”, “responsible production”, “climate action”, “life below water”, “life on land”, “justice”, “building sustainable communities”, and “building infrastructure”, and “reduced inequalities” [46] would to large extent raise the corporate reputation and firm value. These higher standards or expectations are what society and stakeholders hope businesses will fulfill beyond their primary responsibilities. In this sense, a firm that wishes to attain sustainable development must improve its firm performance.

2.3. Studies on SME CSR, Firm Performance, and in the Context of Chinese SMEs

There are numerous studies examining the relationship between CSR and firm performance. However, there is no consensus on whether such a relationship is positive [47–49], negative [50–53], mixed [54], or even non-significant [55]. Meanwhile, in the context of SME CSR and firm performance, most results show positive results given the closer relationships between SMEs and their stakeholders. For instance, Choongo [43], Ikram et al. [42], Thanh [56], Torugsa et al. [57], Turyakira et al. [58], Wentzel et al. [59] all found positive and significant relationships between SME CSR activities and firm performance. Martinez-Conesa et al. [60] also drew the conclusion that CSR initiatives positively impact firm performance through an analysis of 552 Spanish firms. However, such a relationship is partly mediated by innovation. Similarly, Niehm et al. [61] concluded that community responsibility has a strong and positive influence on small family businesses’ performance.

Although compared to research on CSR in large companies, the scarcity of Chinese SME CSR research is evident, there is a growing body of contemporary literature on SME CSR in China, given that SMEs are significant components of China’s national economy. As the main contributor to the national economy, SMEs comprise 90% of all companies in China [62]. Moreover, they account for 60% of the total GDP, 50% of the country’s tax revenue, and 80% of labour force employment [63]. However, there is limited empirical research on the relationship between Chinese SME CSR and firm performance. Considering the limitations of each study, we cannot generalise findings from the few pieces of research.

Tang and Tang [64] examined how the stakeholder–firm power difference influences environmental performance through a survey of 144 SMEs in China. Likewise, Zeng et al. [65] identified how government and society impact the environmental performance of Chinese manufacturing SMEs. Despite the attention on environmental performance rather than firm performance, their research focuses on a specified region of China, for instance, the northern region [65] and the northern and eastern regions of China [64]. In a similar vein, Yang et al. [66] observed the relationship between CSR and firm performance in Hebei province. In addition, Yang et al. [67] examined CSR adoption and financial performance within the context of the supply chain. They found that buyer’s CSR adoption positively influences the financial performance of both buyers and suppliers. Therefore, there is a need to answer the call for more research on SME CSR and overall firm performance in China [68].

As can be concluded from the above literature, it is rational to believe that SMEs are more consistent with the stakeholder-oriented CG system. Additionally, it is logical to suppose that there is a positive relationship between SME CSR performance and firm performance. From the perspective of intangible assets, as Castilla-Polo and Sánchez-Hernández [69] have pointed out, the cooperation between corporations and stakeholders increases both social capital and human capital, which thus contributes to sustainable development. Companies and stakeholders reinforce each other through trust and loyalty [70]. The stronger the relationship between companies and local customers and suppliers [37,70–72], between companies and employees [70–73], and between companies and communities [39,72–74], the more regional economic growth can be gained, and sustainability can finally be achieved [69]. Therefore, our first hypothesis is proposed as follows:
Hypothesis 1 (H1). The engagement in stakeholder-oriented CSR is positively related to firm performance in Chinese SMEs.

2.4. The Moderating Role of Government Subsidy

According to Matten and Moon [75], one of the most fundamental institutional pre-requisites for successful CSR practices is effective governmental institutions. Different institutions influence the adoption of CSR measures and allow room for different characteristics of the stakeholder-oriented CG system—for instance, the co-determination system in Germany. As German law requires, the supervisory board comprises shareholders and employees who share the same number of seats [29,76]. Additionally, legal rules regarding the election of board members in France also demonstrate the influence of legal institutions on the particular stakeholder value model [74].

In this article, we identify how a popular institutional setting, the government subsidy, moderates the relationship between CSR and organisational performance. The government in China has a strong influence on a firm’s CSR adoption, since it dominates life-saving resources that most companies need [77–79]. Through both direct (tax exemption) and indirect (favourable policies) approaches [80], government subsidy acts as an efficient tool to compel firms to undertake social responsibility measures.

On the one hand, CSR investment requires additional resources that would put great pressure on SMEs [81]. Most SMEs are in weak financial conditions and are suffering from cash flow problems [82]. Direct government subsidy could lighten the burden of finance and could thus add more CSR inputs. On the other hand, scholars have identified a reinforcing effect on the government–firm relationship [80,83]. Having received the subsidies, firms are more willing to engage in CSR disclosure or donations, so as to maintain the political connections and repay the government.

Nevertheless, Zhao et al. [84] argued that the establishment of political connections would increase costs, which would place an extra burden on corporations. Jia et al. [84] and Yu et al. [85] also warned about the possibility of efficiency problems caused by government subsidies. Firms may rely on the subsidy rather than make profits. In this regard, government subsidy impedes further CSR investment and damages the overall financial performance.

However, given that financial constraints and lack of financial support are considered one of the most significant barriers to SME CSR adoption in China [86–88] and local financial institutions are more in favour of firms that had been subsidised by the government [81], the benefits brought about by government subsidies outweigh the potential efficiency risks. Therefore, we propose our second hypothesis as follows:

Hypothesis 2 (H2). Government subsidy moderates the relationship between CSR performance and firm performance.

Our research is distinct from current studies on SME CSR in China for two reasons. First, the research agenda is not limited to environmental performance but the overall firm performance, including financial performance and firm value. Additionally, the selected samples are not restricted to a specified province or only one region of China, making the results more appropriate for generalisation. Second, to the best of our knowledge, this is the first study introducing government subsidy as the moderator in examining the relationship between CSR engagement and firm performance. Therefore, we highlight whether and how the role of government subsidy, which works as one of the most significant institutions, moderates the relationship between CSR performance and firm performance.

3. Research Design

3.1. Sample and Data Collection

We chose all small and medium-sized manufacturing enterprises in the Stock “A” markets at the Shanghai and Shenzhen Stock Exchanges in China. The reasons for choosing the manufacturing industry include the characteristics of high pollution and labour-
intensiveness, resulting in more social responsibility concerns [84,86,89,90]. We collected all the data, including both the CSR performance data and the financial data, from the China Security Markets and Accounting Research Database (CSMAR), which is considered one of the most reliable databases for the investigation of Chinese listed companies [83,91–93]. The rationale for not using CSR performance data from the Wind database [89,90], Hexun.com [94,95], Golden Bee CSR rating database [93], RKS database [96], or other CSR third-party rating databases was that a limited number of SMEs have disclosed CSR information for these rating agencies to measure. When we inputted the firm codes, there are few available observations. Most SMEs did not publish CSR reports at all. Additionally, for those who had disclosed related CSR information, they did not fully disclose it annually, or there was a significant missing value. Thus, we followed the measures adopted by Qiu and Xu [97], Zhou et al. [98], Gao and Zhou [99], Wen and Fang [100], and Huang and Zhao [101], which used accounting and financial data instead of direct CSR scores.

Table 1 details our sample selection process. In total, 3121 manufacturing enterprises are listed on the two stock exchanges. Based on the ‘Provisions on Criteria for Classifying Small and Medium-sized Enterprises’ [102], Chinese SMEs are categorised into medium-sized enterprises, small-sized enterprises, and micro-enterprises according to their industry, turnover, number of staff, and total assets. Accordingly, manufacturing SMEs are chosen either because their turnovers are below 400 million Yuan or because the number of employees is under 1000. Consequently, 344 SMEs out of a total of 3121 manufacturing firms are selected. This study covered a span of 5 years, from 2015 to 2019. The rationale for choosing this period was to minimise the influence of the COVID-19 pandemic that began in 2020. Then, we eliminated 172 firms with missing values for sales tax, market value, donations, and subsidies. Our final sample set included 172 firms.

Table 1. Sample selection.

| Study Aspect     | Value                        |
|------------------|------------------------------|
| Time             | 2015–2019                    |
| Location         | China                        |
| Sector           | Manufacturing SMEs           |
| Initial Sample Size | 344 firms                   |
| Final Sample Size for test | 172 firms                  |

3.2. Measures of Variables

3.2.1. Dependent Variables

Firm performance was chosen as the dependent variable, which includes the financial ratio, return on assets (ROA), Tobin’s Q, and growth in sales. We used two regression equations to confirm the effect of CSR on firm performance. According to the literature, firm performance can be investigated through three dimensions, which are profitability, growth potential, and firm value [103]. Therefore, the three proposed variables enabled us to elaborate on the impact of CSR activities on firm profitability, growth potential, and value.

**ROA** is the most prevalently adopted proxy variable for profitability [100,104,105]. It is obtained by dividing net profit for the term by total assets, which signifies how efficiently total assets have been managed. For companies that wish to attain sustainable development, profitability is the bottom line for both the owner-managers and stakeholders. **Growth in sales** is the growth rate of sales revenue, which indicates the extent of expansion the company has made over a fixed period [106]. We chose the variation in sales revenue and calculated the ratio of this index to sales revenue of the previous term as the measurable indicator of sales growth. **Tobin’s Q** is the leading indicator of market value and is frequently picked as a proxy variable for firm value. Given that ROA signifies the firm’s past performance, Tobin’s Q fills future growth opportunities with the evaluations of market shares [83,95]. The calculation of Tobin’s Q follows the method suggested by...
Cho et al. [103]: Tobin’s $Q = \frac{\text{market value of common shares outstanding} + \text{market value of preferred shares outstanding} + \text{book value of debt}}{\text{book value of assets}}$

3.2.2. Independent Variables

As previously mentioned, Chinese CSR studies adopt two measurements of CSR performance. One is the CSR index proposed by third-party CSR rating agencies that calculate the relevant data based on CSR reports, and the other is a content analysis method, which measures different stakeholders’ responsibilities based on the companies’ expense. Due to the availability and the number of observations, we chose the latter method to measure the contribution of each stakeholder.

Table 2 details how the stakeholder-oriented CSR performance was measured. **Employee-oriented CSR performance** includes offering wages, social insurance, and benefits, purchasing safety products, and providing training opportunities for employees’ growth and development. To indicate the employee responsibility, we chose cash paid to the employee and for the employee and calculated the ratio of this index to the operating revenue. The higher the ratio, the greater the employee responsibility. **Government-oriented CSR performance** includes conformity to regulations and paying taxes. Concerning tax payment, there are two different measurements. The first one is the operating tax and extra charges ratio, in which we chose the operating tax and extra charges and calculated the ratio of this index to the operating revenue. Additionally, the second is the income tax ratio, which is measured using the actually paid taxes, calculating the ratio of this index to total profit. ITR was adopted as an alternative measure for government-oriented CSR instead of OTR. The higher the ratios, the greater the government responsibility. **Supplier-oriented CSR performance** is indicated by the turnover ratio of the account payable. We choose the operating cost and calculated the ratio of this index to average accounts payable. The lower the ratio, the greater the supplier responsibility. **Customer-oriented CSR performance** is measured by the operating cost ratio. We divided operating cost by operating revenue to indicate the proportion of investment to daily production. The higher the ratio, the greater the consumer responsibility. **Community-oriented CSR performance** includes how much the firm has contributed to the neighbourhood community. Given that most SMEs seldom donate to areas that are far from them, they would rather make donations to nearby communities that are in a closer relationship with them. Hence, we chose the donation ratio to measure the community responsibility performance, which is calculated through the formula of donation/operating revenue. The higher the ratio, the more community-oriented CSR initiatives have been engaged in. **Creditor-oriented CSR performance** indicates whether the focal firm has paid back the principal and interests on time. We used the liquidity ratio to measure the extent of responsibility to creditors by dividing the current asset by the current liability. The higher the ratio, the greater the creditor responsibility.

**Table 2.** Stakeholder-oriented Responsibility (CSR Performance).

| Name                  | Code | Description                                                      |
|-----------------------|------|-----------------------------------------------------------------|
| Employee Responsibility| ER   | Cash Paid to Employee and for Employee/Operating Revenue         |
| Government Responsibility| OTR  | Operating Tax and Extra Charges/Operating Revenue               |
|                        | ITR  | Actual Paid Tax/Total Profit                                   |
| Supplier Responsibility| SUPR | Operating Cost/Average Accounts payable                         |
|                        |      | Average Accounts payable = (Opening Accounts Payable + Closing Accounts Payable)/2 |
| Customer Responsibility| CUSR | Operating Cost/Operating Revenue                                |
| Community Responsibility| COMR | Donation/Operating Revenue                                      |
| Creditor Responsibility| CRER | Current Asset/Current Liability                                 |
3.2.3. Moderator Variable

Government subsidy was taken as a moderator variable, which is indexed as Subsidy. The data were directly obtained from the CSMAR database. We added the subsidy, and the interaction between subsidy and CSR into the following regression model (See Section 3.2.5).

3.2.4. Control Variables

The extant literature shows that firm characteristics including firm size (Firm Size), firm age (Firm Age), industry, region, total risk, and asset–liability ratio (LEV) may affect CSR performance. Thus, we applied the above variables as control variables. According to Moore [107], firm age and firm size significantly influence the relationship between CSR adoption and firm performance. Larger companies are more likely to engage in CSR activities due to having more available resources [81]. Hence, we measure firm size as the number of employees and the firm age as the current year—founding year. Total risk is regarded as a significant factor influencing firm performance, which is measured by the standard deviation of daily stock return [108]. We did not choose country risk and political risk as control variables, as suggested by Athari [109] and Athari and Bahreini [110], due to the fact that none of the existing empirical CSR and firm performance research in China has included these risks as control variables [95,104,105,111–116]. This evidently shows that these two types of risks barely impact the relationship between CSR engagement and firm performance among Chinese firms, although they are proven to have a significant influence on Ukrainian banks [109] and Islamic banks [110]. The asset–liability ratio is the total debts divided by the total assets, and is also considered to have a significant impact on CSR and firm performance [103]. We have included industry dummies, region dummies, and year dummies to control the possible differences in CSR engagement across industries, provinces, and the year that we selected the data [93].

3.2.5. Model Specification

Our empirical exercise sought to test the effect of stakeholder-oriented CSR performance on firm performance in Chinese SMEs. In keeping with similar analyses in the literature discussed above [117–119], we utilised both the ordinary least squares (OLS) regression model and the fixed effect (FE) regression model to test our hypotheses. The OLS model was utilised as the baseline model, which has been frequently adopted in previous CSR research [117,120–124]. The general panel data model for firm performance is measured by ROA, Tobin’s Q and growth in sales in period $t$, so we used the regression model as below:

$$
\text{Performance}_{i,t} = \beta_0 + \beta_1(ER)_{i,t} + \beta_2(GR)_{i,t} + \beta_3(SUPR)_{i,t} + \beta_4(CUSR)_{i,t} + \beta_5(CMR)_{i,t} + \beta_6(CRER)_{i,t} + \beta_7(ER \ast \text{Subsidy})_{i,t} + \beta_8(GR \ast \text{Subsidy})_{i,t} + \beta_9(SUPR \ast \text{Subsidy})_{i,t} + \beta_{10}(CUSR \ast \text{Subsidy})_{i,t} + \beta_{11}(CMR \ast \text{Subsidy})_{i,t} + \beta_{12}(CRER \ast \text{Subsidy})_{i,t} + \beta_{13}X_{i,t} + \gamma_i + \epsilon_{i,t}
$$

where Performance represents firm performance, measured as ROA, Tobin’s Q and sales growth; ER represents employee-oriented responsibility; GR represents government-oriented responsibility; SUPR represents supplier-oriented responsibility; CURS represents customer-oriented responsibility; COMR represents community-oriented responsibility; CRER represents creditor-oriented responsibility; X represents control variable, including total risk, firm size, firm age, region, and leverage; $\gamma_i$ denotes firm-specific effects; and $\epsilon_{i,t}$ is an error term for firm $i$ in year $t$.

4. Research Results

4.1. Descriptive Results

We report the descriptive statistics of the main variables employed in this study in Table 3, which lists the minimum and maximum values of the relevant variables, as well as the mean and standard deviation, for the selected manufacturing SMEs in China. Drawing from Table 3, on average, companies in our sample set are profitable (mean ROA = 0.041;
mean Tobin’s Q = 4.433; mean growth = 0.162). However, the overall profitability is at a relatively low level. The minimum ROA is \(-0.652\), which shows that Chinese SMEs are loss-generating enterprises. The gap between the minimum value and the maximum value of ROA, Tobin’s Q, and growth in sales is also huge, which indicates significant differences between Chinese manufacturing SMEs’ firm performance. Subsidy received from the government also massively varies from firm to firm, the mean value of which is CNY 12 million and the standard deviation is around CNY 20 million.

| Variable | Min   | Max    | Mean  | S.D.  |
|----------|-------|--------|-------|-------|
| ROA      | -0.652| 0.531  | 0.041 | 0.091 |
| TQ       | 0.944 | 122.2  | 4.433 | 6.010 |
| GROWTH   | -0.982| 45.88  | 0.162 | 1.608 |
| ER       | 0.004 | 2.733  | 0.140 | 0.130 |
| OTR      | -0.009| 0.264  | 0.011 | 0.013 |
| ITR      | -117.9| 13.12  | -0.046| 4.139 |
| SUPR     | 0.701 | 256.4  | 12.98 | 21.27 |
| CURR     | 0.429 | 22.31  | 1.045 | 0.972 |
| COMR     | 0.000 | 0.027  | 0.001 | 0.002 |
| CRER     | 0.177 | 80.66  | 4.678 | 6.252 |
| Subsidy  | \(-1.63 \times 10^6\) | \(3.26 \times 10^7\) | \(1.22 \times 10^7\) | \(2.04 \times 10^7\) |
| LEV      | 0.008 | 1.227  | 0.282 | 0.185 |
| Firm Size| 51.00 | 995.0  | 552.9 | 214.7 |
| Firm Age | 7.000 | 39.00  | 17.44 | 5.246 |
| Total Risk| 0.000 | 0.094  | 0.034 | 0.013 |

Moreover, Table 4 presents the descriptive analyses of Pearson’s correlation between independent variables. None of the correlation efficient was greater than 0.8, which shows low levels of correlation between our main variables. Additionally, to test the multicollinearity problem, we calculated the variance inflation factor (VIF) of each variable. The value of each VIF associated with the predictors is less than 10 [68]. The influence of multivariate collinearity is within an acceptable range, and there are no serious multicollinearity problems in our models (see Table A1 in Appendix A)

Table 4. Pearson’s correlation matrix.

| Variable | ROA   | OTR    | ITR    | ER    | SUPR   | CURR   | COMR   | CRER   |
|----------|-------|--------|--------|-------|--------|--------|--------|--------|
| ROA      | 1.000 |        |        |       |        |        |        |        |
| OTR      | -0.197*** | 1.000 |        |       |        |        |        |        |
| ITR      | 0.026 | -0.093*** | 1.000 |       |        |        |        |        |
| ER       | -0.285*** | 0.511*** | 0.025 | 1.000 |        |        |        |        |
| SUPR     | 0.050 | -0.065* | 0.002 | -0.152*** | 1.000 |        |        |        |
| CURR     | -0.379*** | 0.764*** | -0.009 | 0.501*** | 0.020 | 1.000 |        |        |
| COMR     | -0.014 | 0.085** | 0.012 | 0.160*** | -0.049 | 0.051 | 1.000 |        |
| CRER     | 0.136*** | 0.017 | 0.033 | 0.133*** | -0.055 | -0.040 | 1.000 |        |
| Subsidy  | 0.070** | -0.025 | 0.023 | -0.005 | -0.103*** | -0.050 | 0.056 | -0.026 |

Notes: * p < 0.10; ** p < 0.05; *** p < 0.01.

4.2. Regression Analysis and Discussion

Based on the Pearson’s correlation analysis of the OLS regression model and the FE regression model, we present Tables 5 and 6 to show the relationship between stakeholder-oriented CSR performance and ROA with the moderating effects of subsidy. The results of the FE regression model are consistent with the results of the OLS regression model. The number of observations is 859, since one abnormality occurred, and one negative subsidy was deleted. As Table 5 shows, government-oriented CSR appears to have a statistically positive and significant impact on ROA (OTR, \(\beta = 0.583, p < 0.10\); ITR, \(\beta = 0.001,\)
This result demonstrates that if SMEs pay urban maintenance and construction tax, consumption tax, increment tax on land value, educational surtax, and local educational surtax alongside sales tax, financial performance would improve. Financial performance is also enhanced when firms pay income taxes. However, the coefficient of employee-oriented CSR appears to be statistically negative and significant with ROA ($β = -0.156, p < 0.05; β = -0.142, p < 0.10$), which implies that more expenditure on employees would harm financial performance. There is also a negative and significant relationship between customer-oriented CSR and ROA, as the path coefficient value is $β = -0.036, p < 0.05; β = -0.020, p > 0.10$. This result signifies that the increased costs of products or services would also damage financial performance. The above two negative results explain why wage arrears and a poor quality of products are prevalent among Chinese SMEs. Creditor-oriented CSR, supplier-oriented CSR and community-oriented CSR appear to have no statistically significant impact on ROA ($β = 0.000, β = 0.001, and β = 0.549; β = -0.000, β = -0.000, and β = -0.161, respectively, p > 0.10$), which suggests that whether firms paid creditors on time, or had a large number of receivables or inventory, how long they paid to suppliers, and how much they donated to the public have no relationship with financial performance. Therefore, these results reject the hypothesis that stakeholder-oriented CSR performance positively influences firm performance.

### Table 5. OLS regression results for stakeholder-oriented CSR performance and ROA.

|                | (1) OTR | (2) ITR | (3) OTR | (4) ITR |
|----------------|---------|---------|---------|---------|
| ER             | -0.156 ** (0.074) | -0.142 * (0.079) | -0.520 * (0.273) | -0.822 ** (0.323) |
| OTR/ITR        | 1.583 * (0.866) | 0.001 *** (0.000) | -2.552 (3.192) | 0.004 (0.003) |
| SUPR           | -0.000 (0.000) | -0.000 (0.000) | -0.002 (0.001) | -0.002 (0.001) |
| CUSR           | -0.036 ** (0.016) | -0.020 (0.016) | 0.112 (0.143) | 0.127 (0.133) |
| COMR           | -0.128 (1.170) | -0.161 (1.188) | 25.305 (16.974) | 26.075 (20.581) |
| CRER           | 0.000 (0.000) | -0.000 (0.000) | 0.007 (0.004) | 0.007 (0.004) |
| Subsidy        | -0.000 (0.002) | -0.000 (0.002) | 0.005 (0.008) | 0.005 (0.008) |
| Subsidy_ER     |          |          | 0.026 (0.018) | 0.048 ** (0.024) |
| Subsidy_OTR/ITR| 0.304 (0.215) |          | -0.000 (0.000) |          |
| Subsidy_SUPR   |          | 0.000 (0.000) | 0.000 (0.000) |          |
| Subsidy_CUSR   | -0.011 (0.010) |          | -0.010 (0.009) |          |
| Subsidy_COMR   | -1.703 (1.126) |          | -1.745 (1.356) |          |
| Subsidy_CRER   | -0.000 * (0.000) |          | -0.000 * (0.000) |          |
| Year           | YES     | YES     | YES     | YES     |
| Firm Characteristics | YES     | YES     | YES     | YES     |
| Number of Observation | 859     | 859     | 859     | 859     |
| R-squared      | 0.321   | 0.304   | 0.357   | 0.328   |

Notes: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Tables 7 and 8 demonstrate the relationship between stakeholder-oriented CSR performance and growth in sales with the moderating effects of subsidy. The results of the FE regression model are also consistent with the results of the OLS regression model. Drawing from Table 7, employee-oriented responsibility, government-oriented responsibility, and community-oriented CSR have statistically negative and significant impacts on growth in sales, which indicates that expenditure on employees, operating taxes and extra charges, and philanthropical expenses cannot improve the growth potential of Chinese manufacturing SMEs. Even worse, these stakeholder-oriented CSR initiatives, i.e., more wages and benefits to employees, heavy tax burdens, and more donations, further impede the expansion of SMEs over a fixed period.
Moreover, Table 5 presents the moderating effect of subsidy, which weakens the positive effect of creditor-oriented CSR on ROA and the negative effect of employee-oriented CSR on ROA. When firms receive the subsidy, they are less likely to pay back the principal on time. However, the subsidy increases cash flow, which to some extent reduces pressure caused by wages and social insurance. Additionally, Table 7 shows that subsidy weakens the positive relationship between donations and growth potential and the negative effect of creditor-oriented responsibility on a firm’s expansion. The above results indicate that without the interaction of subsidy, firms may make donations to increase their reputation for expansion. Nevertheless, direct subsidy decreases such an effect to some extent, given that firms can easily obtain the money for further development; whereas from the perspective of paying back creditors on time, the subsidy could enhance the growth potential due to the increase in cash flow and thus better credit. The moderating effect of government-oriented CSR, supplier-oriented CSR, customer-oriented CSR, and community-oriented CSR on ROA is not evident in current research, which denotes that the Chinese government has few favourable policies for firms that are positively associated with CSR.
measures. Therefore, our results partially support the second hypothesis that government subsidy moderates the relationship between CSR engagement and firm performance.

Table 8. FE regression results for stakeholder-oriented CSR Performance and growth in sales.

|                | (1) OTR        | (2) ITR        | (3) OTR        | (4) ITR        |
|----------------|----------------|----------------|----------------|----------------|
| **ER**         | −0.928 (0.618) | −0.905 (0.590) | −0.099 (1.062) | −1.102 ** (0.488) |
| **OTR/ITR**    | −4.001 (2.511) | −0.009 *** (0.001) | −16.544 ** (7.785) | −0.051 *** (0.009) |
| **SUPR**       | 0.005 *** (0.001) | 0.005 *** (0.001) | 0.004 (0.003) | 0.004 (0.003) |
| **CUSR**       | −0.103 ** (0.040) | −0.147 *** (0.041) | −0.176 (0.267) | −0.056 * (0.196) |
| **COMR**       | −0.267 (6.312) | −0.130 (6.233) | 36.781 (46.893) | 30.362 (46.691) |
| **CRER**       | −0.019 *** (0.005) | −0.018 *** (0.004) | −0.001 (0.009) | 0.004 (0.010) |
| **Subsidy**    | 0.005 (0.004) | 0.006 (0.004) | 0.006 (0.018) | −0.004 (0.012) |
| **Subsidy_ER** | −0.058 (0.054) | 0.017 (0.047) | 0.017 (0.047) | 0.003 *** (0.001) |
| **Subsidy_OTR/ITR** | 0.982 * (0.530) | 0.003 *** (0.001) | 0.003 *** (0.001) | 0.003 *** (0.001) |
| **Subsidy_SUPR** | 0.000 (0.000) | 0.000 (0.000) | 0.000 (0.000) | 0.000 (0.000) |
| **Subsidy_CUSR** | 0.004 (0.018) | 0.015 (0.013) | 0.015 (0.013) | 0.015 (0.013) |
| **Subsidy_COMR** | −2.555 (2.979) | −2.078 (2.919) | −2.078 (2.919) | −2.078 (2.919) |
| **Subsidy_CRER** | −0.001 * (0.001) | −0.002 ** (0.001) | −0.002 ** (0.001) | −0.002 ** (0.001) |
| **Year**       | YES            | YES            | YES            | YES            |
| **Firm Characteristics** | YES | YES | YES | YES |
| **Number of Observation** | 859 | 859 | 859 | 859 |
| **R-squared**  | 0.585 | 0.563 | 0.562 | 0.515 |

Notes: * p < 0.10; ** p < 0.05; *** p < 0.01.

4.3. Robustness Check

In order to obtain robust results, we also utilised the fixed effect model to investigate the relationship between stakeholder-oriented CSR performance and firm performance. Due to the adoption of panel data, cross-sectional features, time-series characteristics, and omitted variables would arise. The fixed-effect model alleviates potential concerns that the results are driven by omitted variable issues or unobserved time-invariant heterogeneity [117–120,123–125]. Industry and firm fixed effects are used to control unobservable time invariants, which, to some extent, can deal with the omitted variable issues and endogeneity issues [126]. Moreover, based on the Hausman model test on ROA, the fixed-effect model is considered more appropriate than the random-effect model (See Table A2 in Appendix A). We can obtain consistent results with our baseline model.

In addition, we also use Tobin’s Q and growth in sales as alternative measures for firm performance. We also discovered a negative relationship between CSR engagement and growth in sales. However, the result shows more insignificance for Tobin’s Q. Therefore, we argue that stakeholder-oriented CSR performance has a significant relationship with firm short-term performance, i.e., profitability and expansion over a short fixed period, but an insignificant relationship with long-term firm performance, i.e., future market value. Tables 7–10 below evidently support our argument.
Table 9. OLS regression results of stakeholder-oriented CSR performance and Tobin’s Q.

|              | (1) OTR | (2) ITR | (3) OTR | (4) ITR |
|--------------|---------|---------|---------|---------|
| ER           | 2.974 (1.884) | 3.126 * (1.865) | -24.199 (17.368) | -21.049 (13.619) |
| OTR/ITR      | 12.955 (24.161) | -0.022 (0.063) | -6.249 (75.236) | -2.990 (2.667) |
| SUPR         | -0.003 (0.005) | -0.003 (0.005) | -0.007 (0.036) | -0.084 * (0.045) |
| CRER         | -0.632 ** (0.288) | -0.505 * (0.277) | 1.456 (2.583) | 0.106 (2.317) |
| COMR         | 17.355 (73.123) | 18.375 (74.330) | -2073.153 * (1204.801) | -3212.398 * (1843.475) |
| Subsidy      | -0.015 (0.021) | -0.014 (0.021) | -0.347 * (0.179) | -0.184 ** (0.092) |
| Subsidy_ER   | 1.934 (2.206) | 1.740 * (0.944) | 0.021 * (0.011) | 0.010 (0.006) |
| Year         | YES | YES | YES | YES |
| Firm Characteristics | YES | YES | YES | YES |
| Number of Observation | 859 | 859 | 859 | 859 |
| R-squared    | 0.407 | 0.407 | 0.434 | 0.497 |

Notes: * p < 0.10; ** p < 0.05.

Table 10. FE regression results of stakeholder-oriented CSR performance and Tobin’s Q.

|              | (1) OTR | (2) ITR | (3) OTR | (4) ITR |
|--------------|---------|---------|---------|---------|
| ER           | 0.313 (1.351) | 0.436 (1.279) | -9.907 (8.341) | 2.396 (4.467) |
| OTR/ITR      | -0.466 (22.003) | -0.046 (0.059) | 103.672 (65.076) | -2.482 (2.334) |
| SUPR         | -0.011 * (0.006) | -0.012 * (0.006) | -0.011 (0.025) | -0.067 * (0.040) |
| CRER         | 0.048 (0.241) | 0.038 (0.096) | 1.020 (1.711) | 0.502 (1.982) |
| COMR         | -89.385 * (45.616) | -90.245 ** (45.210) | -182.837 (492.457) | -1873.226 (1277.349) |
| Subsidy      | -0.092 ** (0.041) | -0.091 ** (0.041) | -0.029 (0.156) | -0.060 (0.165) |
| Subsidy_ER   | 0.736 (0.581) | -0.002 (0.338) | -0.002 (0.338) | -0.002 (0.338) |
| Year         | YES | YES | YES | YES |
| Firm Characteristics | YES | YES | YES | YES |
| Number of Observation | 859 | 859 | 859 | 859 |
| R-squared    | 0.407 | 0.407 | 0.434 | 0.497 |

Notes: * p < 0.10; ** p < 0.05.

Furthermore, a reciprocal process between CSR engagement and firm performance may result in an endogeneity problem \[127,128\]. Compared with lagging independent variables, the GMM model is considered the most reliable model to figure out these endogeneity issues, i.e., reverse causality and possible omitted variables \[129,130\]. Therefore, according to the suggestions of most of the extant CSR literature \[10,96,131,132\], we adopted the dynamic system GMM model to mitigate the endogeneity issues. Given the lagged effect of the subsidy on the firm’s profits \[133\], we both estimated subsidy and its lagged value for the robustness result. Tables 11 and 12 show consistent results with the earlier results, in which the government-oriented responsibility positively affects financial performance, whereas employee-oriented and customer-oriented CSR engagement negatively influence financial performance, and employee-oriented and government-oriented CSR engagement also have a negative impact on a firm’s growth potential. Moreover, subsidy weakens the positive influence of creditor-oriented CSR on financial performance and the positive impact of donations on growth potential, and further weakens the negative effect
of employee-oriented responsibility on ROA. These results indicate that over-identifying restrictions for GMM were accepted, and the instrumental variables were exogenous.

Table 11. GMM results of stakeholder-oriented CSR performance and ROA.

|                  | (1) OTR    | (2) ITR    | (3) OTR    | (4) ITR    |
|------------------|------------|------------|------------|------------|
| L.ROA            | 0.967 ***  | 0.839 ***  | 0.720 ***  | 0.708 ***  |
| ER               | −0.189 *** | −0.184 *** | −2.647 *** | −1.830 **  |
| OTR/ITR          | 2.506 ***  | 0.000 (0.001) | 8.467 (5.681) | 0.001 (0.001) |
| SUPR             | 0.000 (0.000) | 0.000 (0.000) | −0.011 *** | −0.011 *** |
| COMR             | −1.625 (1.875) | −1.168 (1.804) | 314.202 ** | 202.578 *  |
| CRER             | −0.001 (0.001) | 0.028 (0.011) | 0.018 **   | 0.008      |
| Subsidy          | 0.001 (0.002) | 0.001 (0.002) | 0.025 (0.016) | 0.033 **   |
| L.Subsidy        | −0.002 (0.004) | −0.003 (0.004) | −0.005 (0.006) | −0.002 (0.006) |
| Subsidy_ER       | 0.172 ** (0.070) | 0.114 ** (0.054) |
| Subsidy_OTR/ITR  | −0.420 (0.399) | 0.182 *** (0.049) |
| Subsidy_SUPR     | 0.001 *** (0.000) | 0.001 *** (0.000) |
| Subsidy_CUSR     | −0.038 * (0.023) | −0.049 ** (0.020) |
| Subsidy_COMR     | −20.929 ** (10.079) | −13.525 * (7.718) |
| Subsidy_CRER     | −0.002 *** (0.001) | −0.002 *** (0.001) |
| Year             | YES        | YES        | YES        | YES        |
| AR(2) (z, Pr > z) | 0.328      | 0.495      | 0.131      | 0.077      |
| Sargan test excluding group(1) | 0.600 | 0.492 | 0.556 | 0.348 |
| Sargan test excluding group(2) | 0.496 | 0.370 | 0.811 | 0.664 |

Notes: * p < 0.10; ** p < 0.05; *** p < 0.01.

Table 12. GMM results of stakeholder-oriented CSR performance and growth in sales.

|                  | (1) OTR    | (2) ITR    | (3) OTR    | (4) ITR    |
|------------------|------------|------------|------------|------------|
| L.GROWTH         | 0.600 ***  | 0.624 ***  | 0.608 ***  | 0.612 ***  |
| ER               | −1.000 *** | −0.954 *** | −8.638 **  | −10.951 ***|
| OTR/ITR          | −2.839 **  | −0.010 *** | −21.622 (23.481) | −0.010 *** |
| SUPR             | 0.004 ***  | 0.004 ***  | −0.043 *** | −0.046 *** |
| CUSR             | −0.098 *** | −0.134 *** | 4.533 ***  | 4.201 ***  |
| COMR             | −5.597 (4.261) | −4.995 (4.197) | 1441.338 ** (605.768) | 1643.430 *** (480.780) |
| CRER             | −0.006 *** | −0.006 *** | 0.043 (0.043) | 0.072 **   |
| Subsidy          | −0.004 (0.004) | −0.004 (0.004) | 0.256 ***  | 0.235 ***  |
| L.Subsidy        | 0.045 ***  | 0.045 ***  | 0.040 (0.026) | 0.033 (0.024) |
| Subsidy_ER       | 0.523 * (0.276) | 0.689 *** (0.224) |
| Subsidy_OTR/ITR  | 1.273 (1.652) | −0.357 (0.219) |
| Subsidy_SUPR     | 0.003 *** (0.001) | 0.003 *** (0.001) |
| Subsidy_CUSR     | −0.333 *** (0.095) | −0.308 *** (0.088) |
| Subsidy_COMR     | −95.977 ** (40.197) | −108.752 *** (31.905) |
| Subsidy_CRER     | −0.003 (0.003) | −0.005 ** (0.002) |
| Year             | YES        | YES        | YES        | YES        |
| AR(2) (z, Pr > z) | 0.034      | 0.176      | 0.245      | 0.354      |
| Sargan test excluding group(1) | 0.000 | 0.000 | 0.640 | 0.779 |
| Sargan test excluding group(2) | 0.000 | 0.000 | 0.112 | 0.278 |

Notes: * p < 0.10; ** p < 0.05; *** p < 0.01.

5. Discussion

This study was designed to assess the effect of stakeholder-oriented CSR performance on firm performance in Chinese manufacturing SMEs. We chose 172 manufacturing SMEs listed on the Chinese A-share market to determine how the different stakeholder-focused CSR performances impact firm performance. Firm performance was measured with three indicators, ROA, Tobin’s Q, and growth in sales. The regression analysis result rejected
our first hypothesis. By contrast, it is shown that stakeholder-oriented CSR performance negatively impacts short-term operational profitability and growth potential. This result is in line with studies by Karim et al. [52], Sadeghi and Arabsalehi [53], Yong and Chung [51]. Moreover, stakeholder-focused CSR expenditure has an insignificance influence on market value. The finding of an insignificant relationship between CSR and Tobin’s Q is the same as the results found by Karim et al. [52] and Yang and Baasandorj [134]. The second hypothesis that government subsidy moderates the effect between CSR engagement and firm performance was partially confirmed, but the subsidy further reinforced the negative relationship. This result is to some extent similar to the findings of Chen and Ma [135].

Although most previous research has discovered a positive relationship between CSR factors and firm performance in SMEs, and our initial hypothesis was built on this, we cannot neglect the heavy burden caused by CSR expenditures on SMEs. Financial constraints commonly exist among SMEs, and our results can also provide evidence of this. The overall profitability is not high enough to support more stakeholder-oriented CSR activities. Under this circumstance, it is therefore reasonable that CSR expenditure on stakeholders would damage the short-term profitability and the expansion over a short fixed period. With respect to market value, even though our result shows no significant relationship, this may not well represent reality. The calculation of Tobin’s Q is based on the market value. For countries where the stock price is not fully determined by rational factors, market value cannot always respond effectively to independent variables [100].

In light of government subsidy, the possible explanation of the negative interaction may be that subsidy reduces a firm’s motivation to make profits. As Tzelepis and Dimitris [136] argued, subsidy to a firm’s long-term strategy may reduce a firm’s efficiency or profitability. Dependence on government support consequently results in declining performance [137]. Furthermore, companies that receive more subsidies are sometimes the worst performers [138]. To repay the government, more investment in CSR devastates short-term profitability.

6. Conclusions

This paper provides significant extensions to the extant literature regarding stakeholder-oriented CG systems by investigating whether the engagement of stakeholder-oriented CSR activities helps to achieve sustainable development, particularly in the context of Chinese SMEs. We first revisited previous studies and propose two hypotheses according to them. Then, on the basis of the panel data of 172 A-share-listed manufacturing SMEs, we argued that stakeholder-oriented CSR engagement negatively affects a firm’s short-term profitability and short-term growth potential. Government subsidy further strengthens the negative relationship between CSR and firm performance. In countries where the relationship between SME CSR performance and financial performance is positive [42,43,56–59], CSR expenditure could bring more benefits, rewards, and competitive advantages to firms. In this vein, CSR involvement is not regarded as an extra burden to SMEs, but rather as a long-term investment that contributes to sustainable development. Nevertheless, the negative relationship between CSR engagement and financial performance and expansion over a fixed term and the irrelevant relationship between CSR activities and Tobin’s Q imply an imperfect virtuous circle in China.

Our study makes valuable contributions theoretically and practically. In light of the stakeholder theory, Freeman et al. [15] proposed the question of “does stakeholder-based management always lead to greater value creation?” We provided a negative answer in the context of Chinese SMEs. Even though stakeholder theory contradicts the purpose of sole profit maximisation and builds the bridge between benefiting all stakeholders and making profits, the prerequisite for attaining such an overall value creation goal is to achieve economic responsibility first [34]. Moreover, for SMEs that are in poor financial conditions or struggling to survive, the research result suggests that optimally serving stakeholders’ interests damages financial performance. In this regard, we further testify with regard to the applicability of the instrumental stakeholder theory to the fact that managers should only
be responsible for those who are critical to their firm’s success or those who have dominant power over the firm [139]. Furthermore, our research fills the gap in the SME CSR–CFP link in China. The negative outcome not only makes contributions to the ongoing debates on the CSR–CFP relationship, but also provides empirical evidence in SME CSR research. In practice, managers are not recommended to meet all stakeholders’ expectations, but only those of influential stakeholders who can drive profits. If the company is struggling to survive or currently experiencing financial constraints, cutting expenditure on stakeholders may be better from a short-term perspective.

Our findings also have profound policy implications for further improving SME CSR in China. First, the government and the manufacturing industry association could better identify the current stage of SME CSR development in China. This is essential when policymakers establish or revise CSR guidelines. Striking a balance between economic contributions and additional higher-level responsibilities is not only significant for enterprises, but also the government. Second, with respect to government subsidies, the findings suggest that the government should be more cautious when providing financial support. Financial aid should be under closer supervision in case of misappropriation of funds. Technical support or support regarding human resources might be more constructive rather than direct financial support. Third, even though there is a tendency for a shift towards a stakeholder-oriented CG model, we cannot neglect the financial restrictions that most SMEs face. We should still encourage SMEs to participate in CSR activities informally, as the EU has regulated [131], rather than make CSR completely mandatory. Fourth, government and the society should endeavour to create an institutional environment where firms and stakeholders can better cooperate with each other [75]. In this regard, firms are motivated to devote themselves to more CSR activities rather than adopt defensive CSR measures [132,140].

A win-win situation for SMEs and stakeholders building sustainable development is desirable, and has been successfully demonstrated in other countries’ contexts. However, in the context of Chinese SME CSR, where SMEs have low profitability, more CSR investment harms the short-term financial performance. Of course, when we mention sustainable development, one may expect the decline in financial performance to be due to the short timespan of this study, and by extending the timespan to the medium or long term, the relationship may be positive. Nevertheless, this is not captured by the current study due to the availability of data. A longer time period implies a differently sized sample pool. Moreover, CSR disclosure is not mandated for SMEs, and the quality of information cannot be guaranteed. However, we encourage more SME CSR research and sustainable development to obtain more secure results. Furthermore, we used self-calculated objective measures of CSR performance due to the lack of authoritative CSR rating agencies and the availability of data in SMEs. More research could be conducted when SMEs disclose more information or use perceptual measures to test the results of our research. Another future avenue would be to test the findings of the current research in a worldwide context. Compared to research on CG systems in MNCs and large companies, there is still a restricted number of SME CG studies. The variance of geographical and national or regional economic conditions results in different CSR understandings and corporate governance structures. Therefore, we call for more research on stakeholder-oriented CG systems in SMEs.

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Conflicts of Interest: The authors declare no conflict of interest.

Appendix A

Table A1. Multicollinearity test.

| Variable | VIF | 1/VIF |
|----------|-----|-------|
| CUSR     | 2.610 | 0.383 |
| OTR      | 2.610 | 0.384 |
| CRER     | 1.500 | 0.667 |
| LEV      | 1.430 | 0.699 |
| Firm Size| 1.180 | 0.844 |
| Subsidy  | 1.110 | 0.900 |
| SUPR     | 1.080 | 0.927 |
| Firm Age | 1.060 | 0.947 |
| ITR      | 1.030 | 0.971 |
| COMR     | 1.030 | 0.972 |

Table A2. Hausman test designed for ROA.

| Test Summary | Chi-Sq. Statistic | Prob. |
|--------------|-------------------|-------|
| OTR          | 100.28            | 0.000 |
| ITR          | 79.86             | 0.000 |
| Subsidy_OTR  | 44.14             | 0.000 |
| Subsidy_ITR  | 31.29             | 0.018 |

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