

A Study on the Current Situation of Chinese Corporate Social Responsibility

-An empirical analysis based on the owners' view

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Abstract—This paper selects share listed companies from Shenzhen and Shanghai Stock Exchanges as research samples, through linear regression model by SPSS, to analyze the impact of differentiation in ownership on corporate social responsibility from two aspects: welfare donation and tax avoidance motivation. From research, this paper finds out that compared with the state-owned corporate, the private corporation has a higher welfare donation, and tax avoidance effect is also more significant.

Keywords—Property of ownership; Corporate social responsibility; Welfare donation; Tax avoidance

I. INTRODUCTION

In Chinese special politic economics framework, state-owned corporate and private corporations are enterprises of different ownership, and there are significant differences among action motivation, action way and action purpose. There is no doubt that the independence of state-owned corporate will naturally be reduced because Chinese state-owned corporate is close to government naturally. On the contrary, private corporate, as a micro part in market economics, is responsible not only for its production and operation decisions but also for all types of risks caused by its operations. All kinds of operation decisions made by private corporate depend on its own developing situation and market circumstance, so its independence is relatively higher. So corporate actions under different constraint functions and aiming formulas will perform differently in quality, structure, and direction of social responsibility motivation.

II. LITERATURE REVIEW AND CURRENT RESEARCH SITUATION

A. Analysis of ownership differences and donation levels

Corporate welfare donation, as a donation for social emergency and social weak group and supplement for public service provided by the government, has a wide background of society, economics, and policy, especially in the politics and economics with Chinese special characteristic.

B. Analysis of ownership differences and tax avoidance motivation

Corporate tax avoidance motivation is different because of the difference in ownership, which determines the difference in the process of taking social responsibility. The core take of

state-owned corporate to take social responsibility is to help the government to solve the problem of local economic development, such as lack of capital, low efficient state-owned corporate merging, and social security problem of the state-owned corporate employee, etc.

III. RESEARCH DESIGN

A. Research hypothesis

Hypothesis 1: Compared with state-owned corporate, the private corporation has a higher welfare donation level.

The differences in corporate target, action, and the result caused by the difference of corporate ownership, and the significant difference in social responsibility with main welfare donation, the welfare donation direction, structure, and motivation are different.

Hypothesis 2: Compared with state-owned corporate, the private corporation has more significant tax avoidance effect in welfare donation.

B. Sample selection and data source

1) Sample selection

This paper selects A-share listed companies from Shenzhen and Shanghai Stock Exchanges as primary selecting samples. And with the method of Li Zengfu et al. (2016) as a reference, this paper filters research samples by the following standards:

To remove samples of the finance industry;

To remove samples with B-share and H-share at the same time;

To remove samples with an asset-liability ratio larger than 1;

To remove samples with a negative profit or negative income tax;

(5) To remove samples without welfare donation data or with partial financial data lost.

2) Related data source

(1) Data of welfare donation is from GuotaiJunan Securities;

(2) Financial data is from CCER Economic and financial database;

(3) Data of ownership form personal profiles high managers in Tonghuashun database and modified by hand.

3) The selection of research variables

With the method of Li Zengfu et al. (2016) as a reference, this paper selects the following variables:

Tax avoidance level. Learning from previous research, this paper uses an effective tax rate (ETR) to measure corporate tax avoidance level. Calculation formula is: $ETR = \frac{\text{Income Tax Fee}}{\text{Total Profit}}$. ETR reflects corporate effective income tax rate, and the lower ETR, the higher corporate tax avoidance level is.

Welfare donation. This paper selects two variables to measure welfare donation: donation tendency (dum Cha) is a virtual variable. If welfare donation amount this year is positive, the value of dum Cha is 1, and if the welfare donation amount this year is 0, the value of dumCha is 0. Donations (In Cha) is the logarithm of the value of donations plus 1.

Control variables selected by this paper are the following:

Corporate size (Size): equals the natural logarithm of corporate total assets plus 1.

Debt-to-assets ratio (Lev): equals total debt/ total asset.

Profitability (ROA): equals net profit/ total asset. Profitability effects corporate tax.

Fixed assets ratio (PPE): equals fixed asset/ total asset.

Intangible assets ratio (INTAN): equals intangible asset/ total asset.

Model design

This paper constructs the following linear regression model to verify the hypothesis above.

TABLE I MAIN VARIABLES AND CALCULATION METHODS

Variable	Definition	Calculation method
ETR	Effective tax rate	Income Tax Fee/ Total Profit
dumCha	Donation tendency	virtual variable
In Cha	Donations	The logarithm of the value of donations plus 1
Size	Corporate size	Natural logarithm of corporate total assets plus 1
Lev	Debt-to-assets ratio	Total debt/ total asset
ROA	Profitability	Net profit/ total asset
PPE	Fixed assets ratio	Fixed asset/ total asset
INTAN	Intangible assets ratio	Intangible asset/ total asset
Turn	Asset turnover ratio	Gross revenue/ total asset

IV. EMPIRICAL ANALYSIS

A. Descriptive statistics

Table 2 shows the descriptive statistics of all variables. As shown in the table, variables reflecting tax avoidance: mean of the effective tax rate (ETR) is 0.2330, which means corporate average effective tax rate is 23.3%, and the standard deviation

is 0.4923. Variables reflecting donations: mean of donation tendency (dum Cha) is 0.8660, which means the average welfare donation of sample corporate is 86.6% and means the corporate welfare donation in general, and the standard deviation is 0.3407. Mean of donations (In Cha) is 10.9409, and the standard deviation is 4.7046.

TABLE II DESCRIPTIVE STATISTICS OF MAIN VARIABLES

Variable	Number of samples	Mean	Standard deviation	Minimum	Maximum
ETR	3396	0.2330	0.4923	0	220.3927
dumCha	3396	0.8660	0.3407	0	1
In Cha	3396	10.9409	4.7406	0	18.7254
Size	3396	22.2152	1.2077	18.5318	26.8954
Lev	3396	0.5193	0.1947	0.0071	0.9716
ROA	3396	0.0493	0.0549	-0.0146	1.2068
PPE	3396	0.2438	0.1767	0.0005	0.8742
INTAN	3396	0.0559	0.0808	0	0.7933
Turn	3396	0.7682	0.6618	0.0028	7.1880
ETR	3396	0.2330	0.4923	0	220.3927

Table 3 shows the correlation coefficient of all the variables. The correlation coefficient of tax avoidance variable (effective tax rate "ETR") and welfare donation variables (donation tendency "dumCha", donations "In Cha") is -0.041 and -0.031, and correlation is significant at the 5% level. All

these mean that there is a negative relationship between tax avoidance and welfare donation. Corporate's tax with welfare donation is lower, and tax avoidance level is higher. If these corporates give more welfare donations, the effective tax is lower and the tax avoidance level is higher.

TABLE III CORRELATION COEFFICIENT

Variable	ETR	dumCha	In Cha	Size	ROA	PPE	INTAN	Turn
ETR								
dumCha	-0.041*							
In Cha	-0.031*	0.908*						
Size	-0.004	0.190*	0.341*					
Lev	0.052*	0.038	0.069*	0.412*				
ROA	-0.161*	0.044*	0.105*	-0.042*	-0.323*			
PPE	0.044*	-0.014	-0.026	0.038	0.003	-0.079*		
INTAN	-0.005	0.011	0.014	-0.058*	-0.112*	0.048*	0.021	
Turn	0.007	0.046*	0.050*	-0.026	0.038	0.102*	-0.042*	-0.028

B. Results of regression

Table 4 shows the linear regression results of welfare donation and tax avoidance level of listed companies. Odd number columns stand for regression results with one variable, and even number columns show regressions results with control variables, controlling year effect and industry effect.

Results show that there is a negative relation between donation tendency (dumCha) and effective tax rate (ETR), which means the corporate donation tendency is of tax avoidance purpose. The negative relation between donations (In Cha) and effective tax rate (ETR) means that the more corporate donates, the higher corporate tax avoidance level is.

TABLE IV THE MYSTERY OF CORPORATE SOCIAL RESPONSIBILITY DEVIATION: LINEAR REGRESSION ANALYSIS OF DONATION AND TAX AVOIDANCE

Variable	ETR			
	(1)	(2)	(3)	(4)
ETR	-0.0201**	-0.0171**		
dumCha	(-2.6778)	(-2.5532)		
In Cha			-0.0018**	-0.0034**
Size			(-1.7100)	(-2.1334)
Lev		-0.0656		-0.0669
ROA		(-1.3007)		(-1.2877)
PPE		0.0920***		1.0923**
INTAN		(5.1540)		(2.1540)
Turn		-1.6708*		-1.6825*
ETR		(-1.7731)		(-1.7590)
ETR		-0.5359		-0.5362*
dumCha		(-0.7812)		(-1.7807)
In Cha		-0.0599		-0.0604
Size		(-0.3878)		(-0.3920)
Lev		0.0248***		-0.0247***
		(2.6986)		(2.6991)
_cons	0.2829***	1.1916	0.3247***	1.2375
	(4.9745)	(1.6416)	(4.7639)	(1.5724)
Year	No	Yes	No	Yes
Industry	No	Yes	No	Yes
R ²	0.080	0.109	0.080	0.109

The regression results of control variables show that the regression coefficient of corporate size is negative, but not significant, which means there is not a significant relationship between corporate size and effective tax rate. The regression coefficient of debt-to-assets ratio (Lev) is positive at the 1% significant level, which is opposite to expectation and means debt-to-assets ratio is higher, the tax avoidance level is also

higher. The regression coefficient of profitability (ROA) is negative at the 10% significant level, which means the higher corporate profitability is, the lower tax avoidance level is. The regression coefficient of fixed assets ratio (PPE) and intangible assets ratio (INTAN) is not significant, which mean there is no significant relationship between effective tax rate and

coefficient of fixed assets ratio (PPE), intangible assets ratio (INTAN).

welfare donation on corporate tax avoidance level within different ownership groups.

Table 5 is the regression results of model grouped by ownership, which reflects the difference in the impact of

TABLE V REGRESSION RESULTS- GROUPED BY OWNERSHIP

Variable	ETR			
	(1)	(2)	(3)	(4)
Ownership	State-owned	Private	State-owned	Private
dumCha	-0.0521 (-0.6466)	-0.0511** (-2.4241)		
In Cha			-0.0019 (-1.3457)	-0.0196** (-2.9299)
Size	-0.0153 (-1.4276)	-0.0624 (-0.8341)	-0.0157 (-1.2459)	-0.0289 (-0.4994)
Lev	0.1280* (1.6801)	2.5276 (1.0636)	0.1283* (1.7015)	2.5271 (1.0638)
ROA	-1.3571*** (-4.1845)	-2.3506* (-1.9412)	-1.3520*** (-4.0924)	-2.2764* (-1.7471)
PPE	0.2246 (0.9948)	-1.5122 (-1.0386)	0.2269 (1.0020)	-1.5191 (-1.0386)
INTAN	-0.0504 (-0.5313)	-0.1539* (-1.8117)	-0.0532 (-0.5548)	-0.2248* (-1.8027)
Turn	-0.0083* (-1.3469)	-0.0551** (-22.4269)	-0.0083* (-1.3430)	-0.0431** (-2.3440)
_cons	0.5260** (2.1814)	0.7728 (0.6603)	0.5053* (1.8862)	0.1930 (0.1692)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	2093	1303	2093	1303

C. Robustness Test

In order to avoid the government's notice of corporate tax avoidance, it may divert the government's attention through its donation to the government to achieve its purpose of tax avoidance. Thus, corporate donation tendency and donations maybe endogenous variables. In order to make results more robust, and to solve the endogenous problem, this paper uses instrument variables to do the regression with two-stage least

$$Charity = \beta_1 + \beta_2 RD_{it} + \beta_3 AD_{it} + \beta_4 Controls_{it} + \lambda_t + \theta_j + \varepsilon_{it}$$

square method. With the method of Li Zengfu et al. (2016) as a reference, this paper selects research and development expenditure (RD) and advertisement expenditure (AD) as instrument variables. RD is measured by the proportion of research and development expenditure in operation revenue and AD is measured by the proportion of advertisement expenditure in operating revenue.

TABLE VI THE MYSTERY OF CORPORATE SOCIAL RESPONSIBILITY DEVIATION: THE RETEST OF A POSITIVE CORRELATION BETWEEN DONATION AND TAX AVOIDANCE.

Variable	ETR		ETR			
	(1)	(2)	(1)	(2)	(3)	(4)
			State-owned	Private	State-owned	Private
dumCha	-0.0601** (-2.5542)		-0.0671 (-0.5797)	-0.0987** (-2.5765)		
In Cha		-0.0034** (-2.6313)			-0.0025 (-1.3457)	-0.0189** (-2.9239)
Size	-0.1765 (-1.2110)	-0.0612 (-1.1870)	-0.1245 (-1.4568)	-0.0666 (-0.7656)	-0.0576 (-1.3202)	-0.0266 (-0.3566)
Lev	1.0220***	2.0934**	0.1299*	3.0984	0.2433*	2.1245

Table VI, cont

	(4.1210)	(5.1440)	(1.7098)	(1.0987)	(1.8589)	(1.4566)
ROA	-2.4517*	-1.8615*	-1.3578**	-2.5666*	-1.4098**	-2.3454*
	(-1.7723)	(-1.6990)	(-2.4665)	(-1.9765)	(-2.0944)	(-1.7464)
PPE	-0.5300	-0.5312	0.2456	-1.5454	0.2345	-1.6344
	(-0.8810)	(-0.7007)	(0.9990)	(-1.0343)	(1.0034)	(-1.1123)
INTAN	0.1601**	0.1712**	-0.0343	-0.1349*	-0.0354	-0.2354*
	(-2.4678)	(-2.3889)	(-0.5333)	(-1.8455)	(-0.7655)	(-1.4545)
Turn	-0.1247	-0.0219	-0.0123*	-0.0554**	-0.0126*	-0.0342**
	(-0.7100)	(-0.6800)	(-1.3353)	(-2.3535)	(-1.3533)	(-2.3530)
_cons	1.2000*	1.2323*	0.6060**	0.7288	0.4543*	0.3455
	(1.6321)	(1.5820)	(2.3535)	(0.6635)	(1.8353)	(0.1454)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	2113	2113	1382	731	1382	731
R2	0.112	0.112	0.033	0.102	0.033	0.102

Note: (1) t value in brackets, * means p<0.1, ** means p<0.05, *** means p<0.01

V. CONCLUSION AND ADVICE

Based on data of Chinese listed companies from 2009 to 2015, through regression analysis on indicators standing for corporate tax avoidance level (ETR) and welfare donation (dumCha / In Cha), this paper finds that there is a significant negative correlation between corporate donation and tax avoidance. Corporate donation tends to help to achieve tax avoidance aim, and the huger corporate donation is, the higher tax avoidance level is. Further, this paper groups samples into the state-owned group and private group by the ownership.

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