The Relationship Between Corporate Social Responsibility and the Performance of Corporate Overseas Investments

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Abstract： In the context of a new era where corporate social responsibility (CSR) has gained widespread attention and the global CSR movement is rapidly developing, CSR is not only crucial for the sustainable development of overseas investments but also plays a significant role in shaping China's image as a major power. This paper empirically examines the relationship between CSR and the performance of overseas investments, based on data from A-share listed companies in Shanghai and Shenzhen from 2013 to 2022, and analyzes the impact of host country differences on this relationship.
Keywords: Corporate Social Responsibility; Overseas Investment Performance; Multinational Corporations

Chapter One: Introduction

Since the implementation of the "Going Global" strategy, China's level of openness to the outside world has continuously improved, and the advancement of the "Belt and Road" initiative has provided a significant new historical opportunity for China's outward direct investment. The increasingly competitive environment has placed higher demands on companies, making the fulfillment of corporate social responsibility (CSR) an essential question for corporate survival and development. However, some companies, in their pursuit of economic benefits, still neglect social benefits, trading corporate growth for high pollution and energy consumption, and sacrificing social and public interests for corporate gains, leading to a series of problems. At the same time, to promote and advocate for the active fulfillment of CSR, more and more countries and regions are incorporating CSR concepts into national strategic planning and policy formulation. International organizations are also proposing standards, codes, and initiatives related to CSR. In today's highly competitive business environment, the growth of multinational corporations depends on the effective implementation of their CSR strategies. Fulfilling CSR not only promotes sustainable social development but also enhances the creation of corporate economic value. Consequently, an increasing number of multinational corporations are beginning to emphasize the formulation of global CSR strategies and are proactively implementing them in the course of their internationalization.

However, the current literature on CSR in multinational corporations remains limited. Existing studies mainly focus on the drivers of CSR fulfillment and disclosure in multinational corporations, the integration of global and local CSR strategies, and the impact of CSR fulfillment on corporate internationalization behavior, but most of these studies focus on companies from developed countries or other emerging economies. In the few studies that use Chinese companies as samples, scholars have rarely focused on the impact of CSR fulfillment on outward direct investment and have seldom conducted in-depth analyses from the perspective of investment performance. The role of CSR in the process of outward direct investment cannot be overlooked.

Therefore, this paper will take Chinese companies as a sample to explore the impact of CSR fulfillment on the performance of overseas investments.

Given the above practical and theoretical background, and in conjunction with the development of CSR fulfillment and outward direct investment by Chinese companies, this paper's study of the impact of CSR on the performance of overseas investments holds both theoretical and practical significance.

Chapter Two: 2. Literature Review and Theoretical Foundation

2.1 Stakeholder Theory

"Stakeholders" refer to individuals or groups that can influence or are influenced by a company's actions in the pursuit of its goals. The core idea of stakeholder theory is that a company should create value for all its stakeholders, and the interests of shareholders should not take precedence over those of other stakeholders. Stakeholder theory opposes the view that business decisions are devoid of moral content. Relationships with stakeholders should be built on principles of fairness and reciprocity, with the responsibility of maintaining good relations being bilateral. Overall, stakeholder theory fundamentally considers how to maximize a company's profits to ensure its long-term survival and sustainable development. This theory delineates the objects and scope of a company's responsibilities, providing effective methods for measuring corporate social responsibility (CSR) and offering strategic guidance on the feasibility and effectiveness of CSR implementation. As a social organization, a company inevitably needs to communicate and interact with other social groups, and ignoring the interests of these groups may harm the interests of the company's shareholders. Therefore, a company should actively take responsibility for factors that influence the realization of its vision and for the interests of shareholders, employees, creditors, and society at large that are impacted by the company's actions. Only by assuming responsibility for all stakeholders can a company maximize its profits and ensure long-term development.

2.2 Corporate Social Responsibility and Overseas Investment Performance

In 2020, some scholars proposed the signal theory of parent company corporate social responsibility (CSR), suggesting that strong CSR performance by the parent company can improve the performance of overseas subsidiaries. They found that the performance improvement effect is better for sales subsidiaries than for manufacturing subsidiaries, and that as the business of overseas subsidiaries expands, the signaling effect of the parent company’s CSR diminishes. Domestic scholars have proposed that in the early stages of multinational operations, multinational enterprises can enhance their legitimacy by proactively disclosing CSR, thereby improving the performance of their overseas subsidiaries. Others have studied whether outward direct investment contributes to improving CSR levels, suggesting that corporate participation in outward direct investment along the "Belt and Road" can promote CSR fulfillment. In the process of corporate internationalization, CSR also plays an indispensable role, having a significant positive impact on a company's international expansion and potentially affecting the performance of overseas operations.

Compared to domestic companies, overseas subsidiaries are at a distinct disadvantage in terms of information acquisition and dissemination. These subsidiaries often achieve a large operational scale in a relatively short time through substantial capital injections from the parent company, yet they lack a local track record, resulting in severe information asymmetry between the subsidiaries and stakeholders. Due to fears of opportunism, stakeholders find it difficult to build trust in the company and engage in value co-creation. In this context, local stakeholders may infer the basic ethical characteristics of the subsidiaries based on the observable social and environmental practices and performance of the parent company.

For multinational corporations from developing countries, the signaling effect of CSR is stronger due to the relatively weak institutional environment in the home country, which helps overseas subsidiaries gain more resources. Although CSR practices of multinational corporations may vary across countries, the CSR of the parent company remains a key factor influencing the cooperation between overseas subsidiaries and local stakeholders. First, the operations of overseas subsidiaries usually rely heavily on the resources of the parent company and are influenced by its policies and beliefs, creating significant isomorphic pressures within multinational corporations that promote consistency in strategy, management practices, and stakeholder orientation between the parent company and overseas subsidiaries. Second, maintaining consistent CSR standards between multinational corporations and their overseas subsidiaries can reduce legal and ethical risks in different host country environments and lower the high costs of adapting to local conditions. Finally, CSR practices typically evolve through long-term interactions with stakeholders and often become institutionalized and embedded in a company’s policies, operational procedures, and decision-making processes. Once a CSR practice is adopted and the company makes enduring structural and resource commitments, these practices generally persist throughout the organization.

Furthermore, research on Chinese companies indicates that the CSR of central enterprises has a positive effect on the performance of outward direct investment, with the main conclusion being that the higher the level of CSR fulfillment, the better the performance of outward direct investment. This conclusion is further validated through case studies of CSR practices by China National Petroleum Corporation (CNPC) in Myanmar and Iraq.

Based on the above analysis, this paper proposes the research hypothesis: CSR has a positive impact on the overseas investment performance of multinational corporations.

In other words, the higher the level of CSR fulfillment, the better the overseas investment performance of multinational corporations.

Chapter Three: Research Design

3.1 Sample Selection and Data Sources

This chapter focuses on two key variables: corporate social responsibility (CSR) and overseas investment performance. The CSR data is sourced from the "Listed Companies Social Responsibility Report Database" on Hexun.com, while the overseas investment performance data is obtained from the "Overseas Direct Investment Database" of CSMAR. The research sample consists of Chinese A-share listed companies in Shanghai and Shenzhen that engaged in outward direct investment between 2013 and 2022. The following data processing steps were applied: (1) Exclude samples involving investments in tax havens by overseas subsidiaries of the companies; (2) Exclude samples where the listed company's equity ratio is below 10%; (3) Exclude samples with special treatment designations such as ST, *ST, PT, etc., during the study years; (4) Exclude samples of listed companies in the financial and insurance sectors; (5) Exclude samples of overseas subsidiaries that exited the host country; (6) Exclude samples with missing key variables. Ultimately, 5402 samples were obtained, involving 818 listed companies establishing a total of 2001 overseas subsidiaries in 69 countries and regions.

3.2 Variable Selection and Data Sources

The variable information used in this study is shown in Table 3-1.

Table 3-1 Variable Information Table

Type	Name	Code	Definition and Explanation	Data Source
Dependent Variable	Overseas Investment Performance	Profit	The logarithm of the net profit of overseas subsidiaries	CSMAR "Overseas Direct Investment Database"
Independent Variable	Corporate Social Responsibility	CSR	CSR score from Hexun.com, lagged by one period	Hexun.com
Control Variables	Host Country Market Size	PGDP	The logarithm of the host country's per capita GDP	WDI
	Host Country Market Potential	GGDP	The host country's GDP growth rate	
	Outward Direct Investment Flow	OFDI	The natural logarithm of China's OFDI flow	"China Outward Foreign Direct

Type	Name	Code	Definition and Explanation	Data Source
			to the host country	Investment Statistics Bulletin"
	Parent Company Leverage Ratio	Lev	Total liabilities of the parent company at year-end / total assets at year-end	CSMAR "Overseas Direct Investment Database"
	Parent Company Size	Size_PC	The logarithm of the parent company's total assets	
	Overseas Subsidiary Size	Size_SC	The logarithm of the overseas subsidiary's total assets	

3.3 Model Construction

To examine the impact of corporate social responsibility (CSR) on the overseas investment performance of Chinese multinational enterprises, the following baseline model is constructed.

$$Profit_{ijt} = \alpha_0 + \alpha_1 CSR_{it-1} + \alpha_2 Controls + \varepsilon_{ijt}$$

In this model, the subscript iii represents the overseas subsidiary, the subscript jjj represents the corresponding host country, and the subscript ttt represents the year. The independent variable is the lagged one-period comprehensive CSR score; the dependent variable is the logarithm of the net profit of the overseas subsidiary in the host country in year ttt, which is used to measure the overseas investment performance of multinational enterprises. To avoid errors caused by excessively large values, when the net profit of the overseas subsidiary is positive, the logarithm is taken; when the net profit is negative, the logarithm of its absolute value is taken first, and then the value is negated. The model also includes a set of control variables to account for other factors affecting the overseas investment performance of multinational enterprises, such as the economic characteristics of the host country (PGDP, GGDP); clustering effects (OFDI); parent company operations and size (Lev, Size_PC); and the size of the overseas subsidiary (Size_SC).

Chapter Four: . Empirical Analysis

4.1 Descriptive Statistical Analysis

First, descriptive statistical analysis was conducted using Stata17 software. Refer to Table 4-1 for the descriptive statistical characteristics of each major variable. From the table, it can be seen that the average overseas investment performance of multinational enterprises is 2, with a maximum value of 24.14, a minimum value of -22.41, and a standard deviation of 15.13. This indicates that, overall, the level of overseas investment by multinational enterprises is not high, and there are significant differences between companies. The data suggests that there is still considerable room for improvement in the overseas investment performance of Chinese multinational enterprises, and the level of international operations needs to be enhanced. The average CSR score of multinational enterprises is 21.69, with a maximum value of 80.64, a minimum value of -13.99, and a standard deviation of 13.64. This shows that the overall level of CSR fulfillment by multinational enterprises is moderately low, with significant variations between companies. Some multinational enterprises demonstrate very high levels of CSR fulfillment.

Table 4-1 Descriptive Statistics of Variables

Variable	Variable Name	Observations	Mean	Std. Dev.	Min	Max
Profit	Overseas Investment Performance	5402	2	15.13	-22.41	24.14
CSR	Corporate Social Responsibility	5402	21.69	13.64	-13.99	80.64
Fe	Proportion of Female Executives	5402	0.210	0.110	0	0.710
Aml	Host Country Anti-Money Laundering Effectiveness	5402	5.280	0.610	2.510	8.610
OFDI	Outward Direct Investment Flow	5402	13.57	2.480	0	16.25
PGDP	Host Country Market Size	5402	10.44	0.900	6.360	11.53
GGDP	Host Country Market Potential	5402	1.880	3.620	-54.34	24.48
Lev	Parent Company Leverage Ratio	5402	0.410	0.220	0.010	5.910
Size PC	Parent Company Size	5402	22.04	1.070	18.88	27.33
Size SC	Overseas Subsidiary Size	5402	17.95	2.860	-12.81	25.68

4.2 Correlation Analysis

A preliminary correlation analysis of the variables was conducted, and to prevent multicollinearity issues among the variables, the Variance Inflation Factor (VIF) method was used for multicollinearity analysis. The results of the correlation analysis are presented in Table 4-2, and the multicollinearity results are shown in Table 4-3. The tables indicate that there is a positive correlation between Corporate Social Responsibility (CSR) and Overseas Investment Performance (Profit), which is significant at the 1% level, aligning with the expectations of this study. Additionally, the VIF values of the variables range between 1.07 and 1.53, with an average VIF of 1.25, which is far below the threshold value of 10. This suggests that there is no severe multicollinearity problem, allowing for the next step in the empirical analysis.

Table 4-2 Correlation Analysis of Variables

	Profit	CSR	OFDI	PGDP	GGDP	Lev	Size PC	Size SC
Profit	1							
CSR	0.072***	1						
OFDI	0.075***	0.059***	1					
PGDP	−0.0130	0.0110	0.433***	1				
GGDP	−0.00600	0.068***	−0.220***	−0.171***	1			
Lev	0.034**	−0.087***	−0.049***	−0.026*	−0.0130	1		
Size PC	0.147***	0.186***	0.00600	0.037***	−0.032**	0.420***	1	
Size SC	0.288***	0.046***	0.042***	0.0180	−0.057***	0.219***	0.443***	1

*Note: ***, *, * *indicate significance at the 1%, 5%, and 10% levels, respectively.*

Table 4-3 Multicollinearity Analysis of Variables

Variable	VIF	1/VIF
CSR	1.090	0.921
OFDI	1.280	0.783
PGDP	1.240	0.804
GGDP	1.070	0.935
Lev	1.260	0.792
Size PC	1.530	0.652
Size SC	1.250	0.798
Mean VIF	**1.250**	

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4.4 Robustness Test

To demonstrate the robustness of the regression results, this study employs a variable substitution method for testing. The dependent variable, overseas investment performance, was replaced, and a binary index was used instead of the original data.

Specifically, if net profit was positive, it was coded as 1; if net profit was negative, it was coded as 0. After data collection, a Logit regression was conducted, and the results are shown in Table 4-5. As can be seen, after substituting the variables, the regression results remained consistent with the previous findings, still significant at the 1% level, thereby proving that the results of this study are robust.

Table 4-5 Logit Regression Results with Substituted Variables

	(1)
VARIABLES	Profit
CSR	0.011***
	(4.23)
OFDI	0.078***
	(5.44)
PGDP	−0.159***
	(−4.02)
GGDP	0.002
	(0.15)
Lev	−0.209
	(−0.99)
Size_PC	−0.051
	(−1.33)
Size_SC	0.290***
	(17.68)
Constant	−3.231***
	(−3.73)
Observations	5,402
Industry FE	YES
Year FE	YES

Robust z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1*

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4.4 Robustness Test

To demonstrate the robustness of the regression results, this study employs a variable substitution method for testing. The dependent variable, overseas investment performance, is replaced with a binary indicator. Specifically, the original data is substituted with a binary index, where a net profit greater than zero is coded as 1, and a net profit less than zero is coded as 0. After data collection, a Logit regression was performed on the data, and the test results are presented in Table 4-5. As shown, after substituting the variables, the regression results remain consistent with the previous findings, still significant at the 1% level, thereby proving the robustness of the study's results.

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Observations	5,402
Industry FE	YES
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Robust z-statistics in parentheses
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As shown, after substituting the variables, the regression results remain consistent with the previous findings, still significant at the 1% level, thereby proving the robustness of the study's results.

4.4 Heterogeneity Analysis

In this section, the study uses countries along the "Belt and Road" as a basis for classification, dividing the sample into two groups according to the type of host country and conducting subgroup regressions. The regression results are presented in Table 4-6. According to the regression results, when direct investment is made in non-"Belt and Road" countries, the regression coefficient for CSR is positive and significant at the 1% level; however, when direct investment is made in "Belt and Road" countries, the coefficient is not significant. This suggests that CSR has a more pronounced positive impact on performance when direct investment is made in non-"Belt and Road" countries. This could be due to the fact that these countries generally have higher levels of economic development, more stable institutional environments, and more diverse and stringent CSR requirements compared to "Belt and Road" countries. In these contexts, the expectations and demands of various stakeholders can be better met through the proper fulfillment of CSR by multinational corporations, which enhances corporate legitimacy and social support, thereby improving the performance of overseas subsidiaries.

Table 4-6 Subgroup Regression Results by Host Country Type

VARIABLES	Non-"Belt and Road" Profit	"Belt and Road" Profit
CSR	0.088***	0.005
	(5.27)	(0.11)
OFDI	0.872***	0.128
	(8.33)	(0.37)
PGDP	-1.263***	-0.247
	(-2.97)	(-0.42)
GGDP	-0.019	0.328
	(-0.16)	(1.38)
Lev	-1.959*	5.456
	(-1.79)	(1.54)
Size_PC	0.402	0.071
	(1.64)	(0.10)
Size_SC	1.272***	2.000***
	(15.68)	(7.57)
Constant	-23.945***	-59.393***
	(-3.59)	(-3.73)

These findings suggest that CSR has a more pronounced positive impact on the performance of overseas investments in non-"Belt and Road" countries compared to "Belt and Road" countries, possibly due to the superior economic development, institutional stability, and diverse stakeholder expectations in the former.

Chapter Five：Research Conclusions and Recommendations

The baseline regression results and robustness tests indicate that fulfilling corporate social responsibility (CSR) has a positive impact on the overseas investment performance of Chinese multinational enterprises. This suggests that CSR enhances the overseas investment performance of multinational enterprises. The heterogeneity analysis further shows that the positive impact of CSR on overseas investment performance is significant when investing in non-"Belt and Road" countries, but not significant when investing in "Belt and Road" countries. From a practical perspective, the findings of this chapter offer guidance for multinational enterprises aiming to improve their overseas investment performance and successfully establish themselves in host countries. Multinational enterprises should place a strong emphasis on CSR and take action in various areas, as CSR not only affects domestic operations but also influences overseas performance through signaling. Additionally, companies should develop and implement CSR strategies that align with the institutional environments of different countries.

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