Empirical Study between CSR and Financial Performance of Chinese Listed Companies

Master’s thesis in Business Administration (15 credits)
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Spring 2012:MF06
Title: Empirical Study between CSR and Financial Performance of Chinese Listed Companies

Level: Master

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Thesis No.: 2012:MF06

Seminar date: 2012-05-24

Abstract:

At present, corporate social responsibility has become an important area of modern corporate research theory, and the development of CSR activities all over the world is remarkable. While the relationship between corporate social responsibility and corporate financial performance is still ambiguous.

This study reviewed the development of corporate social responsibility and literatures which focused on related researches; used the stakeholder theory as the theoretical basis and content analysis as the method basis; chose the accounting indicators of 839 Chinese listed companies in 2010 as samples; then did regression analysis to measure the relationship between Chinese companies' social responsibilities and their financial performance.

According to the research results, except implementing the social responsibilities to shareholders has outstanding positive impact on Chinese listed companies’ financial performance and implementing social responsibilities to employees has relatively positive impact; the implementations of social responsibilities to other stakeholders have no signally impact on Chinese listed companies’ financial performance. These results show that the CSR situation in China is still not optimistic.

Key words: CSR, stakeholders, financial performance, Chinese listed companies.
Acknowledgement

First of all, I would like to express my gratitude to my supervisor Eva Gustafsson for her diligent support and coaching. She gave me lots of useful feedback and suggestions, which helped me to improve my thesis. Without her support I would not have been able to complete the thesis. At the same time, I would like to thank my family and friends; they stood with me and encouraged me all the time. Thank you for all people who gave me help!

Boras University, December 2011

Yang Qiu
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1 Introduction

1.1 Background

Since the bankruptcy of Enron in 2001, the Tyco, BMY, WorldCom, Xerox, Merck and some other world-renowned American companies had a series of financial fraud scandals, which made the good long-term credibility of U.S. companies crashed. These incidents also pushed people to pay more attention on companies’ social responsibilities.

Over a long time, "shareholder first" which came from free market economics were prevalent, corporate social responsibility had not receive deserved attention. Currently, the world is facing worsening the imbalance in income distribution, extreme poverty, environmental pollution, corruption, crime and many other social issues. While the reality had proved that: the market without restraints can’t effectively solve the above issues, on the contrary may exacerbate them; the governments and other social organizations also lack of capacities to solve all of these problems. Thus, it is generally considered in nowadays: as the most autonomous and most efficient organizations of economic power, the enterprises do not fully pay for the social cost which caused by their production and operations; they also failed to develop a sound mechanism to response to the demands of their stakeholders. With the irreversible trend that requires the corporations to take their social responsibilities, the corporations are not only need to perform financially but also need to be good corporate citizens. (KMPG, 2008)

1.1.1 General development of CSR

Since the theory of corporate social responsibility was proposed in the beginning of 20th century (Oliver Sheldon, 1924), it has been keeping researched and developed. Some studies of CSR found its potential commercial benefits, (e.g. Orlitzky, Marc; Frank L. Schmidt, Sara L. Rynes, 2003) for example, can retain and motivate employees; reduce the risk of corporations’ reputation; format unique brand; easier to get access to business license, etc. This constituted the benefit foundation for corporations’ managers and shareholders to perform their social responsibilities.

At the same time, the concept of CSR is accepted by more and more people, it occupied a place in education and public awareness. Consumers increasingly have the tendency for ethical consumptions, and companies begin to give ethics training to their staff. Except that, companies started to re-examine the priorities of stakeholders as well as pay more attention to the interests of vulnerable groups.

With the force of globalization, the range of corporate social responsibility is expanding, more and more countries start to accept the concept of CSR. On the other hand, the effects of governments, official and unofficial organizations, and scholars, made the performance of CSR had quantitative criteria, standards, and regulations to a certain degree.
For above reasons, many multinational companies started to release CSR reports since 1990s, till now have formed a mature social responsibility reporting system. According to “KPMG International Survey of Corporate Responsibility Reporting 2011”, during 1990-2011, the CSR information disclosure rate of world's 250 largest companies and the 100 largest companies by revenue (N100) from 34 countries was continually increasing, and respectively had been to 64% (N100) and 95% (G250) in 2010.

![Figure 1: N100 companies making strong progress](image)

See from the regions, according to the survey of KPMG, Europe always be ahead in its propensity to report on CSR activities, but other regions are quickly catching up. In 2011, 71 percent of European companies reported on CSR, while the Americas got the second place with 69 percent, Middle East and Africa regions also have 61 percent of companies reported on CSR. However, Asia Pacific continues to trail behind, with less than half companies disclosed their CSR information.

Then see from the companies’ ownerships. According to the surveys of KPMG, the ownership of companies has directly impact on the companies’ CSR activities. Compare to others, the listed companies trend to be more advanced in CSR activities and CSR reporting. In 2011, there are 69% listed companies over the world reported their CSR data.

State-owned companies are the next active participators of CSR activities, which reflects the
governments’ support for CSR to a certain extent. However, it seems to be that, private companies don’t have too much passion in taking corporate social responsibilities, or at least don’t have too much passion to report them. According to the survey of KPMG, since 1990 to 2011, the CSR report rate of private companies never reach 50%. (Qin Bing, 2011)

The companies in different industries also have different performances in taking their social responsibilities. The industries with high pollution and high energy consumption are always the focuses of public and governments, so they are more active in reporting CSR information. According to figure 2, since 2008 to 2011, the CSR reporting rate of Forestry, Pulp& Paper industries, Mining Industry and Automotive Industry had experienced a considerable increase which can reflects that these industries paid more attention in taking their social responsibilities.

Besides, the industries which directly have impacts on the health of public are the next highest reporters. Till 2011, the reporting rates of Chemical &Synthetics, Food& Beverage industries were beyond 65%.

However, some industries which haven’t attract too much attention by their CSR activities--as trade, retail and transportation industries – their CSR reporting rate continue to lag behind.

According to the reporting rate, the development of CSR all over the world is remarkable. However, the basic purpose of the corporations is to make profit, no matter for internal management or for external interaction, good records have the commercial importance and good influences in the industry, and is a determinant for company's further development. In order to ensure the interests of shareholders, companies’ managers always trying to beautify companies’ statements, this behavior has become an open secret. While many companies still believe that corporate social responsibility is to spend the company's money in charity, which
lead some of them willing to escape from social responsibilities. In addition, because lack of supervision, hypocrisy and fraud behaviors frequently occurred in implements of CSR. (Ganguly S. 1999)

**1.1.2 CSR situation in China**

According to the reports of KMPG, CSR started late in China, but developing rapidly. With the waves of globalization, a lot of international manufacturing enterprises have moved their factories to China in order to seek cheaper manufacturing costs. They require China's factories and other enterprises must meet the requirements of SA8000 or some other social responsibility standards, once there are factories didn’t obey the standards, the orders to them will be canceled as a punishment. So, the new generation of trade barriers for Chinese companies, can be treated as an important factor to stimulate Chinese companies’ social responsibility behaviors. In addition, because of the Chinese government's "sustainable development" policy, many new laws and regulations, incentives, punitive measures were enacted to restrict the enterprises’ behaviors as well as promote their social responsibility initiative. (Shen Hongfeng, Shen Yitao 2003)

What’s more, since the food safety crisis caused by dairy food in 2008, the Chinese consumers are increasingly focusing on corporations’ reputation and social responsibility, in order to survival in crisis and have a better development, Chinese companies can no longer avoid or ignore their social responsibilities. This further promoted the development of CSR in China

At the same time, China's CSR reporting began to start. From the perspective of corporations, in March of 2006, China's State Grid Corporation released its first CSR report; September in the same year, the Shenzhen Stock Exchange issued a "social responsibility guidelines for listed companies" to encourage listed companies reporting their CSR behaviors. Since then, the major stock exchanges and industries began to formulate CSR reporting outlines for their own industries.

Then, in January of 2007, China government issued "The guidance of implement corporate social responsibilities for state-owned companies” to encourage state-owned enterprises releasing corporate social responsibility reports. In February, the Ministry of Environmental Protection issued "The supervision and management guidance of environmental protection for listed companies”, requires Chinese listed companies to disclose environmental information to the public.

According to KPMG'S survey, almost 60 percent of China's largest companies already reported on corporate responsibility in 2011. However, according to Chinese blue book on corporate social responsibility 2011, Chinese enterprises’ reports, especially the private enterprises’ reports, mostly can’t meet the standards, only state-owned enterprises’ reports can barely meet the standards.
In addition, the Chinese enterprises has obvious problems in the implement of corporate social responsibilities, such as: avoiding tax and social security contributions; lacking consideration of environmental protection, the profit built on destruction and pollution of the environment; providing non-qualified products or services to the consumers; squeezing the incomes or welfares of employees; lack of awareness of the public welfare; some monopolistic enterprises lack awareness of fair competition, excluding competitions in the market.

From that point, the vast majority of Chinese companies are still running in accordance with the concept of “maximizing shareholders’ profit”. While the implemention of corporate social responsibility doesn’t attracted deserved attention. (Xi Ren, 2009) In this situation, the studies focus on the relationship between the CSR and financial performance of Chinese listed companies can make sense.

1.1.3 The industrial characteristics of China

Since the 1980s, the Chinese economy has maintained rapid growth, till 2010, China's economic aggregate surpassed Japan and become the world's second largest. However, at the same time, compared with the developed countries, China's industrial structure is still relatively backward. (Li Zhiqiang, 2010)

Overall, the proportion of Chinese primary industry is less than 20% and down to 10.3% in 2009; the proportion of secondary industry is relatively stable, maintained around 47%; the proportion of tertiary industry used to experience a fast increase, and maintained around 43% in recent years. Compare to developed countries, the proportion of Chinese tertiary industry is less while the proportion of secondary industry is too much.

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary sector</th>
<th>Secondary sector</th>
<th>Tertiary sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>14.4%</td>
<td>45.1%</td>
<td>40.5%</td>
</tr>
<tr>
<td>2002</td>
<td>13.7%</td>
<td>44.8%</td>
<td>41.5%</td>
</tr>
<tr>
<td>2003</td>
<td>12.8%</td>
<td>46.0%</td>
<td>41.2%</td>
</tr>
<tr>
<td>2004</td>
<td>13.4%</td>
<td>46.2%</td>
<td>40.4%</td>
</tr>
<tr>
<td>2005</td>
<td>12.2%</td>
<td>47.7%</td>
<td>40.1%</td>
</tr>
<tr>
<td>2006</td>
<td>11.3%</td>
<td>48.7%</td>
<td>40.0%</td>
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<tr>
<td>2007</td>
<td>11.3%</td>
<td>48.5%</td>
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<tr>
<td>2008</td>
<td>11.3%</td>
<td>48.6%</td>
<td>40.1%</td>
</tr>
<tr>
<td>2009</td>
<td>10.3%</td>
<td>46.3%</td>
<td>43.4%</td>
</tr>
</tbody>
</table>

**Figure 3: The proportion of China’s three-sectors’ output value in China’s GDP (In %)**
(Source: Chinese Academy of Social Sciences, 2010, page 39)

In addition, from the perspective of international trade, China's exports are mostly low and medium-grade goods, only few high-end products. It can be seen that most of Chinese industries are still relatively lagging behind, but the degree of backwardness are not same.

In the context of globalization, in order to achieve the maximization of profits, reduce production costs, and enhance the competitiveness of products, the United States, Japan,
Europe and other developed countries or regions started their industrial upgrading. They transferred a lot of the labor intensive, high pollution and high energy consumption enterprises to other countries - such as China. At present, although China has become the “world factory” for many years, it is still in the end of the industrial chain. For example, the Barbie dolls are mainly produced in Chinese coastal areas and exported to the United States, the average selling price of each Barbie is about $10 in the U.S. market, while the CIF value is only $2 which includes $1 shipping and management fees. For the last $1, it includes 65 cents material cost, so the Chinese manufacturer can only get 35 cent from each Barbie which means the 3.5% of it’s selling price. (Larry Hsien Ping Lang, 2008)

Due to the low technology content and extensive management mode of Chinese enterprises, many export enterprises in Chinese coastal areas were severely affected by the international financial crisis in 2008. According to the macro data released by the Chinese State Council in 2010, China's 2009 exports amounted to 1.2017 trillion U.S. dollars which decreased 16.1% than 2008. On the other hand, according to the data released by China's National Bureau of Statistics in 2009, the output value of China's manufacturing industries accounted for 6% of global, while R & D spending accounted for only 0.3% at the same time. High technicians are far less than the average of the world. (Qin Bing, 2011)

Therefore, the industry structure and industrial characteristics of China are far from the western developed countries. For Chinese companies, the impacts of their CSR behaviors to financial performance may totally different from the western countries.

1.2 Previous researches between CSR&CFP

With the worldwide development of CSR, more and more researchers pay their attention for CSR in the field of business practices. Among these researches, one of the most attractive but also the most controversial issue is the relationship between corporate social responsibility and corporate financial performance (CFP). The basic reason for this situation is that: the most fundamental target of corporation is to create economic benefits, and the most fundamental social responsibility is the responsibility to shareholders. Enterprises are profit-oriented, but the relationship between corporate social responsibility and corporate financial performance is complex, no matter from the theoretical perspective or from the methods research process perspective.

From my point of view, the studies focus on the relationship between CSR and CFP can be broadly divided into two categories.

The first category is based on the corporation’s incidents, which means using case study method to evaluate the impact of CSR behaviors to corporations’ short-term financial performance. For example, Clinebell (1994) studied the impact of closing factory on corporate finance performance; Worrell, Davidson & Sharma (1991) studied the impact of dismissing temporary staff; and Hannon & Milkovich (1996) studied the impact of a good
reputation policy in human resources. All of these researches tried to find out the relationship between CSR and CFP.

The second category is based on CSR performance, which means firstly using some pre-established indicators to measure different CSR behaviors, then compare them to financial index, and analyze whether the good performance of social responsibility have a positive impact on CSP. For example, Moskowitz (1972), Folger and Nutt’s (1975), Bowman and Haire (1975)’s researches are based on CSR performance. Except that, some popular research methods----such as TRI method, Corporate Philanthropy Index method and KLD index method----are also based on CSR performance.

While, after decades of research, the scholars still can’t reach a unified conclusion about the relationship between CSR and CFP. For example, several decades before, Home Friedman (1970) used to claim that: taking social responsibilities will leads the companies’ increased costs and lower profits; while at the same time, other persons, organizations or governments may avoid these costs; thus the companies who take the social responsibilities will be in a competitive disadvantage position, the relationship between this two should be a negative correlation; While Ullman (1985) believe that there are too many disturbance variables between corporate social responsibility and the financial performance; therefore, these two should not have any relationship. In addition, Carroll (1979) and some other scholars think there is a positive relationship between these two; implementation of corporate social responsibility can be an enterprise’s management strategy to improve operate performance.

1.3 Problem discussion.

As mentioned above, with the emergence of relevant theories and improvement of research methods, western scholars have done a lot of considerable studies about the relationship between corporate social responsibility and corporate financial performance which evolved the research into a system, while they still can’t reach a unified conclusion about the relationship between the CSR and CFP.

What’s more, unlike most of western countries, as the current "world factory", China’s industrial structure is still based on the labor-intensive and resource-intensive industries, the company's financial performance are closely related to employee welfares, pollution control, tax and other social responsibilities. So, for Chinese listed companies, what's the relationship between their social responsibilities and financial performances? This issue is the focus of this study.

1. 4 Purpose of the study

This thesis will focus on the current development status of Chinese enterprises, especially the development status of China's listed companies, and conduct a comprehensive empirical study to research the relationship between Chinese listed companies’ social responsibilities and their financial performance.
In order to get a better understanding of this question, I proposed three sub-questions:

1 **What’s the definition of CSR?**
The definition of CSR is the basis of this study; in order to get an effective and actual study result, a good understanding of CSR definition must be given.

2 **Who are the stakeholders for Chinese listed companies?**
The identification of stakeholders decide the direction of this study, in order to learn the relationship between the social responsibilities and financial performance for Chinese listed companies, I must identify the important and necessary stakeholders for Chinese listed companies according to previous studies.

3 **How do the CSR behaviors to different stakeholders impact Chinese listed companies’ financial performance?**
CSR behaviors to different stakeholders may have different impacts to the financial performance of Chinese listed companies. Thus the results of this question will give a clear and detailed understanding to the relationship between Chinese listed companies’ social responsibilities and their financial performance.

I believe that after got answers for these three questions, an effective and actual answer for the main question will be found.

1.5 **Structure of this thesis**
In this thesis, I focused on the relationship between Chinese listed companies’ social responsibilities and their financial performance, divided the text into six parts.

First part is introduction. In this part I talked about the development and current situation of CSR, not only from the view of the whole world, but also from the view of China, simply reviewed some pervious researches focus on the relationship between CSR and CFP, and then discussed the issue I want to research.

In the second part, I followed the timeline to talk about the definitions of CSR, the evolution of CSR content, and detailed discussed the stakeholder theory. After that, I explained the reason that I used stakeholder theory in my research.

The third part is Review of Previous Methods. In this part, I listed some of the related works, discussed the research methods had been used in past researches, and chose the content analysis to use in my thesis. Then I reviewed the financial indicators that used in related researches, and chose the accounting indicators according to the need of this study.

Forth part is Method of Empirical Study, in this chapter, firstly I gave the research framework of this thesis. Then I detailed explained the method of my regression analysis, such like:
Sample selection, Research hypothesizes, Data Collection, Validity and Reliability, Limitations.

The fifth part is the Regression analysis, in that part 839 samples were selected to analysis the relationship between Chinese listed companies’ social responsibilities and their financial performance.

Then the next part is conclusion, I summarized the results and made a conclusion for this study.
2. Theoretical Frame of Reference

Corporate social responsibility is a controversial term. Since Sheldon (1924) proposed the concept of CSR in his book “The Philosophy of Management”, academics and relevant organizations had put forward many different points of view on this concept (E.g. Bowen, H. R.1953). The beginning was to investigate the responsibilities that a company and all its shareholders should take. At that time, with rapidly economic development, the business-related social problems occurred, and thus aroused public attention. The enormous external pressures made investors and senior management of companies starting to focus on this issue (Brooks, 1997).

From the present point of view, enterprise and society cannot be separated. Society is the source from where the companies gain access to interest. In order to get a better external environment and obtain long-term development, companies should adjust to the change of society while contribute to society at the same time. (KMPG, 2008)

2.1 Definitions of CSR

For a long time, there is no a consensus that companies should take social responsibilities, neither have an absolute definition for CSR itself in the academic community. In a broad sense, CSR means the enterprises’ actions should be in line with people's morality; the companies should take responsibilities for employees, customers, government, suppliers and other related stakeholders as well as the companies’ shareholders; it also require enterprises to pay attention to moral, environment, employee dignity, consumer protection, charitable activities, correct financial information and so on.

As mentioned earlier, there is still no a unified view for CSR. So I sorted out some well-known institutions and scholars’ views about CSR to illustrate the complexity of fully defining the definition of CSR.

For the CSR definitions of institutions: the World Business Council for Sustainable Development (Güler Aras, David Crowther 2009) considered that "Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."; while European Union (EU,2001) published the Commission Green Paper 2001" Promoting a European Framework for Corporate Social Responsibility " and defined CSR as “A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”; besides, the U.S. Chamber of Commerce recognized (Urs von Arx, Andreas Ziegler 2008)CSR is the corporate behaviors consistent with social norms, values and expectations, its content can be divided into four stages according to different levels: the first stage, companies meet its economic needs in the existing legal structure; the second stage, the behavior of enterprises meet the expectations and demands of the public;
the third stage, to anticipate the further needs of the public and do pre-reaction; the fourth stage, become a leader under the new standards, while contributes corporate resources to help the public improving their quality of life.

Except institutions, some scholars also have their different views of CSR. In Bowen’s research (1953), he defined CSR as a social obligation – the obligation to fulfill the objectives and values of society. Davis (1973) also mentioned that CSR is a kind of obligation, when decision-makers are in the pursuit of self-interest, they must also seek the protection and promotion to social welfare. Wood (1991) thinks that there are three main principles for CSR, they are: Institutional Level -- Principle of Legitimacy; Organizational Level -- Principle of Public Responsibility; and Individual Level -- Principle of Managerial Discretion. Cowe (2000) believes that CSR is the value and standard in operating business, the responsibility from obtaining raw materials to producing. Hopkins (2003) discussed that the CSR theory involves how to responsibly deal with stakeholders, and its purpose is to create a higher and better standard of living for stakeholders.

Carroll (1979) pointed out that: The social responsibility of business includes the economic, legal, ethical and philanthropic expectations at different time points. His definition became the Well-known pyramid of corporate social responsibility:

![Figure 4: Carroll's pyramid of CSR (Source: Carroll A.B., 1979, page 497)](image)

According to the pyramid model, the corporate social responsibility have different requirements and expectations at different stages, companies meet the economic requirements while comply with the law are the basic tasks, when the two most basic needs are met, the company will been given the moral and ethical expectations, finally companies can been expected to contribute their efforts to society, and make substantial contributions.
Chinese scholars also have their own understanding of CSR. Qu Xiaohua (2005) talks that CSR refers to that: enterprises fulfill their various obligations and responsibilities to employees, business partners, customers, communities and countries, which embodied in their enterprise systems and behaviors; it’s a positive reaction to market and enterprises’ stakeholders. To some extent, CSR can be used as a comprehensive evaluation of company’s operation which includes corporate economic responsibility, ecological responsibility, ethical responsibility and cultural responsibility.

Li Dongsheng (2006) thinks that CSR has narrow sense and broad sense, for the broad sense of CSR, legal responsibility and moral responsibility should be included, while the narrow sense of CSR only means moral responsibility.

2.2 The evolution of CSR content

Modern theory of CSR was born in the United States in 1920s and has developed nearly a century. Its content changes along with the changes of social environment. The CSR concept which is well-known today has a lot of differences from it was at the beginning.

Hay & Gray (1976) talks that the changes of corporate social responsibility attitudes, can be divided into the following three stages according to time: the first stage until the 1930s, when managers pursued "maximize interests of shareholders", the only target of enterprise managers was to maximize shareholders’ profits. The Operation philosophy "maximize interests of shareholders" was very popular in the era of rapid economic development; it was supported by enterprise managers, even the government. For example, the United States Court of Michigan used to claim in 1919 that the main purpose of business operation is to make profit for shareholders. The second stage, from the 1930s to the early 1960s, the change of this time came from the rise of union power, the pressures from the unions forced enterprises to start thinking their social responsibilities but not only earning interest. During that time, the company managers started to take the responsibilities for their customers, employees, suppliers, and creditors. For example, in 1935 the U.S. Congress amended the law to allow companies getting access to tax-free amount by donating 5% of their profit; in the same year, the U.S. Supreme Court ruled that AP Smith Company’s donations to Princeton University was lawful, and the accusation from its shareholders was not acceptable. The third stage started in the 1960s, corporation managers are more in favor of participate in solving social problems, and put their own resources to contribute to the society. The main factor behind this change is: under the variety of pressures, enterprise must take the initiative to practice their social responsibility to keep competitiveness in current society environment. 3 years after Hay & Gray’s study, Murphy (1979) divided CSR concept evolution into 4 phases according to the contribution of companies. Its contents are as follows: the first phase is the charitable donation period, occurred in the 1950s, charitable donations were considered as taking their social responsibility by enterprise managers. The second phase is the awakening period, from 1953 to 1967, companies began to take participate in social and public affairs. The third phase is the debating period, from 1968 to 1973, public pressure forced corporations to pay attention on environmental pollution and discrimination. The final phase
is the reaction period, began from 1974, business ethics and environmental interests became the focus of social responsibility.

Based on the concepts of above scholars, it can be seen: With the development of the economy and the raise of modern education level, public has a better understanding on enterprise and social environment, so the range of corporate social responsibility is expanding as well as the requirement level is rising.

2.3 Stakeholder Framework

The framework of Stakeholders is the third stage of evolutions for corporate social responsibility framework, but also the main support theory to research the relationship between corporate social responsibility and corporate financial performance (CFP).

After stakeholder theory was introduced to CSR research area, it effectively improved the development of CSR research. Although the Stakeholder theory came from corporate strategic management theories, it successfully explained some left gray area in the field of CSR by replacing the last frame. Nowadays, it became one of the core theories for CSR research.

Review the past literatures, Clarkson (1995) is the first one who advised to instead corporate social performance framework by stakeholder framework. He pointed out that corporate social responsibility and corporate social performance are generated outside the enterprise concept. Their contents are normative, but not sufficiently clear and specific which are more like slogans, it is difficult to get the business community's recognition or positive response. While the stakeholder theory claims that the enterprise has responsibilities for all stakeholders, it related the corporate social responsibility to normal business activities, pushes the implementations of the corporate social responsibilities.

The emergence of stakeholder framework gives solutions to some issues existing in CSR, including "whom should corporation take responsibility to?", "What social responsibility need to be take?", "How to combine social responsibility with corporate operation?" This section will discuss the definition of stakeholders and the contribution of stakeholder frame in CSR field.

2.3.1 Definition of stakeholders

Stakeholder theory started develop in the late 1960s, after a long term of research, its theoretical system still not fully complete, so it's not in a leadership position for the field of economics. However, compared to other theories, stakeholder theory has its unique advantage. The applicability and describe ability of this theory are outstanding, and very suitable in the practice of business operation. Therefore, the stakeholder theory has an irreplaceable position in corporate management filed.(Charles, et. al 2006)
Stakeholder theory was first proposed by Freeman in 1984. After that Stakeholder theory has a rapid development because it’s solid theoretical foundation and practical background. The key reason for the raise of the theory is that the stakeholder theory holds the attitude of doubt and criticism to the mainstream concept of material capital power. Meanwhile, the global enterprise encountered a series of practical issues in the economic recovery period, included corporate social responsibility issues, corporate environmental management issues, and business ethics issues. These issues need a more sociality corporate theory to solve, while the corporation managers also need one to guide their business operations.

![Figure 5: Definitions of Stakeholders](Source: Ronald et. al, 1997, Page 858.)

After Freeman defined the stakeholder theory, a lot of stakeholder research literatures have
emerged. Stakeholder theory had a considerable development in economics, management, ethics, sociology, political science and public administration. Figure 5 shows some important definitions for stakeholders.

2.3.2 The contribution of stakeholder theory to CSR study

Stakeholder thinking had already embedded in early studies of CSR. But since 1984, Freeman proposed stakeholder theory, the theory started to increasingly be used in the study of corporate social responsibility. But the stakeholder theory was not mature enough, thus the research to promote corporate social responsibility had been relatively limited. After the 1990s, driven by many scholars, identification and classification of stakeholders achieved an important breakthrough. On this basis, the study of CSR also made important progress. From perspective of corporation, the main point of stakeholder theory is: the corporation has a series of stakeholders which can be clearly confirmed; these stakeholders can be classified and evaluated according to some specific properties (Wood, 1991). While Porter & Kramer (2006) pointed out that, in order to promote corporate social responsibility, not only need to root corporate social responsibility in the macro-understanding of relationship between corporation and society, but also need to link it with corporate strategy and operation activities; while the bridge between these two aspects is the stakeholder theory.

In short, the contradictories that appeared in the results of relationship studies between CSR and CFP are mostly due to the inconsistencies of research methods. In order to improve the situation, Rowley (2000) suggested the studies about the relationship between CSR and CFP should proceed from the stakeholder theory.

2.3.3 The summary of CSR objects---From the perspective of stakeholders

The above part of this chapter listed a number of definitions of the stakeholder, without being strictly defined, the objects which have an indirect effect on the corporations may also be included into the scope of corporate social responsibility.

Stakeholder theory is the theoretical basis of this empirical research, while the too broad sense of definition will not help to identify the enterprise’s stakeholders, and won’t help to give measurable results. In this thesis, the relationship between CSR and CFP are going to measure by the accounting indicators but not companies’ social activities. Thus this thesis will use the Freeman’s definition of stakeholders as reference, and the core stakeholders will be limited into the following six objects.
1 CSR to Shareholders
Carroll's CSR pyramid model based on economic responsibility, which means economic responsibility, is the basic of corporate social responsibility. Therefore, the most fundamental social responsibility is the social responsibility to shareholders. Companies provide profits to shareholders; ensure the interests of shareholders in the companies. Establish a good relationship with shareholders, will make great help to stabilize the company's operation. According to my understanding, the CSR to shareholders can be measured by:
(1) Whether the state of operation disclosures to shareholders regularly?
(2) Whether the initiative to safeguards the legitimate rights and interests of shareholders?
(3) Whether reasonable allocates profits to shareholders?
(4) Whether committed to improving the company's earnings and increases shareholders’ profit?

2 CSR to Employees
With the modern economy transited to the knowledge-based economy, the company's competitiveness is more and more depending on the quality of human resources. Because of this, ensure the interest of employees is closely related to the sustainable development of corporation. CSR to employees always be treated as one of the most important objects for some stakeholders' measures. The CSR to employees can be reflected in the following areas:
(1) The salaries paid to employees. (2) Salary level compared to the whole industry. (3) Whether salaries paid in time?
(4) Whether the employees get medical insurance, pension insurance and unemployment insurance?
(5) Whether working environment is safe. (6) Whether employees inappropriately to work overtime, and whether the case of discrimination occurred?

3 CSR to Customers
CSR to customers is an important component for corporate social responsibility. No matter in what kind of industry, customers are the important reason for long-term survival of corporation. Lost customer, lost profit. Company's products or services satisfied customer,
then the customer will form a preference to company product or service which establishes their loyalty, and the corporation will operation well. CSR to customers can be reflected in: (1) Product quality and price. (2) Whether cheat the customers? (3) Whether fulfilled commitment to customers?

4 CSR to Creditors
When the corporate operation performed well, the shareholders control the corporation as owners; however, when companies facing business crisis or bankruptcy, lost its solvency, the creditor can legally take over the corporation and gain control of the company. Therefore, the creditor is an important business stakeholders, CSR to customers can be reflected in: (1) whether the corporation repays the debt in time? (2) Whether the corporation implemented a contract according to the law?

5 CSR to Suppliers
In today's market, the smooth operation of a corporation, are closely related to the suppliers. Especially for manufacturing enterprise, in order to reduce the product costs, must have good cooperation with suppliers. A good relationship with suppliers will be able to help corporation improve communication with suppliers and establish more effective cooperation with them. CSR to suppliers include: (1) whether the enterprises respect the autonomy of suppliers? (2)Reach a fair and reasonable agreement with suppliers and obey the agreement.

(6) CSR to Government
From the economic perspective, the Government's main functions are: control the national economy economic through laws and other policies measures; protect normal trade order, mediate contradictions and conflicts between different owners, operators, managers, labors. The main source for the operation of government is revenue, poor operation performance or tax evasion of corporation will reduce government revenue, which will affect the functioning of the government.

Therefore, the CSR to government is mainly reflected in: (1) whether the corporation paid enough taxes in accordance with regulations? (2) Whether the corporation obeyed relevant laws? (3) Whether the corporation positive response to the social activities that the government promoted?
3. Review of Previous Methods

As I mentioned in introduction part, the studies focus on the relationship between CSR and CFP can be broadly divided into two categories. This chapter will give a review and summary to the different methods of researches on the relationship between CSR and CFP.

3.1 The methods based on social responsibility events

Review the past literature, some scholars tried to research the relationship between CSR and CFP through the method of case-study which based on social responsibility events, such as Clinebell (1994), Worrell, Davidson & Sharma (1991), Hannon & Milkovich (1996), etc. Most of these case-studies used the events that U.S. Corporations divested from South Africa as the main research events. Because at that time, South Africa's apartheid policy made U.S. companies’ local investments became unwelcome behaviors which not only against the local law but also against the corporate social responsibilities, so chose to leave South Africa is in line with U.S. companies’ corporate social responsibility.

To be detailed, these studies used the leaving time from official announcement as the reference points, took some time before and after the leaving as time zones, and then observe the change of return on assets during these times to analyze the impact of divestment on the company’s’ financial performance, but the results did not give a consistent conclusion. For example, Wright & Ferris’s (1997) study pointed out that the relationship are negative, in other words, the behavior of divestment from South Africa led to the decrease of company's financial income; Posnikof’s (1997) study have shown that this divestment increased the financial returns; While Teoh, Welch and Wazzan’s (1999) finding is that there are no significant relationship between these two. Overall, all studies of corporate social responsibility based on the events have the same problem. The reasons for such differences are mainly because the studies failed to consider all of the changes, and they used different measure standards. Because of the research method is too one-sided, so the uses of such research methods are rare in later days.

3.2 The methods based on social responsibility performance

Except to evaluate the CSR performance based on responsibility events, there are some other scholars made some CSR indicators to research the relationship between CSR and CFP, this kind of studies have a significant effect for today's empirical study of corporate social responsibility. In this section I will list few authoritative methods following the chronological order, and summed up the advantages and disadvantages of them.

3.2.1 Measure index of the 70s

In short, reputation index method is to collect the subjective opinions to companies’ CSR policies from experts and scholars, then follow the scores to measure the level of the companies’ reputations. Reputation index method was very popular in the mid-1970s. The advantages of reputation index method are: the analysts use the same analytical methods and
same indicators which can ensure the internal consistency; the data came from opinions of experts and scholars which can guarantee the availability of data; the most important is that this method summed up the views of same kind of stakeholders who came from different companies. All of above make the reputation index method playing a vital role in the research on the relationship between CSR and CFP.

Folger and Nutt’s (1975) study used reputation index method to evaluate the Paper industry’ social responsibilities. Firstly they established three pollution index, measured from the aspects of water, particles, gases and odors. Water pollution was given double weight in the first index and three times weight in the second pollution index---the third index is the overall evaluation of the entire environment. Moskowitz (1972) also used reputation index method in his study, his method is dividing the companies into "Outstanding", "Good" and "Bad" three levels.

But the reputation index method has its limitations, because the data source is the subjective opinion of experts as well as subjective judgments of researchers, and does not collect a large number of samples; so the study's results lack universality.

In addition to the reputation index method, there is another common measure method in 1970s, it is called content analysis. Content analysis is the first to determine the score or a specific value for each project based on the information from a company’s various reports or annual report, then evaluate this company’s CSR. The advantages of content analysis are that once identified the variables, the measure can be very objective; and content analysis can also be used in a measure to larger number of samples.

In 1979, Abbott and Monsen built the disclosure index of social participation based on the annual of Fortune 500, and then they quantified 6 indexes of the environment, equal opportunities, human resources, community activities, products and other events. They believe that the advantages of content analysis are that: content analysis uses the information from the annual which is relatively easy to be obtained; the data used in content analysis is public and with high reliability; the validity of result can be tested. Content analysis had also been used by Bowman and Haire (1975). They analyzed 82 U.S. food companies’ 1973 annual report, and used the sections of reported corporate social responsibilities and social activities as data in corporate social participation measure.

However, although the content analysis method overcomes some limitations of reputation index method, but it has its own operational limitations: content analysis is more subjective in the choice of variables; to measure according to the companies’ statement rather than the true. Since most of the company's reports and annual reports are not specifically written to measure corporate social responsibility, so researchers must depend on their subjective judgments to classify the corporate social responsibility behaviors.

3.2.2 Measure index of the 80s
The representative measure indexes in 1980s are Survey of Corporation Reputations, TRI and Corporate Philanthropy Index. “Fortune Magazine's Annual Survey of Corporation Reputations” was founded in 1982 by Fortune magazine to do the research on more than 300 large companies. It includes the indicators of financial stability, long-term investment value, asset use, management quality, innovation, product and service quality, talent attraction, training and use, community and environmental responsibility.

Survey of Corporation Reputations is essentially based on the reputation index method in 1970s, but made improvements. For example, the Survey of Corporation Reputations using a large samples, and get the data from the experts who have very good understanding of their industries.

The advantages of the Survey of Corporation Reputations are that: the data is comparable; the personnel quality of evaluator is better than other evaluation methods; while the target companies are well-known in industry. But this method has its drawbacks, for example: different indicators have high correlation between each other; a company's reputation can gain a high total score, but in some aspects of corporate social responsibility performance are very poor; and the evaluation results are directly affected by the evaluators’ views about corporate financial capacity.

Toxics Release Inventory and Corporate Philanthropy Index appeared in the late 1980s. TRI is based on data from the discharge database, according to the company's toxic waste each year to measure the performance of corporate social responsibility, the advantage of this method is overcome the subjectivity in evaluating the company's corporate social responsibility, but the biggest flaw of TRI method lies in its database only includes some of the industries’ data.

Corporate Philanthropy Index is based in the “Corporate Philanthropy Guide” published by the U.S. Association of Public Administration. This Guide documents the donation of more than 500 large companies, and made generous index according to the data. The advantage of the Corporate Philanthropy Index is similar to TRI, both of them are built on the database and more objective than other methods, but unfortunately the two methods are limited to a single aspect of corporate social responsibility, the results can not reflect the comprehensiveness of corporate social responsibility.

**3.2.2 Measure index since 1990s**

As the stakeholder theory was introduced in the empirical research of corporate social responsibility in late 1990s, there has been a substantial progress occurred in CSR research filed. KLD company (Kinder, Lydenberg and Domini Company) designed a measure index base on stakeholder theory, to evaluate the relationship between corporate and its stakeholders. This index is known as the KLD index or KLD database, get high degree recognition of academic field, and be widely used in empirical studies of corporate social responsibility.
KLD index measure corporate social responsibility from the relationships between corporate and eight different stakeholders, which includes product safety responsibility, community relations, employee relations, environment, the treatment to women and minorities, atomic energy, corporate and military contracts, as well as South Africa problems. KLD index contains a wide range of objects, includes the S & P 500 company and 150 companies in the Domini Social index, the total number of companies in KLD index is over 800. KLD index measure the CSR performances of these companies, and rank them with the scores.

The main reason that KLD index gained such recognition in empirical research on CSR is that: compare to other methods, KLD index has the three improvements in measuring CSR. The first improvement is: KLD index covers a wide range of industries, its research views are relatively diverse, and uses the long time span of data, thus can be more comprehensively to assess the performance of corporate social responsibility. The second improvement is: Compare to the past research methods, KLD index is much more objective, Because KLD index based on the extensive investigations by independent analysts. The third improvement is also the most prominent point: KLD index evaluate the companies’ CSR performances from the perspectives of stakeholders, and divide the companies into 5 levels according to the companies’ attitudes to stakeholders.

3.3 Limitations of past research methods

Summarized the researches on the relationship between corporate social responsibility and corporate financial performance, it can be found that the researchers researched different contents through different methods, which also indirectly made them can’t reach a consensus till now.

Some studies have shown a positive relationship between the CSR and CFP, while some studies showed that there is no relationship between these two, and there are studies even got negative conclusions. Griffin and Mahon (1997) studied the company's reputation index method, TRI, corporate philanthropy index and KLD index. Their studies shows that: The TRI and corporate philanthropy index are both based on objective performance of the company, but when using them to measure companies’ CSR performance, they turned in totally different results, and the results have no relationship with the companies’ financial performance. While the company's reputation index method and KLD index got the similar results with each other.

Ruf (2001) summarized five factors for this phenomenon: First, lack of theoretical basis, the studies are not built on a complete theory; Second, lack of systematic indicators of corporate social responsibility; Third, the research methods do not precise; Fourth, the sample size and selection influenced by the environment; Fifth, social performances and the variables of financial performances are not commensurate.

In summary, earlier studies does not have a reliable theoretical basis, some theories formed
before the theoretical framework of CSR, but directly be used in the research. After Carroll (1979) proposed a model of corporate social performance, the research was starting to measure CSR from the perspective of four different responsibilities. And until Wood (1991) introduced stakeholder theory into the theoretical framework of CSR, the research focus on relationship between corporate social responsibility and financial performance study achieved a breakthrough.

3.4 The choice of financial indicators in empirical studies

For the empirical studies of relationships between corporate social responsibility and corporate financial performance, the choice of financial indicators have a directly impact on results. From the view of data source, the main measure indicators of corporate financial performance can be divided into two categories: market revenue indicators and accounting indicators. The former one is mainly based on trading data of stock market focused on shareholder returns. The later one is mainly based on the company's financial statements data, reflecting the company's operating situation.

Griffinn and Mahon (1997) analyzed 51 literatures of 1972-1997 and found that there have been 80 different indicators used to measure corporate finance, including 57 indicators that appeared only once. The earliest empirical studies are Moskowitz (1972) and Vance (1975)’s studies, both of them used market revenue indicators to measure corporate financial performance. But at that time, the data they used was the stock price which without risk-adjusted and doesn’t include dividends, so they got the totally different conclusions for the relationship between corporate social responsibility and corporate financial performance. Since Alexander and Buchholz’s (1978) research, the researchers began to use risk-adjusted market revenue data to measure corporate financial performance, but none of their study got a clear conclusion of the relationship between corporate social responsibility and corporate financial performance.

Accounting indicators are another kind of indicators used to measure corporate financial performance. Compare to market revenue indicators, accounting indicators consider the entire company's operating performance, and coverage is more extensive than the market revenue indicators. But the accounting indicators are based on historical financial data, have the risk of being manipulated; while the factors like company size, the level of corporate income, the industries must be considered when using accounting indicators. Learn from the past researches, the accounting indicators which are often used to test the relationship between corporate social responsibility and corporate financial performance include: return on assets (ROA), return on net assets (ROE), earnings per share (EPS) and so on.

McGuire (1988) used both two types of indicators to study the relationship between CSR and CFP. In his research, he chose the market total return, risk-adjusted market return and other market revenue indicators while chose return on total assets, total assets, sales growth, asset growth, operating profit growth and other accounting indicators to measure financial performance.
The results pointed out that corporate social responsibility are highly related to the accounting indicators in the same period, but don’t have significant relation with the market revenue indicators in the same period. The study also found that accounting indicators have a stronger ability to explain corporate social responsibility. Because the market returns are more influenced by the impact of the overall market trends, so have too many fluctuations; while corporate social responsibility has significant individual characteristics, so the accounting indicators can better reflect the specific characteristics of each company. In addition, accounting indicators are much stable. So, McGuire summed up that accounting indicators are better than the market revenue indicators in reflecting the relationship between corporate financial performance and corporate social responsibility.

To sum up, in the research on relationship between corporate social responsibility and corporate financial performance, the accounting indicators are more suitable than the market revenue indicators as the evidence of financial performance.
4 Method of Empirical Study

4.1 Research Framework

With the development of corporate social responsibility, the relationship between corporate social responsibility and corporate financial performance are increasingly concerned by scholars, thus many relevant studies had been done. However, only after the stakeholder theory introduced into the research, the studies of relationship between corporate social responsibility and corporate financial performance had a breakthrough.

Till now, there have been several methods to measure relationship between CSR and CFP. Just like mentioned in chapter 3, each of these research methods has its advantage and limitations in operation process or research perspectives, thus no method occupies the absolute advantage position. Consider the large number of samples in this study are not suitable for all methods, and the most quantifiable data for Chinese listed companies are financial data, I chose the content analysis method in this thesis. The content analysis here used the financial data from Chinese listed companies’ annual to calculate the ratios or values that can reflect the CSR to different stakeholders, can get more objective results. While may also
have other methods can be used in similar studies.

However, the selection of variables in content analysis relies on researcher’s subjective judgments. In order to reduce the subjective influence, the research will combine with stakeholder theory, select the variables which are directly related to company’s stakeholders, to analyze the relationship between Chinese companies’ social responsibility and their financial performance.

For the choice of financial indicator, accounting indicators has been proved have a stronger ability than the market revenue indicators in explaining corporate social responsibility in past researches. Therefore, in this thesis, accounting indicators are selected to take part in the research.

Then, in order to get more objective and veritable conclusions, I chose a large amount of Chinese listed companies as samples, and used them in regression analysis.

### 4.2 Sample selection

In this study, the samples are the Chinese listed companies which listed in the Shanghai Stock Exchange and Shenzhen Stock Exchange in 2010. In order to maintain the validity of data sources and reduce the influence of deviations, the samples marked with ST were removed---because these companies’ financial situation has been terrible, apparently failed to implement economic responsibility to shareholders. Except that, the companies with the incomplete financial data are also be deleted. After the exclusion, a total of 840 listed companies were selected as the samples for the regression analysis. Meanwhile, in order to study the differences between the different industries, the companies are classified into different industries according to their main operation business.

### 4.3 Research hypothesizes

Hypothesis 1: Corporate social responsibility performances in different industries have significant differences.

Hypothesis 2: Corporate social responsibility to government is able to have a positive impact on financial performance. In this study, the higher proportion of income tax, means better implemention of corporate social responsibility to the government, and greater positive impact on corporate financial performance.

Hypothesis 3: Corporate social responsibility to employees be able to have a positive impact on financial performance, in this study, the higher proportion of salary paid by corporation, means better implemention of corporate social responsibility to employees, and greater positive impact on corporate financial performance.

Hypothesis 4: Corporate social responsibility to the suppliers be able to have a positive impact
Hypothesis 5: Corporate social responsibility to shareholders on the financial performance can have a positive impact, in this thesis, the higher dividend per share paid to shareholders, means better implementation of corporate social responsibility to shareholders, and greater positive impact on corporate financial performance.

Hypothesis 6: Corporate social responsibility to creditors is able to have a positive impact on financial performance. In this article, the higher company's interest coverage ratio, means better implementation of corporate social responsibility to creditors, and greater positive impact on corporate financial performance.

Hypothesis 7: In this article, enterprise asset-liability ratio has the inverse relationship with financial performance, the lower asset-liability ratio means better implementation of corporate social responsibility to creditors, and greater positive impact on corporate financial performance.

Hypothesis 8: Corporate social responsibility to consumers able to have a positive impact on financial performance, in this thesis, the higher proportion of operation cost, means better implementation of corporate social responsibility to consumers, and greater positive impact on corporate financial performance.

4.4 The choices of variables and regression model

In the studies of the relationship between corporate social responsibility and corporate financial performance, there are three commonly used accounting indicators have been proved to have highly positive correlation with corporate social responsibility, they are: return on assets (ROA), return on net assets (ROE) and earnings per share (EPS). Consider the target of Chinese listed companies’ operation is to maximize the returns to shareholders, so EPS is a more appropriate indicator.

In addition, because China's capital market is still at developing stage, so in practice, there are still some companies manipulating ROE, ROA through accounting systems or financial policies, for example, some companies adjust the dividend distribution program, reduce the net book value of assets by issuing a lot of cash dividends, so they can achieve the purpose of improving ROE; while some companies change accounting policies to reduce the carrying value of inventories, make the total assets decreased, then their ROA will increase. Weigh the pros and cons, EPC was chosen as a relatively objective indicator to measure corporate financial performance.

This study is based on stakeholder theory, according to this theory, companies need to take social responsibility to their stakeholders. Among them, the core stakeholders include
shareholders, government, suppliers, employees, creditors, customers, etc.; non-core stakeholders include environment, community, special interest groups, etc.; limited by the availability and limitations of data, the following variables are designed to reflect the company’s social responsibility to shareholders, government, suppliers, employees, creditors and other major stakeholders.

（1）Variable TAX: Means the proportion of income tax

\[
\text{TAX} = \frac{\text{Income tax}}{\text{Operation income}} \times 100\%
\]

Here, TAX is used to describe the corporate social responsibility to government. Corporate social responsibility to government impacts the corporate financial performance in the following two aspects: first, in market economy, the self-regulation mechanism of market is not a panacea, market failures occur frequently. Therefore, the macro-control of government is necessary to maintain the stable operation of the market. Government provides public services for enterprises, but also need taxes to maintain the functioning. When the government's need of public benefits are met, it will provide better public services for enterprises, for example, improve the market mechanism, improve infrastructure construction and so on. Therefore, the Government’s public benefit has an important relationship with wealth of shareholders; on the other hand, through the timely and fully payment of taxes, corporation can establish a law-abiding and responsible corporate image, the signal will transmit to the public and increase the company attractive for consumers, which will further increase the sales revenue of corporation have a positive impact on its financial performance.

（2）Variable WEL: Means the proportion of salary

\[
\text{WEL} = \frac{\text{Salary}}{\text{Operation income}} \times 100\%
\]

Salary means the total salaries that a corporation paid to its employees in 2010.

This variable is used to describe the corporate social responsibility to employees. Human resources have a crucial impact on long-term stable development of enterprises. Improve staff technical abilities and attract high-quality personnel can improve companies’ competitiveness in the market. So, improving the working conditions, increasing the employees’ salary and social welfare will help companies to attract high-quality personnel and encourage employees to work hard which will have positive impact on corporate financial performance.

（3）Variable APT: Means the Accounts payable turnover

\[
\text{APT} = \frac{\text{Operation cost}}{\text{Average balance of accounts payable}}
\]

This variable is used to describe the corporate social responsibility to the suppliers. As the information asymmetry between shareholders and suppliers, there are opportunistic behaviors existing in the trade between company and its suppliers which result in higher transaction costs. For example, the company may in arrears payment for no reason, while supplier may
supply low-quality products. If the opportunistic behaviors sustained, the production and normal business activities of both will be terrible affected. Therefore, to keep a good relationship with supplier is a win-win situation, beneficial to the financial performances of both sides.

(4) Variable DIV: Means dividends per share

DIV refers to dividends per share, the company's annual dividends per share to shareholders in 2010; The dividends per share used in this study are after-tax cash dividends paid to shareholders, this variable describes corporate social responsibility to shareholders, the shareholders are the core corporation stakeholders, and the purpose of a corporation is to create profit. The shareholders of companies provide internal fund to support the operation of the companies. According to the classification of corporate social responsibility, to meet the economic responsibility is the basis of corporate social responsibility. When companies can’t generate profits, they can’t survive, and lost the ability to take more social responsibilities. Dividends to shareholders directly turn corporate social responsibility to shareholders into the benefits which can be measured.

(5) Variable ICR: Means the interest coverage ratio

\[ ICR = \frac{EBIT}{Interest} \]

EBIT means the company’s earnings before interest and taxes in 2010
Interest means the company’s total Interest expense in 2010;

(6) Variable ALR: Refers to the asset-liability ratio

\[ ALR = \frac{Total \text{ liability}}{Total \text{ asset}} \]

The two variables used to describe the social responsibility to creditors. With the development of companies, the internal funding can’t meet the demand for companies’ investments, thus the external funding is necessary behavior.

However, when companies can’t repay the debt on schedule and in financial crisis, there will be a terrible impact on their reputations, and further weaken the companies’ operation abilities. Therefore, maintain good relations with creditors, will help companies to reduce their operational risk.

In this thesis, the interest coverage ratio is used to measure the ability of paying interest, without enough EBIT, interest payments will be very difficult to achieve. Interest coverage ratio not only reflects the company’s profitability, but also reflects the company’s solvency. To maintain normal solvency, interest coverage ratio should be at least greater than 1, and the higher the ratio, the stronger long-term solvency.
Variable CR: Means the operation cost rate

\[ CR = \frac{\text{Operation cost}}{\text{Operation income}} \times 100\% \]

This variable is used to describe the corporate social responsibility to customers. The more the company takes care of the interests of consumers, the more benefit will be given to customers, and the higher cost ratio of operation will occur. Consumers are the source of corporate profits which ensure the survival of the company. Company emphasizes on the quality of its products and services put more investment to develop the production, will attract more customers and increase consumers’ brand loyalty. Customers’ support will make companies to expand their sales and market shares, which will have a positive impact on the companies’ financial performance.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Corresponding financial indicator</th>
<th>Reflect the CSR to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAX</td>
<td>The proportion of income tax</td>
<td>Government</td>
</tr>
<tr>
<td>WEL</td>
<td>The proportion of salary</td>
<td>Employees</td>
</tr>
<tr>
<td>APT</td>
<td>Accounts payable turnover</td>
<td>Suppliers</td>
</tr>
<tr>
<td>DIV</td>
<td>Dividends per share</td>
<td>Shareholders</td>
</tr>
<tr>
<td>ICR</td>
<td>Interest coverage ratio</td>
<td>Creditors</td>
</tr>
<tr>
<td>ALR</td>
<td>Asset-liability ratio</td>
<td>Creditors</td>
</tr>
<tr>
<td>CR</td>
<td>Operation cost rate</td>
<td>Customers</td>
</tr>
</tbody>
</table>

Table 1: Choices of Variables

Then I built the regression equation:

\[ EPS = \alpha + \beta_1 TAX + \beta_2 WEL + \beta_3 APT + \beta_4 DIV + \beta_5 ICR + \beta_6 ALR + \beta_7 CR \]

4.5 Validity and Reliability

According to Campbellian tradition (Campbell and Stanley, 1963), Validity has two distinct fields of application. The first includes test validity, the degree to which a test measures what it was designed to measure. The second includes research design. Refers to the degree of which a study supports the intended conclusion drawn from the results. For the experiments, Campbell and Stanley defined internal validity as the basic requirement for an experiment to be interpretable.

Internal validity is an inductive estimate of the degree to which conclusions about causes of relations are likely to be true, from the perspective of the measures used, the research setting, and the research design. Good experimental techniques which studied under highly controlled
conditions, usually researches higher degrees of internal validity than single-case designs.

In statistics, reliability is the consistency of a set of measurements or measuring instruments, often used to describe a test. For experimental science, reliability is the extent to which the measurements remain consistent under the same conditions. An experiment is reliable if it has consistent results of the same measure. It is unreliable if measurements give different results. It can also be understood as lack of random error in measurement.

In order to measure the validity and reliability of regression results in this study, the coefficient of determination (R-squared) and Significant Level (sig.) which calculated by the SPSS are used as the measure values.

In the linear regression, R-squared ranges from 0 to 1. The extreme of 1 occurs when all the points are exactly on a sloppy line which almost wouldn't happen to the real statistical application, and the other extreme 0 reflects that they don't show a line pattern at all, but it doesn't exclude the possibility that that are not independent. (Amy Gamble, 2001)

Sig. is the value to tell if the result of the regression is significant. This value ranges from 0-1 in the linear regression. In The General, if Sig. is less than 0.05 then the result can be treated as significant. And if the Sig. is between 0.05 and 1, that means the significant of the result are relatively weak.

Through the use of these values, the validity and reliability of the regression results are going to be measured in next chapter.

4.6 Data Collection

The data used in empirical research is based on the data came from RESSET database which collect all the financial information from Chinese companies’ financial statements. The data was audited by China's National Audit Office, and be compared with the data from some other database, is highly reliable.

In addition, the software of SPSS (Statistic Package for Social Science) is used in this thesis to do the regression analysis, while Microsoft Office Visio is used to draw the framework.

4.7 Limitations

4.7.1 Limitations of the samples

Considered the availability of samples, in this study, samples was taken from the companies listed in Shenzhen Stock Exchange and Shanghai Stock Exchange, After exclusion, a total of 840 listed companies were selected. Although the samples are came from mostly of Chinese
industries, but there are still some industries don’t have samples in this study, therefore can’t fully reflect the current status of Chinese market, which will affect the universality of the results to a certain extent.

4.7.2 Limitations for the use of financial data

Currently, the disclosure of Chinese CSR data is voluntary disclosure. Except commercial banks regularly publish their CSR reports, other industries only disclose financial information based on the companies' willingness. At the same time, China is also lack a monitoring mechanism which made us can’t verify the authenticity of companies’ financial data as well as learn the enterprises’ social responsibility policies. Therefore, the financial data can’t fully reflect the state of companies' social responsibilities to their stakeholders. From the published financial statements of Chinese companies, it's hardly to learn the investment or cost to the some stakeholders, for example, customers, community and environment. So the research results are also limited to the dominant part, still have room for further improvement.
5 Regression Analyses

The Purpose of this analysis is to identify the impacts of Chinese listed companies’ CSR on their financial performance, based on stakeholder theory to verify causal relationship between Chinese listed companies’ social responsibilities to different stakeholders and their financial performance. In this Chapter, I analyzed 839 samples in 13 different industries, the analysis results are as follows:

5.1 Regression results for different industries.

View from Chinese listed companies’ CSR reports, the enterprises almost take the same ways in implementing their social responsibilities, which does not reflect the specificity of different industries and different ownerships. Specifically speaking, no matter which industry are these companies in, their CSR reports are all around the economic benefits, environmental protection and charity, and if see from the content and actions of their social responsibilities, it is difficult to differ the companies’ industries and their nature of business (Na Baoguo, Zhang Jinping, 2010)

In this thesis, it considers that the content and behaviors of CSR have different performance as well as different impacts on financial performance in different industries. In this part, I will give the regression results by industries in order to learn the relationship of CSR and CFP in Chinese industries.

(1) Regression results for Information Technology Industry

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
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<td>-.371</td>
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<tr>
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<td>.001</td>
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<td></td>
</tr>
<tr>
<td>APT</td>
<td>.013</td>
<td>.015</td>
<td>.095</td>
<td>.914</td>
<td>.371</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
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</tr>
<tr>
<td>ALR</td>
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<td>.005</td>
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<td>.343</td>
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<td></td>
</tr>
<tr>
<td>TAX</td>
<td>.000</td>
<td>.009</td>
<td>.005</td>
<td>.051</td>
<td>.960</td>
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<td></td>
</tr>
<tr>
<td>WEL</td>
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<td>.029</td>
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<td>.996</td>
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</tr>
</tbody>
</table>

Adj R-Sq=0.781, F=14.767

Table 2: Regression results for Information Technology Industry

As a high-tech industry, the development of information technology industry is highly relying on the engineering level and professional qualities of staff. See from Table 2, R-Squared value is 0.832 which means the listed variables explain 83.2% change of this industry’s financial performance, and the sig. value is less than 0.001 which means this regression model is significant at more than 99% confidence interval. Thus the regression results here are highly reliable.
Then see from the perspective of variables, it’s obviously that only the variable CR (reflects the CSR to customers) has the negative correlation (B value= -0.20) with the industry’s financial performance, while the variable DIV (reflects the CSR to shareholders) have significant positive correlation with the industry’s financial performance. Besides, the variable WEL (reflects the CSR to employees) also have relative positive correlation with the financial performance.

Therefore, the Table 2 can be understood like this: For Chinese listed companies in information technology industry; their CSR behaviors to customers have negative impact on their financial performance, while their CSR behaviors to shareholders and employees have relatively significant positive impact on their performance. In general, the implementation of CSR has positive impact on Chinese information technology industry’s financial performance.

(2) Regression results for Agriculture

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>-.016</td>
<td>.010</td>
<td>-.463</td>
<td>-1.626</td>
<td>.148</td>
<td>.888</td>
<td>.007</td>
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<tr>
<td>ICR</td>
<td>.002</td>
<td>.014</td>
<td>.038</td>
<td>.130</td>
<td>.900</td>
<td>.900</td>
<td></td>
</tr>
<tr>
<td>APT</td>
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<td>.006</td>
<td>-.090</td>
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</tr>
<tr>
<td>DIV</td>
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<td>.161</td>
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</tr>
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<td>ALR</td>
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<td>-.199</td>
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<tr>
<td>TAX</td>
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<td>-.643</td>
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</tr>
<tr>
<td>WEL</td>
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<td>.034</td>
<td>-.293</td>
<td>-1.692</td>
<td>.134</td>
<td>.134</td>
<td></td>
</tr>
</tbody>
</table>

Adj R-Sq=0.776, F=7.915

Table 3: Regression results for Agriculture

Compare to most of western countries, Chinese agriculture is inefficient in most areas, it’s still a labor-intensive industry. See from Table 3, R-Squared value is 0.888 which means the listed variables explain 88.8% change of this industry’s financial performance, and the sig. value is less than 0.007 which means this regression model is significant at more 99.3% confidence interval. Thus the regression results here are reliable.

Then see from the perspective of variables, only the variable DIV has the singally positive correlation with the industry’s financial performance, while the variable DIV has significant positive correlation with the industry’s financial performance. Besides, the variable WEL has relatively negative correlation with the financial performance. For the other variables, they don’t have significant correlation with the financial performance.

Therefore, the Table 3 can be understood like this: For Chinese listed companies in agriculture; their CSR behaviors to employees have relatively negative impact on their financial performance, while their CSR behaviors to shareholders have relatively significant positive impact on their performance, the other CSR behaviors have no significant impact on
financial performance. In general, except CSR to shareholders, the implementation of other CSR has no significant impact on Chinese agricultural financial performance.

(3) Regression results for Construction & Building Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
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<td>-.067</td>
<td>-.338</td>
<td>.740</td>
<td>.572</td>
<td>.056</td>
</tr>
<tr>
<td>ICR</td>
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<td>.002</td>
<td>.239</td>
<td>1.126</td>
<td>.279</td>
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<td></td>
</tr>
<tr>
<td>APT</td>
<td>-.014</td>
<td>.035</td>
<td>-.091</td>
<td>-.405</td>
<td>.692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
<td>2.958</td>
<td>.986</td>
<td>.588</td>
<td>2.999</td>
<td>.010</td>
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<td></td>
</tr>
<tr>
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<td>.003</td>
<td>.044</td>
<td>.230</td>
<td>.822</td>
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<td></td>
</tr>
<tr>
<td>TAX</td>
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<td>.008</td>
<td>-.171</td>
<td>-.731</td>
<td>.477</td>
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<td></td>
</tr>
<tr>
<td>WEL</td>
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<td>.024</td>
<td>-.050</td>
<td>-.232</td>
<td>.820</td>
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<td></td>
</tr>
</tbody>
</table>

Adj R-Sq=0.358, F=2.674

Table 4: Regression results for Construction & Building Industries

In China, the construction and building industries always are high energy consumption and pollution intensive industries, they attracting more and more public attention for their CSR behaviors since the housing boom started in 2001. See from Table 4, R-Squared value is 0.572 which means the listed variables explain 57.2% change of this industry’s financial performance, and the sig. value is 0.056 which means this regression model is significant at 94.4% confidence interval. The regression results here are not very satisfactory.

The variables only explain 57.2% in the industries’ financial performance, this may due to that: the financial performance of these industries just got limited impacts from their CSR behaviors, but much more influenced by some other economic factors, for example: the foam development of Chinese construction and building industries since 2004.

Then see from the perspective of variables, only DIV has the singally positive correlation with the industries’ financial performance. For the other variables, they don’t have significant correlation with the financial performance.

Therefore, the Table 4 can be understood like this: For Chinese listed companies in construction and building industries; except their CSR to shareholders, the implementation of other CSR has no significant correlation with Chinese construction and building industries’ financial performance.

(4) Regression results for Transportation Industry

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>.000</td>
<td>.004</td>
<td>-.042</td>
<td>-.236</td>
<td>.815</td>
<td>.478</td>
<td>.002</td>
</tr>
</tbody>
</table>
In China, the transportation industry is also a high energy consumption and pollution intensive industry. See from Table 5, R-Squared value is 0.478 which means the listed variables explain 47.8% change of this industry’s financial performance, and the sig. value is 0.002 which means this regression model is significant at 99.8% confidence interval. The regression results here are highly reliable.

The variables only explain 47.8% in the industry’s financial performance, this may due to the same reason with construction and building industries: the financial performance is much more influenced by some other economic factors. With the drive of construction and building industries, many industries have a rapidly development in recent years, and the transportation industry is one of them.

Then see from the perspective of variables, only the variable DIV has the singally positive correlation with the industries’ financial performance, while the variable WEL has relatively negative correlation with the industry’s financial performance. For the other variables, they don’t have significant correlation with the financial performance.

Therefore, the Table 5 can be understood like this: For Chinese listed companies in transportation industry, the CSR to shareholders have significant correlation with the financial performance; while the CSR to employees have relatively negative correlation with financial performance; and CSR to other stakeholders has no significant correlation with Chinese transportation industry’s financial performance.

(5) Regression results for Trade &Retail Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
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<td>-.184</td>
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<td>.177</td>
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<td>.005</td>
</tr>
<tr>
<td>ICR</td>
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<td>.001</td>
<td>.458</td>
<td>2.782</td>
<td>.009</td>
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<td></td>
</tr>
<tr>
<td>APT</td>
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<td>.011</td>
<td>.082</td>
<td>.935</td>
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<td></td>
</tr>
<tr>
<td>DIV</td>
<td>1.150</td>
<td>.517</td>
<td>.333</td>
<td>2.225</td>
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<td>.195</td>
<td>1.261</td>
<td>.216</td>
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<td></td>
</tr>
<tr>
<td>TAX</td>
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<td>.003</td>
<td>-.158</td>
<td>-1.125</td>
<td>.269</td>
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<td></td>
</tr>
<tr>
<td>WEL</td>
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<td>.026</td>
<td>-.111</td>
<td>-.817</td>
<td>.420</td>
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<td></td>
</tr>
</tbody>
</table>

Adj R-Sq=0.298, F=3.603
Table 6: Regression results for Trade & Retail Industries

The CSR of trade and retail industries does not draw too much attention. See from Table 6, the sig. value is 0.005 which means this regression model is significant at 99.5% confidence interval. The regression results here are highly reliable. While R-Squared value is 0.412 which means the listed variables explain 41.2% change of this industry’s financial performance, it informs that in these industries the financial performance is much more influenced by some other economic factors.

Then see from the perspective of variables, the variable DIV still has the singally positive correlation with the industries’ financial performance, while the variable WEL has relatively negative correlation with the industry’s financial performance. For the other variables, they don’t have significant correlation with the financial performance.

Therefore, the Table 6 can be understood like this: For Chinese listed companies in trade and retail industries, the CSR to shareholders have significant correlation with the financial performance; while the CSR to employees have relatively negative correlation with financial performance; and CSR to other stakeholders has no significant correlation with Chinese trade and retail industries’ financial performance.

(6) Regression results for Food & Beverage Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>.007</td>
<td>.003</td>
<td>.343</td>
<td>2.047</td>
<td>.057</td>
<td>.722</td>
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<td>-.035</td>
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<td>.972</td>
<td>.972</td>
</tr>
<tr>
<td>APT</td>
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<td>.009</td>
<td>-.061</td>
<td>-.371</td>
<td>.715</td>
<td>.715</td>
<td>.715</td>
</tr>
<tr>
<td>DIV</td>
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<td>.016</td>
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<td>.137</td>
</tr>
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<td>.452</td>
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<td>.034</td>
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<td>.707</td>
<td>.707</td>
<td>.707</td>
</tr>
</tbody>
</table>

Adj R-Sq=0.600, F=5.925

Table 7: Regression results for Food & Beverage Industries

The food and beverage industries shouldn’t draw so much public attention as in China right now, but since the dairy crisis occurred in 2008, Chinese people are much more care about what they are eating and drinking, and they also pay a lot of attention on the food and beverage companies’ CSR behaviors. See from Table 7, the sig. value is 0.002 which means the regression model is significant at 99.8% confidence interval. And R-Squared value is 0.722 which means the listed variables explain 72.2% change of this industry’s financial performance. The regression results are satisfactory.

Then see from the perspective of variables, the variable DIV still has the singally positive correlation with the industries’ financial performance, while the other variables don’t have
significant correlation with the financial performance.

Therefore, the Table 7 can be understood like this: For Chinese listed companies in food and beverage industries, the CSR to shareholders have significant correlation with the financial performance; while CSR to other stakeholders has no significant correlation with Chinese food and beverage industries’ financial performance.

(7) Regression results for Paper and printing Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
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<td>.463</td>
<td>.443</td>
<td>.304</td>
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<tr>
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<td>-.386</td>
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</tr>
<tr>
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</tr>
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</tr>
<tr>
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</tr>
<tr>
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<td>.866</td>
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<td></td>
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</tbody>
</table>

Adj R-Sq=0.118, F=1.364

Table 8: Regression results for Paper and printing Industries

The paper and printing industries are traditional high energy consumption and pollution intensive industries. See from Table 8, R-Squared value is 0.443 which means the listed variables explain 47.8% change of this industry’s financial performance, and the sig. value is as much as 0.304 which means this regression model is only significant at 69.6% confidence interval. Thus these results are not reliable. And this result may due to: 1 there are too less samples are selected in the regression analysis for paper and printing industries---only 12 of 839 samples are in these industries. 2 There may have some false financial data used in this regression analysis.

No matter how, see from the perspective of variables, only the variable DIV has the singally positive correlation with the industries’ financial performance, while the other variables have little negative correlation with the industry’s financial performance.

Therefore, the Table 8 could be understood like this: For Chinese listed companies in paper and printing industries, the CSR to shareholders have significant correlation with the financial performance; while the CSR to other stakeholders no significant correlation with financial performance. But the result in this industry is not reliable enough.

(8) Regression results for Metal &Nonmetal Manufacturing

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
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<td>-.558</td>
<td>-5.780</td>
<td>.000</td>
<td>.566</td>
<td>.000</td>
</tr>
<tr>
<td>ICR</td>
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<td>.000</td>
<td>-.158</td>
<td>-1.741</td>
<td>.085</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The metal and nonmetal manufacturing industries are also labor-intensive and pollution-intensive industries in China which always drawing attention of government and public. See from Table 9, the sig. value is less than 0.001 which means the regression results are highly reliable. And R-Squared value is 0.566 which means the listed variables explain 56.6% change of this industry’s financial performance.

Therefore, the Table 9 can be understood like this: For Chinese listed companies in metal and nonmetal manufacturing industries, the CSR to shareholders have significant correlation with the financial performance; while CSR to customers and employees have relatively negative correlation with financial performance; the CSR to other stakeholders has no significant correlation with the financial performance.

(9) Regression results for Electronics Manufacturing Industry

In China, the electronics manufacturing industry is a labor intensive, capital intensive and technology-intensive industry. See from Table 10, the sig. value is less than 0.001 which means the regression results are highly reliable. And R-Squared value is 0.706 which means the listed variables explain 70.6% change of this industry’s financial performance.
Then see from the perspective of variables, the variable DIV has the singally positive correlation with the industries’ financial performance, while the variable WEL have relatively significant positive correlation with the financial performance. Other variables have no significant correlation with the financial performance.

Therefore, the Table 10 can be understood like this: For Chinese listed companies in electronics manufacturing industry, the CSR to shareholders have significant correlation with the financial performance; CSR to employees have relatively positive correlation with financial performance; the CSR to other stakeholders has no significant correlation with the financial performance.

(10)Regression results for Manufacturing and use of electricity, gas, water Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
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<td>.006</td>
<td>-.024</td>
<td>-.142</td>
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<td>.497</td>
<td>.001</td>
</tr>
<tr>
<td>ICR</td>
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<td>.007</td>
<td>.415</td>
<td>2.276</td>
<td>.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APT</td>
<td>.000</td>
<td>.003</td>
<td>.006</td>
<td>.042</td>
<td>.967</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
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<td>.470</td>
<td>.452</td>
<td>3.104</td>
<td>.004</td>
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<td></td>
</tr>
<tr>
<td>ALR</td>
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<td>.003</td>
<td>.069</td>
<td>.395</td>
<td>.695</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX</td>
<td>-.001</td>
<td>.005</td>
<td>-.034</td>
<td>-.264</td>
<td>.794</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WEL</td>
<td>.050</td>
<td>.029</td>
<td>.230</td>
<td>1.736</td>
<td>.092</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adj R-Sq=0.394, F=4.807

Table 11: Regression results for Manufacturing and use of electricity, gas, water Industries

In China, the manufacturing and use of electricity, gas, water industries are considered as capital-intensive and technology-intensive industries. See from Table 11, the sig. value is 0.001 which means the regression results are highly reliable. And R-Squared value is 0.497 which means the listed variables explain 49.7% change of this industry's financial performance.

Then see from the perspective of variables, the variable DIV has the singally positive correlation with the industries’ financial performance, and the variable WEL have relatively positive correlation with the financial performance. Other variables have no significant correlation with the financial performance.

Therefore, the Table 11 can be understood like this: For Chinese listed companies in manufacturing and use of electricity, gas, water industries, the CSR to shareholders have significant correlation with the financial performance; CSR to employees have relatively positive correlation with financial performance; the CSR to other stakeholders has no significant correlation with the financial performance.

(11) Regression results for Textile and Garment manufacturing Industries
Table 12: Regression results for Textile and Garment manufacturing Industries

Compare to some developed countries, the textile and garment manufacturing industries are still labor-intensive industries. See from Table 12, the sig. value is 0.018, less than 0.05, which means the regression results are reliable. And R-Squared value is 0.515 which means the listed variables explain 51.5% change of this industry’s financial performance.

Then see from the perspective of variables, the variable DIV has the singally positive correlation with the industries’ financial performance; while the variable CR has relatively negative correlation with the financial performance. Other variables have no significant correlation with the financial performance.

Therefore, the Table 12 can be understood like this: For Chinese listed companies in textile and garment manufacturing industries, the CSR to shareholders have significant correlation with the financial performance; CSR to customers have relatively negative correlation with financial performance; the CSR to other stakeholders has no significant correlation with the financial performance.

(12) Regression results for Petrochemical & plastics Industries

Table 13: Regression results for Petrochemical & plastics Industries

Petrochemical and plastics industries are traditional pollution intensive and labor intensive industries. See from Table 13, the sig. value is less than 0.001 which means the regression results are reliable. And R-Squared value is 0.587 which means the listed variables explain
58.7% change of this industry’s financial performance.

Then see from the perspective of variables, the variable DIV has the singly positive correlation with the industries’ financial performance; and the variable WEL has relatively positive correlation with the financial performance. Other variables have no significant correlation with the financial performance.

Therefore, the Table 12 can be understood like this: For Chinese listed companies in petrochemical and plastics industries, the CSR to shareholders have significant correlation with the financial performance; CSR to employees have relatively positive correlation with financial performance; the CSR to other stakeholders has no significant correlation with the financial performance.

(13) Regression results for Instrument machinery and equipment manufacturing Industries

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>-.012</td>
<td>.006</td>
<td>-.143</td>
<td>-1.923</td>
<td>.056</td>
<td>.430</td>
<td>.000</td>
</tr>
<tr>
<td>ICR</td>
<td>.002</td>
<td>.001</td>
<td>.178</td>
<td>2.860</td>
<td>.005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APT</td>
<td>.004</td>
<td>.006</td>
<td>.045</td>
<td>.733</td>
<td>.465</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
<td>1.940</td>
<td>.231</td>
<td>.546</td>
<td>8.386</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALR</td>
<td>.008</td>
<td>.002</td>
<td>.250</td>
<td>3.648</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX</td>
<td>-.010</td>
<td>.005</td>
<td>-.118</td>
<td>-1.968</td>
<td>.051</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WEL</td>
<td>.049</td>
<td>.026</td>
<td>.117</td>
<td>1.909</td>
<td>.058</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adj R-Sq=0.405, F=17.543

Table 14: Regression results for Instrument machinery and equipment manufacturing Industries

Instrument machinery and equipment manufacturing industries in China are pollution intensive, labor intensive and technology-intensive industries. See from Table 13, the sig. value is less than 0.001 which means the regression results are reliable. And R-Squared value is 0.430 which means the listed variables explain 43.0% change of this industry’s financial performance.

Then see from the perspective of variables, the variable DIV has the singly positive correlation with the industries’ financial performance; and the variable WEL has relatively positive correlation with the financial performance. Other variables have no significant correlation with the financial performance.

Therefore, the Table 13 can be understood like this: For Chinese listed companies in instrument machinery and equipment manufacturing industries, the CSR to shareholders have significant correlation with the financial performance; CSR to employees have relatively positive correlation with financial performance; the CSR to other stakeholders has no
significant correlation with the financial performance.

According to the regression results, I got a summary table for different industries.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Signally variable and it’s relationship with CFP</th>
<th>Degree of fitting</th>
<th>Confidence level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>DIV—positive WEL—positive</td>
<td>0.838</td>
<td>Reliable</td>
</tr>
<tr>
<td>Agriculture</td>
<td>DIV—positive WEL—negative</td>
<td>0.888</td>
<td>Reliable</td>
</tr>
<tr>
<td>Construction &amp; Building</td>
<td>DIV—positive WEL—negative</td>
<td>0.572</td>
<td>Reliable</td>
</tr>
<tr>
<td>Transportation</td>
<td>DIV—positive</td>
<td>0.478</td>
<td>Reliable</td>
</tr>
<tr>
<td>Trade &amp;Retail</td>
<td>DIV—positive WEL—negative</td>
<td>0.412</td>
<td>Reliable</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>DIV—positive</td>
<td>0.722</td>
<td>Reliable</td>
</tr>
<tr>
<td>Paper and printing</td>
<td>DIV—positive</td>
<td>0.443</td>
<td>Not reliable</td>
</tr>
<tr>
<td>Metal &amp; Nonmetal Manufacturing</td>
<td>DIV—positive WEL—negative CR—negative</td>
<td>0.566</td>
<td>Reliable</td>
</tr>
<tr>
<td>Electronics Manufacturing</td>
<td>DIV—positive WEL—positive</td>
<td>0.706</td>
<td>Reliable</td>
</tr>
<tr>
<td>Manufacturing and use of electricity, gas, water</td>
<td>DIV—positive WEL—positive</td>
<td>0.497</td>
<td>Reliable</td>
</tr>
<tr>
<td>Textile and Garment manufacturing</td>
<td>DIV—positive CR—negative</td>
<td>0.515</td>
<td>Reliable</td>
</tr>
<tr>
<td>Petrochemical &amp; plastics</td>
<td>DIV—positive WEL—positive</td>
<td>0.587</td>
<td>Reliable</td>
</tr>
<tr>
<td>Instrument machinery and equipment manufacturing</td>
<td>DIV—positive WEL—positive</td>
<td>0.430</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Table 15: Summary for regression results in different industries

From table 15, it’s easily to see that: expect the regression results for Paper and printing industries, other regression results are highly reliable; Except the variable DIV always have positive relationship with CFP in all industries, the other variables have different relationships with CFP in different industries, this is consist with research hypothesis 1.

5.2 Variable analysis for different industries

Table 2-Table 15 have given a view of the regression results, but in order to have a better
understanding of the relationship between different CSR and CFP in different industries, I have to go deeper to analysis the variables in different industries. The following will be the variable analysis for different industries.

（1）Variable TAX: the proportion of income tax

According to the analysis results, the proportion of income tax have some degree of negative correlation with corporate financial performance for most of the industry have, but not significant. (The absolute values of coefficients are less or equal to 0.010) This shows that the companies pay taxes to the government don’t have much impact on their financial performance. This may be due to that: the government doesn’t to adopt tax incentives based on the amount of enterprises’ tax, and treat the enterprises’ implement of responsibility to government as the normal behaviors.

Also found from the results, general speaking, the high energy consumption, high pollution industries, have the larger negative coefficient. For example, the negative coefficients of Construction & Building (-0.006), Paper and printing (-0.008), Instrument machinery and equipment manufacturing (-0.010) are larger than Trade & Retail(-0.003) Manufacturing and use of electricity, gas, water.(-0.001).

While Metal & nonmetal manufacturing (0.000) and Electronics Manufacturing (0.009) are clearly not the cases, this may be due to the Chinese government’s mining integration policy and independent development for core electronics industry policy in recent years.

（2）Variable WEL: the proportion of salary

The relationship between proportion of salary and financial performance is relatively significant but it is polarized in different industries. In the industries which have a heavy workload and require staffs have a certain level of technical quality, the proportion of salary has significant positive effects on companies’ financial performance, such as: Instrument machinery and equipment manufacturing (0.049) Petrochemical & plastics (0.078). But for the industries which have a relatively less workload and don’t have technical quality requirement for staffs, their staffs mostly composed of cheap labors and easy to be replaced. So the employers lack of incentive to take more corporate social responsibilities to the employees. Lack of investment in social responsibilities, the companies naturally can’t recover its effectiveness. In this case, the salary paid to the employees directly reduced the company's financial income, such as Agriculture (-0.058).

（3）Variable APT: the Accounts payable turnover

See from the results of analysis, the relationship coefficients for most of the industries are not significant and only the coefficient of Construction & Building (-0.014) is relatively significant. Such a result may due to the following two reasons: first, the situation that Chinese companies occupied or defaulted loans of the upstream suppliers’ is quite common;
second, over a long time, because of environmental factors, most of Chinese companies lack of awareness to implement their corporate social responsibilities. Combination of these two reasons makes the accounts payable accounting can’t have a significant impact on earnings per share. In addition, the analysis result of the Construction & Building industry is due to the abnormally development of Chinese realty business since 2004. Many speculators have invested in real estate development, they owning a large amount capital of building materials suppliers and put the money into reproduction. The more accounts in arrears, the more real estate constructed, and the higher profit. But this phenomenon has its particularity.

（4）Variable DIV: dividends per share

Dividend per share is the dividends allocated by company in accordance with shares. See from the results of the regression analysis, the results are very significant positive correlation. When companies pay dividends to shareholders, they are considered to take social responsibilities to the shareholders but not just to treat shareholders as sources of investment; on the other hand, companies pay dividends to shareholders, also send a signal to investors that their operating conditions, financial condition and other aspects are very stable. Among them, for growth companies, start to allocate dividends shows their business situation gradually matured, financial conditions improved and stable. In short, the continuous and stable allocating dividends helps to strengthen the confidence of investors and the public which will further affect the confidence of creditors, suppliers, downstream channels and other stakeholders. The confidence can ensure the stability of company's financing source and company’s normal operation, which will enhance the company's profitability.

（5）Variable ICR: the interest coverage ratio

Variable ALR: the asset-liability ratio

According to the results, the correlation of asset-liability ratio is not significant, although in most industries shows the result of positive correlation, the absolute values of coefficients are less than 0.010, which means only has a limited impact on corporate financial performance.

Compared to the asset-liability ratio, interest coverage ratio results in more significant in some industries, such as: Manufacturing and use of electricity, gas, water (0.016); Transportation (0.017); Paper and printing (-0.012). But correlation is still not significant from the view of overall.

This is presumably because the related systems are relatively perfect in China, therefore the corporate social responsibilities to creditors are generally having better performances. Corporate social responsibilities to creditors, including the two aspects: one aspect is effectively control the debt ratio and debt risks, and ensures the liquidity to the creditors; the other aspect is disclosure the necessary financial information to creditors through a perfect information disclosure system. This thesis argues that, by controlling the debt ratio within a reasonable level, and maintaining good liquidity, companies can enable the creditors’ confidence for the company, then the debt financing can be sustained which will help the companies’ normal business operation, and improve the profitability of capacity.
(6) Variable CR: the operation cost rate

For the operation cost rate, has been showed has negative correlation with corporate financial performance in most industries, even has relatively significant negative correlation in some industries, such as the Information Technology Industry (-0.020) Metal & nonmetal Manufacturing (-0.032) Textile and garment manufacturing (-0.030). It seems to show that in a certain degree: surrender part of the profits to customers, will have a little negative impact on the corporate financial performance.

5.3 Regression analysis for all samples and test results of hypothesis

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t-Statistic</th>
<th>Sig.</th>
<th>R-squared</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.666</td>
<td>.116</td>
<td></td>
<td>5.760</td>
<td>.000</td>
<td>.461</td>
<td>.000</td>
</tr>
<tr>
<td>CR</td>
<td>-.005</td>
<td>.001</td>
<td>-.117</td>
<td>-4.155</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICR</td>
<td>.000</td>
<td>.000</td>
<td>.042</td>
<td>1.585</td>
<td>.113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APT</td>
<td>-8.656E-5</td>
<td>.001</td>
<td>-.003</td>
<td>-.108</td>
<td>.914</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
<td>1.849</td>
<td>.081</td>
<td>.636</td>
<td>22.799</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ALR</td>
<td>.002</td>
<td>.001</td>
<td>.082</td>
<td>2.864</td>
<td>.004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX</td>
<td>-.002</td>
<td>.001</td>
<td>-.062</td>
<td>-2.343</td>
<td>.019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WEL</td>
<td>.010</td>
<td>.008</td>
<td>.031</td>
<td>1.212</td>
<td>.226</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj R-Sq=0.457, F=101.680</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 16: Regression analysis for all Samples

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td>EPS</td>
</tr>
<tr>
<td>CR</td>
</tr>
<tr>
<td>ICR</td>
</tr>
<tr>
<td>APT</td>
</tr>
<tr>
<td>DIV</td>
</tr>
<tr>
<td>ALR</td>
</tr>
<tr>
<td>TAX</td>
</tr>
<tr>
<td>WEL</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
</tr>
</tbody>
</table>

Table 17: Descriptive Statistics for all Samples

49
Table 16 and Table 17 are the tables of regression results for all 839 samples. From the overall regression results, the R-Squared value is 0.461, which reflects an acceptable regression result. Meanwhile, the value of significant probability (Sig.) is less than 0.01, indicating that the overall regression model is significant at 99% confidence interval. Then, according to the results, the regression equation is got:

\[ EPS = 0.666 - 0.002 \text{TAX} + 0.01 \text{WEL} - 0.000025 \text{APT} + 1.849 \text{DIV} + 0.00 \text{ICR} + 0.002 \text{ALR} - 0.005 \text{CR} \]

According to the results, the relationship between the proportion of income tax and corporate financial performance is a small and not significant negative correlation, which is the same result with the variable analysis for different industries but not consistent with the research hypothesis 2, proves that the corporate social responsibility to government don’t have too much impact for its financial performance.

The relationship between the proportion of salary and financial performance is a relatively significant positive correlation, which is consistent with the hypothesis. This may be due to that: in the current circumstances, the concept of corporate social responsibilities to employees has been widely accepted, and the behaviors of implement corporate social responsibilities to employees, indeed attracted high quality personal and encouraged the enthusiasm of the employees, which have the positive impact on corporate financial performance.

Accounts payable turnover ratio almost has no impact on the enterprise's financial performance, different from the hypothesis.

Dividends per share has a very significant positive relationship with the corporate financial performance which is not only consistent with research hypothesis, but also the same with the variable analysis for different industries, indicating the company's social responsibility to shareholders is very obvious for all of the listed companies, and also has a significant positive impact on the companies’ financial performance.

The interest coverage ratio and asset-liability ratio don’t have significant impact on corporate financial performance; this result is consistent with the variable analysis for different industries while not consistent with research hypothesis. And this may be due to: For the Chinese listed companies, some of them infringed the interests of their creditors, but didn’t get deserve punishment, and thus the reflections on financial performance are not significant.

Ratio of operating costs does not have a significant impact on the corporate financial performance, which is different with the research hypothesis. This may because the selected indicator can’t well reflects the corporate responsibility to consumers.

According to the regression analysis for all samples and for different industries, I could give the test results to the hypothesis as follow:
<table>
<thead>
<tr>
<th>Hypothesis No.</th>
<th>Related Stakeholder</th>
<th>The relationship between related CSR and CFP (Positive, Negative, No signally relationship)</th>
<th>Test Result of Hypothesis (True/False)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1</td>
<td>________</td>
<td>________</td>
<td>True</td>
</tr>
<tr>
<td>Hypothesis 2</td>
<td>Government</td>
<td>No signally relationship</td>
<td>False</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>Employees</td>
<td>Positive</td>
<td>True</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>Suppliers</td>
<td>No signally relationship</td>
<td>False</td>
</tr>
<tr>
<td>Hypothesis 5</td>
<td>Shareholders</td>
<td>Positive</td>
<td>True</td>
</tr>
<tr>
<td>Hypothesis 6</td>
<td>Creditors</td>
<td>No signally relationship</td>
<td>False</td>
</tr>
<tr>
<td>Hypothesis 7</td>
<td>Creditor</td>
<td>No signally relationship</td>
<td>False</td>
</tr>
<tr>
<td>Hypothesis 8</td>
<td>Consumers</td>
<td>No signally relationship</td>
<td>False</td>
</tr>
</tbody>
</table>

Table 18: Test Result of Hypothesis

Overall, the results of regression analysis are basically consistent with the status of Chinese listed companies’ corporate social responsibilities.
6 Conclusions

Corporate social responsibility is now a hot research field for the academic over the world. And the purpose of this thesis is to learn the relationship between CSR and financial performance of Chinese listed companies. In order to get a better understanding of this issue, I proposed three sub-questions in chapter 1, they are: 1 what's the definition of CSR? 2 Who are the stakeholders for Chinese listed companies? 3 How do the CSR behaviors to different stakeholders impact Chinese listed companies’ financial performance?

For getting answers to these questions, firstly I reviewed the development and formation of the CSR concept, and summarized the important definitions of CSR. Then discussed the previous researches, and detailed stated the stakeholder theory, identified the stakeholders for Chinese listed companies, they are: shareholders, government, employees, creditors, suppliers, and consumers.

After that, based on stakeholder theory, I used some specific accounting indicators and conduct an empirical study for 839 Chinese listed companies to research the impacts of CSR to different stakeholders on the financial performance of Chinese listed companies.

According to the results of empirical study, the following results are found:

1 For Chinese listed companies, implement the social responsibilities to government, won’t have a significant impact on their financial performance. The reason for this result probably be: the listed companies took social responsibilities to government, but didn’t get enough political supports from Chinese government; neither formed a good brand influence by this.

2 The relationship between the CSR to employees and financial performance is a relatively significant positive correlation for Chinese listed companies. This may due to that: in Chinese current situation, the concept of social responsibilities to employees has been widely accepted, and the implementation of this social responsibility indeed attracted high quality staff for the companies, and encouraged the enthusiasm of the employees at the same time.

3 The CSR to suppliers almost has no effect on the Chinese listed companies’ financial performance. This may because: the behaviors that companies occupied or defaulted loans of the upstream suppliers’ are quite common in Chinese market, while these behaviors do not lead to deserved punishments frequently.

4 CSR to shareholders has a significant positive correlation with companies financial performance; proved that the concept of “shareholder first” is still the focus of Chinese listed companies.

5 The CSR to creditors doesn’t have significant impact on Chinese listed companies' financial performance. The reasons may be: In some industries, China's enterprises can take their social responsibilities to creditors by strictly controlling the risk of debt, thus got a positive impact.
on their financial performances; but in all industries, there are still some companies infringed the interests of creditors, thus the overall returns on financial performance are not significant.

7 The CSR to customers doesn’t have significant impact on Chinese listed companies’ financial performance. This may due to the industrial structure of China. In Chinese market, the traditional labor-intensive and resource-intensive companies still occupy a large market share, the profit margin of single item are not high. Although implement the social responsibilities to customers will attract more customers, the profit margin further reduce at the same time. So the CSR to customers can’t make a better financial performance in whole Chinese market.

With the help of above results, I can concluded that: except implement the CSR to shareholders has outstanding positive impact on Chinese listed companies’ financial performance and implement CSR to employees has relatively positive impact; the implementations of CSR to other stakeholders have no signally impact on Chinese listed companies’ financial performance.

Overall, the results of empirical analysis are consistent with the status of Chinese corporate social responsibility, that is: although Corporate Social Responsibility in China had a certain degree of development, the overall situation is still not optimistic. Currently, China's corporate social responsibility remains focus on the responsibilities to shareholders, the responsibilities to other stakeholder need to develop.
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RESSET database
Available :<http://www.resset.cn> 2011-12-23


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University of Borås is a modern university in the city center. We give courses in business administration and informatics, library and information science, fashion and textiles, behavioral sciences and teacher education, engineering and health sciences.

In the School of Business and Informatics (IDA), we have focused on the students' future needs. Therefore we have created programs in which employability is a key word. Subject integration and contextualization are other important concepts. The department has a closeness, both between students and teachers as well as between industry and education.

Our courses in business administration give students the opportunity to learn more about different businesses and governments and how governance and organization of these activities take place. They may also learn about society development and organizations' adaptation to the outside world. They have the opportunity to improve their ability to analyze, develop and control activities, whether they want to engage in auditing, management or marketing.

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