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CAN CORPORATE SOCIAL RESPONSIBILITY AND INTERNAL CONTROL ENHANCE CORPORATE FINANCIAL PERFORMANCE? EVIDENCE FROM CHINESE-LISTED COMPANIES

Corporate financial performance (CFP) shows the operating results achieved by a company in its past business activities and is also an important assessment of whether the company's strategic objectives and business decisions have contributed to the economic benefits of the company, which can determine the survival and success of the company. What is the relationship between CSR and CFP? This question has been extensively elaborated on and discussed by scholars for nearly three decades, but no consensus has been reached. Unfortunately, there is very little empirical literature on the relationship between CSR and CFP of Chinese companies. In recent years, a number of large enterprises at home and abroad have broken faith and collapsed due to a lack of social responsibility, while the lessons of internal control (IC) loopholes causing huge losses and even bankruptcy have been striking. Therefore, it is of great practical significance to explore the interaction mechanism between CSR, IC, and CFP, and to explore in depth the interactive impact of the interaction between CSR and IC on CFP.

It has been argued that the relationship between CSR and CFP may be U-shaped rather than linear [1]. Faisal et al (2020) find that competitive advantage significantly moderates the indirect effect of CSR disclosure on CFP from a theoretical perspective of resources [2]. CSR is also a form of enlightened self-interest. This is because it not only enhances the company's brand image, builds good relations with the community and government, and attracts more talent, but also opens up some lucrative markets [3], which will bring long-term profits to the company. Based on the literature review, the following hypothesis is proposed:

Hypothesis 1 (H1). CSR disclosure is positively related to CFP.

By fulfilling their social responsibility, enterprises can also establish long-term cooperative relationships with stakeholders, thus forming a long-term mechanism for stakeholder participation in IC governance. On the other hand, IC can not only promote CSR compliance by controlling CSR risks but also enhance the sustainability of CSR compliance by controlling

the process of integrating CSR into strategic management. CSR and IC play crucial roles in the process of achieving sustainable development [4]. By fulfilling social responsibility, enterprises can create a good internal and external environment for IC, while monitoring and controlling the reasonable fulfillment of social responsibility and maintaining and balancing the legitimate rights and interests of various stakeholders of the enterprise are important functions of IC. Accordingly, we make the following hypothesis:

Hypothesis 2 (H2). CSR disclosure is positively related to IC.

CSR is an important element of IC. The biggest risk faced by IC is the risk of CSR from stakeholders, and uncontrolled social responsibility risk will seriously weaken the ability of enterprises to create economic benefits. When IC focuses on social responsibility and stakeholders' rights and interests, effective social responsibility risk management can be carried out, CSR risks can be reduced and the achievement of corporate strategic objectives can be promoted. Thus, while CSR and IC can contribute to the improvement of CFP, they can also contribute to each other's role in driving CFP through the positive interaction between them, bringing into play their synergistic effects on CFP. In summary, the following hypothesis is proposed in this paper.

Hypothesis 3 (H3). CSR and current IC moderate each other and thus have a synergistic effect on CFP.

Data and research design 1. Sample selection and data sources

The paper selects A-share listed companies in Shanghai and Shenzhen stock exchanges from 2010 to 2018 as the research samples. In order to ensure the validity of the sample data, (1) financial listed companies are removed, (2) ST and *ST listed companies are removed, and (3) missing data are removed. Finally, 17,294 observation data were obtained. CSR information disclosure data comes from HEXUN.net; internal control data comes from DIB Database; other company characteristics come from China Stock Market & Accounting Research (CSMAR) Database. In order to avoid the influence of extreme values, this paper performs 1% winsorize on all continuous variables. We use Stata17.0 as our data processing and statistics software.

Data and research design 2. Model and variables

To test H1-H3, we control for other determinants of the IC to parse out potential confounding effects. We use regression analysis to test the relationship between the quality of CSR disclosure, IC, and CFP. The main regression model is specified as follows.

$$ROA = \alpha_0 + \alpha_1 CSR + \sum control + \varepsilon_1 \quad (1)$$

$$IC = \beta_0 + \beta_1 CSR + \sum control + \varepsilon_2 \quad (2)$$

$$ROA = \gamma_0 + \gamma_1 CSR + \gamma_2 IC + \sum control + \varepsilon_3 \quad (3)$$

where ROA is the dependent variable and serves as our proxy for CFP, which is measured by the ratio of earnings before extraordinary items to the book value of total assets. The independent variable CSR which we use to proxy for the quality of CSR disclosure. IC is another independent variable, which we use to proxy for the Internal control. $\sum control$ index control variables. ε_i is the firm-year-specific error term.

Data analysis shows that there is a significant positive relationship between CSR and CFP, a significant positive relationship between CSR and IC, and a significant positive relationship between IC and CFP for Chinese companies. In addition, the mediating effect of CSR on the relationship between IC and CFP is also significant. Hypotheses H1-H3 are tested.

Many Chinese companies are hesitant and worried about taking up social responsibility, always fearing that actively fulfilling social responsibility will not lead to good results. However, our study shows that by taking on social responsibility, companies can not only improve their financial performance in one period but also in the next period by acting more positively in CSR.

Since IC has a positive moderating effect on the quality of CSR disclosure, an attempt can be made to construct a basic code for CSR disclosure in China from the perspective of IC in the absence of a basic code for CSR disclosure. In addition, it is also possible to continuously improve the regulation of CSR performance from the perspective of IC to improve the relationship between enterprises and stakeholders, thereby producing better financial performance.

Information sources:

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