

Do Cross-Listed Firms Report Better Social Responsibility Performance?

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Abstract. This paper investigates the corporate social responsibility (CSR) disclosure of cross-listed companies in China, to bridge the gap between existent CSR literature and the literature on cross-listing. Mann-Whitney-U and Wilcoxon ranking tests document the traditional bonding effect regarding reported corporate financial performance. Furthermore, the test results and findings of this study extend the financial bonding effect to other dimensions of corporate responsibility. In addition to better economic returns to owners, the bonding effect marks better reported CSR performance for cross-listed companies in terms of pay raises for employees, creation of new jobs, desirable stock option plans for management, and increased input in environmental protection and energy-saving activities.

1 Introduction

A rich source of literature in corporate social responsibility (CSR) can be found in the academic dimensions of general management and business ethics. Some international business researchers contribute to the existent literature by extending their investigations into the CSR performance of multinational companies (Egri and Ralston, 2008). Recent research in finance and accounting also shows a trend toward increasing interest in the multinational operations of capital markets, such as cross-listing topics. However, few of the existent studies address the impact of cross-listing on the CSR performance, especially in the context of cross-listing that occurs across different levels of capital market maturity.

In this study, fifty companies listed in both Mainland China and in the Hong Kong Special Administrative Region (HKSAR) that issued CSR reports for the fiscal year 2011 are used to formulate a sample. The aim is to examine whether cross-listing from a developing pre-mature capital market to a developed mature capital market leads to better reported social responsibilities. The bonding effect has traditionally been related to corporate financial performance. The empirical results of this study partially prove the bonding effect hypothesis for the reported CSR performance of companies cross-listed from developing to mature capital markets. Our findings have extended the bonding effect to more extensive indicators of corporate social and environmental performance. More specifically, in addition to better economic returns to owners, the bonding effect indicates

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the reported CSR out-performance of cross-listed companies in terms of pay raises for employees, creation of new jobs, desirable stock option plans for management, and increased input in environmental protection and energy-saving activities, as compared to those counterparts that are listed only in the domestic capital markets of Mainland China.

2 Current Studies on Chinese CSR Disclosure

Globalization is the critical reason for many scholars to extend their concerns regarding corporate social responsibility into China, the largest emerging market. Most Chinese scholars in their native language are criticized for writing too many conceptual papers, or using self-developed measurement tools in their studies, and proper research methodologies and internationally adopted theories need to be considered if they want to publish their investigations of Chinese CSR disclosure in English language journals. Language and legislative differences also have been obstacles to including the study of Chinese firms' corporate social responsibility disclosure into the existing literature. As many CSR disclosure texts are narrative, and they are not required by the mandatory annual reports which focus on financial results, it is not easy for interested researchers to acquire the longitudinal data regarding the Chinese corporate social responsibility.

In practice, CSR disclosure was officially noted later in last decade in China. The 2009 CSR Development Index Report marked the establishment of a comprehensive assessment system of CSR disclosure in China, consisting of responsibility management, economic, social, and environmental responsibilities (Blue Book, 2009). This report was issued by the Economics Division of the Chinese Academy of Social Sciences (CASS), aiming to reveal Chinese top 100 firms' overall level of CSR disclosure.

Most studies of CSR disclosure in China are related to Chinese top 100 companies. The content analysis of Chinese firms' social responsibility disclosure in Gao (2009) proposes that the Chinese firms' CSR disclosure can be classified into economic, legal, ethical and philanthropic dimensions. Gao (2009) find that most Chinese top 100 firms are concerned with economic returns and firm value, but few firms give high priorities to ethical and legal issues. Luethge and Han (2012) examine a small sample of social responsibility disclosed in the Chinese firms' 2008 annual reports, and they conclude that there is no relationship between firm's financial performance and reported social responsibility. Both studies have noted the gap in CSR disclosure between Chinese top 100 and the world top 500 firms. Our research intends to make contributions in bridging the gap. China is converging with the rest of the world in social, economic, environmental aspects.

3 Literature Review and Research Hypothesis Development

Earlier literature in capital market research observe cross-listing behaviours of international market participants in order to identify the bonding effect in financial term. The bonding effect of cross-listing was proposed by Coffee (1999) in his studies on the behaviours and consequences of cross-boundary capital market participants. Coffee (1999) explains the motifs of cross-listings in a range from emerging markets to mature and developed capital markets, appreciating the functions of mature and developed capital markets in improving the quality of accounting information, the effectiveness and efficiency of corporate governance, and the mechanisms for protecting investors. In mature and developed capital markets, the cross-listed firms from pre-mature or developing markets are bonded to their well-established counterparts because of the sophisticated systems for supervising securities, and the stringent regulations on information disclosure.

Early CSR literature focuses on the theoretical conceptualization and analytical framework of corporate social responsibility (Carroll, 1979). From that time, dimensions such as economy, ethics, and philanthropy were established as categories of CSR research. Currently, the research makes it clear that a firm can perform CSR in varied ways, either incorporating social features or characteristics in products and operations, or undertaking social or ecological investment. To investigate the bonding effect of cross-listing on CSR disclosure, we adopt the CSR conceptions of Carroll (1979) and classify the CSR indicators derived from the corporate reports in four dimensions, according to the resources that each firm consumes: financial resources, human resources, social resources, and ecological resources. To examine the bonding effect caused by cross-listing in respect to financial, economic, intellectual, social and ecological consequences, we propose the following research hypotheses:

H1: Cross-listed companies tend to report better economic performance than those matched companies not cross-listed.

H2: Cross-listed companies tend to report better human resource management performance than those matched companies not cross-listed.

H3: Cross-listed companies tend to report more significant social contributions than those matched companies not cross-listed.

H4: Cross-listed companies tend to report better ecological performance those matched companies not cross-listed.

4 Research Methodology

4.1 Sample Selection and Data Collection

Our sample is selected out of a pool of A share issuers and A+H share issuers dated from 1991 to 2010, where there 1276 listed firms issuing A shares and 62 listed firms issuing both A and H shares. With registrants in financial and insurance industries excluded, our sample pool is reduced to 838 firms issuing A shares only and 50 firms issuing both A and H shares. Due to the limited number of the A+H share sample, we select the paired sample of listed firms issuing A shares only to explore the impacts of cross-listed firms on the CSR performance and disclosure. Both industry and size are considered in pairing: one listed firm of the same CSSEC Industry Code issuing only A shares with sizes nearest to that of each studied dual listing firm are selected, which results in a paired sample of 50 firms issuing A shares only. In this way, we arrive at the final sample composed of 50 A+H share issuers and 50 firms issuing A shares only.

For empirical testing of four research hypotheses, we collected data corporate annual reports and stand-alone CSR reports, using two Chinese databases, WIND and JUCHAO. Annual reports available through WIND provided financial data such as profit, return on assets (ROA), and dividends, and non-financial data on areas such as job creation, training programs, social donation, and environmental protection contributions are taken from the stand-alone CSR reports of JUCHAO.

4.2 CSR Dimensions and Indicators

As stated in the prior section of research hypotheses development, we aim to test the association between voluntary disclosure of CSR information and cross-listing behavior. To observe the differences of reported CSR performance between cross-listed and non-cross-listed companies, we propose four corporate responsibility dimensions based on the firm's consumption of different types of resources (i.e., financial, human, social and

ecological resources). Table 1 summarizes the selected indicators and descriptions of the four dimensions of CSR performance that are disclosed in the annual reports and stand-alone CSR reports under investigation.

Table 1. A summary of CSR indicators and brief descriptions

Indicators/ Variables	Descriptions
<i>Panel A Financial Dimension</i>	
lgASSET	Firm size measured by log value of total assets
PROFIT	Log value of dollar value of net income (net loss) from annual report
ROA%	Return on assets calculated based on financial statements
DIV-Y/N(1/0)	Dummy variable indicating whether a firm has declared dividends
DIV(BTAX)	Dollar value of accumulated payment of dividends
A/P turnover	Account payable turnover (including all current payables)
<i>Panel B Human Resource Dimension</i>	
MGTHOLDING	Percentage of management shareholdings
MGTCOMPENSATION	Dollar value of management salaries
PAYROLL	Average dollar value of payroll (scaled by employment size)
PAY-INCREASE	Percentage of payroll increase compared to the prior year
EMP-TRAINING(Y/N)	Dummy variable indicating whether a firm has employment trainings
TRAIN-FEES	Dollar values of corporate employment training investment
TRAIN_TIMES	Frequency of corporate employment trainings
<i>Panel C Social Dimension</i>	
TAXATION	Dollar value of corporate tax payment
NEW_JOBS	Increase of numbers of employment compared to the prior year
R&D	Dollar value of R&D investment
NEG_REPORT(Y/N)	Frequency of negative media coverage for the company
POS_MEDIA(Y/N)	Frequency of positive media coverage for the company
DONATION(Y/N)	Dummy variable indicating whether a firm discloses its donation(s)
DONATION_VALUE	Dollar value of donation(s)
<i>Panel D Ecological Dimension</i>	
ENV_POLICY(Y/N)	Dummy variable indicating whether the environmental policy exists
ENV_INVEST(Y/N)	Dummy variable indicating whether any ecological investment exists
ENV_INVEST	Dollar value of investment in environmental protection
ENERGE_SAVE(Y/N)	Dummy variable indicating whether the firm disclose such a matter
INT_ORG(Y/N)	Dummy, indicating whether international standards are considered

4.3 Test Method

The sample of cross-listed companies included fifty firms, we chose the Mann-Whitney-U and Wilcoxon ranking tests, rather than regression models. our objective was to investigate whether the companies cross-listed in both Mainland China and in Hong Kong outperform their counterparts in the match sample of listed companies that are only listed in Mainland China in terms of the CSR indicators listed in Table 1.

Table 2. Mann-Whitney-U and Wilcoxon ranking test results

Tested Variable	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
lgASSET	745.000	2,020.000	-3.481	0.000
PROFIT	1,150.000	2,425.000	-2.031	0.042
ROA%	895.000	2,170.000	-2.447	0.014
DIV-Y/N(1/0)	1,125.000	2,400.000	-1.324	0.185
DIV(BTAX)	896.000	2,171.000	-2.844	0.004

AP turnover	1,058.000	2,333.000	-1.324	0.186
MGTHOLDING	730.000	2,005.000	-3.671	0.000
MGTCOMPENSATION	1,093.000	2,368.000	-0.924	0.356
PAYROLL	787.000	2,062.000	-3.192	0.001
PAY-INCREASE	954.000	2,229.000	2.041	0.041
EMP-TRAINING(Y/N)	1,225.00	2,500.000	0.457	0.648
TRAIN-FEES	19.000	40.000	0.645	0.519
TRAIN_TIMES	443.000	821.000	0.597	0.550
TAXATION	236.000	587.000	1.867	0.062
NEW_JOBS	656.000	1,931.000	4.095	0.000
NEG_REPORT(Y/N)	1,225.000	2,500.000	0.583	0.560
POS_MEDIA(Y/N)	1,050.000	2,325.000	1.604	0.109
R&D	1,245.000	2,520.000	0.036	0.971
DONATION(Y/N)	1,100.000	2,375.000	1.330	0.184
DONATION_VALUE	404.000	932.000	1.265	0.206
ENV_POLICY(Y/N)	1,175.000	2,450.000	0.597	0.550
ENV_INVEST(Y/N)	900.000	2,175.000	3.102	0.002
ENV_INVEST	31.500	811.000	3.547	0.000
ENERGE_SAVE(Y/N)	900.000	2,175.000	3.626	0.000
INT_ORG(Y/N)	1,200.000	2,475.000	0.403	0.687

5 Results and Discussion

Mann-Whitney-U and Wilcoxon ranking test methods have been applied to test our four research hypotheses. Table 2 presents the test results under the selected test methods. The first hypothesis is related to the bonding effect of cross-listing in the financial dimension of CSR performance, and the economic consequences reported in the corporate accounting disclosures. According to the test results, both firm value (indicated by Profit/Loss, ROA) and shareholder value (indicated by Dividend Payment) for the cross-listed companies rank significantly higher than those in the matched group. H1 is substantially supported by the sample of Chinese A+H share-issuing companies. Our data confirm the initial premise that the bonding effect of cross-listing creates a positive association between transparency of information disclosure and corporate economic performance.

The hypothesis on the human resource dimension (H2) has been partially evidenced by better managerial incentives and higher payment to employees in the cross-listed companies. Economic indicators such as Management Shareholding, Payroll, and Pay Raises rank higher for the cross-listed sample group than for the matched group. Indicators related to employee training do not show significant differences between the compared groups. The evidence on the hypothesis H2 can be explained by the transmission of the economic bonding effects of cross-listing to the corporate utilization of human resources. With regard to the indicators related to economic rewards, such as management incentives in terms of stock options and employment payment, the cross-listed companies outperform than the matched group. Regretfully, however, performance indicated by employee-training arrangement does not provide evidence for the extension of the bonding effect. This result can be explained by the prevailing situation of many listed companies from Mainland China that were originally state-owned enterprises and are currently seeking privatization. New reforms of business systems in the recent decade have enabled the management team of listed companies to share, in a privatizing incentive approach, the ownership of the equity that was previously wholly owned by the state.

Test results of the third hypothesis, related to corporate responsibility incurred by utilization of social resources, demonstrates the fact that the cross-listed companies have created more job opportunities in the domestic and international labor markets. Meanwhile,

they have intent to make best advantage of international capital markets to avoid tax obligations. Active participation in CSR in the social resource dimension tends to be more sophisticated than the other dimensions. With respect to research and development (R & D), both positive and negative media coverage, and philanthropic donations, cross-listed companies do not report performance that is any better than the domestic listed counterparts.

Surprisingly, the hypothesis on the ecological resource dimension of CSR performance (H4) has been reversely supported in terms of environmental protection and energy-saving technology. The test results indicate that domestically listed companies report significantly better figures for their investment in environmental protection and adoption of energy-saving techniques and facilities. One possible reason is that in recent years the Chinese government and the Mainland China stock exchanges have strengthened regulations for and supervision of information disclosure for environmental protection and energy-saving technology, which has led to Mainland China's domestically listed companies reporting significantly better figures for their investment in environmental protection and adoption of energy-saving techniques and facilities. Another possible explanation is related to the economic costs of performing CSR to cross-listed companies, which means both information disclosure and actual ecological CSR performance involve substantive financial expenses, so that the financial results, as reported in the accounting statements, are lower.

6 Conclusions

This paper concludes that the empirical results of this study partially prove the bonding effect hypothesis for the corporate performance of companies cross-listed from under-developed to developed capital markets. On one hand, the traditional bonding effect of cross-listing, in terms of corporate financial performance, has been fully evidenced in the samples of Chinese listed companies. On the other hand, the test results and findings of this study extend the bonding effect to indicators of corporate social and environmental performance. Specifically, in addition to better economic returns to owners, the bonding effect also marks improvement in CSR performance of cross-listed companies in terms of pay raises for employees, desirable stock option plans for management, the creation of new jobs, and increased input in environmental protection and energy-saving activities. Though the test results document no significant evidence for better CSR performance regarding training hours for employees, management cash-compensation, taxation, philanthropic donation, environmental policy, and involvement in international environmental/ecological organizations, the discrepancies may open a range of avenues for future research. Also business CSR practitioners should make marginal efforts to perform better corporate responsibilities for using the human, social and ecological resources. In sum, this study contributes its findings about CSR disclosure of Chinese cross-listed firms to the sustainable developments in Asia and in broader international communities.

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