Corporate Social Responsibility and Corporate Financial Performance in China: The Moderating Effect of Globalization*

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Abstract
CSR in China is not a new concept. Chinese corporations always performed good works to benefit society. State-owned enterprises (SOEs) provided wider employee benefits, such as primary and secondary education for the children of its employees. Moreover, Chinese companies have begun to view CSR as a necessary challenge in competing. With the rapid globalization of Chinese firms, this paper empirically investigated the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP). Furthermore, this paper explored the moderating effect of globalization on the relationship between CSR and CFP. By utilizing the data from 1,789 listed Chinese firms from 2007 to 2012, this paper found that CSR have a positive influence on Chinese firms' financial performance, but currently only significantly for globalized firms (proxy by dual listed abroad). Moreover, although the globalization of Chinese firms may bring some pressure to improve its performance, globalization is indeed helpful in making the CSR efforts acceptable to the market and investors, thus leading to better performance.

Keywords: Corporate Social responsibility, Globalization, Moderating Effect

JEL Classifications: M14, M16

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I. Introduction

The ideology of “The Iron Law of Responsibility” emphasizes the need for firms in contemporary society to engage in corporate social responsibility (CSR)\(^1\). Hence, CSR has gathered the strength and popularity (Davis, 1967). Businesses have been acting not only as interest groups, but it also exerts its influence on society. The social responsibility of corporations is to create value (Brunch and Walter, 2005), decrease transaction costs (Cruz and Wakolbinger, 2008), and make the company transparent. There is now a perception that these activities will allow long-term continuous growth for the company (Wempe and Kaptein, 2002). Porter and Kramer (2006) suggested that companies’ mindfulness of responsibility is so fragmented and so disconnected from business and strategy that it obscures many of the greatest opportunities to benefit society. Moreover, companies do not regard CSR to be a part of corporate strategy. Therefore, it’s worthy to find out whether firms can benefit from considering CSR as an important strategy or not.

CSR in China is not a new concept. Chinese corporations always performed good works to benefit society. State-owned enterprises (SOEs) provided wider employee benefits, such as primary and secondary education for the children of its employees. Since China’s reform in 1979, the market economy has transformed rapidly. In the process, the economic, societal, and cultural landscapes have changed dramatically (Ip, 2009). China and its companies have enjoyed continuous growth as it undergoes economic reformation and membership in the World Trade Organization (WTO). This allowed the firms to move aggressively towards globalization and, as a result, become a global market for numerous multinational firms. However, globalization will put those firms under severe market competition. As a result, the firms’ corporate governance practices, strategies, and even operating philosophies will be affected. One important way for Chinese firms to be global is to enter the global securities market, specifically, getting listed in the foreign stock markets. This will further influence its strategies and operating philosophies since global investors will be more concerned about the firms’ long-term operation and CSR activities. Thus, the manner by which globalization of Chinese firms affects its CSR and CSR-CFP relationship is important for Chinese firms and government. However, few scholarly works has been done in this regard.

This paper investigated the CSR-CFP relations using data from Chinese firms. It also examined the moderating effect of globalization on the relationship between the two variables. The paper found that CSR has a positive influence on Chinese firms’ financial performance, but currently only significantly for globalized firms (proxy by dual listed abroad). Moreover, although the globalization of Chinese firms may bring some pressure to

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1) Although CSR has been widely researched due to its interdisciplinary nature, it is difficult to accurately define or understand the notion of CSR. However, in light of aggressive CSR activities, the notion that the success of a business is contingent upon its social obligation has become the core of CSR (Crane, Matten and Moon, 2008). CSR is a continuous process of a firm fulfilling the promises to its stakeholders (MWilliams and Segel, 2001), and goes beyond the profit required by law for firms and aims for the good of the society (Altman, 1998; Waddock, 2004). However, Friedman (1970) criticized CSR, claiming that it incurs agency costs and causes conflict of interest between management and shareholders.
improve its performance, globalization is indeed helpful in making the firms' CSR efforts to be acceptable to the market and investors, thus leading to better performance.

This paper contributed to the CSR literature in two ways. First, different from most previous literature on the direct CSR-CFP relationship, this paper concentrated on how the external environment or governance difference affects the influence of CSR on CFP. As the external environment or governance institution deeply affects people's recognition of CSR and their expectation for firms' responsibility and contribution to the society, which significantly determines the conduct of the firms, it's worthy to dig into the driver of CSR and find its influence on the relationship between CSR and CFP. Specifically, this paper examined the influence of globalization on CSR-CFP. As a matter of fact, some scholars have paid attention to globalization and CSR (Gugler and Shi, 2009; Hill et. al, 2007; Kolk and Tulder, 2010). However, empirical comparisons using the global data for firms in different regions or countries may be biased due to many differences in the firms' fundamentals, culture, and institutions, among others (Cheung et al, 2010; Hill et al., 2007). Thus, this paper used firms from the same country but in different governance environment to minimize this issue. Second, this paper provided more evidence for the CSR in China, particularly for globalized Chinese firms which attracted more attentions on their CSR (Tang and Tang, 2012; Tang and Li, 2009; See, 2009; Cheung et al., 2010; Gao, 2009). This paper looked at the influence of CSR on CFP for Chinese listed firms and how the globalization affect this relationship, providing further insight into the relationship between CSR and CFP. Section 2 reviewed the literature and showed the hypotheses of this study. The research design and empirical test were presented in sections 3 and 4 respectively. The conclusion was discussed in section 5.

II. Literature and Hypotheses

In the 1970s, scholars like Sethi (1975) and Carroll (1977) began to focus on corporate social performance (CSP), and this brought a change in perspective (McWilliams and Siegel, 2001). Institutionally, CSR triggered the development of a number of reports (ICAEW, 1999), such as the ISO series (ISO, 2006) and changes in legislation such as the Sarbanes-Oxley Act. Similarly, CSR and sustainable development shifted towards actual implementation. To facilitate this shift, a number of tools and national standards emerged over the last decade such as GRI guidelines (GRI, 2002), the UN Global Compact, and SA 8000 (McIntosh, 2004). Although the immediate effect of corporate social responsibility on the capital market is not supported by conclusive evidence, Moskowitz (1972) claimed that it could potentially reduce investment risks and his research revealed that firms with a high level of CSR activity increased the Down-Jones index. Thus, many works have been done to investigate the relationship between CSR and the firms' financial performance. However, there are mixed research results. Although the variables of financial performance measurement were different, Vance (1975), Cochran and Wood (1984) and Ullman (1985) found a negative relationship; Moskowitz (1972), Bragdon and Martin (1972), Sturdivant and Ginter (1977), McGuire, Sundgren and Scheeweis (1988), Rao and Hamilton (1996), Waddock
and Graves (1997), McWilliams and Siegel (2001), and Ferreira, Sinha and Varble (2008) found a positive relationship. On the other hand, Alexander and Buchholz (1978), and Abbott and Monsen (1979) reported no relationship. It is evident that the rationale behind the discrepancies between the results of the different studies is that the evaluation and perception of CSR relies on the observed variables, time interval, and the company, as well as the country. However, as a matter of fact CSR plays a critical role in terms of instilling stakeholder awareness (Pelzoza and Papania, 2008). Furthermore, as CSR began to be emphasized as a method for maintaining a company’s competitive advantage, CSR has been found to influence not only its relationship to company performance, but also on corporate investment and the company’s reputation (McWilliams, Siegal and Wright, 2006; Porter and Kramer, 2006).

In China, air pollution and environmental degradation caused by Chinese companies came to be perceived as a social problem (Liu and Diamond, 2005). In the first decade of the 2000s, as consumer distrust increased as a result of the food scandal, the Chinese government reinforced regulation. Most importantly, the concern for CSR has highlighted the rising income and changing consciousness of Chinese consumers (Moon and Xi Shen 2010). In 2005, Hu Jintao announced the “Harmonious Society” as a governmental policy. As a result, the policy and CSR of Chinese enterprises became the new direction of development (See, 2009). The significance of this policy was intended to solve the societal and environmental problems that interfered with economic growth (Li, 2005). Moreover, Chinese companies have begun to view CSR as a necessary challenge in competing in the global marketplace (Wang and Justlin, 2009). Since year 2005, the Chinese corporations’ stance on CSR has become more active. According to Zhang and Rezaee (2009), on the performance gap between credible firms and non-credible firms in China, those with high Corporate Credible Index (CCI) Score had more positive influence on financial performance than it did on firms with a low score. Moreover, Gao, Faff and Navissi (2012) examined corporate philanthropy and market reaction as donation from business were becoming more evident as a result of the Wenchuan earthquake in 2008. They concluded that donations from companies improved a company’s market participation and its abnormal stock returns.

Accordingly, first hypothesis was proposed as follows:

H1: CSR has a positive effect on CFP in China2).

Businesses are taking the lead in globalization in order to survive within the accelerating global marketplace. Additionally, there is a fierce competition among multinational companies to maintain its competitive advantage. However, in the process of globalization and as competition intensified, business ethics began to become a problem. Morrison, Conaway and Bordeeb (1994) pointed out that because multinational firms are active in various nations, there is a concern that their corporate management may be in conflict with ethical issues. Furthermore,

2) Those ethical companies with strong corporate social responsibility ideals are not the only ones with high performance ratings, and likewise, it is also possible for unethical companies to maximize their profits. However, this paper pointed out that in the long run, unethical conduct within a company can destroy it.
because corporations strive to make the greatest amount of profits, corporations are unfolding this game of globalization with the purpose of reducing cost to the lowest possible amount. As the ethics of the multinational firms’ management came into the limelight, the host nation’s government began to implement stronger regulations while environmental organizations resisted these corporations through boycotts (Calder and Culverwell, 2005). In order to alleviate the host nation’s regulations and the environmental organizations’ condemnation, these firms began to take action through aggressive CSR activities (Menon and Menon, 1997; Moon, 2002; Moon, 2007; Honda et al, 2013). Because of this, multinational firms were able to reduce external risks that come from conducting management activities in a host nation, which also allowed for multinational firms to continue their business operations overseas (Steurer, 2010). Corporate management activities that emphasize social aspects provide the company value in the long run, suggesting that potential profits can be reaped especially through CSR (Raynard and Forstater, 2002). Therefore, assuming that CSR activity improves and protects social welfare between business activities and the existing state, and grants the firm its legitimacy, multinational firms can effectively solve problems that arise during the process of globalization (i.e. political risks and friction with locals) (Lichtenstein et al, 2004). During the process of globalization, a firm reduces the friction of its business activity with regulation and cultures through CSR activities. It is apparent that multinational firms are making the effort to improve CSR in order to continue its business operations. In other words, the CSR activities acquired through globalization aids in reducing the friction between the host nation and multinational firm and enhancing business performance.

The principal entry mode into China has changed especially after the WTO accession in 2001. These changes towards greater control by the MNE reflect adjustments in the institutional environment, firm strategies, and the competitive environment (Cheung and Leung, 2007). Meanwhile, most Chinese companies are actually just getting started with the learning process on CSR initiatives. Large-sized enterprises recognize an increasingly active CSR engagement that will offer them a chance to become globally competitive (Gugler and Shi, 2009), making the effort to be in correspondence with international standards (Tang and Li, 2009). Therefore, a business strategy that disregards CSR in the process of globalization will in fact have an influence on the company’s success. It is evident that a company’s level of globalization has influence on both CSR activities and its performance. Thus, CSR is taken as an element of competitive advantage that is recognized as a new paradigm within the framework of global competition (Gugler and Shi, 2009).

Thereafter, the second hypothesis is as follows:

**H2:** Globalization will enhance the positive relationship between CSR and CFP.
III. Research Design

1. Model and Variables

In order to investigate the moderating effect of globalization on the influence of CSR on corporate financial performance, the model is as follows (1):

$$\text{Perform} = \alpha_0 + \alpha_\text{CSR} + \alpha_\text{Global} + \alpha_\text{CSR} \times \text{Global} + \alpha_\text{GROW} + \alpha_\text{SIZE} + \alpha_\text{LEV} + \alpha_\text{AGE} + \alpha_\text{Years} + \epsilon$$  \hspace{1cm} (1)

The dependent variable, Perform, is the financial performance\(^4\). ROE is the return on average equity, which equals to the net income divided by the average equity (average of equity at year beginning and equity at year end). Two other performance measures were used namely, ROA and IOA. ROA is the total return (net income plus interest expense) on assets which is equal to the earnings divided by total assets at year beginning. IOA is the net income on total assets and it is equal to the net income divided by total assets at year beginning. CSR or corporate social responsibility is represented by a proxy score evaluated by a professional firm that is focusing on CSR scoring for Chinese listed firms. Since 2008, this firm evaluated the corporate social responsibly report for each Chinese listed firms that releases it, and then scored each firm using a structured score system. The full score is 100, including four aspects: (1) overview evaluation (Macroosm), 30% of weight; (2) content evaluation (Content), 45% of weight; (3) technique evaluation (Technique), 15% of weight and (4) industry evaluation (Industry), 10% of weight. Each of the four aspects has several first-sub and second-sub measures. The whole evaluation system is in the website of CSR ratings\(^5\).

Global, the proxy for globalization, is a dummy variable, and 1 indicates the firm is also listed in other security markets besides Shanghai and Shenzhen Stock exchange, including U.S stock market\(^6\) and Hong Kong stock market, and 0 otherwise. The variable Global is 1 if the firm is listed in both Hong Kong and in China mainland or both in U.S and in China mainland, and 0 otherwise. Because if firms are listed in US or Hong Kong stock markets, their investors and market are not restricted in China mainland, indicating higher globalization. And in those markets, regulations are more restrictive and authorities and investors are more conscious about CSR. Thus firms may have to pay more attention to CSR, reflecting the influence of globalization. Since not many firms are listed in both China mainland and U.S, in the robustness test the paper defined Global as 1 if the firm is listed both in Hong Kong and in China mainland and 0 otherwise.

GROW is the growth ratio of firms. The proxy used is the sales growth rate compared to the previous year. SIZE is the scale variable, equal to the natural log of total assets at year end. LEV, the leverage, is the total debt ratio at year end, equal to the total debt divided by total assets at year end. AGE stands for the life-cycle of firms, proxy by the time span from the initial public offering year to the sample year. Inds captures the industry effect by including 12 dummy variables for the 13

\(^4\) The reason why this paper did not use market performance (like Tobit’ Q or cumulative abnormal return) is because stock market in China is so volatile that market performance cannot reflect the effort of management and firm’ behavior’s.

\(^5\) You can see http://www.rksratings.com and Byun Sun-Young (2014).

\(^6\) Usually the Chinese firms are not really listed in US market, and they are “listed” via ADR.
industry categories used by the China Securities Regulatory Commission (CSRC). The data is from 2008 to 2011, therefore to control the macroeconomic factors, three dummy variables (Years) were used.

2. Data and Sample

The corporate social responsibility score is from the database of RANKING CSR RATINGS (http://www.rksratings.com) from 2008 to 2011 with a total of 1,789 firms7). Other financial data is from the Wind database.

In order to minimize the influence of outliers, the paper winsorize all the financial variables at 1st and 99th percentile.

IV. Empirical Analysis

1. Descriptive Statistics

<Table 1> shows the descriptive statistic of the regression variables. The average ROE is 12.6%, however great variance also exists among sample firms. The average CSR is 34.434 and the median is 30.80 while the lowest is 11.69 and the highest is 83.673, which means that for those firms reporting their social responsibilities, more than half of them still have large room to improve. Only 13.2% of the samples are listed in US or Hong Kong stock market and most are only traded by investors in China mainland. The fundamental aspects of the samples also show great variances in their growth (GROWTH), scale (SIZE), leverage (LEV) and life cycle (AGE), which all significantly influence its financial performance.

Pearson Correlation coefficients are shown in <Table 2>. CSR is significantly and positively related with ROE, consistent with H1. However, ROE is not significantly related with Global. CSR is significantly related with Global, GROW, SIZE, LEV and AGE while Global is significantly related with SIZE, LEV and AGE, which means CSR and Global are closely

| Variables | N  | Mean | SD  | Min | Median | Max |
|-----------|----|------|-----|-----|--------|-----|
| ROE (%)   | 1,789 | 12.605 | 11.053 | -48.67 | 11.31 | 74.35 |
| CSR       | 1,789 | 34.434 | 13.118 | 11.69 | 30.80 | 83.673 |
| Global    | 1,789 | 0.132  | 0.339 | 0    | 0     | 1    |
| GROW      | 1,789 | 20.242 | 33.735 | -66.472 | 17.340 | 262.738 |
| SIZE      | 1,789 | 22.861 | 1.562 | 18.760 | 22.670 | 26.386 |
| LEV       | 1,789 | 51.762 | 21.002 | 4.653 | 52.816 | 167.958 |
| AGE       | 1,789 | 9.096  | 5.106 | 0    | 10    | 21    |

Notes: ROE is the net income divided by the average equity; CSR is the corporate social responsibility score; Global is a dummy variable, 1 indicates the firm is listed in other stock market besides Shanghai and Shenzhen Security market and 0 otherwise; GROW is the sales growth, equal to the sales revenue at year t minus sales revenue at year t-1 and then divided by sales revenue at year t-1; SIZE is the natural log of total assets at year end; LEV is the leverage ratio, equal to the total debt at year end divided by total assets at year end; AGE is the time of being listed, counted as years.

7) Only those firms that disclosed its social responsibility reports in their annual financial reports or as an independent report.
related with firms' fundamentals that significantly affect its performance. In brief, all coefficients are lower than 0.6 suggesting no severe co-linearity problem.

2. Regression Results

Table 2 presents the regression results. The first three columns are the results when Global is defined as firms listed both in U.S. and in China mainland or both in Hong Kong and in China mainland. This paper regressed the whole samples (All) and global group (Global=1) and non-global group (Global=0) respectively, and hypothesis 1 is not supported. For the whole sample regression, the coefficient for CSR is positive, but not significant. While the cross-term of Global and CSR, Global×CSR, is significantly and positively related with ROE, suggesting that for firms with higher globalization their ROE is more closely related with their CSR, supporting hypothesis 2. For the globalized firms (Global=1), the coefficient for CSR is significantly positive, which means its CSR is positively related with its financial performance, supporting hypothesis 2. For non-globalized firms (Global=0), the coefficient for CSR is not significant, indicating that the relation between CSR and CFP are not significant for firms that are only listed in China mainland. Considering the individual regressions, it could be said that the positive effect of CSR on CFP exist for Chinese firms, but only for those with higher globalization, since more globalized firms will pay more attention to CSR as required by their investors, leading to more obvious influence of CSR on CFP.

The last three columns are the results when Global is defined as firms listed in Hong Kong and in China mainland. Coefficient for CSR is only significantly positive under regression for global group and not for all sample and non-global group, while for the cross-term, Global×CSR, is still significantly positive, supporting hypothesis 2.

Global is significantly and negatively related

| Variable | ROE | CSR | Global | GROW | SIZE | LEV | AGE |
|----------|-----|-----|--------|------|------|-----|-----|
| ROE      | 1.0000 |    |        |      |      |     |     |
| CSR      | 0.117*** | 1.000 |        |      |      |     |     |
| Global   | 0.010 | 0.360*** | 1.000 |      |      |     |     |
| GROW     | 0.293*** | 0.040* | -0.026 | 1.000 |      |     |     |
| SIZE     | 0.129*** | 0.546*** | 0.482*** | 0.041* | 1.000 |     |     |
| LEV      | 0.005 | 0.208*** | 0.170*** | 0.044* | 0.536*** | 1.000 |     |
| AGE      | -0.042* | -0.118*** | -0.133*** | -0.028 | 0.033 | 0.143*** | 1.000 |

Note: ROE is the net income divided by the average equity; CSR is the corporate social responsibility score; Global is a dummy variable, 1 indicates the firm is listed in other stock market besides Shanghai and Shenzhen Security market and 0 otherwise; GROW is the sales growth, equal to the sales revenue at year t minus sales revenue at year t-1 and then divided by sales revenue at year t-1; SIZE is the natural log of total assets at year end; LEV is the leverage ratio, equal to the total debt at year end divided by total assets at year end; AGE is the time of being listed, counted as years; ***, ** and * indicates the significance at the level of 0.01, 0.05 and 0.10, respectively.

Table 2. Correlation Coefficients among the Variables
with ROE, suggesting that globalization has some kind of negative impact on Chinese firms, which may be due to more competitions as the globalization squeeze their monopoly profits. GROW, SIZE and LEV are consistent with expectation that large growing firms with lower leverage will have higher profitability. In all, Table 3 shows that globalization has positive influence on the relationship between CSR and CFP of Chinese firms; in particular, for Chinese firms listed in other stock markets, CSR is significantly positive to CFP.

<Table 4> shows the regression results for other two performance measures. The first two columns use the return on assets (ROA) and the last two columns use the net income on assets (IOA). Moreover, we regress for two measures of globalization. In all regressions, coefficients for the cross-term, Global×CSR, are significantly positive, indicating globalization has significant positive influence on the contribution of CSR to CFP, consistent with
our hypothesis.

3. Endogenous Problem

It could be argued that, as a matter of fact, other security markets, like that in U.S or Hong Kong, have higher level of regulation and punishment, which trigger firms to do better on their corporate social responsibility. Moreover, firms with higher accounting performance can spend more resources on their corporate social responsibility, like donation, expenditure on environment, employee benefits and education, among others. This means that firms with better accounting performance will tend to have higher social responsibility, namely CSR is not exogenous and it may be caused by higher performance and globalization. In order to deal with this issue, this paper used the simultaneous equation model, as follows:

\[
CSR = \beta_0 + \beta_1 \text{Global} + \beta_2 \text{SIZE} + \beta_3 \text{GROW} + \beta_4 \text{ROA} + \beta_j \sum Inds_j + \beta_l \sum Years_j + \varepsilon
\]  

(2)
Perform = \phi_0 + \phi_{CSR} + \phi_{Global} + \phi_{Global} \times CSR + \phi_{GROW} + \phi_{SIZE} + \phi_{LEV} + \phi_{AGE} + \varepsilon \quad (3)

Model (2) investigated the endogeneity of CSR, namely the influence of accounting performance and globalization on the firm’s behavior (CSR). ROA is the return on assets and other variables are the same as previous. Model (3) examined how CSR and globalization affect the performance, and all variables are the same as above. Results using two measures of globalization are shown in Table 5.

For the regression of CSR (model 2), coefficients for Global are all significantly positive, which means globalization will push firms to be better in their CSR. Since global investors will compare those firms with other foreign firms in the perspective of sustainable growth, CSR is one of their considerations. Market will push those firms to do more CSR. While ROA is also significantly positive,

| Table 5. Endogeneity Problem |
|-------------------------------|
| Variables | Global=Listed abroad | Global=Listed in HK |
| CSR | ROE | CSR | ROE | CSR | ROE |
| 0.035 | 0.011 | 0.3750 |
| -9.694 | 4.528 | 4.867 |
| (2.52)** | (5.36)** | (2.41)** |
| 0.173 | 0.161 | 0.163 |
| 0.092 | 0.092 | 0.092 |
| (1.84)* | (1.70)* | (1.70)* |
| (12.69)** | (12.67)** | (12.67)** |
| 1.445 | 3.636 | 3.607 |
| (3.34)** | (17.94)** | (17.67)** |
| 0.061 | -0.058 | -0.058 |
| (-3.76)** | (-3.82)** | (-3.82)** |
| -0.059 | -0.059 | -0.059 |
| (-1.16) | (-1.16) | (-1.16) |
| ROA | 0.118 | 0.163 |
| (2.97)** | (4.12)** | (4.12)** |
| Inds | Control | Control |
| Years | Control | Control |
| N | 1789 | 1789 | 1789 | 1789 |
| R2 | 0.1149 | 0.3750 | 0.1147 | 0.3745 |

Notes: ROE is the net income divided by the average equity; CSR is the corporate social responsibility score; Global is a dummy variable, 1 indicates the firm is listed in other stock market besides Shanghai and Shenzhen Security market and 0 otherwise; GROW is the sales growth, equal to the sales revenue at year t minus sales revenue at year t-1 and then divided by sales revenue at year t-1; SIZE is the natural log of total assets at year end; LEV is the leverage ratio, equal to the total debt at year end divided by total assets at year end; AGE is the time of being listed, counted as years; ROA is the return on assets; Inds are dummy variables, 12 dummy variables standing for 13 industries according to the industry category defined by China Security Regulation Committee; Years are dummy variables, 3 dummy variables for 4 years sample periods; ***, ** and * indicates the significance at the level of 0.01, 0.05 and 0.10, respectively.
suggesting accounting performance is closely related with CSR, because more profitable firms can spend more in the activities of CSR.

For the results of model (3), even though coefficients for CSR are not significant, those for the cross-term, Global×CSR, are still significantly positive, indicating that allowing for the endogeneity of CSR, globalization still has significant positive influence on the contribution of CSR to CFP. Results in <Table 5> further support the hypothesis and consistent with previous.

4. Self-selection Problem

Not all firms will choose to be listed abroad, either in Hong Kong or in U.S. Usually large firms with higher growth and profitability will choose their IPO in other stock markets besides the China mainland stock markets. Meanwhile, those firms can spend a lot in their CSR according to the higher level of regulation and punishment in other securities market. In other words, those firms choosing to be listed abroad tend to be better in their CFP and also have the ability to do better CSR. Thereafter, the above results may have the self-selection problem. In order to deal with this issue, this paper followed the previous literature by using Heckman two steps method. The model is set as follows:

\[
Global = \gamma_0 + \gamma_1 \text{SIZE} + \gamma_2 \text{GROW} + \gamma_3 \text{ROA} + \varepsilon
\]

(4)

Model (4), a Probit model, investigated whether firms with higher accounting performance, bigger scale and higher growth tend to be listed in other security market, exhibiting higher globalization, which will affect their CSR and CFP as well. IMR is the Inverse Mill’s Ratio (IMR) calculated in the first step. Then Model (5) incorporated the IMR into the globalization, CSR and CFP relationship regression. <Table 6> shows the results under Heckman two steps by using ROE\(^8\), and the two definitions of globalization were regressed.

In the regression for model (4), it shows that large firms (SIZE) with lower growth (GROW) and higher profitability (ROA) will choose to be listed in both the foreign stock market and China mainland stock market. And those firms will have higher CSR according to the model (2) and results in <Table 5>, showing the self-selection problem that was expected.

In the regression for ROE, the coefficients of IMR are both significant, suggesting that the self-selection problem indeed exist. However, after controlling for this issue, the coefficients for the cross-term, Global×CSR, are still significantly positive, suggesting that globalization has significant positive influence on the contribution of CSR to CFP allowing for the self-selection problem. In all, the results in <Table 6> further support the hypothesis and consistent with previous.

\[
Perform = \lambda_0 + \lambda_1 \text{IMR} + \lambda_2 \text{CSR} + \lambda_3 \text{Global} +
\lambda_4 \text{Global} \times \text{CSR} + \lambda_5 \text{GROW} +
\lambda_6 \text{SIZE} + \lambda_7 \text{LEV} + \lambda_8 \text{AGE} +
\lambda_{\sum} \text{Inds}_j + \lambda_{\sum} \text{Years}_j + \varepsilon
\]

(5)

\(^8\) Results for ROA and IOA are basically the same. To be succinct, the results were not shown.
### Table 6. Self-selection Problem-Heckman Two-step Regression

| Variables          | Global=Listed abroad | Global=Listed in HK |
|--------------------|-----------------------|----------------------|
|                    | Global ROE            | Global ROE           |
| IMR                | -41.851***            | -41.771***           |
|                    | (-20.77)              | (-20.88)             |
| CSR                | 0.025                 | 0.021                |
|                    | (1.38)                | (1.20)               |
| Global             | -1.530                | -2.305               |
|                    | (-0.98)               | (-1.42)              |
| Global*CSR         | 0.053*                | 0.066**              |
|                    | (1.72)                | (2.07)               |
| GROW               | -0.007***             | 0.279***             |
|                    | (-4.04)               | (25.97)              |
|                    | (-4.04)               | (-26.09)             |
| SIZE               | 0.552***              | -18.484***           |
|                    | (17.92)               | (-15.55)             |
|                    | (-18.420)**           | (17.83)              |
| LEV                | 0.071**               | 0.070**              |
|                    | (2.41)                | (2.40)               |
| AGE                | -0.129***             | -0.130***            |
|                    | (-4.26)               | (-4.31)              |
| ROA                | 0.037***              | 0.037***             |
|                    | (6.65)                | (6.47)               |
| Inds               | Controls              | Controls             |
| Years              | Controls              | Controls             |
| N                  | 1789                  | 1789                 |
| Wald chi²          | 104.86                | 104.94               |
| R2                 | 0.688                 | 0.689                |

Notes: The dependent variable is ROE, equal to the net income divided by the end of equity; IMR is the inverse mills ratio calculated in the first step of Heckman regression; CSR is the corporate social responsibility score; Global is a dummy variable, 1 indicates the firm issues stocks to foreign investors and listed in other stock market besides Shanghai and Shenzhen Security market and 0 otherwise; GROW is the sales growth, equal to the sales revenue at year t minus sales revenue at year t-1 and then divided by sales revenue at year t-1; AGE is the time of being listed, counted as years; SIZE is the natural log of total assets at year end; LEV is the leverage ratio, equal to the total debt at year end divided by total assets at year end; Inds are dummy variables, 12 dummy variables standing for 13 industries according to the industry category defined by China Security Regulation Committee; Years are dummy variables, 3 dummy variables for 4 years sample periods; in the parentheses are the White - adjusted t statistics considering the heteroscedasticity; ***, ** and * indicates the significance at the levels of 0.01, 0.05 and 0.10, respectively.

### V. Conclusions and Implications

This paper examined the relationship between CSR and CFP after China began seeking a new direction of development, namely, President Hu Jintao’s "Harmonious Society." Further, the firm level data of Chinese enterprises from years 2008-2011 were analyzed to see the regulation effect of globalization, which resulted from the opening of the market. Just as the results found in the paper by Buchholz (1978), Abbott and Monsen (1979), the results of this paper show that there is no relationship between CSR and CFP. However, when globalization was used as a moderating effect and was incorporated into the analysis, this study found that a positive
relationship exists between CSR and CFP. This suggests that the relationship between CSR and CFP is more complex than the simple linear relationship.

The findings offer useful implication for future research. CSR was unable to directly influence CFP in a positive manner. However, if a learning effect takes place through a company’s active globalization and if Chinese companies put in the effort to match international regulation and standard, then eventually a positive relationship will develop between CSR and CFP. It is expected that the firms’ efforts will aid in the problems in society that occurred in the process of rapid development. The pressure from the global market will narrow the gap of CSR global standard through globalization. As can be seen from the results, globalization maximizes competition in the marketplace and as a consequence, negatively impacts Chinese firms’ productivity. However, if Chinese firms can improve the level of CSR through active participation in globalization, it will be able to enhance its performance. Therefore, later studies should consider a development model on the ripple effect of globalization.

As a result of the open market in China, there has been an increase in the level of awareness on CSR among the Chinese people. Furthermore, government has increased regulation. This acts as a barrier to entry for multinational enterprises and has given rise to liability of foreignness (LOF). Therefore, it appears that international firms are able to reduce costs by participating in CSR activities. Thus, this paper suggests a CSR development model for the Chinese market. Moreover, this study can be helpful to multinational enterprises in the Chinese market that utilize CSR as a strategy to enhance company performance.

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