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Inertia of Original Country's CSR Impact on Corporate Financial and Market Performance: Evidence of Multinational Corporations in China

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Abstract

After entering the host country, multinational corporations often adopt a series of localization strategies in order to overcome the maladjustment caused by the inertia of some corporations when operating in the host country. This paper selects the corporate social responsibility inertia, which is most easily ignored in the corporate organizational inertia, as the analysis point to explore the impact of corporate social responsibility inertia on corporate performance and market. This paper analyzes three inertia dimensions through the combination of stakeholder theory and corporate social responsibility: structural inertia, environmental protection inertia and moral inertia. And use fixed effects mode in econometrics to empirically test the market performance data of multinational corporations in China from 2017 to 2022. The research finds that the structural inertia of corporate social responsibility negatively affects corporate performance. The moral inertia and environmental protection inertia of corporate social responsibility effects on corporation market performance is shown as a Kuznets curve. Through the improvement of localization strategy, corporations can overcome the inertia of the original country.

Keywords

Multinational Corporations, Corporation Social Responsibility Inertia, Corporation Market Performance, Stakeholder Theory

1. Introduction

In recent years, multinational corporations have come to China more and more to see a typical phenomenon, that is, no matter how China's socioeconomic and political environment changes, the corporate social responsibility strategy is difficult to change, showing the characteristics of inertia and maintaining in the original country. However, multinational corporations pay more attention to organizational inertia, and the impact of corporate social responsibility inertia on corporate market performance has not yet received attention. Most of the existing studies focus on the relationship between corporate social responsibility and corporate performance, but corporate social responsibility has a positive impact on corporate performance, a negative impact, no impact and a non-linear impact (Kang, Germann, & Grewal, 2016). The reason for the inconclusive relationship between the two is that in addition to the measurement of variables, ignoring the characteristics of corporate social responsibility may also be an important reason (Tang, Hull, & Rothenberg, 2012). There is a close relationship between corporation inertia and corporation market performance. Some scholars believe that enterprise organizational inertia is dependent on organizational change and can only appear when organizational change occurs, otherwise, it is hidden and unrecognizable (Lv, Han, & Su, 2016). The inertia of corporate social responsibility is a hidden and unrecognizable part. Therefore, paying attention to the inertia of corporate social responsibility helps to explore the relationship between corporate social responsibility and corporate performance, and helps to solve the practical confusion of corporate social responsibility. Since inertia was introduced into the field of enterprise management (Hannan & Freeman, 1977). Inertia originates from the concept of physics means that an object maintains its original state and behaviour without external force which was later borrowed into the field of organizational management research. Strategic inertia has gained more and more attention, which is manifested in the phenomenon that senior managers failed to perceive and understand the changes in the external environment in a timely manner, or failed to respond quickly to these changes in the environment to keep the strategy in its original state (Huff, Huff, & Thomas, 1992). Most of the previous studies focused on the impact of organizational inertia on the survival of enterprises from the perspective of organizational ecology. Scholars from the perspective of environmental selection emphasize the positive role of organizational inertia in the survival of organizations and believe that organizational inertia is the common feature of the successful survival of organizations (Paulino, 2009). Recent research found that different dimensions of organizational inertia have significant differences in the impact of organizational learning, enterprise innovation and financial performance (Li & Zeng, 2019), and the impact of different levels of organizational inertia on enterprise performance may also be different (Nedzinskas et al., 2013). To sum up, although some studies have tested the performance impact of organizational inertia, the direction of its impact on corporate performance has not been determined, and no research has focused on the performance impact of corporate social responsibility inertia. Therefore, this paper uses the data of multinational companies in China from 2017 to 2022 to empirically test the impact of corporate social responsibility Structural inertia, environmental protection inertia and moral inertia on corporate performance and its boundary conditions. This essay consists of five chapters starting with the theme of the study. The first chapter introduces the reader to the context and subject matter of the research. The second chapter is the literature review, the third chapter is research methods, the fourth chapter is result verification, the fifth chapter is discussion and suggestions, and the sixth chapter is a summary statement.

2. Literature Review

Flammer (2013) adopted 451 listed companies in the UK as the research sample. The financial performance uses the market index return on equity investment. The performance of corporate social responsibility is evaluated by the responsibility of enterprises to employees, communities and the environment. The regression analysis is carried out using panel data, which not only analyzes the effect of the responsibility of enterprises to employees, communities and the environment on financial performance. It also comprehensively considers the relationship between corporate social responsibility and corporate financial performance. The research results show that the comprehensive social responsibility of enterprises has a negative correlation with the stock return. There is a significant positive correlation between employee responsibility and financial performance. Corporate social responsibility for the community and environment is negatively correlated with corporate financial performance. In other words, the better corporate responsibility for the environment and community, the worse corporate financial performance.

Margolis, Elfenbein, and Walsh (2009) show that 1) in the statistical sense, there is a significant positive correlation between corporate social responsibility and corporate financial performance, but its economic significance is not significant; 2) There is a two-way relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP); 3) When enterprises perform corporate social responsibilities such as charitable donations and environmental protection, there is a significant positive correlation between corporate social responsibility and financial performance. Carroll and Shabana (2010) used 82 studies as samples. The research results found that there was a significant positive correlation between the performance of Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP). However, scholars also pointed out that the measurement methods of corporate financial performance and social responsibility had a great impact on this positive correlation. Matten and Crane (2005) adopted 109 items as the research sample, and the research results found that: 54 research results showed that there was a significant positive impact between corporate social responsibility and financial performance, 7 research results showed that there was a significant negative correlation between the two, 28 studies showed that the relationship between the two was not significant, and 20 studies showed that the relationship between the two was not clear. The inertia of corporate social responsibility, corporate performance, and the legitimacy and urgency of the power of stakeholders are not static, but dynamic.

Stakeholders will gain or lose prominence with the gains and losses of the three attributes (Myllykangas & Ji, 2010).

2.1. The Innovation of This Article

Organizational inertia can be divided into resource inertia which is unable to change the scale of resource input and process inertia which is unable to change the organizational process of using these resources (Gilbert, 2005). Corporate social responsibility inertia can also be classified according to this idea. This article combines recent cases of multinational companies, such as Sam's membership store card refund event, etc. and subdivided corporate social responsibility inertia into three dimensions: **structural inertia, environmental protection inertia and moral inertia.**

Structure inertia reflected the distribution of corporate social responsibility investment among different stakeholders cannot be adjusted according to the salient changes of stakeholders and their needs. According to different stakeholders, corporate social responsibility is subdivided into shareholder responsibility, employee responsibility, consumer responsibility, supplier responsibility, government responsibility, environmental responsibility and other types. The distribution of corporate social responsibility investment among different stakeholders cannot be adjusted according to the salient changes of stakeholders and their needs, which will inevitably lead to the over-satisfaction of the needs of some stakeholders, while the needs of other stakeholders cannot be satisfied, resulting in the coexistence of the marginal effect diminishing problem (Wang et al., 2008) and retaliation behavior (Peloza & Shang, 2011), which are the same as the Structure inertia of corporate social responsibility has negative impact on corporation performance.

Marketing ethics is a criterion to judge whether the marketing activities of an enterprise are correct or not and whether they conform to ethics. To some extent, it can also be understood as marketing ethics or corporate social responsibility. Because they have one thing in common is to measure whether the relationship between the enterprise and its internal employees, consumers, government and social environment has been correctly handled, and whether it has maintained coordination and balance with the interests of all groups (Ding, 2015). The multinational companies' moral inertia of CSR has different characteristics from that of local China companies, the main performance are: affected by the parent company and the home country, lack autonomy, insufficient localization. For example under the influence of its home country, Sam's Club which is a high-end shop of Wal-Mart (China) removed some Xinjiang cotton products from its shelves and was boycotted by Chinese consumers though withdrawal membership cards.

2.2. Hypothesis Development

Many multinational corporation come from developed countries such as Europe and the United States. These countries have high standard for the environmental protection responsibilities of multinational companies, no matter where they operated like EU ETS (Zhang, 2017). This kind of decision that conforms to the ethics of enterprise managers in developed countries is unfair to people in developing countries and regions. China is a developing country, and its environmental protection is making positive progress, especially in terms of carbon emissions. China also has formulated a timetable which will take some time and step by step. In particular, many multinational companies use this environmental responsibility to oppress Chinese suppliers and restrict trade. In view of this, the following assumptions are proposed:

H1: The Structural inertia (H1a) corporate social responsibility negatively affect corporate performance, but moral inertia (H1b) and environmental protection inertia (H1c) have a positive impact on market performance under certain conditions.

H2: The higher level of Structural inertia (H2a) CSR, the greater the negative impact of CSR moral inertia (H2b) and environmental protection inertia (H2c) on corporate performance.

3. Methodology

3.1. Sample Selection and Data Source

This study takes the top 100 non-financial transnational corporations listed by their overseas assets in the World Investment Report 2017-2022 published by the United Nations Conference on Trade and Development as the research sample, and selects the top 55 transnational corporations in China as the research sample. First, it selects key accounting indicators to measure the responsibilities of enterprises to various stakeholders, Then, combined with the weight set for the social responsibility of all stakeholders in the "Carroll Model", the comprehensive social responsibility evaluation index of this paper is constructed. Secondly, use SPSS software to carry out descriptive statistics, correlation analysis and regression analysis on the relationship model between social responsibility and financial performance of multinational enterprises in China. Finally, the robustness test is carried out through alternative variables.

3.2. Variable Description

See **Table 1** for the definitions and measurement methods of variables used in this paper. The dependent variable is corporation performance, and Tobin Q is selected for measurement (Wang et al., 2008). The independent variables are the Structural inertia, environmental protection inertia and moral inertia of corporate social responsibility. Taking the market indicator Tobin Q (performance) as the proxy variable of corporation performance, it is used for the market's future expectation of companies' economic potentiality and management level. This study selects the asset-liability ratio (LEVERAGE) and the growth rate of operating income (GROWTH) as the control variables.

The following formula will be used:

Table 1. Variable definition.

Variable Name	Variable Symbol	Variable Definition
Business	Tobin Q	Market value of total enterprise assets/total enterprise assets at the end of the period
Structural Inertia	STR	Including the support of the Board of Directors for CSR, CSR policy, CSR training and other indicators
Environmental Protection Inertia	ENV	Including carbon dioxide emissions, greenhouse gas emissions, total waste, water waste and other indicators
Moral Inertia	MOR	Including employee turnover rate, labor accidents and other indicators
Asset-liability Ratio	LEVERAGE	(Circulating shares × Price per share + non-tradable shares × Net assets per share + market value of net debt)/total assets of the enterprise at the end of the period
Operating Revenue Growth Rate	GROWTH	(amount of operating revenue in the current period of the year − amount of operating revenue in the same period of the previous year)/(amount of operating revenue in the same period of the previous year)

$$\text{Tobin Q} = \alpha_0 + \alpha_1\text{STR} + \alpha_2\text{LEVERAGE} + \alpha_3\text{GROWTH} + \varepsilon$$

$$ENV/MOR = \beta_0 + \beta_1\text{STR} + \beta_2\text{LEVERAGE} + \beta_3\text{GROWTH} + \varepsilon$$

$$\text{Tobin Q} = \left(\gamma_0 + \gamma_1\text{STR} + \gamma_2\text{EVN}\right)/\text{MOR} + \gamma_3\text{LEVERAGE} + \gamma_4\text{GROWTH} + \varepsilon$$

4. Results

4.1. Descriptive Statistics of Variables and Correlation Test

According to the correlation test of variables in Table 2, the standard deviation of the first two items is about 12, the ESG standard deviation is 9.75, and the debt ratio is 4.15, indicating that the overall performance of multinational companies in China is good, and the gap between corporations is small.

4.2. Correlation Analysis

The results in Table 3 show that the structural inertia of CSR has a negative correlation with enterprise market performance, but a positive correlation with the other two items > 0.05. It means H 1 is completely true.

4.3. Regression Analysis

The test result of model 1 shows that there is a significant correlation between CSR's structural inertia and enterprise's market performance ($p = 0.028 < 0.05$). The test result of model 2 shows that there is a significant correlation between

Table 2. Descriptive statistics.

Variable Name	Number of Samples	Minimum	Maximum	Median	Standard Deviation
Tobin Q	55	0.78	14.09	2.14	1.97
STR	55	2.33	51.94	19.4	12.18
ENV	55	7.02	73.68	31.36	11.96
MOR	55	3.57	73.21	50.32	6.84
ESG	55	11.16	56.2	28.77	9.75
LEVERAGE	55	0.03	0.95	0.56	0.22
GROWTH	55	-0.42	67.95	0.44	4.15

Note: The average value of Tobin Q is 2.14, and the total standard deviation is 1.97 (data calculation from software by author).

Table 3. Correlation analysis.

	Tobin Q	ENV	MOR	STR	ESG	LEVERAGE	GROWTH
Tobin Q	1	−0.220**	−0.267**	−0.282**	−0.302**	−0.551**	−0.029
ENV		1	0.621**	0.347**	0.943**	0.122	−0.084
MOR			1	0.414**	0.830**	0.161**	−0.084
STR				1	0.559**	0.315**	−0.103
ESG					1	0.210**	−0.088
LEVERAGE						1	0.083
GROWTH							1

Note: **Means significant at 0.01 level; *Indicates significant at 0.05 level (data calculation from software by author).

structural inertia and environmental inertia ($p = 0 < 0.01$). The test result of model 3 shows that there is a significant correlation between environmental inertia and enterprise's performance ($p = 0.023 < 0.05$), but there is no significant correlation between structural inertia and environmental inertia. Hypothesis 1 is true from Table 4 and Table 5.

The above regression analysis shows that inertia of CSR has a significant impact on corporate market performance of which structural inertia has a negative effect on corporate performance, while environmental inertia and moral inertia have a positive effect under normal circumstances. In particular, the social responsibilities of transnational corporations come from their home countries, and are easily affected by inertia, which not only affects the localization process of enterprises, but also affects the financial benefits of enterprises. The research in this paper is based on the inertia of corporate social responsibility under normal circumstances, but in reality, many black swan events lead to the reversal of the effect, which is also the limitation of this paper.

Table 4. Regression Analysis 1.

Variable	Tobin Q 1		ENV		Tobin Q 3	
	α	*p*	*β*	*p*	*γ*	*p*
STR	−0.119	0.028*	0.334	0.000**	−0.101	0.093
ENV					−0.13	0.023*
LEVERAGE	−0.521	0.000**	0.010*	0.881	−0.482	0.000**
GROWTH	0.002**	0.966	−0.049*	0.425	−0.012*	0.83
R^2	0.316		0.108		0.303	

Note: **Significant correlation at 0.01 level (double tail); *Significant correlation at 0.05 level (two-tailed) (data calculation from software by author).

Table 5. Regression Analysis 2.

Variable	Tobin Q 1		Tobin Q 2		Tobin Q 3	
	α	*p*	*β*	*p*	*γ*	*p*
STR	−0.119	0.028*	0.398	0.000**	−0.051	0.376
MOR					−0.172	0.002**
LEVERAGE	−0.521	0.000**	0.029*	0.632	−0.515	0.000**
GROWTH	0 .002**	0.966	−0.046*	0.432	−0.006**	0.909
R^2	0.316		0.162		0.338	

Note: ***Means significant at 0.001 level; **Means significant at 0.01 level; *Indicates significant at 0.05 level (data calculation from software by author).

5. Implications and Recommendation for Future Studies

This study strengthens notions from past studies on the importance of CSR disclosures to build not only inertia but more importantly, driving the profitability of the firm. Therefore, this study provides evidence to motivate firms to more disclose their CSR activities so that their inertia is avoided and improved financial performance. The use of index scores to measure CSR and inertia in this study also showed its applicability in research. Therefore, this could also contribute towards a more synchronous method of CSR and inertia measurement in future studies. Although this study has provided valuable insights into the relationship between inertia of CSR and financial performance, there is a need to explore the relationship between the inertia of CSR and financial performance with a market-based financial performance indicator like Tobin's Q using a longer timeline or using a different indicator. Further to that, it might also lead to more insights and a better understanding of the CSR relationship with financial performance if other variables such as Black Swan Incident and International Relations are included in the research framework. The inclusion of these variables would provide a richer model and a greater capability of understanding the effect of CSR in the business world.

6. Conclusion

Using the data of multinational companies in China from 2017 to 2022, this paper empirically tests the impact mechanism and boundary conditions of structural inertia, environmental protection inertia and moral inertia on corporate performance. The study found that the impact of corporate social responsibility inertia on corporate performance has dimensional differences. The impact of structural inertia on corporate performance shows an inverted "U" shape, and the environmental protection inertia and moral inertia of corporate social responsibility positively affect corporate performance. The impact of structural inertia on corporate performance is not assumed to be negative, but presents a non-linear impact. There is an interactive effect between the structural inertia and the inertia of corporate social responsibility. The level of corporate social responsibility makes the inverted "U" relationship between the structural inertia and corporate performance smoother, strengthens the inhibition of the moral inertia on corporate performance, and has a regulatory effect on the relationship between environmental protection inertia and corporate performance. Starting from the mechanism of CSR inertia on corporate performance, this paper explores the path or boundary conditions of CSR impact on corporate performance, and provides a possible explanation for the inconclusive impact of CSR on corporate performance. Starting from the dynamics of the power, legitimacy and urgency of stakeholders and their needs, this paper explores the application of stakeholder prominence theory in the research of corporate social responsibility. The research conclusion can provide some enlightenment for the practice of corporate social responsibility. Corporate social responsibility decision-making should not only focus on the scale of investment, but also on the structural inertia, environmental protection inertia and moral inertia. In view of the inverted "U" effect of moral inertia on corporate performance, as well as the positive impact of structural inertia and environmental protection inertia on corporation performance, while maintaining the level of corporate social responsibility inertia at a reasonable level, it can be based on the power, legitimacy and urgency of stakeholders and their needs. By adjusting the distribution proportion of corporate social responsibility investment among different stakeholders and the focus on social responsibility ethics, we can better meet the needs of stakeholders and improve corporate performance. Corporations should pay attention to the dynamics of stakeholders and their needs. Before making corporate social responsibility decisions, corporations need to collect comprehensive information on stakeholders and their needs, so as to determine the relative power of corporations and stakeholders, the legitimacy and urgency of stakeholders and their needs, and classify stakeholders in detail.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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