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## Bank Connections and Corporate Social Responsibility: Evidence from Chinese Targeted Poverty Alleviation

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**Abstract:** We discuss the relationship between bank connections (BC) and corporate social responsibility (CSR). We find that the presence of BC is expected to increase the level of CSR by 0.4%. The results hold after a number of robustness tests. In addition, we also discuss the role of information asymmetry and financial constraints and find that BC can mitigate both information asymmetry and financial constraints faced by firms, thereby exerting a positive impact on CSR. Furthermore, we also find that a higher level of economic development can stimulate the fulfilment of CSR.

**Keywords:** Bank Connections; Corporate Social Responsibility; Targeted Poverty Alleviation

### 1. Introduction

The topic of Corporate Social Responsibility (CSR) is attracting the attention of an ever-increasing number of academics and entrepreneurs. Global poverty, a major obstacle to sustainable development, highlights the need for companies to participate in solving social problems. In China, the government's targeted poverty alleviation strategy has significantly reduced the number of poor people. There is some evidence that the corporate sector's participation in this strategy reflects social responsibility and brings positive corporate and social value. Extensive research indicates that corporate social responsibility (CSR) activities can create value at both the firm and social levels. From a firm-level perspective, CSR activities can benefit long-term investors by enhancing a company's resilience during financial crises.

The role of banks in influencing firms to adopt CSR is of great importance. Banks can assist in securing financial support for CSR initiatives and reinforce CSR commitment within corporate culture. By offering financial resources and strategic support for CSR, banks can encourage a more sustainable approach in businesses, leading to positive social impact and enhanced reputations for both parties.

Previous literature acknowledges the positive impact of BC on corporate behavior as part of a firm's social capital. However, research specifically on how BC enhances corporate CSR efforts is scarce. Given the potential of BC to amplify CSR's impact, further exploration of this relationship is vital for guiding the financial sector's role in advocating responsible business practices.

This study investigates into the impact of BC on CSR at the micro-enterprise level. It provides empirical evidence for the promoting effect of BC on CSR. The results of the study indicate that the existence of BC is expected to increase the CSR level by 0.4%. These findings were empirically validated through a series of robustness tests. Furthermore, we explore the channels in information asymmetry and financial constraints. It was found that BC can mitigate both the information asymmetry and financial constraints faced by firms, thereby exerting a positive impact on CSR. Additionally, we also found that a higher level of economic development may stimulate CSR. However, the effect of SOE was not obvious.

This study makes three significant contributions to the field of corporate social responsibility (CSR) research. Firstly, it builds upon previous motivation studies on CSR. Secondly, it provides an analytical framework for examining the relationship between business culture (BC) and CSR at the micro-enterprise level. Thirdly, it pioneers the examination of the impact of BC on CSR within the context of micro-enterprises. Secondly, this study enriches the research on the financial influence on enterprise behavior. The study demonstrates that BC can effectively mitigate the challenges of information asymmetry and financial constraints faced by enterprises. (3) This study offers valuable insights into poverty management. Furthermore, it provides a framework for poverty alleviation initiatives in countries with similar socio-economic contexts.

## **2. Theoretical Hypothesis**

The nexus between BC and CSR is based on the assumption that banks, as key stakeholders, possess significant leverage to influence corporate behaviors. BC are theorized to elevate CSR through various economic mechanisms. Recent literature underscores the positive influence of BC on CSR, with empirical evidence supporting the notion that banks can align firm behavior with social expectations through their advisory and monitoring roles. Shleifer and Vishny (1997) demonstrated that banks can mitigate information asymmetry and influence corporate governance. This foundational concept suggests that persistent banking relationships positively impact enterprise development, as evidenced by studies. Long-lasting bank relationships are also shown to enhance firm growth, according to research. Furthermore, financial support from banks significantly fosters corporate innovation .

The reduction of information asymmetry through BC is a fundamental aspect of enhancing CSR. Banks, through their ongoing relationships with firms, amass detailed knowledge about the firm's operations and strategies, which is often not accessible to external investors. This intimate knowledge enables banks to more effectively assess the firm's CSR initiatives and hold management accountable,

as proposed by the agency theory . This, in turn, can lead to a more efficient allocation of capital towards socially responsible investments.

Financial constraints represent another significant obstacle to the adoption of corporate social responsibility (CSR) practices. Faced with liquidity shortages, firms may prioritize short-term financial gains over long-term CSR objectives. However, BC can mitigate these constraints by providing firms with stable and long-term financing. This financial support can empower firms to invest in CSR initiatives without compromising their financial stability. Additionally, recent studies have demonstrated that a well-developed financial sector, characterized by strong BC, is associated with better social outcomes .

In conclusion, BC play a pivotal role in reducing information asymmetry and financial constraints, which are key to promoting CSR. Banks serve as monitors and financiers, driving firms towards more socially responsible practices. Therefore, the following hypotheses are proposed:

Hypothesis 1: The existence of BC encourages firms to engage in CSR.

Hypothesis 2: BC help to reduce information asymmetry faced by firms, thereby encouraging CSR.

Hypothesis 3: BC help to reduce financial constraints faced by firms, thereby encouraging CSR.

### 3. Model and Data

After more than one hundred years of development, the internationalization of China's banking industry has made certain progress, and many banks in China have established their own branches abroad. This chapter takes China of Bank, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China as examples to introduce the internationalization of China's banking industry from the regional situation, establishment method and development strategy.

#### 3.1 Econometric Model

In order to test Hypothesis 1, which concerns the impact of BC on the CSR, the following benchmark econometric model is presented.

$$CSR_{it} = \beta_0 + \beta_1 BC_{it} + \beta Controls_{it} + \gamma_j + \theta_p + \epsilon_t + \delta_{ijpt} \quad (1)$$

In model (1), the CSR level of listed company in industry j, province p, and year t is the dependent variable. The BC of a listed company is the independent variable. A comprehensive account of the pertinent variables included in the regression model is provided below.

CSR: The logarithm of the amount of funds that enterprises allocate to targeted poverty alleviation (denoted as TPA) is employed as a proxy variable for CSR.

BC: The bank-enterprise connection is dis-aggregated into two types: ownership connections and executive connections. The existence of a bank-enterprise connection is represented by the dummy variable BC, which takes on the value of 1 if either the condition of executive connection or ownership connection is met and 0 otherwise.

Control variables: The control variables employed in this paper include the return on total assets (ROA), the cash flow to total assets ratio(Cashflow), the receivables to total assets ratio(REC), the fixed

assets to total assets ratio(Fixed), the growth rate of operating revenue(Growth), a dummy variable to indicate whether the firm was experiencing a loss (Loss), the number of directors(Board), the proportion of shares held by the largest shareholder(Top1), the proportion of shares held by management(Mshare), and the proportion of capital contributed by the major shareholder(Occupy)

### 3.2 Data

Our sample comprises A-share listed companies on the Chinese mainland from 2016 to 2022. Data was sourced data from the CSMAR Financial Research Database. It includes financial data and information on targeted poverty alleviation and bank-enterprise relationships. Executives with banking backgrounds were identified from the Characteristics of Listed Company Personalities' section within the database. The sample was filtered to exclude financial industry companies and those labelled as ST, \*ST, suspended, or delisted, resulting in a final sample of 5,027 observations. Descriptive statistics for the variables used are detailed in Table 1.

**Table 1:** Descriptive statistics

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	mean	Sd.	Min.	Max.
CSR	5,027	4.622	2.050	0.693	10.780
BC	5,027	0.316	0.465	0.000	1.000
ROA	5,027	0.047	0.062	-0.390	0.969
Cashflow	5,027	0.061	0.066	-0.450	0.726
REC	5,027	0.102	0.100	0.000	0.584
Fixed	5,027	0.240	0.177	0.000	0.948
Growth	5,027	0.232	2.251	-0.862	102.600
Loss	5,027	0.077	0.267	0.000	1.000
Board	5,027	2.155	0.208	1.099	2.890
Top1	5,027	0.367	0.157	0.029	0.900
Mshare	5,027	0.088	0.170	0.000	2.359
Occupy	5,027	0.015	0.027	0.000	0.514

## 4. Empirical Results

### 4.1 Basic Result

Table 1 presents the regression analysis of the base model. Specifically, the existence of BC is projected to increase CSR by 0.363%, as shown in column (4). These findings support the notion that BC can be utilized by firms for both financial and strategic CSR enhancement. The positive link between BC and CSR implies that banks have the potential to encourage firms towards more socially responsible practices, potentially through advisory services, exemplar leadership, or leveraging their client relationships. Hypothesis 1 is thus corroborated.

**Table 2:** Basic regression results

	(1)	(2)	(3)	(4)
	CSR	CSR	CSR	CSR
BC	<b>0.230<sup>***</sup></b> (0.054)	<b>0.444<sup>***</sup></b> (0.091)	<b>0.413<sup>***</sup></b> (0.097)	<b>0.363<sup>***</sup></b> (0.092)
ROA		0.469 (0.809)	0.354 (0.828)	0.093 (0.794)
Cashflow		2.051 <sup>***</sup> (0.617)	1.904 <sup>***</sup> (0.628)	1.843 <sup>***</sup> (0.597)
REC		-2.682 <sup>***</sup> (0.482)	-2.089 <sup>***</sup> (0.504)	-1.722 <sup>***</sup> (0.574)
Fixed		0.709 <sup>**</sup> (0.313)	0.613 <sup>*</sup> (0.322)	0.612 (0.436)
Growth		0.012 (0.010)	0.005 (0.010)	0.003 (0.008)
Loss		0.286 <sup>**</sup> (0.141)	0.207 (0.144)	0.202 (0.137)
Board			1.042 <sup>***</sup> (0.234)	1.032 <sup>***</sup> (0.224)
Top1			0.820 <sup>***</sup> (0.314)	0.824 <sup>***</sup> (0.309)
Mshare			-0.857 <sup>**</sup> (0.305)	-0.694 <sup>**</sup> (0.304)
Occupy			3.126 (1.936)	2.237 (1.767)
Constant	4.278 <sup>***</sup> (0.047)	4.501 <sup>***</sup> (0.131)	1.921 <sup>***</sup> (0.558)	1.936 <sup>***</sup> (0.539)
Industry.FE	NO	NO	NO	YES
Province.FE	NO	NO	YES	YES
Year.FE	NO	YES	YES	YES
N	5027	5027	5027	5027
R <sup>2</sup>	0.015	0.088	0.111	0.182

Note. \*\*\*, \*\* and \* denote regression coefficients significant at the 1%, 5% and 10% levels, respectively. The corresponding standard errors clustered at the firm level in parentheses. Similar notes apply to other tables in the paper.

## 4.2 Robustness Tests

Table 3 presents a series of regression analyses designed to elucidate the relationship between BC and CSR. These analyses corroborate the impact of executive connections observed in Table 2, Column (4). Further analysis replaces the Targeted Poverty Alleviation (TPA) indicator with the CSR Information Quality (CSRIQ) indicator, thereby affirming a positive bank-CSR relationship.

Incorporating controls for firm size and debt-to-asset ratio, column (3) demonstrates that the significantly positive BC coefficient is sustained, confirming the model's robustness against omitted variable bias. Collectively, these findings consistently indicate a positive correlation between BC and CSR, robust to various specifications.

**Table 3:** Regression results after replacement of the variables and increase control variables

	(1) CSR	(2) CSRIQ	(3) CSR
EC	<b>0.359***</b> (0.095)		
BC		<b>0.0192**</b> (0.009)	<b>0.134***</b> (0.047)
ROA	0.0624 (0.794)	0.099 (0.082)	0.688 (0.684)
Cashflow	1.847*** (0.597)	0.073 (0.059)	1.013** (0.493)
REC	-1.722*** (0.574)	-0.119** (0.061)	-0.296 (0.474)
Fixed	0.612 (0.437)	-0.004 (0.039)	0.970*** (0.359)
Growth	0.004 (0.008)	0.001 (0.002)	0.002 (0.008)
Loss	-0.205 (0.137)	-0.033** (0.016)	0.005 (0.125)
Board	1.036*** (0.224)	0.056** (0.023)	0.224 (0.175)
Top1	0.835*** (0.309)	0.034 (0.033)	-0.067 (0.261)
Mshare	-0.698** (0.304)	-0.092*** (0.029)	0.762*** (0.279)
Occupy	2.282 (1.769)	-0.111 (0.202)	-0.578 (1.132)
Size			0.847*** (0.038)
Lev			-0.393 (0.272)
Constant	1.932*** (0.539)	0.423*** (0.055)	-15.560*** (0.839)
Industry.FE	YES	YES	YES
Province.FE	YES	YES	YES
Year.FE	YES	YES	YES
N	5027	5027	5027
R <sup>2</sup>	0.182	0.148	0.378

### 4.3 Endogeneity Problem

CSR may also affect the efforts of enterprises to build BC, which means that there is a two-way causal relationship between the level of CSR and key explanatory variables, resulting in endogeneity problems. In addition, CSR will have an impact on enterprise operations. In this way, there may be endogeneity between the control variables and the CSR. Firstly, the key explanatory variable BC can be lagged by one period to alleviate the two-way causality. Consequently, we employ the fixed-effects (FE) estimator to re-estimate regression equation (1) by lagging BC by one period. The results are presented in column (1) of Table 4 and are robust. Secondly, the CSR can be lagged by one period to alleviate the endogeneity. The results are presented in column (2) of Table 4 and are robust. Finally, the lagged BC is employed as an instrumental variable (IV) in a two-stage least squares (2SLS) regression, which addresses the endogeneity issue. The results are shown in column (3) of Table 4 and are robust.

**Table 4:** Regression results after alleviating endogeneity

	(1) CSR	(2) F.CSR	(3) CSR
L.BC	<b>0.339**</b> (0.114)		
BC		<b>0.320**</b> (0.114)	<b>0.459**</b> (0.154)
ROA	-0.441 (1.098)	0.019 (1.169)	-0.236 (1.095)
Cashflow	1.797* (0.845)	2.155* (0.849)	1.636 (0.848)
REC	-2.137** (0.778)	-1.645* (0.761)	-2.053** (0.779)
Fiexd	0.623 (0.526)	0.596 (0.517)	0.690 (0.528)
Growth	0.004 (0.051)	0.022 (0.023)	0.000 (0.048)
Loss	-0.199 (0.199)	-0.314 (0.213)	-0.163 (0.199)
Board	1.187*** (0.281)	1.044*** (0.284)	1.186*** (0.282)
Top1	0.990* (0.404)	1.157** (0.404)	0.964* (0.404)
Mshare	-0.211 (0.484)	-0.362 (0.470)	-0.209 (0.486)
Occupy	2.103 (2.037)	3.146 (2.186)	1.978 (2.013)
Constant	1.832** (0.692)	1.983** (0.692)	1.885** (0.692)

Industry.FE	YES	YES	YES
Province.FE	YES	YES	YES
Year.FE	YES	YES	YES
N	4783	4783	4783
R <sup>2</sup>	0.213	0.212	0.046

#### 4.4 Channels

Hypotheses 2 and 3 posit that information asymmetry and financial constraints are the primary mechanisms through which BC influence CSR. Table 5 presents the regression results of the channels regression. In columns (1) and (2), financing constraint is identified as an important mechanism affecting CSR. Furthermore, bank-enterprise contact is found to enhance CSR by reducing financing constraint. This suggests that when the relationship between banks and firms becomes more intimate, firms are expected to disclose more information to financial institutions.

In a financial market environment with lower levels of information asymmetry, companies are more motivated to enhance their CSR performance. This is because the CSR activities of a company are more likely to be recognized and affirmed by investors, which in turn can have a positive impact on the stock price of listed companies and even their overall performance. The increase in transparency facilitates the establishment of trust and communication between borrowing firms and lending banks, thereby reducing the firm's financial constraints and optimizing the interest coordination mechanism between the two parties. The refinement of such mechanisms will provide firms with more abundant financial support, encouraging them to focus more on long-term benefits and the undertaking of social responsibilities, ultimately leading to increased investment and attention to CSR projects such as targeted poverty alleviation. The preceding analysis has demonstrated that Hypotheses 2 and 3 are supported by the evidence.

**Table 5:** Regression results: The role of information asymmetry and financial constraints

	(1) ASY	(2) CSR	(3) WW	(4) CSR
BC	<b>-0.071**</b> (0.030)	<b>0.288***</b> (0.083)	<b>-0.014***</b> (0.003)	<b>0.142*</b> (0.084)
ASY		<b>-1.029***</b> (0.063)		
WW				
ROA	-2.493*** (0.404)	-2.462** (0.761)	-0.044 (0.029)	-0.308 (0.722)
Cashflow	-0.659*** (0.215)	1.169** (0.541)	-0.131*** (0.021)	-0.507 (0.568)
REC	0.747*** (0.202)	-0.952* (0.500)	0.0782*** (0.0235)	-0.865* (0.522)



Fixed	0.313** (0.131)	0.938** (0.401)	0.0283** (0.013)	0.958** (0.401)
Growth	0.010*** (0.003)	0.014* (0.008)	-0.034*** (0.000)	-0.546*** (0.026)
Loss	-0.118** (0.053)	-0.324** (0.131)	0.045*** (0.005)	0.614*** (0.138)
Board	-0.288*** (0.085)	0.735*** (0.194)	-0.046*** (0.008)	0.296 (0.199)
Top1	0.331*** (0.110)	1.162*** (0.274)	-0.065*** (0.011)	-0.212 (0.295)
Mshare	0.630*** (0.089)	-0.051 (0.282)	0.0607*** (0.012)	0.236 (0.318)
Occupy	-1.227* (0.646)	0.969 (1.372)	-0.124* (0.073)	1.303 (1.378)
Constant	0.093 (0.200)	2.034*** (0.465)	-0.945*** (0.020)	-13.04*** (0.797)
Industry.FE	YES	YES	YES	YES
Province.FE	YES	YES	YES	YES
Year.FE	YES	YES	YES	YES
N	5027	5027	5027	5027
R <sup>2</sup>	0.280	0.278	0.740	0.362

Note. ASY index is to measure the information asymmetry of firm<sup>1</sup>. WW index is to measure the financial constraint of firm<sup>2</sup>.

#### 4.5 Heterogeneity Analysis

In order to investigate the heterogeneity of the data, subgroup regression was employed. Table 6 indicates that in provinces with high economic development, there is a pronounced effect on CSR. In contrast, in provinces with medium and low economic development, there is a weaker influence on CSR due to factors such as reduced financing needs and a focus on short-term gains.

Furthermore, the sample was divided according to ownership type, with state-owned enterprises (SOEs) and non-state-owned enterprises being compared. As demonstrated in Table 7, the impact of BC on CSR is found to be consistent across ownership types. This suggests that banks in economically advanced regions consider CSR performance similarly for both SOEs and non-SOEs when establishing relationships.

<sup>1</sup> Amihud, Y., & Mendelson, H. (1986). Asset pricing and the bid-ask spread. *Journal of Financial Economics*, 17(2), 223-249.

<sup>2</sup> Whited, T. M., & Wu, G. (2006). Financial constraints risk. *The Review of Financial Studies*, 19(2), 531-559.

**Table 6:** Heterogeneity analysis based on economic level

	(1)	(2)	(3)
	High CSR	Medium CSR	Low CSR
BC	<b>0.371***</b> (0.122)	<b>0.297</b> (0.189)	<b>0.272</b> (0.196)
ROA	0.989 (0.971)	-1.289 (1.760)	-1.187 (1.837)
Cashflow	0.823 (0.737)	3.219** (1.336)	2.437 (1.625)
REC	-2.067*** (0.739)	0.157 (1.459)	-0.988 (1.325)
Fixed	1.135 (0.594)	0.129 (0.798)	0.752 (0.925)
Growth	0.005 (0.007)	-0.070 (0.106)	0.035 (0.034)
Loss	-0.137 (0.172)	-0.574** (0.239)	0.407 (0.346)
Board	0.802*** (0.288)	1.052** (0.450)	1.720*** (0.498)
Top1	0.823** (0.370)	0.0390 (0.788)	0.664 (0.827)
Mshare	-0.877** (0.355)	0.150 (0.572)	-0.964 (0.945)
Occupy	4.944** (2.470)	-1.854 (3.792)	-2.655 (2.629)
Constant	2.383*** (0.692)	2.064 (1.143)	0.460 (1.282)
Industry.FE	YES	YES	YES
Province.FE	YES	YES	YES
Year.FE	YES	YES	YES
N	2916	1106	1005
R <sup>2</sup>	0.232	0.245	0.265

**Table 7:** Heterogeneity analysis based on SOE

	(1)	(2)
	non-state-owned	state-owned
	CSR	CSR
BC	<b>0.328**</b> (0.146)	<b>0.351***</b> (0.111)
ROA	-0.626 (0.980)	1.008 (1.289)
Cashflow	1.211	2.369***

	(0.822)	(0.743)
REC	-1.914***	-2.136**
	(0.736)	(0.902)
Fixed	0.283	0.433
	(0.680)	(0.501)
Growth	0.0153	-0.007
	(0.017)	(0.008)
Loss	-0.290	-0.0770
	(0.205)	(0.181)
Board	1.173***	1.102***
	(0.327)	(0.285)
Top1	0.538	1.014**
	(0.502)	(0.413)
Mshare	-0.957***	1.252
	(0.344)	(2.573)
Occupy	1.833	3.969
	(2.292)	(2.692)
Constant	2.037**	1.630*
	(0.762)	(0.716)
Industry.FE	YES	YES
Province.FE	YES	YES
Year.FE	YES	YES
N	2464	2563
r <sup>2</sup>	0.200	0.283
r <sup>2</sup> <sub>a</sub>	0.162	0.250

## 5. Conclusion and Policy Implications

This study examines the relationship between business concentration (BC) and corporate social responsibility (CSR), providing empirical evidence of the positive influence of BC on CSR. The findings indicate that the presence of BC is projected to elevate the level of CSR by 0.4%, a result that remains robust through a battery of sensitivity analyses. Additionally, the study uncovers that BC has the potential to alleviate information asymmetry and financial constraints, which in turn positively affects CSR. Furthermore, it was observed that regions with higher economic development levels are more conducive to CSR fulfilment. The impact of state ownership on CSR was not found to be significant.

Based on our research, we propose several policy measures to enhance CSR effectiveness. These include policies that incentivize banks to establish long-term relationships with businesses, potentially improving CSR performance. Additionally, initiatives to bolster the financial ecosystem in underdeveloped regions could increase support for CSR through better financial service access. The implementation of a CSR performance evaluation system would facilitate investor assessment, while

the reinforcement of regulatory oversight is of paramount importance to guarantee the meaningful societal and environmental contributions of corporate CSR activities.

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### **Author Contributions**

The authors confirm contribution to the paper as follows: Fanjia Yang: Writing, Original draft, Conceptualization, Methodology. Shuzheng Hao: Conceptualization, Writing–review & editing, Supervision. Ding Jin: Investigation, Formal analysis. All authors reviewed the results and approved the final version of the manuscript.

### **Availability of Data and Materials**

The data utilized in this study can be accessed upon request from the authors.

### **Conflicts of Interest**

The authors declare that they have no conflicts of interest to report regarding the present study.

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