The Influence of Corporate Social Responsibility on Performance under the Intermediary Function of Internal Control

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Abstract: The core of enterprise value management includes internal control, whose effectiveness level is related to corporate social responsibility, and then has an impact on enterprise performance. In this paper, 11833 samples of domestic A-share companies from 2013 to 2019 are selected to establish the framework of "CSR performance-internal control-enterprise performance". The conclusions are as follows: 1, the performance of social responsibility positively affects the performance of enterprises; secondly, social responsibility promotes internal control; thirdly, internal control mediates the positive correlation between social responsibility and performance.

Keywords: Social Responsibility Performance; Enterprise Performance; Internal Control

1. Introduction

Since the 19th National Congress, China has attached great importance to the performance of corporate social responsibility, and as a carrier of social productivity, enterprises should not only pay attention to the material wealth of stakeholders, but also shoulder the heavy responsibility of social responsibility. and "Shenzhen Stock Exchange Internal Control Guidelines". Internal control is indispensable in all aspects of enterprise production and operation, and a reasonable and effective internal control system will improve the scale and efficiency of enterprise production.

2. Literature Review

Through multiple regression analysis of data from listed companies in China, Xue Zhang (2022) showed that corporate social responsibility significantly contributes to the growth of corporate performance, indicating that the fulfillment of corporate social responsibility is an important way for companies to improve their performance. Miao Yujun and Zhu Dan (2017) showed that there is a positive effect of corporate internal control and corporate reputation, and the better the environment for daily business management activities of companies with good internal control systems, the higher the corporate performance accordingly. Luo Yunni (2018) selected seven years of all A-share company data, based on the conditions of mixed ownership economy, analyzed and argued the heterogeneity of shareholders, and obtained that the quality of internal control is positively related to company performance.

3. Research Hypothesis

The ultimate meaning of CSR behavior is to balance the interests of all parties in the company and internal and external stakeholders. According to the theory of corporate citizenship, companies should contribute to society, actively participate in philanthropy, and make their employees have welfare protection. By bearing the cost of information, decision making, supervision and compensation to corporate stakeholders, it enhances corporate market prestige and thus improves performance. Therefore, this paper proposes that.

Hypothesis 1: There is a positive effect of CSR and corporate performance Too high a non-systematic risk of enterprises will lead

to the failure of internal activities, the more durable the effect of internal control, the better internal control in CSR management to play a supervisory role. Therefore, enterprises should establish a reasonable system to avoid internal control deficiencies, so that enterprises can assume corporate social responsibility. Therefore, this paper proposes that.

Hypothesis 2: Good CSR performance helps improve the quality of internal controls.

From a mediating perspective of the impact of internal control on social responsibility and performance, good internal control allows executives to monitor and control each other, giving them the ability to think about social responsibility performance. Corporate stakeholders generally favor companies with good internal control, and the interaction between social responsibility and internal control, providing effective internal control of processes can improve corporate reputation and make the company's performance more and more favorable. Therefore, this paper proposes that.

Hypothesis 3: Internal control mediates the relationship between corporate social responsibility and corporate performance.

4. Data sources, variable selection and model construction

4.1 Sample Selection and Data Sources

The research sample of this paper is China's 2013-2019 Shanghai and Shenzhen A-share data. The initial sample is treated as follows to ensure credibility: (1) exclude abnormal ST and *ST companies; (2) exclude companies in the financial and insurance industry (3) exclude companies with missing data. The final 11833 valid values were determined.

4.2 Variable Selection

1. Explanatory variable: corporate performance. Return on net assets (ROE) is a comprehensive indicator of financial performance, reflecting the owner's income, and the level of ROE represents the profitability of investors' investment.

2. Explanatory variables: (1) Corporate social responsibility. The total score of social responsibility rating of Hexun.com is used, which is a more objective data from the perspective of five responsibilities, using the information of social responsibility reports of listed companies. (2) Internal control. The internal control index of DIBO takes into account the degree of completion of the five internal control objectives of listed companies, reflecting the ability of operators to avoid risks and the effectiveness of corporate policies.

Table 1 Variable definitions and measurements

Nature of variables	Variable identification	Variable Name	Variable Definition
Explained variables	CV	Corporate Performance	Return on Net Assets ROE
Explanatory variables	CSR	Corporate Social Responsibility	Hexun CSR rating score divided by full score of 100
	IC	Internal Control	Natural logarithm of internal control index of listed companies in China
Control variables	SIZE	Company Size	Total assets at the end of the year are taken as the natural logarithm
	LEV	Gearing ratio	Total liabilities at the end of the period divided by total assets at the end of the period
	TURNOVER	Total assets turnover ratio	Operating income / average total assets
	YEAR	Year	Controlling for year fixed effects

4.3 Model Construction

To explore the relationship between CSR and performance and the effect of internal control on the relationship between the two,

the following model was constructed.

$$= {}_0 + {}_1 + {}_2 + {}_3 + {}_4 + + （1）$$
$$= {}_0 + {}_1 + {}_2 + {}_3 + {}_4 + + （2）$$
$$= {}_0 + {}_1 + {}_2 + {}_3 + {}_4 + + （3）$$
$$= {}_0 + {}_1 + {}_2 + {}_3 + {}_4 + {}_5 + + （4）$$

$\alpha 1$ and $\beta 1$ in model (1)(2) should be positive, reflecting the impact of social responsibility on corporate performance and the impact of CSR on internal control, respectively. If $\alpha 1$, $\beta 1$, $\lambda 1$ and $\lambda 2$ are significant, the role played by internal control is partially mediated.

5. Results of the empirical study

5.1 Descriptive statistical analysis

As shown in Table 2, the difference between the minimum value of corporate performance -7.587 and the maximum value 0.989 is large and the standard deviation is 0.18, which indicates that the performance variability of listed companies is widespread and individual differences are not significant. 0.6 is the passing score of CSR, while the mean value of CSR in the table is 0.243, which indicates that the level of fulfillment of social responsibility of listed companies is low at present. The average value of internal control index is 6.480, which indicates that the level of internal control mechanism of listed companies is medium to high, but there is still much room for improvement. The minimum value of gearing ratio is 0.01 and the maximum value is 1.698, which indicates the difference of capital structure due to different financing methods of enterprises.

Table 2 Descriptive statistics of variables

	Minimum value	Maximum value	Average value	Standard deviation
CV	-7.587	0.989	0.0645	0.180
CSR	-0.135	0.908	0.243	0.148
IC	4.829	6.847	6.480	0.138
SIZE	15.729	28.523	22.231	1.350
LEV	0.010	1.698	0.419	0.201
TURNOVER	0.003	11.344	0.621	0.497

5.2 Regression analysis

Table 3 Regression results of each model

	Model 1	Model 2	Model 3	Model 4
Variables	CV	IC	CV	CV
CSR	0.309***(27.98)	0.173***(20.12)		
IC			0.236***(20.01)	0.183***(15.64)
SIZE	0.007***(4.46)	0.012***(10.72)	0.013***(8.68)	0.004***(2.95)
LEV	-0.127*** (-13.34)	-0.057***(-7.73)	-0.144***(-14.98)	-0.116*** (-12.33)
TURNOVER	0.013*** (3.99)	0.026*** (10.50)	0.009*** (2.75)	0.008** (2.51)
	-0.171*** (-5.81)	6.130*** (266.72)	-1.754*** (-22.77)	-1.292*** (-16.70)
R^2	0.102	0.079	0.074	0.120

Note *** p<0.01, ** p<0.05, * p<0.1

The main effect of social responsibility performance and corporate value. From Table 3, we can see that the R2=0.102 of model 1

and the CSR regression coefficient is 0.309, which means that the equation is significant at the 1% level and social responsibility performance is significantly and positively related to corporate performance, i.e., excellent social responsibility performance helps to improve corporate performance, so hypothesis 1 is valid.

The mediating effect of corporate internal control effectiveness. Model 1 illustrates that social responsibility performance positively affects corporate performance. The coefficient of model 2 is 0.173 indicating that the regression of social responsibility is significantly and positively related. The R2 in model 3 is 0.074 and the regression coefficient of internal control effectiveness is 0.236 indicating highly significant, so the firm can improve corporate performance by improving the quality of internal control. Combining the results of model 1 confirms that hypothesis 1 holds and further tests the mediating role of internal control index. Model 4 has more CSR variables than 3. The correlation coefficients of both CSR and IC in Table 4 are significantly positively correlated with CV at the 1% level further proving the validity of Models 2 and 3. The CSR coefficient of 0.309 in Model 1 is larger than that of 0.277 in 4 indicating that good internal control can positively affect the main effect, i.e., internal control plays a part in the mechanism of influence of social responsibility performance on corporate performance This means that internal control plays a part in the mediating effect of social responsibility performance on corporate performance. Therefore, hypothesis 3 is valid.

6. Research findings

First, the current level of fulfillment of social responsibility of listed companies in China needs to be improved, the disclosure report has improved in recent years, enterprises with a good sense of social responsibility, pay full attention to the needs of stakeholders and put into practice, can better improve the effectiveness of the internal control system and reduce internal control deficiencies. Secondly, the requirement of internal control system is to safeguard the internal fairness of enterprises, which requires senior management to not only cooperate with each other, but also supervise each other, properly grasp the horizontal and vertical fairness, and protect the legitimate rights and interests of all parties, so as to improve goodwill to enhance the level of corporate performance. Finally, the effectiveness of internal control has a partially mediating effect on the relationship between CSR and corporate performance. A high quality internal control system restrains unreasonable corporate behavior to enhance corporate image and good fulfillment of social responsibility, thus attracting potential investors and enabling the company to continuously improve its performance.

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