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Meeting Stakeholder Needs: Who Should Managers Pay Close Attention To? Evidence from Listed Chinese Manufacturing Companies

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Abstract: Meeting the needs of stakeholders, as an element of CSR, requires a delicate balance of meeting these needs and ensuring profitability. Guided by the legitimacy theory and the stakeholder theory, this paper assesses the significance of meeting stakeholder needs and examines the types of stakeholders that managers pay close attention to. Using a fixed-effects model on 859 Chinese manufacturing firms and a regression analysis, the results show a positive link between corporate social responsibility (CSR) activities and organisational financial performance via both accounting and market measures in the Chinese manufacturing market. Furthermore, the primary objective of companies is to maximise shareholder returns while also meeting societal needs. The results also indicate that responsibility to shareholders and employees and growth potential have significant positive impacts on a company's market value. This research demonstrates the need for companies to engage in CSR activities, as this can establish an elevated level of financial performance. Furthermore, attention needs to be paid to other stakeholders in corporate CSR activities to engage them and sustain their commitments towards an organisation's productivity, growth, and sustainability. This is the first study to examine the power of influence from different stakeholders using legitimacy theory. Secondly, it is the first study to evaluate this influence using the Chinese manufacturing industry, which is, arguably, one of the largest in its field.

Keywords: performance; corporate; social; responsibility; stakeholders; firms



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1. Introduction

Through corporate social responsibility (CSR), firms integrate social and environmental concerns into their operations to pursue sustainable growth [1]. This has led many companies to improve their CSR reports, especially with the introduction of environmental regulations [2]. Ref. [1] noted in their study that CSR enhances the financial performance of a company due to its positive influence on image and reputation. This not only enhances a firm's brand value but also creates intangible assets [3,4] and is, hence, attractive to employees [5]. Also, Ref. [6] observed that the adoption of CSR activities positively impacts market value. Studies on the effect on firm value [7,8] show that firms that display higher levels of CSR enjoy lower costs of equity capital. This finding is consistent with the notion that CSR performance can affect a firm's value by decreasing financial risk [9,10]. Ref. [11] document that firms with better CSR performances face significantly lower capital constraints and have an easier access to finance. Indeed, a recent study by Ref. [12] noted a positive association between CSR and a firm's value. In addition, Ref. [13] assessed whether firms that acted responsibly towards society improved their market value during the 2008–2009 financial crisis and noted a positive association between CSR performance and firm value. In assessing whether CSR activities provide a competitive advantage, Ref. [14] noted that companies that engaged more in CSR activities had a competitive advantage and tended

to foster a win–win relationship with their stakeholders. CSR can benefit firms through various channels.

Previous research is indecisive on the association between CSR and financial performance. For example, Refs. [9,13,15–20] have found that CSR has a positive effect on financial performance, while others [21–23] have found a negative relationship. Interestingly, some empirical works (e.g., [24,25]) have revealed nonlinear relationships, arguing that CSR cannot universally produce favourable returns for firms.

Based on this, Ref. [26] noted that the influence of CSR activities on financial performance remains a contentious issue. While there are many studies that have attempted to understand the relationship between CSR and financial performance, there are limited studies (if any) that examine which stakeholders managers give more attention to in order to achieve their financial performance objectives. In addition, studies have not examined this topic from the stakeholders' point of view, hence the use of stakeholder theory to underpin this study. This study adopts a unique approach that considers both the legitimacy theory and the stakeholder theory to better understand this relationship. Legitimacy theory identifies the social contract between an organisation and society. Legitimacy can be defined as a condition or status that exists when an entity's value system is congruent with the value system of the larger social system that the entity is a part of. This study poses a question first asked by [27]—who do managers pay more attention to?—by examining the power and legitimacy of various stakeholders. To address this question, this study used Chinese manufacturing firms because China accounted for 28 percent of the global manufacturing output in 2018. That is 10% more than the United States. This is why China is seen as the “world's factory”. In addition, the manufacturing industry contributed 30% of China's total output. This indicates the importance of this industry not only in the Chinese context but globally. Despite the positive contribution of manufacturing firms to the economy, the particulate matter (PM2.5) level was 1.4 mg/m³ in the northeastern city of Shenyang in 2015, 56 times the level considered safe by the WHO [28]. PM2.5 is a major measure of pollutants in the air. The record-breaking level of PM2.5 in China mainly resulted from factory pollution, which indicated serious environmental problems within the manufacturing industry and a general lack of awareness by business managers, hence the need for this study. In addition, although there are similarities in terms of the CSR dimensions between China and other developed countries, one unique difference is that Chinese firms ease national employment pressures by providing increased job opportunities that would not otherwise exist [29]. Such institutional pressures (government, communities or media, and NGOs) are causing Chinese firms to seriously re-evaluate their CSR practices.

Therefore, the objectives of this work are the following:

1. To explore the CSR of listed Chinese manufacturing companies and its effect on financial performance based on stakeholder theory;
2. To examine the impact of companies' concerns on different stakeholders.

The results indicate that firm growth, firm size, and responsibility to shareholders are significant determinants of a firm's profitability. Responsibility to shareholders generally entails increasing their wealth through share prices and dividend payments. Surprisingly, the results suggest that responsibility to suppliers and customers are significant factor behind profitability. One would expect that a good relationship with the suppliers would lead to favourable trade terms and greater performance, while one with customers would lead to repeat purchases in non-monopolistic market structures. The results imply that cutting the price to be paid by the customers impacts negatively on performance. Also, although it is important to have a good relationship with the suppliers, it is vital that there are favourable terms (for example, extended credit) for the manufacturing.

The results also indicate that responsibility to the shareholders, employees, and the environment are significant drivers of Tobin's Q, which measures a firm's market value. Additionally, this study shows that listed Chinese manufacturing companies pay a substantial amount of attention to the needs of shareholders and society but not to those of the government, the environment, employees, product quality, after-sales service, or integrity.

This study contributes immensely to stakeholder theory by demonstrating that the needs of different stakeholders gain primary attention in managers' CSR initiatives and practices. For instance, although companies strive to meet the needs of stakeholders and maximise their wealth, they must also minimise costs, which often leads to value-for-money for their customers (product pricing), living wages/salaries for their employees, and being socially responsible within society. As a result, companies must maintain a delicate balance of various stakeholder needs.

In terms of policy implications, these results demonstrate the need to strengthen the disclosure of information on CSR behaviours. This would help to positively influence the perception held by external stakeholders of companies that have adopted CSR behaviours and, in turn, make the fulfilment of a company's responsibility to external stakeholders positively impact the firm's performance.

Following the introduction, the next section reviews the literature on corporate social responsibility and impact on financial performance and stakeholder theory. Section 3 will examine the methodology, and Section 4 is on the analysis and discussion of the results.

2. Literature Review

2.1. CSR in China

The CSR debate started well in the 1990s but was met with a lot of criticisms from many fronts, including from entrepreneurs and economists. Their argument was that the CSR concept was a Western way of reining in China's economic prosperity [30]. Fast forwarding to 2002, the Chinese Central Government initiated a circular economy (CE) policy that aimed to eliminate environmental degradation and resource scarcity issues due to poor industrial practices [31]. Further development regarding this concern for the environment was initiated in 2005 by the National People's Congress, by introducing the Harmonious Society Policy, which focuses not only on economic growth but also on societal balance and harmony. Indeed, as Ref. [32] argued, the obligation of firms is to act in accordance with the overarching goals of society, thus directly linking the concept to sustainable development. In addition, CSR activities need to be those that enhance or build the social, environmental, and economic performance of a business [33]. Such societal activities include compliance and due diligence, optimisation and control (involving the application of quality and sustainability management systems), and, finally, the integration of environmental and social issues into the business model and value creation [34]. In other words, rather than focusing only on profits, firms should focus on the triple bottom line (TBL), which provides a framework for measuring the performance of a business and the success of an organisation using three lines—economic, social, and environmental [35]—which is seen as a practical framework of sustainability [36]. Indeed, this has led to the emergence of integrated reporting, especially for listed companies. The overall objective of integrated reporting is to help stakeholders assess whether a firm can create and sustain its value over the short, medium, and long term, that is, whether organisations can demonstrate their responsibility towards the global economy and the three major stakeholders—shareholders, society, and the environment [37]. According to Chinese Companies Law, Article 5, firms are required, in the course of their operations, to take care of the environment [38]. Since then, there has been an upshoot in adopting and reporting CSR activities. For example, in 2009, the Shanghai Stock Exchange launched the CSR index and encouraged listed firms to disclose their CSR activities as part of an integrated reporting framework. This has seen an increase in the number of public firms to disclose voluntarily their environmental activities [39]. Voluntary reporting of a firm's social and environmental performance is often reported in an ad hoc fashion. Such ad hoc reporting diminishes the fundamental reporting qualities of relevance to users and the faithful representation that can be verified and understood by stakeholders. However, there are three frameworks that organisations can use in reporting both financial and non-financial performance (the UN Global Compact, the Global Reporting Initiatives (GRI version 3.1), and the Economics of Ecosystems and Biodiversity (TEEB)). In principle, there are four aspects that need to be covered [40]—that is,

human rights, labour, environment, and anti-corruption—and these include the following: the support and respect of internationally proclaimed human rights; not to be complicit with human rights' abuses; to uphold and recognise the right to collective bargaining; to eliminate forced and compulsory labour; to abolish child labour; to eliminate discrimination in employment and occupation; to support precautionary action to meet environmental challenges; to initiate and promote greater environmental responsibility; and to develop and diffuse environmentally friendly technologies.

Unlike in the Western world, in China, the implementation of CSR practices relies heavily on government initiative because of heavy government ownership of firms. Sixty percent of listed enterprises are state-owned enterprises (SOEs) [41]. Ref. [42] states that SOEs in China have a severe problem in that government-appointed managers have no incentive to pursue the maximisation of values for the various shareholders; they serve only government interests.

2.2. CSR and Financial Performance

Ref. [43] noted that CSR is more than just activities that may be beneficial to a firm's stakeholders, but it is also about the impact that these may have on performance. CSR covers a wide range of activities, including some which are not specifically aimed at stakeholders. According to [44], CSR is guided by shared ethics, morals, and perceptions of what is appropriate. This means that businesses must consider the concerns of not only shareholders but also other stakeholders [45]. Ref. [45] argues that managers respond to calls for socially responsible practices by taking money and resources that would otherwise go to shareholders and dedicating them to the needs of other stakeholders. According to the agency theory, agents (management) and principals (shareholders) are always in conflict regarding their interests and objectives—managers can act in their own best interest but at the expense of owners. As a result, the costs involved in agency relationships may be high and damage corporate value. Based on this assessment, some authors have argued that socially responsible firms are at a “competitive disadvantage” if their competitors do not respond [14], as social responsibility generally entails costs [46]; this dynamic would result in a negative relationship between CSR and financial performance [47].

However, although firms incur the direct costs and agency costs of social responsibility, many studies have shown that they can also obtain benefits from CSR. For example, when Ref. [15] examined how CSR impacted 28 commercial banks in India, the results indicated that, when the banks engaged in more CSR activities, their financial performance improved. Similarly, it has been suggested that CSR enhances the shareholder value arising from the activities of stakeholders that benefit from CSR activities [9]. Additionally, Ref. [19] shows that CSR enables firms to enhance their relationships with various stakeholders, including employees and consumers. Interestingly, Ref. [48] examined the Environmental, Social, and Governance (ESG) framework into its three components (environmental, social, and governance) and noted that there is a U-shaped shared association between governance and corporate financial performance.

Other studies have noted that customers may respond to a firm's positive social activities by increasing their demand for its products and services or by being willing to pay higher prices [49]. In line with this, Refs. [50,51] argued that CSR is an essential element of corporate strategy that helps a firm gain a competitive advantage and a way of differentiating itself. In general, studies that have used stakeholder theory have concluded that there is a positive relationship between CSR and financial performance. Few studies have examined the relationship between CSR and performance in emerging economies and, in particular, in the manufacturing industry. Consequently, the current study proposes the following hypothesis:

Hypothesis 1. *CSR has a positive impact on the financial performance of Chinese manufacturing firms.*

2.3. Theoretical Review: Stakeholder Theory

Ref. [52] noted in their study that the success of a company depends on how it addresses the needs of different stakeholders according to stakeholder theory. These stakeholders are the enterprises and individuals who are impacted either positively or negatively by a firm [53]. Indeed, it has been noted that stakeholders are able to influence the ability of a firm to meet its objectives [54]. Consequently, an organisation must satisfy or fulfil the interests of its stakeholders to enhance its financial performance [55]. Business entities must consider the interests of both financial and non-financial stakeholders, as they need both to operate effectively [54]. One way in which a firm can satisfy key stakeholders is through CSR activities [53]. As it has been observed by [56], there is a general expectation that firms will pay attention to the unattended social needs and wants of the community. By being seen as concerned with the needs of society, firms are likely to earn trust from various stakeholders, including customers, the government (regulators), suppliers, lenders, and analysts.

Using stakeholder theory to analyse the impact of CSR, this study uses two lenses—that is, managerial and ethical lenses [55]. From an ethical lens, stakeholder theory proposes that firms must treat all stakeholders fairly regardless of their level of interest [57]. This implies that firms should address the needs of all stakeholders even where there are no direct benefits [54]. This perspective promotes the use of CSR activities to foster amicable relationships between organisations and their stakeholders and, in turn, attain a high level of financial performance [55]. In addition, Ref. [58] noted that effective CSR gives a pro-social identity to an organisation, along with long-term success in carrying out business. Since CSR practice follows societal norms and values, it acts as a tool to build the positive reputation of a firm [50].

From a managerial lens, firms are generally interested in fulfilling the needs of their most powerful stakeholders in order to enhance their profitability [57]. Stakeholders can influence firms by critically examining the contents of their CSR reports and introducing new ideas or opportunities [59]. That is, within the context of stakeholder engagement, firms should go beyond simply identifying and managing stakeholders and also create models of mutual and shared responsibility through CSR [60]. Using a pluralistic CSR model, one can identify four dimensions that explain how stakeholders can potentially harness ethical and moral values to influence the CSR space [59]. That is, using power relationships, stakeholders can gain power to the extent that they can influence CSR practices through legislative mechanisms [61]. Also, using CSR as a cultural relationship, stakeholders can influence firms by working in accordance with a firm's culture and embedding CSR practices in the local context [62]. In addition, using CSR as a social function between a firm and society, stakeholders can potentially play a key role in translating society's demands to firms through legislative instruments or by facilitating the adoption of voluntary standards [63]. Lastly, as a socio-cognitive function, CSR can be regarded as a negotiated outcome. That is, stakeholders endeavour to influence CSR practices via the application of new approaches that can enable social change [18]. As such, the nexus between CSR, corporate financial performance (CFP), different stakeholder demands, and the prioritisation of managers is rarely considered [64]. For example, external stakeholders such as governments and regulatory bodies are highly salient for firms operating in highly regulated environments [65]. However, Ref. [66] noted that, regardless of the industry, stakeholder power, legitimacy, and urgency determine how managers will deal with their (stakeholders) demands. Indeed, Ref. [67] also noted that stakeholder power is very significant in determining how managers will respond to their demands. Ref. [68] suggests that "the capacity of a firm to generate sustainable wealth over time, and hence its long-term value, is determined by its relationships with critical stakeholders". Hence, limited resources and rationality lead organisations to identify and prioritise their key stakeholders [69]. As it has been argued, not all stakeholders are of equal importance to managers [70]. Indeed, some deserve greater attention or priority in managers' agendas because of their important contribution to firm success [71]. Therefore, our second hypothesis is the following:

Hypothesis 2. *Stakeholders vary in their level of influence on financial performance.*

2.4. Theoretical Review: Legitimacy Theory

In order to have legitimacy, organisations often need to conform to social norms, values, and expectations. It is crucial for organisational survival, as it prevents conflicts and develops trust in society and other organisations [72]. Organisations are aware of the reputational threats posed by factors such as financial scandals and human rights' violations. They know they must garner public trust, and they achieve so by adopting CSR activities [73].

Legitimacy theory emphasises the importance of the perception and reputation of businesses [74]. It asserts that there is a social contract between organisations and societies that can be both explicit and implicit. While the explicit terms cover legal requirements, the implicit terms are those in line with the expectations of society. Having adopted the logic of legitimacy and the social contract, organisations abide by these terms to survive and succeed [75,76].

This theory asserts that there is a balance of benefits between organisations and society. Although organisations provide products and services, they obtain human capital, materials, and potential customers from society. Legitimacy theory suggests that "the expectations of society at large have to be fulfilled by the organisation, not merely the owners' or investors' requirements as in the agency theory" [76]. Indeed, Ref. [77] noted that key stakeholders have abundant sources of power to influence an organisation.

In order to foster a positive image, organisations adopt legitimisation strategies involving CSR activities. Ref. [78] had found these CSR strategies to be positively related to profitability. Ref. [79] examined large companies that emitted higher levels of carbon dioxide in their operations and found that they reported positive rather than adverse news. These kinds of companies polish the positive elements of their activities and downplay the much negative news about them in order to legitimise their activities, so that they can have a good reputation and be socially acceptable [80]. The higher levels of greenhouse gas disclosure by these companies are consistent with the insights from legitimacy theory. Consistent with this, given that there are many industries in this field in the Chinese market, the authors of the current study extended their 2013 study, where they examined large companies in the industry up until 2010. The previous study also tested the reporting behaviour of these companies beyond 2010 to establish continuity/persistence or, otherwise, uphold these insights from legitimacy theory. The public views a higher reporting of greenhouse gas information as a demonstration of increased responsibility, therefore leading to higher patronages and, consequently, increased performance. Therefore, our third hypothesis is as follows:

Hypothesis 3. *There is the expectation that companies that report greenhouse gas emissions will have positive relationship with financial performance.*

3. Methodological Application

3.1. Sampling

Since CSR performance is not a short-term firm behaviour, the companies used in our sample needed to have been listed for at least five years. This research considered manufacturing companies listed in China's A-shares prior to December 2010. Manufacturing firms contribute significantly to China's GDP. For example, this industry accounted for 31% of the country's GDP in 2017, a value much higher compared to Germany and Japan, where manufacturing contributed 20% of the GDPs. In terms of the size of this industry, the total assets of the top 100 listed manufacturing firms by market capitalisation in China increased from RMB1.87 trillion (equivalent to USD256 bn) in 2007 to RMB6.48 trillion (equivalent to USD995 bn) in 2017, representing a compounded annual growth rate of 13.1 percent. Globally, comparing the gross value addition (GVA) in the top four leading

manufacturing economies as shares of the world's value-added manufacturing (at constant 2010 prices) shows that China accounted for almost one quarter (23.6 percent) of the world's manufacturing output in 2016, followed by the US (15.6 percent), Japan (10 percent), and Germany (6.3 percent). Furthermore, Chinese manufacturing firms are appropriate subjects because the country is seen as a representative emerging market [81]. The above suggest that the industry is a major driving force of the Chinese economy, hence our choice. This study collected annual data from 2011 to 2017. To guarantee the reliability of the sample companies' data and the representativeness of the sample, the sample companies were selected in line with the following procedure:

(1) In order to confirm financial data stability, this study excluded ST (special treat) firms or *ST. These firms incurred losses for three consecutive years prior to being marked as ST firms. (2) This study also excluded firms with incomplete financial data. (3) Lastly, firms with abnormal financial data such as asset liability or values of less than 0 were excluded. By applying the above criteria, the final sample comprised 859 listed Chinese manufacturing companies.

3.2. Corporate Financial Performance Measurement

This study used both accounting and market indicators to measure performance. Although accounting indicators reflect a company's historical data and are highly stable, they do not reflect future values and can be manipulated by managers. Market indicators constitute a real-time reflection of a company's operating conditions but are affected by uncertainties in the stock market. The return on assets (ROA) was used as an accounting indicator and Tobin's Q as a market indicator. The ROA, defined as **net profit/average total assets** reflects the relationship between asset utilisation and efficiency; Tobin's Q (TQ) reflects the ratio of a company's market value to the replacement cost. Using Tobin's Q and the ROA provides a corroborative result consistent with the arguments of [82,83].

3.3. Corporate Social Responsibility Measurement

In line with [84,85], this study used the CSR index published by a third-party rating agency, Hexun, to measure the companies' financial performance. The database includes a comprehensive assessment of the CSR of all listed Chinese companies with five first-level indicators: responsibility to shareholders, responsibility to employees, responsibility to suppliers and customers, responsibility to the environment, and responsibility to society. The scoring mechanism of Hexun's CSR database consists of 5 first-level indicators, 13 second-level indicators, and 37 third-level indicators (See Table 1). Previous studies have indicated that the Hexun scoring system provides a credible and robust system for assessing the CSR score [86].

Table 1. Hexun's CSR scoring system.

First-Level Indicators	Second-Level Indicators	Third-Level Indicators
Responsibility to shareholders (30%)	Profitability (10%), debt paying (3%), return (8%), credits (5%), and innovation (4%)	ROE (2%), ROA (2%), return on sales (2%), cost margin (1%), EPS (2%), quick ratio (0.5%), liquidity ratio (0.5%), retained earnings per share (1%), cash ratio (0.5%), equity ratio (0.5%), asset liability ratio (1%), dividend capital ratio (2%), bonus share allocation ratio of profit (3%), number of penalties by stock exchange (5%), dividend yield (3%), R &D expenditure (1%), concept of technological innovation (1%), and number of technological innovations (2%)

Table 1. Cont.

First-Level Indicators	Second-Level Indicators	Third-Level Indicators
Responsibility to employees (15%)	Performance (5%), safety (5%), and caring for the employees (5%)	Per capital income of the employees (4%), staff training (1%), security checks (2%), safety training (3%), policy of caring (1%), amount of caring (2%), and caring payments (2%)
Responsibility to suppliers and customers (15%)	Product quality (7%), after-sales service/customer service (3%), and mutual good faith (5%)	Policy on quality management (3%), quality management system certificate (4%), customer satisfaction survey (3%), fair competition (3%), and anti-bribery training (2%)
Responsibility to the environment (20%)	Environmental governance (20%)	Environmental protection policy (2%), environmental management system certificate (3%), amount invested in the environment (5%), amount of sewage (5%), and number of types of green energy (5%)
Responsibility to society (20%)	Contribution value (20%)	Tax (10%) and donation amount (10%)

The five first-level indicators as explanatory variables (SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; and SOC: responsibility to society).

3.4. Control Variables

Other than CSR, there are several factors that may affect a company's financial performance. In line with [87,88], a company's size (log of total assets), growth capacity ([current main business income—previous main business income]/previous main business income \times 100%), liquidity (current assets/current liabilities), and leverage (total liabilities/total assets) were used as the control variables. Regarding size, large companies are more visible to most stakeholders and, therefore, tend to report their CSR activities to ward off public pressure and present themselves as socially responsible. Since stakeholders, especially consumers, admire and patronise such firms, larger firms are, therefore, expected to have an increase in firm performance following CSR activities. In terms of liquidity, Ref. [89]'s study suggests that the level of corporate liquidity is an important determinant of the level of CSR activities and the disclosure of non-financial information. In other words, firms that are liquid enough have sufficient cash to deploy for environmental activities and the welfare of various stakeholders.

Although, according to agency theory, there is no relationship between CSR and capital structure chiefly because CSR activities are seen as a waste of funds, empirical evidence has demonstrated that firms that engage in CSR activities have a lower cost of capital (see [7,90]). This is because firms with high CSR scores are seen as less risky. Therefore, firms with high CSR scores face lower capital constraints [11] and are more likely to issue equity than low CSR firms.

As this study uses manufacturing firms in one country, the firms are more likely to be homogenous and, hence, our fixed-effects models take the following form:

$$ROA_{it} = \alpha_0 + \alpha_1 SHA_{it} + \alpha_2 EMP_{it} + \alpha_3 SCC_{it} + \alpha_4 ENV_{it} + \alpha_5 SOC_{it} + \alpha_6 SIZE_{it} + \alpha_7 GROWTH_{it} + \alpha_8 LIQ_{it} + \alpha_9 FINL_{it} + \varepsilon_{it} \quad (1)$$

$$ROA_{it} = \gamma_0 + \gamma_1 CSR_{it} + \gamma_2 SIZE_{it} + \gamma_3 GROWTH_{it} + \gamma_4 LIQ_{it} + \gamma_5 FINL_{it} + \varepsilon'_{it} \quad (2)$$

$$TQ_{it} = \beta_0 + \beta_1 SHA_{it} + \beta_2 EMP_{it} + \beta_3 SCC_{it} + \beta_4 ENV_{it} + \beta_5 SOC_{it} + \beta_6 SIZE_{it} + \beta_7 GROWTH_{it} + \beta_8 LIQ_{it} + \beta_9 FINL_{it} + \varepsilon_{it} \quad (3)$$

$$TQ_{it} = \delta_0 + \delta_1 CSR_{it} + \delta_2 SIZE_{it} + \delta_3 GROWTH_{it} + \delta_4 LIQ_{it} + \delta_5 FINL_{it} + \varepsilon'_{it} \quad (4)$$

where α_0 , β_0 , γ_0 , and δ_0 are the constant terms; α_i , γ_i , β_i , and δ_i ($i = 1, 2, \dots, 9$) are the regression coefficients for the explanatory variables and the control variables; and ε_{it} , ε'_{it} , ε_{it} , and ε'_{it} are the residual terms. For robustness, the fixed effects across the firms were applied, and we noted that they were not significant. This was simply because the firms were drawn from the same industry and economy or country.

Model (1) measured the association between CSR and various stakeholders and the profitability measured as the ROA. Model (2) examined the association between the total CSR and the ROA. The ROA was expressed as the net income/total assets because it was not influenced by the financial structure of the firms like the return on equity (ROE).

Model (3) was used to analyse the relationship between CSR and various stakeholders and Tobin’s Q. Lastly, Model (4) analysed the association between the total CSR and Tobin’s Q. Tobin’s Q has been widely used in manufacturing firms to understand a number of issues such as (a) cross-sectional differences in investment and diversification decisions and (b) the relationship between managerial performance and tender offer gains and financing, dividends, and compensating policies [91]. By definition, Tobin’s Q is expressed as follows:

$$Q = (MVS + MVD)/RVAm \tag{5}$$

where MVS = market value of all outstanding shares; MVD = market value of all debt; and RVA = replacement value of all the production capacity.

4. Results and Analysis

4.1. Descriptive Statistics

In the CSR scoring system developed by Hexun, the best possible scores vary somewhat by stakeholder (SHA: 30 points; EMP: 15 points; SCC: 15 points; ENV: 30 points; and SOC: 10 points). Table 2 below shows that the mean score of the responsibility to the shareholders was 13.384, 44.610% of its total potential score of 30. Also, the results indicate that the mean score of the responsibility to the employees was 3.460, just 23.067% of its total potential score of 15. Regarding the suppliers and customers, the mean score of the responsibility was 3.140, at just 20.933% of its total potential score of 15. The mean score of the responsibility to the environment was 3.179, which was 10.597% of its total potential score of 30. Finally, when it comes to society, the mean score was 4.466 which was 44.660% of its total potential score of 10.

Table 2. Descriptive statistics.

	CSR	EMP	ENV	FINL	GROWTHLIQ	ROA	SCC	SHA	SIZE	SOC	TA	TQ	
Mean	28.368	3.460	3.179	42.216	15.479	3.665	9.813	3.140	13.584	21.827	4.466	74.528	1.761
Max	78.890	15.000	27.000	99.810	219.671	204.742	2078.546	20.00	20.470	26.487	22.190	3186.332	31.383
Min	−8.660	−0.020	0.000	0.710	−33.922	0.138	−51.371	0.000	−8.370	18.008	−15.000	0.662	0.183
.Std Dev.	17.387	3.763	6.705	22.015	21.454	10.396	71.114	5.518	3.672	1.167	3.605	193.555	1.636
Obs	859	859	859	859	859	859	859	859	859	859	859	859	859

ROA: return on assets; SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; FINL: financial leverage; TA: total assets; and TQ: Tobin’s Q.

Ref. [92] analysed the governmental, social, and environmental responsibility of 241 companies from 25 different countries using data from 2008 and 2009. The study indicated that the mean scores of the total CSR and the social, governmental, and environmental responsibility on average over the period was 55.252. Ref. [85] analysed the environmental performance of a sample of US companies listed from 2008 to 2011 on the New York Stock Exchange alongside their corporate social responsibility index (CSRI). The study indicated

that the mean of the CSRI was 73.83, revealing that the companies were strong and robust in their efforts towards the environment, and the CSR performance influenced the firms' market value. This could be because a large amount of disclosed CSR activities may receive positive perceptions by both shareholders and non-shareholders. For example, when a firm improves its control of natural resources and avoids environmental damage, it serves the public. At the same time, it avoids litigation risks and reputational damage, which is valuable to shareholders. According to our results, the mean CSR scores of the listed Chinese manufacturing companies observed in our study were less than the total potential score and those documented by the above studies. This suggests that the fulfilment of CSR is lower among listed Chinese manufacturing companies than it is among listed companies in the United States.

However, the ratio of the mean value to the total potential score was higher for the shareholders and society than it was for other stakeholders. This implies that listed Chinese manufacturing firms prioritise their responsibility to the shareholders and society. The ratio of the mean value to the total potential score was lowest for the environment, suggesting that listed Chinese manufacturing firms are not very concerned about environmental governance. In addition, the ratio is relatively low for employees, suppliers, and customers—in fact, some companies scored zero on their responsibility to employees and their responsibility to suppliers and customers. These initial indicators are consistent with the argument that managers should protect their shareholders before protecting other stakeholders.

Table 2 shows that the mean ROA was 9.813, with the minimum and maximum being 2078.546% and −51.371%, respectively. There was a significant distribution of the ROA across the sample, as indicated by a very high standard deviation.

In terms of Tobin's Q, Table 2 shows that the mean was 1.761%. This implied a relative strong market-based performance. The maximum and the minimum were 31.383 and 0.183, respectively.

4.2. Correlation Analysis and Multicollinearity Test

The ROA was positively correlated with SHA, GROWTH, EMP, and ENV. That is, the more profitable a firm was, the more it paid attention to the needs of the shareholder, employees, and the environment. On the other hand, the ROA was negatively correlated with the FINL. That is, the more profitable a firm was, the less likely it was to depend or rely heavily on external funding (See Table 3).

Table 3. Pearson's correlation coefficient.

	EMP	ENV	FINL	GROWTH	LIQ	ROA	SCC	SHA	SIZE	SOC	TA	TQ
EMP	1											
ENV	0.900	1										
FINL	0.115	0.118	1									
GROWTH	−0.021	−0.019	−0.011	1								
LIQ	−0.0395	−0.044	−0.406	−0.027	1							
ROA	0.005	0.008	−0.038	0.046	0.013	1						
SCC	0.846	0.883	0.062	−0.018	−0.076	0.020	1					
SHA	0.221	0.208	−0.358	0.114	0.145	0.100	0.254	1				
SIZE	0.322	0.307	0.481	0.084	−0.195	0.020	0.273	0.140	1			
SOC	0.106	0.136	−0.062	0.002	0.030	0.022	0.261	0.269	0.079	1		
TA	0.216	0.194	0.252	−0.001	−0.081	0.001	0.167	0.083	0.638	0.037	1	
TQ	−0.101	−0.117	−0.341	0.024	0.151	0.217	−0.080	0.074	−0.403	−0.0075	0.173	1

ROA: return on assets; SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; FINL: financial leverage; TA: total assets; and TQ: Tobin's Q.

The TQ was positively correlated with SHA and LIQ but negatively correlated with EMP, SCC, ENV, CSR, FINL, and SIZE. This is consistent with the argument in the literature that, if managers over-invest in CSR activities because they want to build their reputation, their firm's value will be adversely affected because of the agency costs [88]. In addition, there was a positive correlation among SHA, EMP, SCC, ENV, and SOC. The correlation coefficients between SCC and EMP and ENV exceeded 0.8. However, Ref. [93], in his work, noted that there is no specific agreement regarding the correlation percentage's cut-off point. For example, several studies suggest that a correlation coefficient equal to or higher than 80 percent could indicate a serious issue of multicollinearity [94,95]. Meanwhile, others have suggested that the correlation coefficient must be equal to or lower than 70 percent to conclude that there is no multicollinearity problem [96]. Although there is no general consensus on the level at which one should be concerned about multicollinearity, the high association between SCC, EMP, and ENV was not surprising, as these are components or activities of CSR. Due to the high correlation between the variables, we examined the variance inflation factors (VIFs), as shown in Table 4 below.

Table 4. Collinearity statistics.

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
EMP	0.0011	8.722	5.423
ENV	0.0012	6.724	5.358
FINL	0.0005	8.444	1.965
GROWTH	0.0013	1.265	1.035
LIQ	0.0051	1.522	1.201
ROA	0.0015	1.122	1.065
SHA	0.0041	8.609	1.505
SIZE	0.0020	4.370	2.690
SOC	0.0081	2.464	1.091
TQ	0.0024	2.625	1.328
SCC	0.0012	1.412	1.201

SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; FINL: financial leverage; ROA: return on assets; and TQ: Tobin's Q.

Table 4 is to check for multicollinearity in the model through the use of the tolerance levels and the variance inflation factor (VIF). The VIF and tolerance levels (1/VIF) show that all the values were within the acceptable level, suggesting no multicollinearity problems. In particular, looking at the uncentred or centred factors, the highest VIF was 8.722, which was lower than 10, meaning that the study did not have symptoms of estimation problems [97].

4.3. Regression Analysis

4.3.1. Association between CSR and ROA

Model 1 was used to assess the association between CSR in various categories of stakeholders and the ROA, and Model 2 was employed to analyse the relationship between the total CSR and the ROA. (See Table 5). The two models are represented below. The results for both Equations (1) and (2) are below.

$$ROA_{it} = \alpha_0 + \alpha_1 SHA_{it} + \alpha_2 EMP_{it} + \alpha_3 SCC_{it} + \alpha_4 ENV_{it} + \alpha_5 SOC_{it} + \alpha_6 SIZE_{it} + \alpha_7 GROWTH_{it} + \alpha_8 LIQ_{it} + \alpha_9 FINL_{it} + \varepsilon_{it} \quad (\text{Model 1})$$

$$ROA_{it} = \gamma_0 + \gamma_1 CSR_{it} + \gamma_2 SIZE_{it} + \gamma_3 GROWTH_{it} + \gamma_4 LIQ_{it} + \gamma_5 FINL_{it} + \varepsilon'_{it} \quad (\text{Model 2})$$

Table 5. Fixed-effects result on the ROA.

Variable	Equation (1)	Equation (2)
C	−15.5410 *** (4.0914)	−14.5541 *** (4.1364)
CSR		0.0226 *** (0.0039)
SHA	0.1584 *** (0.0145)	
EMP	0.0974 *** (0.0461)	
SCC	−0.0374 (0.0274)	
ENVIR	0.0005 (0.0246)	
SOC	−0.0417 ** (0.0159)	
SIZE	1.2026 *** (0.1841)	1.1679 *** (0.1862)
GROWTH	0.0114 *** (0.0016)	0.01062 *** (0.0017)
LIQ	−0.0710 * (0.0305)	−0.0702 * (0.0308)
FINL	−0.1236 *** (0.0085)	−0.1287 *** (0.0086)
R squared	0.6226	0.6135
Adj. R squared	0.5464	0.5358
F stat	8.1538 ***	7.8922 ***
DW	2.0235	1.8785
Obs	5154	5154

*** Significant at 1%; ** Significant at 5%; * significant at 10%. Dependent variables—ROA: return on assets. Independent variables—SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; and FINL: financial leverage.

Model (1) produced a positive regression coefficient for SHA at 0.1584 at the 1% significance level, showing that fulfilling the shareholders' needs was significantly and positively correlated with the ROA, as a 1% increase in shareholder satisfaction led to a 16% increase in the ROA. This supported the argument that maximising shareholder returns is the primary objective of companies. They can achieve this by increasing either their share prices or dividends, which would encourage shareholders to continue investing in the company. Model (1) also produced a positive regression coefficient for EMP at 0.0974 at the 1% significance level, and a 1% increase in employee satisfaction led to a 0.9% increase in the ROA, demonstrating the value of motivated employees. Motivated employees are more likely to be committed and engaged, which increases their productivity and helps companies achieve their goals. Although not significant, Model (1) produced a positive coefficient for ENV, and a 1% increase in addressing the needs of the environment led to just a 0.05% increase in the ROA. In contrast, Model (1) produced negative regression coefficients for SCC and SOC. Therefore, Hypothesis 2 was upheld, in that stakeholders varied in their level of influence on financial performance.

Model (2) indicated that there was a positive coefficient for CSR of 0.0226 at the 1% significance level. A 1% increase in CSR activities led to a 2% increase in the ROA. Model (2) also indicated that company size and GROWTH positively and significantly influenced the

ROA, but LIQ and FINL negatively and significantly influenced the ROA. This indicated that, although it is important to ensure that a company has enough liquidity to meet its financial commitments, excess liquidity can be detrimental to profitability, as it is seen as “idle resources” which should be invested. In Model 2, therefore, H1 was upheld, meaning that there was a link between CSR activities and financial performance.

4.3.2. Association between CSR and Tobin’s Q

$$TQ_{it} = \beta_0 + \beta_1 SHA_{it} + \beta_2 EMP_{it} + \beta_3 SCC_{it} + \beta_4 ENV_{it} + \beta_5 SOC_{it} + \beta_6 SIZE_{it} + \beta_7 GROWTH_{it} + \beta_8 LIQ_{it} + \beta_9 FINL_{it} + \epsilon_{it} \quad (\text{Model 3})$$

$$TQ_{it} = \delta_0 + \delta_1 CSR_{it} + \delta_2 SIZE_{it} + \delta_3 GROWTH_{it} + \delta_4 LIQ_{it} + \delta_5 FINL_{it} + \epsilon'_{it} \quad (\text{Model 4})$$

As indicated in Table 6, increases in SHA, EMP, and GROWTH had significant positive impacts on the companies’ market value. However, the impact of fulfilling the needs of the employees was less substantial for the market value than it was for the ROA: a 1% increase in employee satisfaction led to a 0.9% increase in the ROA but just a 0.2% increase in the companies’ market value. Surprisingly, Model (3) produced negative regression coefficients for SCC and SOC with respect to Tobin’s Q. However, ENV had a positive impact on the market value, as companies which devoted resources to environmental conservation as part of a “green agenda” were perceived as being friendly to the environment and, therefore, were rewarded by the market through a boost in their share price. Therefore, H3 was not rejected. This confirmed past studies that companies that have worked to develop a green reputation are connected with green consumers and become popular in green markets [92]. Model (3) also revealed that FINL had a significant and negative impact on the companies’ market value, as companies that were highly leveraged were likely to be viewed as being risky, which lowered their market value. Model (4) indicated that CSR was positively and significantly correlated with the market value: a 1% increase in CSR activities led to a 0.15% increase in the market value. The more engaged a company is in CSR activities, the more it is viewed as being environmentally friendly and the more likely it is to attract green-focused investors, which pushes its share price upwards.

Table 6. Fixed-effect result on Tobin’s Q.

Variable	Model 3	Model 4
C	7.6883 *** (0.5175)	7.6828 *** (0.5154)
CSR		0.0015 *** (0.0002)
SHA	0.0058 *** (0.0015)	
EMP	0.0020 ** (0.0025)	
SCC	−0.0074 *** (0.0018)	
ENV	0.0010 (0.0014)	
SOC	−0.0026 * (0.0011)	
SIZE	0.2289 *** (0.0235)	0.2277 *** (0.0234)
GROWTH	0.0005 ** (0.0002)	0.0004 ** (0.0002)

Table 6. Cont.

Variable	Model 3	Model 4
LIQ	−0.0305 *** (0.0056)	−0.0316 *** (0.0056)
FINL	−0.0097 *** (0.0009)	−0.0101 *** (0.0009)
R squared	0.8482	0.8468
Adj. R squared	0.8175	0.8160
F stat	27.6235 ***	27.4751 ***
DW	1.5927	1.5886
Obs	5153	5153

*** significant at 1%; ** significant at 5%; and * significant at 10%. SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; and FINL: financial leverage.

In summary, the result showed that there was a positive link between CSR activities and organisations' financial performance using both accounting and market measures in the Chinese manufacturing market.

4.4. Robust Testing

Our results could have been affected by endogeneity concerns stemming from potential selection biases and omitted variables. For instance, the results could have been attributable to an inadequate control for differences between the firms and the CSR scores. In other words, firms with certain characteristics are likely to have higher CSR scores, which leads to higher ROA and Tobin's Q values. Our measures of CSR strengths and concerns are endogenous in Equations (1)–(4), as they may be correlated with the error terms in these equations. Regression estimates in the presence of endogeneity are biased and inconsistent. In order to mitigate these endogeneity issues and ensure the robustness of our results, this study adopted a generalised method of moments (GMMs) approach to re-estimate Equations (1)–(4). In this way, the results generated efficient estimates of the coefficients and consistent estimates of the standard errors.

All the coefficients shown in Table 7 below have the same signs as those in Tables 5 and 6. SHA, EMP, and GROWTH had a significant and positive impact on the ROA at the 1% significance level. Additionally, as shown by Equation (2), CSR had a significant and positive impact on the ROA. Therefore, the results in Table 7 confirm the varying impact of different elements on CSR and financial performance.

Table 7. GMM results.

Variable	Equation (1)	Equation (2)	Equation (3)	Equation (4)
C	5.2454 *** (0.0332)	5.2319 *** (0.0335)	2.1544 *** (0.0065)	7.6827 *** (0.5154)
CSR		0.0156 *** (0.0015)		0.0015 *** (0.0002)
SHA	0.1177 *** (0.0074)		0.0069 *** (0.0009)	
EMP	0.0473 ** (0.0160)		0.0009 (0.0023)	
SCC	−0.0206 * (0.0082)		−0.0091 *** (0.0015)	
ENV	0.0077 (0.0089)		−0.0006 (0.0014)	

Table 7. Cont.

Variable	Equation (1)	Equation (2)	Equation (3)	Equation (4)
SOC	−0.0293 *** (0.0064)		−0.0019 * (0.0010)	
SIZE	4.3899 *** (0.2060)	4.4777 *** (0.2068)	−0.3888 ** (0.0425)	−0.2277 *** (0.0234)
GROWTH	0.0053 *** (0.0012)	−0.0063 *** (0.0012)	0.0015 *** (0.0003)	0.0004 * (0.0002)
LIQ	−0.0152 * (0.0071)	−0.0158 * (0.0071)	0.0017 (0.0015)	−0.0317 *** (0.0056)
FINL	−0.0991 *** (0.0043)	−0.0928 *** (0.0043)	−0.0116 *** (0.0007)	−0.0101 *** (0.0008)
R squared	0.8819	0.8899	0.8577	0.8468
Adj. R squared	0.8581	0.8678	0.8289	0.8160
F stat				
DW	1.9137	1.8168	1.6506	1.5886
Obs	5154	5154	5153	5153

*** significant at 1%; ** Significant at 5%; * significant at 10%. SHA: responsibility to the shareholders; EMP: responsibility to the employees; SCC: responsibility to the suppliers and customers; ENV: responsibility to the environment; SOC: responsibility to society; SIZE: size; GROWTH: growth capacity; LIQ: liquidity; and FINL: financial leverage.

5. Conclusions and Policy Implications

By analysing firms' responsibilities to shareholders, employees, suppliers, customers, and the environment, the results indicated that Chinese manufacturing firms had relatively low score in terms of these metrics. This was compared with USA manufacturing firms that had relatively high scores in the same metrics, as demonstrated in previous studies [85,92]. However, the results showed that Chinese manufacturing firms paid greater attention to the shareholders' and society's needs compared to their attention to the employees, product quality, and after-sale services.

The results indicated that, among listed Chinese manufacturing companies, CSR and financial performance were significantly and positively correlated. With this result, we failed to reject our first hypothesis. In addition, financial performance related differently to responsibility to different company stakeholders. Also, the results indicated that there was a need to give greater attention to the employees as this was positively correlated with their financial performance. Surprisingly, there was no significant relationship between financial performance and the fulfilment of responsibility to suppliers and customers or between financial performance and the fulfilment of responsibility to society in Chinese manufacturing firms.

In line with stakeholder theory, satisfying the varying interests of stakeholders is a fundamental ingredient to the success of a business entity. Our results confirmed that organisations have unique approaches to each stakeholder group, such as shareholders, customers, and the environment. However, these dynamics can create positive or negative effects—or no significant effects at all—on financial performance. These differences were hereby explained by the legitimacy theory: internally constructed organisational identities create societal perceptions of organisations, with each organisation having unique legitimisation strategies which serve to exchange benefits based on the different groups of stakeholders. This research demonstrated that a stakeholder perspective was not enough to explain the relationship between CSR and financial performance. In addition to satisfying the varying needs of stakeholders, legitimisation processes are crucial to organisational survival and success. However, further research may examine the various disclosure activities across many stakeholders.

Policy Implications

First, listed Chinese manufacturing companies must boost their adoption of CSR. Our regression analysis revealed that the CSR of these companies was generally positively correlated with their financial performance. Therefore, manufacturing companies must invest more in fulfilling their social responsibilities to enhance their corporate image and promote performance.

In addition, it is important to distinguish between the roles of various stakeholders. The impact of internal stakeholders on current-period CSR can be less opaque compared to external stakeholders, such as the environment, suppliers, customers, and society. Therefore, firms should increase their disclosure of information pertaining to CSR activities.

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