

Research on the Relationship between Internal Corporate Governance and Social Responsibility

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ABSTRACT. The new historical position and development tasks in the new era set new requirements for entrepreneurs to fulfill their social responsibilities. This article uses the data of China's Shanghai and Shenzhen A-share listed companies from 2013 to 2017 as a research sample, for companies of different natures, from the perspective of internal governance of executive compensation, internal control and other corporate governance Empirical research on the relationship. The study further found that there are significant differences between state-owned enterprises and private enterprises in assuming social responsibilities. Improving the salary structure of senior executives and strengthening internal control will help companies improve their social responsibility performance.

KEYWORDS: Internal corporate governance, Executive compensation, Internal control, Corporate social responsibility

1. Introduction

The idea of corporate social responsibility originated from Adam Smith's "invisible hand". He pointed out: "If the wealth of the society cannot be shared by the whole society, then the society is unstable." The society provides a wealth of corporate profit activitiesResources, while enjoying social freedom and opportunities, companies must integrate into the society and interact with various organizations, give ethical actions in return, and consciously bear the social consequences of economic activities. According to the statistics of the Golden Bee China Social Responsibility Report database, from 2008 to 2018, the number of China's corporate social responsibility reports issued increased from 158 to 1,677 in 10 years. The increase in the number of corporate social responsibility reports not only reflects the increasing importance Chinese companies attach to fulfilling social responsibilities, but also reflects an inevitable trend in China's future corporate governance. However, in recent years, with the explosion of the Qingdao pipeline, the major explosions in Tianjin Port, and the frequent occurrence of major safety accidents such as the production of fake vaccines by Changsheng Biology, the lack of corporate social responsibility has once again been pushed to the forefront.

Many scholars have conducted extensive research on the relationship between corporate governance and corporate social responsibility. In terms of the internal environment of the enterprise, [1] discussed in detail the factors influencing corporate social responsibility in terms of the nature of ownership, consumer psychological expectations, and the size of the enterprise, and found these internal factors of the enterprise Will have a certain impact on the level of social responsibility. [2] found that internal factors such as the export behavior, innovation ability, management ability, and financial status of a company have a significant impact on enhancing the level of corporate social responsibility. my country's research on corporate social responsibility started relatively late, but there is basically a consensus that the quality of corporate internal governance will inevitably affect the level of corporate social responsibility performance. The China Stock Market & Accounting Research Database (CSMAR) gives statistical information on the governance attributes of all listed companies, including 43 attribute indicators. These attribute indicators can be basically divided into 5 categories: board responsibility, financial disclosure and internal control, shareholder rights and control Rights market, compensation and corporate behavior.

Senior managers have a guiding role in corporate social responsibility. [3] believe that corporate executives have a wide range of decision-making powers and capabilities, which have a significant impact on corporate social performance. Executive compensation is highly concerned because of social factors such as the gap between rich and poor, distribution of interests, corruption, abuse of rights, and social harmony. The lack of corporate social responsibility not only reflects the lack of awareness of the management's initiative to assume social responsibility, but also highlights the serious flaws in corporate internal control. Internal control is a process designed to ensure the realization of organizational goals, improve the level of business management and risk prevention, promote the

sustainable development of enterprises, maintain the socialist market economic order and the public interest. This shows that salary and internal control are two important parts of corporate internal governance. Therefore, this article will study the influencing factors of corporate social responsibility performance from the aspects of executive compensation and internal control.

2. Literature Review and Research Hypothesis

2.1 Executive Compensation and Corporate Social Responsibility

At present, most studies in academia believe that executive compensation is positively related to social responsibility. [4] believe that although compensation has no direct incentive for managers, based on the principal-agent theory, when executives receive a fixed salary, in order to maintain the current salary level, there will be a tendency to avoid risks, which is lower Of corporate social performance is considered risky, so executives will improve corporate social performance in order to reduce risk.

The emergence of stakeholder theory has dispersed the goals of enterprises. In addition to economic goals, enterprises must also assume social and political responsibilities. [5]research shows that only by giving more compensation incentives to senior executives can companies prompt them to actively serve their corporate goals, and senior executives must actively fulfill corporate social responsibilities and establish a good relationship with stakeholders Relationship can achieve the goals of the enterprise.

From the most classic Maslow's hierarchy of needs theory, Maslow believes that people's needs have different levels, when a person meets the most basic material needs, the higher spiritual needs will appear. [6] mentioned in the research that the salary of senior executives will affect their material living standards and the satisfaction of desires. The higher the salary, the richer the material living standards. When material desires are greatly satisfied, the spiritual level of pursuit is higher. The direct performance of high-level executive compensation in corporate management is to better fulfill social responsibilities when making corporate decisions.

2.2 Internal Control and Corporate Social Responsibility

In the context of the “new normal” of the macro economy, corporate social responsibility can provide innovative ways and resource bases for sustainable development of enterprises, while internal control can improve the efficiency of resource allocation by standardizing corporate behaviors and achieve sustainable development of enterprises [7]. [8] and others suggested that the level of corporate social responsibility performance comes from many factors. Corporate governance is the most important factor at the organizational level, and ensuring the effective implementation of internal control is a prerequisite for corporate governance [9]. [12] proposed internal control as a system resource that can reduce internal transaction costs, and can effectively promote the standardized operation of corporate social responsibility. [11] studied the spillover effect of internal control from the perspective of corporate social responsibility. He believes that internal control can promote the normalization and standardization of corporate social responsibility, so that the company can get rid of the problem of personal preference of entrepreneurs to perform social responsibility. It can be seen that internal control, as the institutional basis of corporate governance, will directly affect the fulfillment of corporate social responsibility, and has become one of the important mechanisms for promoting corporate social responsibility fulfillment.

2.3 The Nature of Ownership and Corporate Social Responsibility

In Western economics, it is believed that the nature of private enterprises is a combination of capital factors and labor factors. Their existence is to pursue capital appreciation and reduce transaction costs, and to act around the goal of maximizing profits. [12] pointed out that the nature of private enterprises determines that the socialresponsibilities it undertakes are not inherent, but are completely forced by external pressure.

The positioning of state-owned enterprises should be adapted to the country's economic development stage [13]. Its state-owned nature determines the attributes of its dual goals [14]. As a form of production and operation organization, state-owned enterprises have both commercial and public welfare characteristics. They are not only a means of government intervention in the economy, but also a means of government participation in the economy. Therefore, two forces will emerge from the state-owned enterprises: one is non-economic, politically considered, and one is economic, pragmatic. However, the two forces have no clear boundaries. Under the interaction of these two forces, state-owned enterprises have become a special form of enterprise with both economic goals and non-economic goals [15], while state-owned enterprises are more focused on The realization of non-economic goals (Su-JianHUANG, 2006) has natural

advantages in assuming social responsibility [16].

2.4 Research Hypothesis

As my country's economic development enters a new normal, while maintaining stable and healthy economic development, employment stability, improvement of people's livelihood, cultural prosperity, and good ecology are all inseparable from the fulfilment of corporate social responsibility. The above analysis shows that executive compensation linked to corporate economic performance will prompt managers to actively fulfill their social responsibilities, while internal control deficiencies will lead to the lack of effective supervision of corporate social responsibility from cultural shaping to system formulation to implementation. Based on the above analysis, this article proposes the following assumptions:

H1: The higher the level of executive compensation incentives, the better the level of corporate social responsibility performance;

H2: The higher the quality of internal control, the better the level of corporate social responsibility performance.

At the same level of executive compensation and internal control, due to the natural attributes of state-owned enterprises, their social responsibility performance will be better than that of non-state-owned enterprises. Therefore, this article proposes a third hypothesis:

H3: Under different natures of property rights, there are differences in the impact of executive compensation levels and internal control quality on corporate social responsibility performance.

3. Research Design

3.1 Data Source

This article selects the 2013-2017 Shanghai and Shenzhen A-share listed companies as a sample, and does the following processing on the data: (1) excluding all ST companies; (2) excluding special companies in financial and insurance companies; (3) excluding data Missing company. The corporate social responsibility report data is mainly derived from the Rankins CSR Ratings (RKS) database, the internal control index is derived from DIB's internal control and risk management database, and the other data is mainly derived from the China Stock Market & Accounting Research Database (CSMAR), and finally a total of 2415 effective samples are obtained, and winsorize the continuous variables in the regression at 1% and 99% quantiles.

3.2 Variable Definition

(1) Executive compensation (COM). Since it is very common for the chairman not to receive remuneration from the enterprise, this article selects the total remuneration of the top three executives of the enterprise as the measurement index.

(2) Internal control (ICQ). Drawing on the research methods of JuePENG and Hong-Qiang CHEN (2015) [17], etc., this paper uses the internal control index of enterprises released by DIB Enterprise Risk Management Technology Co., Ltd. to measure the level of internal control of enterprises.

(3) Corporate Social Responsibility (CSR). Drawing on the research methods of JuePENG and Hong-Qiang CHEN (2015) [17], etc., the rating score of Rankins CSR Ratings (RKS) corporate social responsibility report is used as an alternative indicator to measure the level of corporate social responsibility performance. The other variables are designed as follows:

Table 1 Main Variable Definition Table

Variable Name	Variable Symbol	Variable Metric
Corporate social responsibility	CSR	Rankins CSR Ratings Database
Executive compensation	COM	The natural logarithm of the total annual salary of the top three highest paid executives
Internal Control	ICQ	DIB Listed Companies Internal Control Index
Financial leverage	LEV	Total liabilities/total assets at the end of the year

Equity concentration	CONN	Shareholding ratio of the largest shareholder
Return on total assets	ROA	Net profit/total assets
Time to market	Year	Number of years since the listing year since the end of the year
Board size	Board	Number of directors

3.3 Measurement Model

In order to verify the relationship between executive compensation and corporate social responsibility, this paper builds a model (1):

$$CSR = \varphi_0 + \varphi_1 COM + \varphi_2 ROA + \varphi_3 LEV + \varphi_4 CONN + \varphi_5 State + \varphi_6 Year + \varphi_7 Board + \varepsilon. \quad (1)$$

In order to verify the relationship between internal control and corporate social responsibility, this paper builds a model (2):

$$CRS = \varphi_0 + \varphi_1 ICQ + \varphi_2 ROA + \varphi_3 LEV + \varphi_4 CONN + \varphi_5 State + \varphi_6 Year + \varphi_7 Board + \varepsilon. \quad (2)$$

In order to verify whether there is a significant difference in the impact of executive compensation levels and internal control quality on corporate social responsibility performance under different property rights, on the basis of models (1) and (2), the sample companies are classified according to state-owned and After non-state-owned grouping, the research hypothesis 3 is verified.

4. Empirical Analysis

4.1 Descriptive Statistics and Analysis

Table 2 shows the statistical results of the main variables of the whole sample. From 2013 to 2017, the average value of CSR was 41.44553, with a minimum value of 17.34680 and a maximum value of 87.94780, indicating that the current level of corporate social responsibility performance of listed companies in China is relatively large, and overall the performance of corporate social responsibility in China is at a low level. The executive compensation level is logarithmic, so the gap is not big from the table; the average ICQ of all sample companies is 675.4584, the minimum value is 264.5100, and the maximum value is 908.3800. It provides a better state for studying the impact of internal control of listed companies on the fulfillment of corporate social responsibility.

Table 2 Descriptive Statistics

Variables	N	Mean	Median	Maximum	Minimum	Std. Dev.
CSR	2415	41.44553	38.67320	87.94780	17.34680	11.77480
COM	2415	14.61822	14.57400	17.40640	12.15160	0.717375
ICQ	2415	675.4584	679.0900	908.3800	264.5100	77.69729
ROA	2415	0.045436	0.035600	0.598100	-0.233700	0.049475
LEV	2415	0.489515	0.503200	0.940100	0.008000	0.199304
CONN	2415	0.376573	0.371900	0.894100	0.033900	0.158394
Year	2415	13.32712	14.00000	27.00000	1.000000	5.852069
Board	2415	9.259213	9.000000	19.00000	4.000000	2.087336

4.2 Relevant Analysis

Table 3 shows the correlation analysis results between the main variables. It can be seen from Table 3 that there is a significant correlation between COM, ICQ and CSR indicators, which initially indicates that the degree of corporate social responsibility fulfillment is affected by the level of executive compensation and the quality of internal control, but whether the impact is stable requires regression testing. The correlation coefficients of other variables are all below 0.5, and there is no serious collinearity in preliminary estimates.

Table 3 Correlation Coefficient

Variables	CSR	COM	ICQ	ROA	LEV	CONN	State	Year	Board
CSR	1.000								
COM	0.275***	1.000							

ICQ	0.189***	0.210***	1.000						
ROA	-0.000	0.216***	0.299***	1.000					
LEV	0.150***	0.172***	0.098***	-0.455***	1.000				
CONN	0.146***	-0.089***	0.120***	0.053***	0.105***	1.000			
State	0.139***	-0.076***	0.073***	-0.159***	0.204***	0.340***	1.000		
Year	-0.006	0.158***	0.015	-0.131***	0.231***	-0.051**	0.226***	1.000	
Board	0.176***	0.129***	0.055***	-0.048*	0.126***	0.034*	0.175***	0.040*	1.000

Note: *, **, *** indicate statistical significance in 10%, 5% and 1% respectively.

4.3 Regression Analysis

According to the Hausman test results, this paper uses a fixed-effect model to perform regression on models (1) and (2). The regression results are shown in Table 4. The regression results of the model fully verify the assumptions (1) and (2). As shown in Table 4, from the regression results of all samples in columns (1) and (2), it can be seen that the explanatory variables of executive compensation levels and internal The quality of holdings has a significant positive impact on the fulfillment of corporate social responsibilities, respectively, thus verifying hypotheses 1 and 2.

Table 4 Multiple Regression Results

Variables	All samples		State-owned		Non-state-owned	
	(1)	(2)	(3)	(4)	(5)	(6)
COM	1.190*		1.306**		0.888	
	(2.48)		(2.06)		(1.18)	
ICQ		0.003**		0.005***		-0.003
		(1.97)		(2.66)		(-1.17)
ROA	6.540	-6.592	-13.637	-15.075	-8.486	-5.192
	(-0.97)	(-0.99)	(-1.13)	(-1.14)	(-1.57)	(-0.94)
LEV	0.229	0.172	-1.847	-1.349	0.989	1.415
	(-0.13)	(0.10)	(-0.17)	(-0.51)	(0.41)	(0.60)
CONN	0.052	-0.313	-0.105	-0.544	0.173	0.479
	(0.02)	(-0.12)	(-0.03)	(-0.14)	(0.05)	(0.12)
Year	0.254	0.114	1.167***	1.249***	1.067***	1.164***
	(0.19)	(0.08)	(9.14)	(10.18)	(7.66)	(8.84)
Board	0.246*	0.263**	0.174	0.174	0.175	0.190
	(2.08)	(2.19)	(1.14)	(1.16)	(0.88)	(0.95)
State	Control	Control				
N	2415	2415	2415	2415	2415	2415
Adj.R-sq	0.253	0.251	0.200	0.201	0.248	0.248
F	33.32	33.49	24.27	24.47	19.35	19.59

Note: *, **, *** indicate statistical significance in 10%, 5% and 1% respectively.

In order to further study the differences between executive compensation levels and internal control quality on social responsibility behavior under different property rights, this paper divides the sample into state-owned enterprises and non-state-owned enterprises for regression. As can be seen from the regression results in columns (3), (4), (5), and (6), for state-owned enterprises, the effects of executive compensation level and internal control quality on the level of corporate social responsibility performance are respectively 5 % And 1% are significant, and the impact is positive, which further validates hypothesis 1 and hypothesis 2 above. At the same time, for non-state-owned enterprises, the effects of executive compensation levels and internal control quality on corporate social responsibility have not passed the significance test and verified Hypothesis 3. This shows that compared with non-state-owned enterprises, the impact of executive compensation and internal control on corporate social responsibility is significantly positively correlated in state-owned enterprises.

5. Conclusions and Recommendations

This article uses the panel data of my country's Shanghai and Shenzhen A-share listed companies from 2013 to 2017 to empirically examine the impact of corporate internal governance on the fulfillment of social responsibilities. The study finds that the level of executive compensation and the internal control quality of the company have a significant positive impact on the fulfillment of corporate social responsibility. A further group test found that this positive impact

is significant in state-owned enterprises, but not significant in non-state-owned enterprises. Differences in the nature of property rights will lead to differences in the level of corporate social responsibility performance. Generally speaking, state-owned enterprises have higher levels of social responsibility performance.

In summary, this article makes the following suggestions: (1) Corporate social responsibility is closely related to national economy and people's livelihood. It is necessary to use corporate social responsibility as an indicator for executive performance evaluation, so that executives will not only consider economic benefits but also consider social benefits. (2) In order further respond to the government's call, protect consumer rights, and improve the level of corporate social responsibility, enterprises strengthen the system construction with internal control as the core, fully understand the function of internal control, pay attention to its spillover effect, that is, protect the interests of the enterprise The interests of the stakeholders, thereby promoting the attention of various stakeholders on the company's internal control, and further building internal control. (3) The difference in the nature of property rights leads to differences in the perception of corporate social responsibility. State-owned enterprises must bear certain social responsibilities to a certain extent, while non-state-owned enterprises are mainly constrained by their own interests in assuming social responsibilities. Therefore, in state-owned enterprises, it is necessary to give full play to the positive impact of executive compensation on corporate social responsibility.

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