



National Audit, Legal Environment and Corporate Social Responsibility Empirical Evidence Based on Corporate Giving

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Abstract. The fulfillment of corporate social responsibility (CSR) is crucial to sustainable economic development and social harmony and stability and national audit plays an important role in the implementation of CSR, which has attracted wide attention from both academic and practical circles. Based on the national audit data which is manually collected from the China Audit Yearbook, this study finds that national audit has a stronger effect on CSR performance under the conditions of better legal environment. The research in this paper provides new evidence on the promotion effect of national audit on CSR and has important policy implications and practical significance.

Keywords: national audit · corporate social responsibility · corporate donation · legal environment · state audit

1 Introduction

In recent years, the necessity of corporate social responsibility (CSR) has become increasingly prominent. However, due to the growth of the national economy, the productive activities of enterprises increasingly encroach on various resources of the environment, economy and society. Therefore, corporations in China are faced with higher requirements: they should not only strive to improve their corporate performance, but also take up social responsibility by adopting methods such as charitable donations, environmental protection, energy saving and emission reduction to compensate for the occupation of natural and social resources.

However, there are still many companies that lack a long-term perspective in this regard [1, 2]. To urge companies to engage in the fulfillment of social responsibility more actively and effectively, it is necessary to adopt an external audit approach to strengthen audit supervision. The state auditing institution plays an irreplaceable role. It not only ensures the development of the socialist national economy, but also supervises the legal and compliant operation of enterprises. But the relevant studies are still very limited, and more empirical evidence is needed to explore whether it can effectively improve the level of corporate social responsibility.

Although CSR and philanthropy cannot be simply juxtaposed, the social giving of a company is a key indicator when measuring its contribution to society. Donation is a gratuitous social act and the highest expression of corporate social responsibility (Zhang Binghui and Zhang Kaixuan, 2022). Therefore, this study will examine the impact of national audit on CSR based on corporate donations.

Based on the national audit data which is manually collected from the China Audit Yearbook, this study finds that state auditing has a stronger contribution to CSR performance under better legal environment. The research in this paper provides new evidence on the promotion effect of national audit on CSR, and has important policy implications and practical significance.

2 Theoretical Analysis and Research Hypothesis

Based on the fundamentals of stakeholder and correlation theory, companies should give satisfaction to the needs of other stakeholders who are not shareholders of the company [3]. Ge and Liu (2015) pointed out that due to information asymmetry, management often needs to prove themselves in order to gain stakeholders' trust and support [4]. The study by Qian Aimin and Zhu Dapeng (2017) showed that companies can effectively convey information through fulfilling their social responsibility. Most scholars believe that corporate social responsibility is often an important means of maximizing shareholder value [5, 6].

The level of CSR commitment is the result of the combined effect of many internal and external factors [7, 8]. In fact, the government is also a very critical external factor in motivating enterprises to take the initiative in social responsibility [9, 10]. It is necessary to adopt external auditing to strengthen the audit and supervision, so that national audit can play an important role in improving the level of corporate social responsibility.

In 2007, Liu Jiayi, the auditor-general of China, clearly proposed that "modern national audit is the immune system of economic operation" at the national audit conference for the first time. In China, national audit has gradually become an effective means of national governance. Some scholars have proposed the impact of state audit on the fulfillment of corporate social responsibility from the perspectives of government environmental audits and the exit audit of natural resources assets. Pan Xiaozhen et al. (2020) and other scholars also conducted empirical studies in this regard.

In China, due to geographical differences, the role of state audit institutions in promoting CSR is influenced by different legal environments, which play an important regulatory role. China is in the primary stage of socialism, and there are great differences in the degree of economic development among different regions. In the eastern coastal areas, due to its relatively high degree of economic development, the construction of the legal environment is correspondingly more perfect. When the enterprise is in a relatively good legal environment, after the announcement of the national audit results exposes the various problems found in the audit process, superior departments will punish the enterprise and the relevant responsible leaders in a timely manner according to

laws and regulations. Under a sound legal system, the tracking reports of news media, the perception of corporate image by consumers, and the reaction of stock prices in the capital market can provide faster and more powerful feedback to the announcement of state audit results. Therefore, a good legal environment is conducive to the enhancement of national audit for CSR performance, while a poor legal environment is not helpful to the function of state audit. Based on the above analysis, the following hypothesis H1 is proposed:

H1: The contribution of national audit to CSR performance is stronger under better legal environment conditions.

3 Research Design

3.1 Sample Selection

The sample used in this study includes data related to 31 provinces (autonomous regions and municipalities directly under the central government), except for Hong Kong, Macao and Taiwan. The sample period of national audit is from 2010 to 2019. Referring to existing studies, the governance effect of state audit takes some time to work and therefore the data of national audit is lagged by one period in this study. Accordingly, data on corporate donations and control variables start from 2011 and end in 2020.

The initial sample of non-financial listed companies was used as and the following screenings were done: (1) exclude samples with zero or null values for corporate donation expenditures during the study period; (2) exclude samples with missing values for each control variable in the model and abnormal related data (e.g., gearing ratio greater than 1); (3) exclude financial companies, ST and *ST samples. A total of 3668 companies with 19917 valid observations were retained.

The above national audit data were collected manually from the China Audit Yearbook; and the corporate donation data and other control variables were mainly obtained from the CSMAR database and CNRDS database. To avoid the effect of extreme values, the relevant continuous variables are winsorized at the 1% and 99% levels.

3.2 Variable Selection

Dependent Variable.

The dependent variable in this study is corporate giving: total charitable giving as a percentage of corporate operating income (Donate_rev). To avoid the value of this indicator is too small, multiplied by 1000, and this treatment will not change the data structure.

Independent Variables.

The independent variable in this study is the national audit function. National audit is the “immune system” of the national governance system, with preventive, revealing, and defensive functions, and the three functions are interrelated and interact with each other

to form an organic whole. This study adopts the revealing (EXP), defending (PRO), and preventing (PRE) functions of national audit as the core explanatory variables, and the three major functions of state audit are measured by the method in Table 1. The greater the value of the explanatory, preventive, and defensive function measures, the better the function is performed.

Control Variables.

Based on the existing literature and established studies, the control variables selected for this study are the main factors affecting corporate giving, which are shown in Table 1.

3.3 Empirical Model

Referring to the established studies, considering the lagging nature of the national audit function, this study treats each function with a one-period lag, and the endogeneity problem can also be eliminated to some extent. According to the above indicators, based on the analysis of the influence mechanism, this research uses a fixed-effects model to construct the following panel data econometric model:

$$Donation_{i,t} = b_0 + b_1AUT_{i,t-1} + b_i \sum Controls_{i,t} + \sum Year \\ + \sum Indus + \sum Province + \varepsilon_{i,t}$$

4 Empirical Results

4.1 Descriptive Statistics

Table 2 shows the results of descriptive statistics for the main variables of this study. It shows that there are large differences in the amount of donations between companies. It can be seen that the three main functions of national audit are fully developed, but still need to be improved, and there are large differences between regions. There is still much room for improvement in the effectiveness of comprehensive governance. Control variables are omitted due to space limitations.

4.2 Analysis of Findings Based on a Subsample of the Legal Environment

Based on the latest data of “Evaluation of Market Intermediary Organization Development and Regulations”, this study ranks 31 provinces. The top 15 are provinces with good legal environment conditions, while the bottom 16 provinces have poor legal environment conditions. Accordingly, all samples were divided into two groups: good legal environment and poor legal environment, and regression analysis was conducted on these two sub-samples. The estimated results are shown in Table 3.

Column (1)–column (4) in Table 3 show that the estimates of the state audit variables are all positive in a good legal environment and all of them reach the 1% level of significance, which indicates that a good legal environment helps to enhance the facilitating effect of national audit on CSR performance. However, the results of columns (5)–(8) in Table 3 show that although the coefficients of the state audit variables are all positive, none of them reach the significance level. Obviously, a good legal environment helps national audit to identify and solve problems in a timely manner, which ultimately promotes the promotional effect of government auditing on CSR. The results confirm the research hypothesis H1 proposed in this study.

Table 1. Variable definitions

Variable Type	Variable Name	Variable Symbol	Variable Definition
Dependent variables	Corporate giving	<i>Donate_rev</i>	(Total corporate donation / corporate operating income) × 1000
Independent variables	Audit revealing function	<i>EXP</i>	ln (amount of major issues identified by the audit/number of units audited)
	Audit resistance function	<i>PRO</i>	ln (number of audit recommendations adopted)
	Audit prevention function	<i>PRE</i>	ln (Number of matters referred for processing)
	Audit integrated governance function	<i>COP</i>	<i>EXP*PRO*PRE</i>
Control variables	Company size	<i>Size</i>	Natural logarithm of total assets at the end of the year
	Asset-liability ratio	<i>Lev</i>	Total liabilities at the end of the year / Total assets at the end of the year
	Return on assets	<i>Roa</i>	Net income / Total assets at year-end
	Company growth	<i>Growth</i>	Operating income growth rate, increase in operating income/previous period operating income
	Cash holding levels	<i>Cash</i>	(Monetary funds + financial assets held for trading)/total assets
	Percentage of fixed assets	<i>PPE</i>	Year-end fixed assets / Year-end total assets
	Political affiliation	<i>Politic</i>	Whether the company's chairman or general manager has served or is serving in government departments, the military, and was or is still serving as a party representative, NPC deputy or CPPCC member

(continued)

Table 1. (continued)

Variable Type	Variable Name	Variable Symbol	Variable Definition
	Capital intensity	<i>AI</i>	Total Assets / Operating Income
	Shareholding concentration	<i>Top1</i>	Percentage of shareholding of the largest shareholder
	Board size	<i>Board</i>	Number of company's board of directors
	Nature of ownership	<i>SOE</i>	State-owned enterprises are assigned a value of 1, while the opposite is assigned a value of 0
	Company listing age	<i>ListAge</i>	Age at market: year of study - year at market + 1, the natural logarithm of the company's age at market, equal to $\ln(1 + \text{age at market})$
	GDP per capita in the company's province	<i>PGDP</i>	Gross regional product per capita
	Bipartite situation	<i>Dual</i>	Dummy variable, Dual = 1 if chairman and manager are combined, 0 otherwise
	Shareholding checks and balances	<i>ZIndex</i>	The percentage of shares held by the 2nd–5th largest shareholders divided by the percentage of shares held by the 1st largest shareholder
	Percentage of independent directors	<i>Out</i>	Percentage of independent directors of the company
	Marketability index	<i>Mkt</i>	
	Annual effect	<i>Year</i>	Annual dummy variable
	Industry effect	<i>Indus</i>	Industry dummy variable
	Province effect	<i>Province</i>	Province dummy variable

Table 2. Descriptive statistics of the main variables

Variable	N	Mean	Std. Dev.	Min	p25	Median	p75	Max
<i>Donate_rev</i>	19917	0.5366	1.0403	0.0007	0.0419	0.1598	0.5207	6.6408
<i>EXP</i>	19917	8.0999	0.7740	6.3969	7.8671	8.2006	8.6444	9.3648
<i>PRO</i>	19917	8.6798	0.7606	6.4249	8.3362	8.8705	9.2207	9.8436
<i>PRE</i>	19917	5.3116	1.2345	1.6094	4.5433	5.5413	6.3136	7.4697
<i>COP</i>	19917	385.4959	125.2449	79.3585	331.0346	423.9982	461.9807	625.0134

Table 3. Estimation results based on the subsample of the legal environment

Variable	Good legal environment				Poor legal environment			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>	<i>Donate_rev</i>
<i>COP</i>	0.0003*** (3.50)				0.0005 (1.25)			
<i>EXP</i>		0.1609*** (3.83)				0.2009 (1.57)		
<i>PRO</i>			0.0368*** (2.71)				0.0995 (1.42)	
<i>PRE</i>				0.0270*** (3.24)				0.0105 (0.29)
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Indus</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Province</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>_cons</i>	1.7183*** (6.00)	0.8509** (2.04)	1.4972*** (4.78)	1.5271** (5.54)	-0.4858 (-0.86)	-2.1652* (-1.56)	-1.1558 (-1.18)	-0.4300 (-0.78)
N	16317	16317	16317	16317	3428	3428	3428	3428

Note: *** represents significant at the 1% level, ** represents significant at the 5% level, * represents significant at the 10% level, and the corresponding t-values are in parentheses. Regression results of control variables are omitted due to space limitations

5 Conclusion

Since the reform and opening-up, China's economic development has achieved great results. As the main body of the market economy, enterprises need to focus on improving corporate performance as well as social responsibility. However, many enterprises still neglect their social responsibility. Therefore, it is necessary to adopt an external audit approach to urge enterprises to invest in social responsibility truly and effectively, and national audit plays an important role in this regard. Based on the national audit data which is manually collected from the China Audit Yearbook, this study finds that state audit has a stronger contribution to CSR performance under better legal environment, providing new evidence on the promotion effect of national audit on CSR, and also has important policy implications:

First, it is necessary to strengthen legislative support, increase the supply of laws and regulations, and supervise local governments to implement the existing system of laws and regulations, so as to provide more effective protection for the effective performance of the national audit function. Secondly, the government can promote the initiative of corporate social responsibility through positive guidance and appropriate incentives. As a body with enforcement power, the government should independently monitor companies' compliance with laws and regulations, and encourage companies to take social responsibility by establishing incentive mechanisms.

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